



**Union Bank of the Philippines**  
(A corporation duly organized and existing under Philippine laws)

**FINAL PRICING SUPPLEMENT**  
dated 19 June 2025

Offer of ₱9,250,700,000.00 Senior Fixed Rate Bonds  
under its ₱100,000,000,000 Bond Program  
consisting of

**5.88% p.a. Series H Bonds due 2026**

at an Offer Price of 100% of Face Value

to be listed and traded through  
the Philippine Dealing and Exchange Corp.

*Joint Lead Arrangers and Bookrunners*



*Selling Agents*



**THE BONDS BEING OFFERED OR SOLD HEREIN ARE SECURITIES  
EXEMPT FROM REGISTRATION UNDER SECTION 9.1(E) OF THE  
SECURITIES REGULATION CODE (THE SRC) AND WILL  
ACCORDINGLY NOT BE REGISTERED WITH THE SECURITIES AND  
EXCHANGE COMMISSION (SEC).**

## OFFER OF SERIES H BONDS

*This document constitutes the Final Pricing Supplement relating to the Series H Bonds being offered and described herein (the "Offer"). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the "Terms and Conditions") set forth in the Offering Circular dated 9 May 2025 (the "Offering Circular"). This Final Pricing Supplement contains the final terms of this Offer and the Series H Bonds and must be read in conjunction with the Offering Circular. Full information on the Bank and the Offer is only available on the basis of the combination of this Final Pricing Supplement and the Offering Circular. In case of any inconsistencies between the Offering Circular and this Final Pricing Supplement, this Final Pricing Supplement shall prevail.*

*The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Series H Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws, and resolutions of the Board of Directors and stockholders of the Issuer, the information contained in the Offering Circular, this Final Pricing Supplement, the Trust Agreement, and the other agreements relevant to the Offer, and to perform their own independent investigation and analysis of the Issuer and the Bonds. Prospective investors must make their own appraisal of the Issuer and the Offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the Offer. They must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not substitutes for the prospective investor's independent evaluation and analysis. Prospective investors are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Series H Bonds. Specific references to times hereunder shall mean Philippine Standard Time.*

<b>Issuer</b>	Union Bank of the Philippines (the "Bank")
<b>Issue</b>	Senior fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of the Bank
<b>Specified Currency or Currencies</b>	Philippine Peso
<b>The Offer Size</b>	₱9,250,700,000.00
<b>Use of Proceeds</b>	The net proceeds from the Bonds Program shall be used to extend term liabilities, expand funding base, support business expansion plans, and for other general corporate purposes.
<b>Manner of Distribution</b>	Public offering

<b>Issue Price</b>	At par (or 100% of face value)
<b>Form and Denomination of the Bonds</b>	The Series H Bonds shall be issued in scripless form in minimum denominations of ₱100,000 each, and in multiples of ₱50,000 thereafter and traded in denominations of ₱10,000 in the secondary market.
<b>Offer Period</b>	The offer of the Series H Bonds shall commence at 9:00 am on June 4, 2025 and end at 12:00 pm on June 19, 2025, or any other date as may be determined by the Bank and the Joint Lead Arrangers.
<b>Issue Date</b>	June 26, 2025
<b>Interest Commencement Date</b>	June 26, 2025
<b>Interest Payment Date(s)</b>	Quarterly, every September 26, December 26, March 26 and June 26 of each year
<b>Interest Rate</b>	Series H Bonds: 5.88% per annum
<b>Day Count Fraction</b>	30/360-day count basis
<b>Business Convention</b>	If any Interest Payment Date would otherwise fall on a day which is not a Banking Day, the Interest Payment Date shall be deemed the next succeeding Banking Day; provided, further, that if such succeeding Banking Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Banking Day, in either case, without adjustment to the amount of interest to be paid.
<b>Maturity Date</b>	Series H Bonds: One and a half (1.5) years from Issue Date or December 26, 2026
<b>Redemption/Payment Basis</b>	Redemption at Par
<b>Bond Rating</b>	The Series H Bonds are not rated
<b>Payment Account Name</b>	Philippine Depository & Trust Corp. ("PDTC") as Paying Agent of:  Series H Bonds: UNION BANK OF THE PHILIPPINES FAO



## UBP Series H Bondholders due 2026

### Taxation

#### *Interest Income on Bonds*

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 25% final withholding tax. However, under the Capital Market Efficiency Promotion Act (CMEPA), the final withholding tax rate on certain passive income, such as interest income, will be subject to a uniform rate of 20%, except for non-resident aliens not engaged in trade or business and non-resident foreign corporations, both of whom shall still be subject to a final withholding tax rate of 25%.

Except for such withholding tax and as otherwise provided, payments of principal and interest will be made free and clear of any deductions of any taxes, duties, or charges imposed by or on behalf of the Republic of the Philippines. If such taxes, duties, or charges are imposed, the same shall be for the account of the Bank; provided, however, that the Bank shall not be liable for:

1. Any creditable or final withholding tax applicable on interest earned on the Series H Bonds prescribed under the NIRC, as amended, and its implementing rules and regulations as be in effect from time to time; a corporate or institutional investor who is exempt from or not subject to such withholding tax shall be required to submit the following:
  - a. a current and valid BIR-certified true copy of the tax exemption certificate, ruling, or opinion addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate as required under BIR Revenue Memorandum Circular (RMC) No. 8-2014 including any clarification, supplement or amendment



thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the exemption certificate is a true copy of the original; (b) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (c) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting the said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount equivalent to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one (1) year from the date of issuance. Should the submitted tax exemption certificate, ruling or opinion expire during the Offer Period, the Bondholder must submit an updated/revalidated tax exemption certificate;

- b. with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the duly executed and apostilled/consularized BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR, as required under Revenue Memorandum Order (RMO) No. 14-2021, (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Bank, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized

representative) and confirmation acceptable to the Bank that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due, (i) three (3) originals of the duly executed and apostilled/consularized new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Bank deems applicable, and (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; and (c) such other additional documents as may be required by the Bank or pursuant to applicable tax regulations, including, but not limited to, the documentary requirements enumerated in BIR RMO No. 14-2021 in relation to BIR RMC Nos. 77-2021 and 20-2022, which shall be submitted by the Bondholder/Registrar and Paying Agent to the Bank no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto; for the avoidance of doubt, the Bank shall retain sole discretion in determining whether the non-resident Bondholder is entitled to the preferential tax treaty rate based on the documents submitted by the non-resident Bondholder, provided that all the conditions for the availment thereof, other than residency, have been satisfied;

- c. a duly notarized undertaking executed by (1) the Corporate Secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption or preferential rate treatment based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund,



- etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Bank and the Registrar and Paying Agent of (i) any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (ii) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature, and method of operation, which are inconsistent with the basis for its income tax exemption; or (iii) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Bank, the Registrar and Paying Agent, the Joint Lead Arrangers and the Selling Agents free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such Bondholder shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose; and
- d. such other documentary requirements as may be required by the Bank and the Registrar and Paying Agent or as required under the applicable regulations of the relevant taxing or other authorities, e.g., BIR RMO No. 14-2021, and BIR RMC Nos. 77-2021 and 20-2022, which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Bondholder is not doing business in the Philippines; provided that the Bank shall have the exclusive discretion to decide whether the documents submitted



are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar and Paying Agent.

2. Gross receipts tax;
3. Taxes on the overall income of any securities dealer or bondholder, whether or not subject to withholding; and
4. Value-added tax.

Documentary stamp tax for the primary issue of the Series H Bonds and the execution of the Bond Agreements, if any, shall be for the Bank's account.

#### *Change in Tax Rates and New Taxes*

In the event there is a change in the tax treatment of the Series H Bonds or on the tax rates applicable to a Bondholder because of new, or changes or repeal in, tax laws, or interpretations thereof, as a result of which, a Bondholder previously exempt from tax shall be subject to tax on income earned from the Series H Bonds or there is an increase in the applicable withholding tax rate, or any payments of principal and/or interest under the Series H Bonds shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed within the Philippines by any authority therein or thereof having power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "New Taxes"), then such New Taxes imposed shall be for the account of the Bondholders and the Paying Agent, on behalf of the Bank, as applicable, shall make the necessary withholding or deduction for the account of the Bondholders concerned. All sums payable by the Bank to tax-exempt persons (upon presentation of acceptable proof of tax exemption) shall be paid without deductions for taxes, duties, assessments, or government charges.

#### **Prohibited Bondholder**

"Prohibited Bondholders" mean Persons which are prohibited from purchasing or holding the Bonds, specifically:

- (1) the Bank, including its related parties expressly prohibited under prevailing BSP Rules (subject to such exceptions as may be provided therein), provided that, unless otherwise provided in the BSP Rules:
  - (a) the phrase "related parties expressly prohibited under prevailing Rules" shall refer to the related parties (i) identified in Section 131(p) of the BSP Manual of Regulations for Banks ("MORB") (as defined below) and (ii) which are in possession of or have access to material and non-public information affecting the pricing and marketability of the Bonds or that which substantially impacts an investor's decision to buy or sell the Bonds once the same is disseminated to the public; and
  - (b) the following shall not be considered as Prohibited Bondholders: (1) the Bank's trust departments or related trust entities and (2) underwriters and/or arrangers that is a related party of the Bank, where such underwriter and/or arranger is part of the underwriting agreement;
- (2) non-resident aliens not-engaged in trade or business in the Philippines and non-resident foreign corporations; *provided* that in the event that the BIR provides guidelines to PDEX to supplement the PDEX rules, conventions and guidelines with respect to the withholding of interest income of non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporation from Bonds with maturities of not less than five (5) years, the Bank may exclude non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporations in the list of Prohibited Bondholders.
- (3) US Persons under the FATCA including: a U.S. citizen (including a dual citizen); a U.S. resident alien for U.S. tax purposes; a U.S. partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; or (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; and any other person that is not considered a non-US person under the FATCA.



For purposes of the definition of Prohibited Bondholders, **"Related parties"** means the related parties identified in Section 131(p) of the BSP MORB which includes the following: (i) subsidiaries and affiliates of the Bank, and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank; (ii) the Bank's directors, officers, stockholders, related interests and their close family members, as well as corresponding persons in affiliated companies; or (iii) persons and entities that have direct or indirect linkages to the Bank identified as (a) ownership, control or power to vote, of 10% to less than 20% of the outstanding voting stock of the Bank; (b) interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the Bank; (c) common stockholders owning at least 10% of the outstanding voting stock of the Bank and 10% to less than 20% of the common outstanding voting stock of the Bank; and (d) permanent proxy or voting trusts in favor of the Bank constituting 10% to less than 20% of the outstanding voting stock of the Bank, or vice versa.

A **"subsidiary"** shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation. An **"affiliate"** shall refer to an entity linked directly or indirectly to the Bank by means of: (1) ownership, control (as defined below), or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (2) interlocking directorship or officership, where the director or officer concerned owns, controls, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity; (3) common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (4) management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or (5) permanent proxy or voting trusts in favor of the Bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa. As used herein, "control" of an enterprise exists when there is: (1) power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or (2) power to govern the financial and operating policies of the enterprise under a statute or an agreement; or (3) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or (4) power to cast the majority



votes at meetings of the board of directors or equivalent governing body; or (5) any other arrangement similar to any of the above.

The terms “**control**” / “**controlled**” shall have the meaning ascribed to such term under Section 131(d) of the BSP MORB, as the same may be amended from time to time.

**Closed Period**

The periods during which the Registrar shall not register any transfer or assignment of the Series H Bonds, specifically: (a) the period of two (2) Business Days preceding any Interest Payment Date or the due date for any payment of the principal amount of the Series H Bonds; or (b) the period when any Series H Bonds have been previously called for redemption.

**Restricted Transfers**

- (i) Transfers to Prohibited Holders;
- (ii) Transfers by Holders with deficient documents; and
- (iii) Transfers during a Closed Period.

**Governing Law**

Philippine Law

**PROVISIONS RELATING TO REDEMPTION**

**Notice period for early redemption**

Minimum period: 30 calendar days prior written notice to the Bondholders, Trustee, Registrar, and the BSP

Maximum period: 60 calendar days prior written notice to the Bondholders, Trustee, Registrar, and the BSP

**Issuer Redemption Option**

The Bank may, at its sole option, redeem the Series H Bonds at par plus accrued interest (if any), without premium or penalty:

*a) Early Redemption Option for Taxation Reasons*

In the event that payments by the Bank under the Series H Bonds become subject to additional or increased taxes (other than taxes and rates thereof prevailing on the Issue Date) as a result of any change in or application of any law, rule, or regulation in the Philippines or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, rules or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective after the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to

the Bank, the Bank, subject to the BSP Rules, shall have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Series H Bonds on the relevant Early Redemption Date at the Early Redemption Amount.

*b) Early Redemption for Increased Reserves*

In the event that the Series H Bonds become subject to additional or increased reserves other than the reserves prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, the Bank, subject to the BSP Rules, shall have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Series H Bonds on the relevant Early Redemption Date at the Early Redemption Amount.

*c) Early Redemption for Change in Law*

In the event that any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations thereunder.

*d) Early Redemption for Other Reasons*

Subject to the BSP Rules, the Bank shall also have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Series H Bonds on the relevant Early Redemption Date at the Early Redemption Amount on any other ground in addition to the early redemption events under (i), (ii), and (iii) above, as may be approved by the BSP.

*e) No Pretermination by Holder*

Except as otherwise contemplated under the Terms and Conditions, and this Final Pricing Supplement, none of the Holders shall have the right to require the Bank to redeem and repay any or all of the Series H Bonds before the relevant Maturity Date of such Series H Bonds. Transfers of the Series H Bonds to a Person other than the Bank shall not constitute pre-termination.

**Final Redemption Amount** The Series H Bonds will be redeemed at par on the Maturity Date.

**Early Redemption Date** On any Interest Payment Date

<b>Early Amount</b>	<b>Redemption</b>	The Bank shall redeem the Series H Bonds at par plus accrued and unpaid interest thereon as of the Early Redemption Date. If, as a consequence of the exercise of the Early Redemption Option, interest income already earned under the Early Redemption Bonds shall be subjected to incremental taxes, such taxes shall be for the account of the Bank.
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## **PARTIES/DISTRIBUTION**

<b>Trustee</b>	Development Bank of the Philippines – Trust Banking Group
<b>Registrar &amp; Paying Agent</b>	Philippine Depository & Trust Corp. (PDTC)
<b>Joint Lead Arrangers</b>	ING Bank N.V., Manila Branch Philippine Commercial Capital, Inc. Standard Chartered Bank
<b>Selling Agents</b>	Union Bank of the Philippines ING Bank N.V., Manila Branch Philippine Commercial Capital, Inc. Standard Chartered Bank
<b>Market Maker</b>	ING Bank N.V., Manila Branch Philippine Commercial Capital, Inc.
<b>Ranking</b>	The Series H Bonds constitute the direct, unconditional, unsecured, and unsubordinated obligations of the Bank, enforceable according to the Terms and Conditions, and shall at all times rank <i>pari passu</i> and without any preference or priority among themselves and at least <i>pari passu</i> with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.
<b>Listing</b>	The Series H Bonds are intended to be listed at the Philippine Dealing & Exchange Corp. (PDEX), or such other securities exchange licensed as such by the Securities and Exchange Commission.
<b>Additional Information</b>	Please see Schedule 1



## SCHEDULE 1: ADDITIONAL INFORMATION

*The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. This Schedule is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule 1.*

### RECENT DEVELOPMENTS

The Board of Directors of the Bank has released its unaudited interim consolidated financial statements, including those of its subsidiaries, as of 31 March 2025, and for the three months ended 31 March 2025 and 2024 (the “**First Quarter 2025 Financial Statements**”) on 16 May 2025. These statements shall be incorporated by reference into the Offering Circular and can be accessed and downloaded from the PSE Edge (<https://edge.pse.com.ph/>) and the Bank’s website (<https://www.unionbankph.com>). The Offering Circular for the Bond Program was updated on 9 May 2025. Prospective investors are advised to review and consider the First Quarter 2025 Financial Statements before making any decision or taking any action with respect to the proposed offering of the Series H Bonds.

The First Quarter 2025 Financial Statements have not been audited or reviewed by the independent auditors of the Bank or any other independent accountants and may be subject to adjustments if audited and reviewed. As such, the financial information therein may differ from future audited or reviewed financial information. There can be no assurance that, had the financial information been audited or reviewed, the financial statements would not have changed, that any such changes would not be material, or that such financial information was prepared and presented in a manner consistent with the accounting policies normally adopted by the Bank and applied in its audited consolidated financial statements as at and for the years ended 31 December 2024 and 2023.

The First Quarter 2025 Financial Statements should not be relied upon by potential investors to provide the same quality of information as information that has been subject to an audit or review. The First Quarter 2025 Financial Statements should not be considered as indicative of the expected financial condition or results of operations of the Group for the full financial year ending December 31, 2025. Potential investors must therefore exercise caution when relying on such data to evaluate the Bank’s financial condition or performance. None of the Joint Lead Arrangers and the Selling Agents makes any representation or warranty, express or implied, regarding the accuracy, completeness, and sufficiency of the First Quarter 2025 Financial Statements.

See also the section entitled “*Investment Considerations – Risks Relating to the Information in this Offering Circular – Potential investors should not place undue reliance on the First Quarter 2025 Financial Statements*” of this Final Pricing Supplement.

## INVESTMENT CONSIDERATIONS

*This section supplements and updates the risk factors disclosed in Section 4 of the Offering Circular. The following section is qualified in its entirety by, and should be read in conjunction with, the information found in the Offering Circular.*

### **“4.6 Risks Relating to the Information in this Offering Circular**

#### ***4.6.1 Potential investors should not place undue reliance on the First Quarter 2025 Financial Statements.***

The First Quarter 2025 Financial Statements have not been audited or reviewed by the independent auditors of the Bank or any other independent accountants, and may be subject to adjustments if reviewed or audited. As such, the financial information therein may differ from future audited or reviewed financial information. There can be no assurance that, had the financial information been audited or reviewed, the financial statements would not have changed, that any such changes would not be material, or that such financial information was prepared and presented in a manner consistent with the accounting policies normally adopted by the Bank and applied in its audited consolidated financial statements as at and for the years ended 31 December 2024 and 2023.

The First Quarter 2025 Financial Statements should not be relied upon by potential investors as providing the same quality of information as information that has been subject to an audit or review. The First Quarter 2025 Financial Statements should not be considered as indicative of the expected financial condition or results of operations of the Group for the full financial year ending December 31, 2025. Potential investors must therefore exercise caution when relying on such data to evaluate the Bank’s financial condition or performance. None of the Joint Lead Arrangers and the Selling Agents makes any representation or warranty, express or implied, regarding the accuracy, completeness, and sufficiency of the First Quarter 2025 Financial Statements.”

## REGULATORY UPDATES

*This section supplements and updates the discussions on Government Policies and Regulations in Relation to the Philippine Banking System and Philippine Taxation disclosed in Subsection 14.4, Section 14 and Section 16 of the Offering Circular, respectively. The following section is qualified in its entirety by, and should be read in conjunction with, the information found in the Offering Circular.*

### **“14.4 CERTAIN GOVERNMENT POLICIES AND REGULATIONS IN RELATION TO THE PHILIPPINE BANKING SYSTEM**

**69. Amendments to Regulations on Information Technology (IT) Risk Management to Implement Section 6 of the Anti-Financial Account Scamming Act (AFASA).** On 30 May 2025, the BSP issued Circular No. 1213 which was designed to strengthen the existing regulatory framework on information technology risk management and ensure more effective compliance with the provisions of the AFASA. The Circular provides for regulations on the adoption of fraud



management systems by BSP supervised financial institutions (BSFIs) engaged in complex electronic products and services and handling high aggregate values of online transactions, adoption of measures to enable the bank and its customers to safeguard financial accounts, and institution of shared accountability framework for safeguarding financial accounts.

**70. Rules of Procedure on the Conduct of Inquiry into Financial Accounts and Sharing of Financial Account Information by the Bangko Sentral ng Pilipinas Pursuant to the AFASA.** On 30 May 2025, the BSP issued Circular No. 1214 which provides for the rules on the execution of information sharing agreement among competent authorities which shall govern the sharing of financial account information obtained by the consumer account protection officer pursuant to its authority to investigate and inquire into financial accounts under the AFASA. It also includes the rules and procedures for requesting for inquiry into financial accounts which may be involved or utilized in the commission of a prohibited act as defined in the AFASA, issuance of inquiry order, and disclosure of financial account information, among others. The Circular clarifies that the laws on secrecy of deposits and data privacy shall not apply to any financial account which are subject to BSP's investigation and inquiry.

**71. Regulations on the Temporary Holding of Funds Subject of Disputed Transactions and Coordinated Verification Process.** On 30 May 2025, the BSP issued Circular No. 1215 which sets regulations on the temporary holding of funds subject of disputed transactions and the coordinated verification process to implement Sections 7 to 11 of the AFASA, including updates to the MORB, MORNBF, and MORPS. It mandates BSP-Supervised Institutions (BSIs) to temporarily hold funds involved in disputed electronic fund transfers and coordinate verification processes to protect the public from cybercrime and fraud. It also provides that BSIs must provide their clients with regular updates and guidance to safeguard personal and financial information to ensure the security of financial accounts. Furthermore, it provides for liabilities of BSIs for failure to temporarily hold disputed funds and improper holding of funds beyond the allowable period."

## **"SECTION 16. PHILIPPINE TAXATION**

On 29 May 2025, the President of the Philippines signed into law Republic Act No. 12214, or the Capital Markets Efficiency Promotion Act (CMEPA). Upon signing the law, the President vetoed the following items of the CMEPA in accordance with Article VI, Section 27(2) of the Philippine Constitution:

1. The removal of the tax exemption on non-residents' income from their transactions with FCDUs;
2. Imposition of the documentary stamp tax on bettors in authorized number games; and
3. Repeal of tax exemptions granted to the Philippine Guarantee Corporation.

Prior to being signed into law, the draft CMEPA provided for the removal of the preferential tax rate and tax exemption for long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments. The forgoing amendment was included in the final version of the CMEPA signed into law by the President. Under Section 28 of the CMEPA, any tax exemption and preferential tax rate on financial instruments issued or transacted prior to 1 July 2025 shall be subject to the prevailing tax rate at the time of its issuance for the remaining maturity of the relevant agreement."

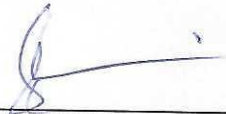


## **RESPONSIBILITY**

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

**UNION BANK OF THE PHILIPPINES**  
(the Bank)

By:



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**JOHNSON L. SIA**  
Executive Vice President, Treasurer and  
Head of Global Markets



**Union Bank of the Philippines**  
(A corporation duly organized and existing under Philippine laws)

**FINAL PRICING SUPPLEMENT**  
dated 19 June 2025

Offer of ₱6,749,300,000.00 Senior Fixed Rate Bonds  
under its ₱100,000,000,000 Bond Program  
consisting of

**6.02% p.a. Series I Bonds due 2028**

at an Offer Price of 100% of Face Value

to be listed and traded through  
the Philippine Dealing and Exchange Corp.

*Joint Lead Arrangers and Bookrunners*



*Selling Agents*



**THE BONDS BEING OFFERED OR SOLD HEREIN ARE SECURITIES  
EXEMPT FROM REGISTRATION UNDER SECTION 9.1(E) OF THE  
SECURITIES REGULATION CODE (THE SRC) AND WILL  
ACCORDINGLY NOT BE REGISTERED WITH THE SECURITIES AND  
EXCHANGE COMMISSION (SEC).**

## OFFER OF SERIES I BONDS

*This document constitutes the Final Pricing Supplement relating to the Series I Bonds being offered and described herein (the “Offer”). Terms used herein shall be deemed to be defined as such for the purposes of the terms and conditions (the “Terms and Conditions”) set forth in the Offering Circular dated 9 May 2025 (the “Offering Circular”). This Final Pricing Supplement contains the final terms of this Offer and the Series I Bonds and must be read in conjunction with the Offering Circular. Full information on the Bank and the Offer is only available on the basis of the combination of this Final Pricing Supplement and the Offering Circular. In case of any inconsistencies between the Offering Circular and this Final Pricing Supplement, this Final Pricing Supplement shall prevail.*

*The following does not purport to be a complete listing of all the rights, obligations, or privileges of the Series I Bonds. Some rights, obligations, or privileges may be further limited or restricted by other documents. Prospective investors are enjoined to carefully review the Articles of Incorporation, By-Laws, and resolutions of the Board of Directors and stockholders of the Issuer, the information contained in the Offering Circular, this Final Pricing Supplement, the Trust Agreement, and the other agreements relevant to the Offer, and to perform their own independent investigation and analysis of the Issuer and the Bonds. Prospective investors must make their own appraisal of the Issuer and the Offer, and must make their own independent verification of the information contained herein and the other aforementioned documents and any other investigation they may deem appropriate for the purpose of determining whether to participate in the Offer. They must not rely solely on any statement or the significance, adequacy or accuracy of any information contained herein. The information and data contained herein are not substitutes for the prospective investor’s independent evaluation and analysis. Prospective investors are likewise encouraged to consult their legal counsels and accountants in order to be better advised of the circumstances surrounding the Series I Bonds. Specific references to times hereunder shall mean Philippine Standard Time.*

<b>Issuer</b>	Union Bank of the Philippines (the “Bank”)
<b>Issue</b>	Senior fixed rate bonds constituting the direct, unconditional, unsecured and unsubordinated obligations of the Bank
<b>Specified Currency or Currencies</b>	Philippine Peso
<b>The Offer Size</b>	₱6,749,300,000.00
<b>Use of Proceeds</b>	The net proceeds from the Bonds Program shall be used to extend term liabilities, expand funding base, support business expansion plans, and for other general corporate purposes.
<b>Manner of Distribution</b>	Public offering



<b>Issue Price</b>	At par (or 100% of face value)
<b>Form and Denomination of the Bonds</b>	The Series I Bonds shall be issued in scripless form in minimum denominations of ₱100,000 each, and in multiples of ₱50,000 thereafter and traded in denominations of ₱10,000 in the secondary market.
<b>Offer Period</b>	The offer of the Series I Bonds shall commence at 9:00 am on June 4, 2025 and end at 12:00 pm on June 19, 2025, or any other date as may be determined by the Bank and the Joint Lead Arrangers.
<b>Issue Date</b>	June 26, 2025
<b>Interest Commencement Date</b>	June 26, 2025
<b>Interest Payment Date(s)</b>	Quarterly, every September 26, December 26, March 26 and June 26 of each year
<b>Interest Rate</b>	Series I Bonds: 6.02% per annum
<b>Day Count Fraction</b>	30/360-day count basis
<b>Business Convention</b>	If any Interest Payment Date would otherwise fall on a day which is not a Banking Day, the Interest Payment Date shall be deemed the next succeeding Banking Day; provided, further, that if such succeeding Banking Day falls into the next calendar month, the Interest Payment Date shall be the immediately preceding Banking Day, in either case, without adjustment to the amount of interest to be paid.
<b>Maturity Date</b>	Series I Bonds: Three (3) years from Issue Date or June 26, 2028
<b>Redemption/Payment Basis</b>	Redemption at Par
<b>Bond Rating</b>	The Series I Bonds are not rated
<b>Payment Account Name</b>	Philippine Depository & Trust Corp. ("PDTC") as Paying Agent of:  Series I Bonds: UNION BANK OF THE PHILIPPINES FAO

**Taxation**

*Interest Income on Bonds*

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is thus subject to income tax, which is withheld at source, at the rate of 20% based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a 20% final withholding tax while that received by non-resident aliens not engaged in trade or business is subject to a final withholding tax rate of 25%. Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a final withholding tax rate of 20%. Interest income received by non-resident foreign corporations from the Bonds is subject to a 25% final withholding tax. However, under the Capital Market Efficiency Promotion Act (CMEPA), the final withholding tax rate on certain passive income, such as interest income, will be subject to a uniform rate of 20%, except for non-resident aliens not engaged in trade or business and non-resident foreign corporations, both of whom shall still be subject to a final withholding tax rate of 25%.

Except for such withholding tax and as otherwise provided, payments of principal and interest will be made free and clear of any deductions of any taxes, duties, or charges imposed by or on behalf of the Republic of the Philippines. If such taxes, duties, or charges are imposed, the same shall be for the account of the Bank; provided, however, that the Bank shall not be liable for:

1. Any creditable or final withholding tax applicable on interest earned on the Series I Bonds prescribed under the NIRC, as amended, and its implementing rules and regulations as be in effect from time to time; a corporate or institutional investor who is exempt from or not subject to such withholding tax shall be required to submit the following:
  - a. a current and valid BIR-certified true copy of the tax exemption certificate, ruling, or opinion addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate as required under BIR Revenue Memorandum Circular (RMC) No. 8-2014 including any clarification, supplement or amendment

thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the exemption certificate is a true copy of the original; (b) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (c) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting the said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount equivalent to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one (1) year from the date of issuance. Should the submitted tax exemption certificate, ruling or opinion expire during the Offer Period, the Bondholder must submit an updated/revalidated tax exemption certificate;

- b. with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the duly executed and apostilled/consularized BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR, as required under Revenue Memorandum Order (RMO) No. 14-2021, (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Bank, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized



representative) and confirmation acceptable to the Bank that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due, (i) three (3) originals of the duly executed and apostilled/consularized new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Bank deems applicable, and (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; and (c) such other additional documents as may be required by the Bank or pursuant to applicable tax regulations, including, but not limited to, the documentary requirements enumerated in BIR RMO No. 14-2021 in relation to BIR RMC Nos. 77-2021 and 20-2022, which shall be submitted by the Bondholder/Registrar and Paying Agent to the Bank no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto; for the avoidance of doubt, the Bank shall retain sole discretion in determining whether the non-resident Bondholder is entitled to the preferential tax treaty rate based on the documents submitted by the non-resident Bondholder, provided that all the conditions for the availment thereof, other than residency, have been satisfied;

- c. a duly notarized undertaking executed by (1) the Corporate Secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption or preferential rate treatment based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund,

- etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Bank and the Registrar and Paying Agent of (i) any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (ii) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature, and method of operation, which are inconsistent with the basis for its income tax exemption; or (iii) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Bank, the Registrar and Paying Agent, the Joint Lead Arrangers and the Selling Agents free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such Bondholder shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose; and
- d. such other documentary requirements as may be required by the Bank and the Registrar and Paying Agent or as required under the applicable regulations of the relevant taxing or other authorities, e.g., BIR RMO No. 14-2021, and BIR RMC Nos. 77-2021 and 20-2022, which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Bondholder is not doing business in the Philippines; provided that the Bank shall have the exclusive discretion to decide whether the documents submitted



are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar and Paying Agent.

2. Gross receipts tax;
3. Taxes on the overall income of any securities dealer or bondholder, whether or not subject to withholding; and
4. Value-added tax.

Documentary stamp tax for the primary issue of the Series I Bonds and the execution of the Bond Agreements, if any, shall be for the Bank's account.

#### Change in Tax Rates and New Taxes

In the event there is a change in the tax treatment of the Series I Bonds or on the tax rates applicable to a Bondholder because of new, or changes or repeal in, tax laws, or interpretations thereof, as a result of which, a Bondholder previously exempt from tax shall be subject to tax on income earned from the Series I Bonds or there is an increase in the applicable withholding tax rate, or any payments of principal and/or interest under the Series I Bonds shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed within the Philippines by any authority therein or thereof having power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the "New Taxes"), then such New Taxes imposed shall be for the account of the Bondholders and the Paying Agent, on behalf of the Bank, as applicable, shall make the necessary withholding or deduction for the account of the Bondholders concerned. All sums payable by the Bank to tax-exempt persons (upon presentation of acceptable proof of tax exemption) shall be paid without deductions for taxes, duties, assessments, or government charges.

#### **Prohibited Bondholder**

"Prohibited Bondholders" mean Persons which are prohibited from purchasing or holding the Bonds, specifically:



- (1) the Bank, including its related parties expressly prohibited under prevailing BSP Rules (subject to such exceptions as may be provided therein), provided that, unless otherwise provided in the BSP Rules:
  - (a) the phrase “related parties expressly prohibited under prevailing Rules” shall refer to the related parties (i) identified in Section 131(p) of the BSP Manual of Regulations for Banks (“MORB”) (as defined below) and (ii) which are in possession of or have access to material and non-public information affecting the pricing and marketability of the Bonds or that which substantially impacts an investor’s decision to buy or sell the Bonds once the same is disseminated to the public; and
  - (b) the following shall not be considered as Prohibited Bondholders: (1) the Bank’s trust departments or related trust entities and (2) underwriters and/or arrangers that is a related party of the Bank, where such underwriter and/or arranger is part of the underwriting agreement;
- (2) non-resident aliens not-engaged in trade or business in the Philippines and non-resident foreign corporations; *provided* that in the event that the BIR provides guidelines to PDEx to supplement the PDEx rules, conventions and guidelines with respect to the withholding of interest income of non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporation from Bonds with maturities of not less than five (5) years, the Bank may exclude non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporations in the list of Prohibited Bondholders.
- (3) US Persons under the FATCA including: a U.S. citizen (including a dual citizen); a U.S. resident alien for U.S. tax purposes; a U.S. partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to exercise primary supervision over the administration of the trust; or (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; and any other person that is not considered a non-US person under the FATCA.

For purposes of the definition of Prohibited Bondholders, **“Related parties”** means the related parties identified in Section 131(p) of the BSP MORB which includes the following: (i) subsidiaries and affiliates of the Bank, and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank; (ii) the Bank’s directors, officers, stockholders, related interests and their close family members, as well as corresponding persons in affiliated companies; or (iii) persons and entities that have direct or indirect linkages to the Bank identified as (a) ownership, control or power to vote, of 10% to less than 20% of the outstanding voting stock of the Bank; (b) interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the Bank; (c) common stockholders owning at least 10% of the outstanding voting stock of the Bank and 10% to less than 20% of the common outstanding voting stock of the Bank; and (d) permanent proxy or voting trusts in favor of the Bank constituting 10% to less than 20% of the outstanding voting stock of the Bank, or vice versa.

A **“subsidiary”** shall refer to a corporation or firm more than fifty percent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation. An **“affiliate”** shall refer to an entity linked directly or indirectly to the Bank by means of: (1) ownership, control (as defined below), or power to vote of at least twenty percent (20%) of the outstanding voting stock of the entity, or vice-versa; (2) interlocking directorship or officership, where the director or officer concerned owns, controls, or has the power to vote, at least twenty percent (20%) of the outstanding voting stock of the entity; (3) common ownership, whereby the common stockholders own at least ten percent (10%) of the outstanding voting stock of the Bank and at least twenty percent (20%) of the outstanding voting stock of the entity; (4) management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or (5) permanent proxy or voting trusts in favor of the Bank constituting at least twenty percent (20%) of the outstanding voting stock of the entity, or vice versa. As used herein, “control” of an enterprise exists when there is: (1) power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or (2) power to govern the financial and operating policies of the enterprise under a statute or an agreement; or (3) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or (4) power to cast the majority

votes at meetings of the board of directors or equivalent governing body; or (5) any other arrangement similar to any of the above.

The terms “**control**” / “**controlled**” shall have the meaning ascribed to such term under Section 131(d) of the BSP MORB, as the same may be amended from time to time.

**Closed Period**

The periods during which the Registrar shall not register any transfer or assignment of the Series I Bonds, specifically: (a) the period of two (2) Business Days preceding any Interest Payment Date or the due date for any payment of the principal amount of the Series I Bonds; or (b) the period when any Series I Bonds have been previously called for redemption.

**Restricted Transfers**

- (i) Transfers to Prohibited Holders;
- (ii) Transfers by Holders with deficient documents; and
- (iii) Transfers during a Closed Period.

**Governing Law**

Philippine Law

**PROVISIONS RELATING TO REDEMPTION**

**Notice period for early redemption**

Minimum period: 30 calendar days prior written notice to the Bondholders, Trustee, Registrar, and the BSP

Maximum period: 60 calendar days prior written notice to the Bondholders, Trustee, Registrar, and the BSP

**Issuer Redemption Option**

The Bank may, at its sole option, redeem the Series I Bonds at par plus accrued interest (if any), without premium or penalty:

*a) Early Redemption Option for Taxation Reasons*

In the event that payments by the Bank under the Series I Bonds become subject to additional or increased taxes (other than taxes and rates thereof prevailing on the Issue Date) as a result of any change in or application of any law, rule, or regulation in the Philippines or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, rules or regulations (including but not limited to any decision by a court of competent jurisdiction), which change or amendment becomes effective after the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to



the Bank, the Bank, subject to the BSP Rules, shall have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Series I Bonds on the relevant Early Redemption Date at the Early Redemption Amount.

*b) Early Redemption for Increased Reserves*

In the event that the Series I Bonds become subject to additional or increased reserves other than the reserves prevailing on the Issue Date as a result of certain changes in law, rule or regulation, or in the interpretation thereof, the Bank, subject to the BSP Rules, shall have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Series I Bonds on the relevant Early Redemption Date at the Early Redemption Amount.

*c) Early Redemption for Change in Law*

In the event that any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations thereunder.

*d) Early Redemption for Other Reasons*

Subject to the BSP Rules, the Bank shall also have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Series I Bonds on the relevant Early Redemption Date at the Early Redemption Amount on any other ground in addition to the early redemption events under (i), (ii), and (iii) above, as may be approved by the BSP.

*e) No Pretermination by Holder*

Except as otherwise contemplated under the Terms and Conditions, and this Final Pricing Supplement, none of the Holders shall have the right to require the Bank to redeem and repay any or all of the Series I Bonds before the relevant Maturity Date of such Series I Bonds. Transfers of the Series I Bonds to a Person other than the Bank shall not constitute pre-termination.

<b>Final Redemption Amount</b>	The Series I Bonds will be redeemed at par on the Maturity Date.
<b>Early Redemption Date</b>	On any Interest Payment Date
<b>Early Redemption</b>	The Bank shall redeem the Series I Bonds at par plus accrued and

**Amount**                                      unpaid interest thereon as of the Early Redemption Date. If, as a consequence of the exercise of the Early Redemption Option, interest income already earned under the Early Redemption Bonds shall be subjected to incremental taxes, such taxes shall be for the account of the Bank.

**PARTIES/DISTRIBUTION**

**Trustee**                                      Development Bank of the Philippines – Trust Banking Group

**Registrar & Paying Agent**      Philippine Depository & Trust Corp. (PDTC)

**Joint Lead Arrangers**              ING Bank N.V., Manila Branch  
Philippine Commercial Capital, Inc.  
Standard Chartered Bank

**Selling Agents**                      Union Bank of the Philippines  
ING Bank N.V., Manila Branch  
Philippine Commercial Capital, Inc.  
Standard Chartered Bank

**Market Maker**                      ING Bank N.V., Manila Branch  
Philippine Commercial Capital, Inc.

**Ranking**                                      The Series I Bonds constitute the direct, unconditional, unsecured, and unsubordinated obligations of the Bank, enforceable according to the Terms and Conditions, and shall at all times rank *pari passu* and without any preference or priority among themselves and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

**Listing**                                      The Series I Bonds are intended to be listed at the Philippine Dealing & Exchange Corp. (PDEX), or such other securities exchange licensed as such by the Securities and Exchange Commission.

**Additional Information**              Please see Schedule 1



## SCHEDULE 1: ADDITIONAL INFORMATION

*The Offering Circular is hereby supplemented with the following information, which shall be deemed to be incorporated in, and to form part of, the Offering Circular. This Schedule is qualified in its entirety by, and should be read in conjunction with, the more detailed information and audited financial statements, including notes thereto, found in the Offering Circular. Save as otherwise defined herein, terms defined in the Offering Circular have the same meaning when used in this Schedule 1.*

### RECENT DEVELOPMENTS

The Board of Directors of the Bank has released its unaudited interim consolidated financial statements, including those of its subsidiaries, as of 31 March 2025, and for the three months ended 31 March 2025 and 2024 (the “**First Quarter 2025 Financial Statements**”) on 16 May 2025. These statements shall be incorporated by reference into the Offering Circular and can be accessed and downloaded from the PSE Edge (<https://edge.pse.com.ph/>) and the Bank’s website (<https://www.unionbankph.com>). The Offering Circular for the Bond Program was updated on 9 May 2025. Prospective investors are advised to review and consider the First Quarter 2025 Financial Statements before making any decision or taking any action with respect to the proposed offering of the Series I Bonds.

The First Quarter 2025 Financial Statements have not been audited or reviewed by the independent auditors of the Bank or any other independent accountants and may be subject to adjustments if audited and reviewed. As such, the financial information therein may differ from future audited or reviewed financial information. There can be no assurance that, had the financial information been audited or reviewed, the financial statements would not have changed, that any such changes would not be material, or that such financial information was prepared and presented in a manner consistent with the accounting policies normally adopted by the Bank and applied in its audited consolidated financial statements as at and for the years ended 31 December 2024 and 2023.

The First Quarter 2025 Financial Statements should not be relied upon by potential investors to provide the same quality of information as information that has been subject to an audit or review. The First Quarter 2025 Financial Statements should not be considered as indicative of the expected financial condition or results of operations of the Group for the full financial year ending December 31, 2025. Potential investors must therefore exercise caution when relying on such data to evaluate the Bank’s financial condition or performance. None of the Joint Lead Arrangers and the Selling Agents makes any representation or warranty, express or implied, regarding the accuracy, completeness, and sufficiency of the First Quarter 2025 Financial Statements.

See also the section entitled “*Investment Considerations – Risks Relating to the Information in this Offering Circular – Potential investors should not place undue reliance on the First Quarter 2025 Financial Statements*” of this Final Pricing Supplement.



## INVESTMENT CONSIDERATIONS

*This section supplements and updates the risk factors disclosed in Section 4 of the Offering Circular. The following section is qualified in its entirety by, and should be read in conjunction with, the information found in the Offering Circular.*

### **“4.6 Risks Relating to the Information in this Offering Circular**

#### ***4.6.1 Potential investors should not place undue reliance on the First Quarter 2025 Financial Statements.***

The First Quarter 2025 Financial Statements have not been audited or reviewed by the independent auditors of the Bank or any other independent accountants, and may be subject to adjustments if reviewed or audited. As such, the financial information therein may differ from future audited or reviewed financial information. There can be no assurance that, had the financial information been audited or reviewed, the financial statements would not have changed, that any such changes would not be material, or that such financial information was prepared and presented in a manner consistent with the accounting policies normally adopted by the Bank and applied in its audited consolidated financial statements as at and for the years ended 31 December 2024 and 2023.

The First Quarter 2025 Financial Statements should not be relied upon by potential investors as providing the same quality of information as information that has been subject to an audit or review. The First Quarter 2025 Financial Statements should not be considered as indicative of the expected financial condition or results of operations of the Group for the full financial year ending December 31, 2025. Potential investors must therefore exercise caution when relying on such data to evaluate the Bank’s financial condition or performance. None of the Joint Lead Arrangers and the Selling Agents makes any representation or warranty, express or implied, regarding the accuracy, completeness, and sufficiency of the First Quarter 2025 Financial Statements.”

## REGULATORY UPDATES

*This section supplements and updates the discussions on Government Policies and Regulations in Relation to the Philippine Banking System and Philippine Taxation disclosed in Subsection 14.4, Section 14 and Section 16 of the Offering Circular, respectively. The following section is qualified in its entirety by, and should be read in conjunction with, the information found in the Offering Circular.*

### **“14.4 CERTAIN GOVERNMENT POLICIES AND REGULATIONS IN RELATION TO THE PHILIPPINE BANKING SYSTEM**

**69. Amendments to Regulations on Information Technology (IT) Risk Management to Implement Section 6 of the Anti-Financial Account Scamming Act (AFASA).** On 30 May 2025, the BSP issued Circular No. 1213 which was designed to strengthen the existing regulatory framework on information technology risk management and ensure more effective compliance with the provisions of the AFASA. The Circular provides for regulations on the adoption of fraud management systems by BSP supervised financial institutions (BSFIs) engaged in complex



electronic products and services and handling high aggregate values of online transactions, adoption of measures to enable the bank and its customers to safeguards financial accounts, and institution of shared accountability framework for safeguarding financial accounts.

**70. Rules of Procedure on the Conduct of Inquiry into Financial Accounts and Sharing of Financial Account Information by the Bangko Sentral ng Pilipinas Pursuant to the AFASA.** On 30 May 2025, the BSP issued Circular No. 1214 which provides for the rules on the execution of information sharing agreement among competent authorities which shall govern the sharing of financial account information obtained by the consumer account protection officer pursuant to its authority to investigate and inquire into financial accounts under the AFASA. It also includes the rules and procedures for requesting for inquiry into financial accounts which may be involved or utilized in the commission of a prohibited act as defined in the AFASA, issuance of inquiry order, and disclosure of financial account information, among others. The Circular clarifies that the laws on secrecy of deposits and data privacy shall not apply to any financial account which are subject to BSP's investigation and inquiry.

**71. Regulations on the Temporary Holding of Funds Subject of Disputed Transactions and Coordinated Verification Process.** On 30 May 2025, the BSP issued Circular No. 1215 which sets regulations on the temporary holding of funds subject of disputed transactions and the coordinated verification process to implement Sections 7 to 11 of the AFASA, including updates to the MORB, MORNBF, and MORPS. It mandates BSP-Supervised Institutions (BSIs) to temporarily hold funds involved in disputed electronic fund transfers and coordinate verification processes to protect the public from cybercrime and fraud. It also provides that BSIs must provide their clients with regular updates and guidance to safeguard personal and financial information to ensure the security of financial accounts. Furthermore, it provides for liabilities of BSIs for failure to temporarily hold disputed funds and improper holding of funds beyond the allowable period.

## **SECTION 16. PHILIPPINE TAXATION**

On 29 May 2025, the President of the Philippines signed into law Republic Act No. 12214, or the Capital Markets Efficiency Promotion Act (CMEPA). Upon signing the law, the President vetoed the following items of the CMEPA in accordance with Article VI, Section 27(2) of the Philippine Constitution:

1. The removal of the tax exemption on non-residents' income from their transactions with FCDUs;
2. Imposition of the documentary stamp tax on bettors in authorized number games; and
3. Repeal of tax exemptions granted to the Philippine Guarantee Corporation.

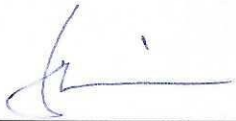
Prior to being signed into law, the draft CMEPA provided for the removal of the preferential tax rate and tax exemption for long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments. The forgoing amendment was included in the final version of the CMEPA signed into law by the President. Under Section 28 of the CMEPA, any tax exemption and preferential tax rate on financial instruments issued or transacted prior to 1 July 2025 shall be subject to the prevailing tax rate at the time of its issuance for the remaining maturity of the relevant agreement."

## **RESPONSIBILITY**

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

**UNION BANK OF THE PHILIPPINES**  
(the Bank)

By:



---

**JOHNSON L. SIA**  
Executive Vice President, Treasurer and  
Head of Global Markets



**IMPORTANT: You must read the following disclaimer before continuing.** The following disclaimer applies to the attached offering circular. You are therefore advised to read this disclaimer carefully before reading, accessing, or making any other use of the attached offering circular. In accessing the attached offering circular, you agree to be bound by the following terms and conditions, including any modifications to them from time to time, each time you receive any information from us.

Confirmation of your representation: You have accessed the attached document on the basis that you have confirmed to Union Bank of the Philippines (the **Bank**), ING Bank N.V. Manila Branch (**ING**), Philippine Commercial Capital, Inc. (**PCCI Capital**), and Standard Chartered Bank (**SCB**) (the **Joint Lead Arrangers and the Selling Agents**) that (1) you are not a resident in a country where delivery of this document by electronic transmission may not be lawfully delivered in accordance with the laws of the jurisdiction in which you are located, AND (2) that you consent to delivery of this document and any amendments or supplements thereto by electronic transmission.

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**You understand that:** The information in the offering circular has been provided by Union Bank of the Philippines (the **Bank**) for its ₱100,000,000,000 Bonds Program (the **Bonds Program**). The Joint Lead Arrangers and the Selling Agents have not independently verified the information contained in the offering circular. The Joint Lead Arrangers and the Selling Agents (1) accept no liability or responsibility for (a) the contents of this offering circular or for any other statement, made or purported to be made by the Joint Lead Arrangers and the Selling Agents or on its behalf in connection with the Bank, (b) the accuracy or completeness of the information contained in the offering circular or on which the offering circular is based, or (c) the issue and offering of the Bonds, (2) nor make any representation or warranty, express or implied, with respect to the information contained in the offering circular or on which the offering circular is based. The Joint Lead Arrangers and the Selling Agents accordingly disclaims all and any liability whether arising in tort or contract or otherwise which it might otherwise have in respect of this offering circular or any such statement.

This offering circular should not be considered as a recommendation by the Joint Lead Arrangers and the Selling Agents or any of their affiliates to any recipient of the offering circular in relation to the Bonds Program. Each person to whom the offering circular is made available by the Joint Lead Arrangers and the Selling Agents must make its own independent assessment of the Bonds Program after making such investigation as it deems necessary.

If you have gained access to this transmission contrary to the foregoing restrictions, you will be unable to purchase any of the securities described herein.

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**Union Bank of the Philippines**  
*(incorporated with limited liability in the Republic of the Philippines)*

**₱100,000,000,000 BONDS PROGRAM**  
**OFFER PRICE 100.0% OF FACE VALUE**

Under this ₱100,000,000,000 Bonds Program, Union Bank of the Philippines (the **Bank**) may offer, from time to time, in one or more series or tranches, Senior Fixed Rate Bonds (the **Bonds**), pursuant to BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), and any other circulars and regulations as may be relevant for the transaction, as amended from time to time. The maximum aggregate nominal amount of all Bonds from time to time issued and outstanding under the Bonds Program will not exceed ₱100,000,000,000.

The Bonds, when issued, shall constitute direct, unconditional, unsecured, and unsubordinated peso-denominated obligations of the Bank, enforceable according to the Terms and Conditions of the Bonds, and shall at all times rank *pari passu* and ratably without any preference or priority amongst themselves, and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

The Bonds will be issued in scripless form in denominations as stated in the Form of Pricing Supplement to be issued for every Series or Tranche of Bonds, thereafter, and will be registered and lodged with the Registrar through the Registry in the name of the Bondholders, subject to the payment by the Bondholder of applicable fees to the Registrar. Each Tranche of the Bonds issued under the Bonds Program will be represented by a Master Certificate of Indebtedness deposited with the Registrar. The electronic registry book of the Registrar (the **Registry**) shall serve as the best evidence of ownership with respect to the Bonds. However, a written advice will be issued by the Registrar to the Bondholders to confirm the registration of Bonds in their name in the Registry including the amount and summary terms and conditions of the Bonds (the **Registry Confirmations**).

The Bonds will not be rated. The Bank has a rating of Baa3 with a stable outlook from Moody's. A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization.

The Bonds will be listed by the Bank in the Philippine Dealing and Exchange Corp. (**PDEX**). Once registered and lodged, the Bonds will be eligible for transfer through the trading participants of the PDEX upon listing of the Bonds in PDEX by electronic book-entry transfers in the Registry, and issuance of Registry Confirmations in favor of transferee Bondholders.

THE NOTES BEING OFFERED OR SOLD HEREIN ARE SECURITIES EXEMPT FROM REGISTRATION UNDER SECTION 9.1(E) OF THE SECURITIES REGULATION CODE AND WILL ACCORDINGLY NOT BE REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION.

*Joint Lead Arrangers and Bookrunners*



*Selling Agents*



The date of this Offering Circular is 09 May 2025



Unless the context indicates otherwise, any reference to the “**Bank**” refers to Union Bank of the Philippines. The information contained in this Offering Circular relating to the Bank, its operations, and those of its subsidiaries (collectively, the **Group**) has been supplied by the Bank, unless otherwise stated herein.

The Bonds will be issued pursuant to BSP Circular No. 1010 (Series of 2018), BSP Circular No. 1062 (Series of 2019), and other related circulars and issuances of the BSP (the **BSP Rules**). The issuance of the Bonds is exempt from the registration requirement under the Securities Regulation Code pursuant to Section 9.1(e) of the said law. This Offering Circular has been prepared by the Bank solely for the information of persons to whom it is transmitted. This Offering Circular shall not be reproduced in any form, in whole or in part, for any purpose whatsoever nor shall it be transmitted to any other person.

The Bank confirms that this Offering Circular contains all information relating to the Group and the Bonds which is material in the context of the issue and offering of the Bonds, that the information contained herein is true and accurate in all material respects and is not misleading, that the opinions and intentions expressed herein are honestly held and have been reached after considering all relevant circumstances and are based on reasonable assumptions, and that there are other facts, omission of which would make any statement in this Offering Circular misleading in any material respect and that all reasonable enquiries have been made by the Bank to verify the accuracy of such information. The Bank hereby accepts full and sole responsibility accordingly.

The Joint Lead Arrangers and the Selling Agents have not independently verified the information contained or incorporated by reference herein. Accordingly, no representation, warranty or undertaking, express or implied, is made and no responsibility or liability is accepted by the Joint Lead Arrangers or the Selling Agents as to the accuracy or completeness of the information contained or incorporated by reference in this Offering Circular or any other information provided by the Bank in connection with the offering of the Bonds. To the fullest extent permitted by law, the Joint Lead Arrangers and the Selling Agents assume no liability in relation to the information contained or incorporated by reference in this Offering Circular or any other information provided by the Bank or any statement made or purported to be made by the Joint Lead Arrangers, the Selling Agents or any of their respective affiliates or advisors, in connection with the offering of the Bonds.

No person is or has been authorized by the Bank, the Joint Lead Arrangers or the Selling Agents to give any information or to make any representation not contained in or not consistent with this Offering Circular or any other information supplied in connection with the offering of the Bonds and, if given or made, such information or representation must not be relied upon as having been authorized by the Bank, the Joint Lead Arrangers or the Selling Agents. Neither this Offering Circular nor any other information supplied in connection with the offering of the Bonds (a) is intended to provide the basis of any credit or other evaluations or (b) should be considered as a recommendation by the Bank, the Joint Lead Arrangers or the Selling Agents that any recipient of this Offering Circular, or any other information supplied in connection with the offering of the Bonds, should purchase any Bonds. Each investor contemplating to purchase any Bonds should rely on its own examination of the Bank and the terms of the offering of the Bonds, including the merits and risks involved. By receiving this Offering Circular, the prospective Bondholder acknowledges that (i) it has not relied on the Joint Lead Arrangers, the Selling Agents or any person affiliated with them in connection with its investigation of the accuracy of any information in this Offering Circular or its investment decision, and (ii) no person has been authorized to give any information or to make any representation concerning the Bank, the Group or the Bonds other than as contained in this Offering Circular and, if given or made, any such other information or representation should not be relied upon as having been authorized by the Bank, the Joint Lead Arrangers or the Selling Agents.

None of the Bank, the Joint Lead Arrangers, the Selling Agents or any of their respective affiliates or representatives is making any representation to any Bondholder regarding the legality of an investment by such Bondholder under applicable laws. In addition, the Bondholder should not construe the contents of this Offering Circular as legal, business or tax advice. The Bondholder should be aware that it may be required to bear the financial risks of an investment in the Bonds for an indefinite period. The Bondholder should consult with its own advisers as to the legal, tax, business, financial and related aspects of a purchase of the Bonds.

Neither the delivery of this Offering Circular nor the offering, sale or delivery of any Bonds shall in any circumstances imply that the information contained herein concerning the Bank is correct at any time subsequent to the date hereof or that any other information supplied in connection with the offering of the Bonds is correct as at any time subsequent to the date indicated in the document containing the same. The Joint Lead Arrangers and the Selling Agents expressly do not undertake to review the financial condition or affairs of the Bank during the life of the Bonds or to advise any investor in the Bonds of any information coming to their attention.

This Offering Circular does not constitute an offer to sell, or an invitation by or on behalf of the Bank, the Joint Lead Arrangers and the Selling Agents or any of their respective affiliates or representatives to purchase any of the Bonds, and may not be used for the purpose of an offer to, or a solicitation by, anyone, in each case, in any jurisdiction or in any circumstances in which such offer or solicitation is not authorized or is unlawful. Recipients of this Offering Circular are required to inform themselves about and observe any applicable restrictions.

Each Bondholder must comply with all applicable laws and regulations in force in each jurisdiction in which it purchases, offers or sells such Bonds or possesses or distributes this Offering Circular and must obtain any consent, approval or permission required by it for the purchase, offer or sale by it of such Bonds under the laws and regulations in force in any jurisdictions to which it is subject or in which it makes such purchases, offers or sales and the Bank or the Joint Lead Arrangers and the Selling Agents shall have no responsibility therefor.

The audited consolidated financial statements of the Bank and its subsidiaries as of and for the year ended December 31, 2024, prepared in accordance with PFRS Accounting Standards and included in this Offering Circular, have been audited by SyCip Gorres Velayo & Co., independent accountants, in accordance with Philippine Standards on Auditing as stated in their audit report appearing herein.

## CONVENTIONS WHICH APPLY TO THIS OFFERING CIRCULAR

In this Offering Circular, unless otherwise specified or the context otherwise requires, all references to the “Philippines” are references to the Republic of the Philippines. All references to the “Government” herein are references to the Government of the Philippines. All references to “United States” or “U.S.” herein are to the United States of America. Unless otherwise specified or the context otherwise requires, references herein to “U.S. dollars” and “U.S.\$” are to the lawful currency of the United States of America and references herein to “Pesos” and “P” are to the lawful currency of the Republic of the Philippines. Certain monetary amounts and currency translations included in this document have been subject to rounding adjustments; accordingly, figures shown as totals in certain tables may not be an arithmetic aggregation of the figures, which precede them. References in this document to ownership interests are, save as otherwise disclosed, as at the date of this document.

Any discrepancies in any table between totals and the sums of the amounts listed are due to rounding.

## PRESENTATION OF FINANCIAL AND OTHER INFORMATION

Unless otherwise indicated, all financial and other data regarding the Bank’s business and operations in this Offering Circular are presented in a consolidated basis. The financial information in this Offering Circular has been derived from the audited financial statements of the Bank and its subsidiaries as of and for the financial years ended December 31, 2024, 2023 and 2022 (the **Audited Consolidated Financial Statements** or the **Financial Statements**), included elsewhere in this Offering Circular.

The Bank’s financial year ends on December 31, and references in this Offering Circular to any specific year are to the 12-month period ended on December 31 of such year. The Audited Financial Statements have been prepared in accordance with Philippine Financial Reporting Standards (**PFRS**) Accounting Standards adopted by the Financial and Sustainability Reporting Standards Council from the pronouncements issued by the International Accounting Standards Board, and approved by the Philippine Board of Accountancy.

## **FORWARD-LOOKING STATEMENTS**

Certain statements in this Offering Circular constitute “forward-looking statements”, including statements regarding the Bank’s expectations and projections for future operating performance and business prospects. The words “believe”, “expect”, “anticipate”, “estimate”, “project”, “will”, “aim”, “will likely result”, “will continue”, “intend”, “plan”, “contemplate”, “seek to”, “future”, “objective”, “goal”, “should”, “will pursue” and similar expressions or variations of these expressions identify forward-looking statements. In addition, all statements other than statements of historical facts included in this Offering Circular, including, without limitation, those regarding the Bank’s financial position and results, business strategy, plans and objectives of management for future operations, including development plans and objectives relating to the Bank’s products and services, are forward-looking statements.

Such forward-looking statements and any other projections contained in this Offering Circular (whether made by the Bank or any third party) involve known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements to be materially different from the future results, performance or achievements expressed or implied by forward-looking statements. Such forward-looking statements are based on current beliefs, assumptions, expectations, estimates and projections regarding the Bank’s present and future business strategies and the environment in which the Bank will operate in the future. Among the important factors that could cause some or all of those assumptions not to occur or cause the Bank’s actual results, performance or achievements to differ materially from those in the forward-looking statements include, among other things, the Bank’s ability to successfully implement its business strategy, the condition of and changes in the Philippine, Asian or global economies, future levels of non-performing loans, the Bank’s growth and expansion, including whether the Bank succeeds in its business strategy, changes in interest rates and changes in government regulation and licensing of its businesses in the Philippines and in other jurisdictions where the Bank may operate, and competition in the banking and financial services industry. Additional factors that could cause the Bank’s actual results, performance or achievements to differ materially include, but are not limited to, those discussed under “Investment Considerations”.

Any forward-looking statements contained in this Offering Circular speak only as at the date of this Offering Circular. Each of the Bank and the Joint Lead Arrangers and the Selling Agents expressly disclaims any obligation or undertaking to release, publicly or otherwise, any updates or revisions to any forward-looking statement contained herein to reflect any change in the Bank’s expectations with regard thereto or any change in events, conditions, assumptions or circumstances on which any such statement was based.

## **INDUSTRY AND MARKET DATA**

Unless otherwise indicated, all industry and market data with respect to the Philippine banking and financial services industries was derived from information compiled and made available by the BSP or other public sources. While the Bank has ensured that such information has been extracted accurately and is believed by the Bank to be reasonable and presented in its proper context, the Bank has not independently verified any of the data from third-party sources or ascertained the correctness of the underlying economic assumptions relied upon therein.

## **FORM OF PRICING SUPPLEMENT**

For each issuance of Bonds under the Bank’s Bonds Program, the Bank shall distribute the Form of Pricing Supplement which shall be disclosed to the public through the filing with the PSE and made available for download from the website of the Bank specifically, in <https://www.unionbankph.com/>.

The Form of Pricing Supplement shall contain the following information:

- 1) name of the Bank;
- 2) description of the issue;
- 3) description of the specified currency or currencies;



- 4) description of the offer size of the specific offering;
- 5) description of the manner of distribution;
- 6) description of the issue price;
- 7) description of the form and denomination of the Bonds;
- 8) description of timetable and offer period;
- 9) description of the applicable interest rate and the mode of settlement of the offering;
- 10) description of the interest payable;
- 11) description of the provisions relating to redemption;
- 12) distribution;
- 13) investment considerations;
- 14) parties to the distribution;
- 15) name of the relevant payment account; and
- 16) additional information or changes or updates to the Offering Circular.

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## **SECTION 1. DOCUMENTS INCORPORATED BY REFERENCE**

The following documents, which have previously been published or issued from time to time after the date hereof, shall be incorporated in, and form part of, this Offering Circular:

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

save that any statement contained herein or in a document which is deemed to be incorporated by reference herein shall be deemed to be modified or superseded for the purpose of this Offering Circular to the extent that a statement contained in any such subsequent document which is deemed to be incorporated by reference herein modifies or supersedes such earlier statement (whether expressly, by implication or otherwise). Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Offering Circular. Copies of the documents listed above which are deemed incorporated by reference in this Offering Circular may be obtained at the Philippine Stock Exchange's website at <http://www.pse.com.ph>.

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

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

The Bank will, in the event of any significant new factor, material mistake, or inaccuracy relating to information included in this Offering Circular which is capable of affecting the assessment of any Bonds, prepare a supplement to this Offering Circular or publish a new offering circular for use in connection with any subsequent issue of Bonds.



## SECTION 2. GLOSSARY OF TERMS

<b>AMLA</b>	means the Anti-Money Laundering Act of the Philippines (Republic Act No. 9160), as amended by Republic Act No. 9194, Republic Act No. 10167, Republic Act No. 10365, and Republic Act No. 10927, and BSP Circular Nos. 706 and 950 and all other amendatory and implementing law, regulation, jurisprudence, notice, or order of any Philippine governmental body relating thereto.
<b>Application to Purchase or ATP</b>	means the application form to be accomplished and submitted by an applicant for the purchase of a specified amount of the bonds to be issued pursuant to the Bond Program, together with all the other requirements set forth in such application form attached thereto, or electronically submitted through the e-SIP.
<b>Bank</b>	means Union Bank of the Philippines, a corporation duly organized and existing under the laws of the Philippines, and duly authorized to operate as a universal bank.
<b>BIR</b>	means the Philippines Bureau of Internal Revenue.
<b>Bond Agreements</b>	means the Program Agreement dated 26 April 2019, Trust Indenture Agreement dated 26 April 2019, the Registry and Paying Agency Agreement dated 26 April 2019, the Terms and Conditions, including amendments thereto, the Master Certificate of Indebtedness and Pricing Supplement to be issued for each Series or Tranche of Bonds to be issued under the Bond Program.
<b>Bondholder</b>	means a Person who, at any relevant time, appears in the Registry as the registered owner of a Series or Tranche of Bonds issued under the Bond Program.
<b>Bond Program</b>	means the ₱100 Billion bond program of the Bank established by, or otherwise contemplated in, this Offering Circular.
<b>Bonds</b>	means a bond issued pursuant to the Bond Program which has such maturity and interest rate as may be agreed upon between the Bank and the relevant Lead Arranger/s and evidenced by a Master Certificate of Indebtedness.
<b>BSP</b>	means the <i>Bangko Sentral ng Pilipinas</i> .
<b>BSP Rules</b>	means the General Banking Law of 2000 (Republic Act No. 8791), the Manual of Regulations for Banks, BSP Circular Nos. 975, 1010 and 1062 and other related circulars and issuances, as may be amended from time to time.
<b>Business Day</b>	means any day other than one on which commercial banks and foreign exchange markets in Pasig City and Makati City, Philippines are not required or authorized to be open for business.
<b>Cash Settlement Bank</b>	means a bank licensed and authorized under the laws of the Republic of the Philippines and designated by the Bondholder as the bank with which the Bondholder's Cash Settlement Account is maintained, such designation to be made in accordance with the procedures of the Paying Agent.
<b>Closed Period</b>	means the periods during which the Registrar shall not register any transfer or assignment of the Bonds, specifically: (a) the period of two (2) Business Days preceding any Interest Payment Date or the due date for any payment of the principal amount of the Bonds; or (b) the period when any Bonds have been previously called for redemption.

<b>Early Redemption Amount</b>	means the amount equal to the aggregate issue price of the Bonds, plus accrued but unpaid interest thereon as of the Early Redemption Date in accordance with Clause 6 of the Terms and Conditions.
<b>Early Redemption Date</b>	means the next Interest Payment Date following compliance by the Bank with the pre-termination requirements under Clause 6 of the Terms and Conditions.
<b>Early Redemption Option</b>	means the Bank's option to redeem all but not less than all of the Bonds on any Interest Payment Date in accordance with Clause 6 of the Terms and Conditions.
<b>Electronic Securities Issue Portal or e-SIP</b>	means the e-Securities Issue Portal established and maintained by the Philippine Dealing System Holdings Corp. e-SIP is a permissioned web-based facility designed as a gateway to streamline processes in the primary issuance of fixed income instruments, available to identified stakeholders such as issuers, underwriters or arrangers, selling agents and client investor applicants. e-SIP will serve as an electronic channel for submission of documents for listing, enrollment, and registration of bondholders.
<b>Eligible Bondholder</b>	means all prospective purchasers of the Bonds other than those identified as Prohibited Bondholders.
<b>Event of Default</b>	means an event specified as such in the Terms and Conditions.
<b>Exchange</b>	means a fixed-income exchange duly accredited by the BSP (such as but not limited to PDEX) on which the Bonds are listed.
<b>FATCA</b>	means the Foreign Account Tax Compliance Act of the United States of America, as may be amended from time to time.
<b>Final Sales Report</b>	means the report from each Joint Lead Arranger detailing the Applications to Purchase covering the Bonds approved and accepted for purchase during the Offer Period.
<b>Interest</b>	means for any Interest Period, the interest payable on such Bonds at such rate set out in the applicable relevant Pricing Supplement.
<b>Interest Commencement Date</b>	means the first Interest Payment Date, in respect of a particular Series or Tranche of Bonds.
<b>Interest Payment Date</b>	means, either: <ol style="list-style-type: none"> <li>1) The date which falls the number of months or other period specified at the "Interest Period" in the applicable Pricing Supplement after the preceding Interest Payment Date or the Interest Commencement Date (in the case of the first Interest Payment Date); or</li> <li>2) Such date or dates as are indicated in the applicable Pricing Supplement.</li> </ol>
<b>Interest Period</b>	means in respect of any Series or Tranche of Bond, the period commencing on the relevant Issue Date and having a duration of three (3), six (6) or twelve (12) months and, thereafter, each successive three (3), six (6) or twelve (12)- month period commencing on the last day of the immediately preceding Interest Period up to, but excluding the first day of the immediately succeeding Interest Period, but in the case of the last Interest Period, it will be the period from and including the last day of the immediately preceding Interest Period up to, but excluding, the Maturity Date.

<b>Interest Rate</b>	means the rate of interest as specified in the Master Certificate of Indebtedness as the interest rate corresponding to the Series or Tranche of the Bonds.
<b>Issue</b>	means the issuance of a Series or Tranche of Bonds by the Bank pursuant to the Terms and Conditions and the applicable Pricing Supplement.
<b>Issue Date</b>	means, in respect of any Series or Tranche of Bond, the date of issuance of such Series or Tranche of the Bond pursuant to and in accordance with the Bond Program as set out in the applicable Pricing Supplement or any other agreement between the Bank and the relevant Joint Lead Arrangers.
<b>Issue Price</b>	means one hundred per cent (100%) of the aggregate nominal principal amount of the Bonds.
<b>Joint Lead Arrangers</b>	means with respect to each Series or Tranche of Bonds, the entity/ies which the Bank may appoint as joint lead arranger/s and bookrunners for such particular Series or Tranche of Bonds as specified in the Placement Agreement and the applicable Pricing Supplement, and “ <b>Joint Lead Arranger</b> ” means any one of them.
<b>Market Maker</b>	means the entity appointed by the Bank as market maker for the relevant Series or Tranche of Bonds, as reflected in the relevant Pricing Supplement, provided that such entity is qualified to act as such by PDEX.
<b>Master Certificate of Indebtedness</b>	means the certificate to be issued by the Bank to the Trustee evidencing and covering such amounts corresponding to a Series or Tranche of Bonds issued on the relevant Issue Date.
<b>Maturity Date</b>	means the date at which a Series or Tranche of Bonds shall be redeemed by the Bank by paying the principal amount thereof as specifically provided in the applicable Pricing Supplement and the Master Certificate of Indebtedness. Unless previously redeemed or cancelled, the Bond Maturity Date shall be on the date specified in the applicable Pricing Supplement and the Master Certificate of Indebtedness, or the next Business Day if such date is not a Business Day. However, the Maturity Date of the Bonds, for the purpose of the Bank effecting repayment of the principal amount thereof, is subject to the following Business Day convention. Thus, if the Maturity Date is not a Business Day, principal repayment shall be made by the Bank on the next succeeding Business Day, without adjustment to the amount of interest to be paid.
<b>Non-Trade Transactions</b>	means transactions relating to the Bonds under the following instances: <ol style="list-style-type: none"> <li>1) Nomination or change of nominated custodian by the beneficial owner of the Bonds;</li> <li>2) Succession, provided that the heirs and successors-in-interest present a court order of partition or deed of extrajudicial settlement together with the proper documentation evidencing the payment of applicable taxes and a certificate from the BIR authorizing the transfer of the Bonds;</li> <li>3) Donation, provided that the donor presents a valid deed of donation and documents to evidence the payment of applicable taxes and a certificate authorizing the transfer of the Bonds from the BIR;</li> <li>4) Request for recording or annotation of interests or liens on the Bonds of any party arising from transactions such as, but not limited to, pledge or escrow, provided that the pledgor or the beneficiary of the escrow shall present a proper contract of pledge or escrow agreement; and</li> </ol>



- 5) Such other transactions that may be deemed valid and “free of payment” transactions by PDTC; provided such transfer is not in violation of any law or regulation or made in circumvention thereof; provided, further that, the burden of proving the validity of a “free of payment” transaction rests with the transferor of the Bonds.

<b>Offer</b>	means an offer of a Series or Tranche of the Bonds to the public for subscription under the Bond Program at Issue Price.
<b>Offer Period</b>	means the period when a Series or Tranche of Bonds are offered for sale by the Bank to the public, through the Selling Agents, on such date and time as may be determined by the Bank and the Joint Lead Arrangers.
<b>Offering Circular</b>	means the offering circular to be issued in connection with the Bank’s Bond Program dated 26 April 2019, as amended on 23 October 2020, 22 April 2022, and 25 October 2023
<b>Paying Agent</b>	means Philippine Depository & Trust Corp. or such successor or substitute paying agent to be appointed by the Bank subject to written notification to the BSP within ten (10) calendar days from the date of such change or appointment.
<b>Payment Account</b>	means, in respect of a Series or Tranche of Bonds issued pursuant to the Bond Program, the account to be opened and maintained by the Paying Agent with such Payment Bank designated by the Bank and solely managed by the Paying Agent, in trust and for the irrevocable benefit of the relevant Bondholders, into which the Bank shall deposit the amount of the interest and/or principal payments due on the relevant outstanding Bonds on a relevant Payment Date and exclusively used for such purpose, the beneficial ownership of which shall always remain with the Bondholders.
<b>Payment Account Bank</b>	means a duly-licensed bank designated by the Bank (using the form attached to the Registry and Paying Agency Agreement as <b>Schedule 3</b> ), where the relevant PDTC Payment Account will be opened, maintained, and managed by the Paying Agent for and on behalf of the Bank, into which the Bank shall deposit, in good cleared funds, the amount of the relevant interest and principal payments due each Bondholder on each relevant Payment Date.
<b>Payment Date</b>	means each date on which payment for interest and/or principal in respect of the relevant Series or Tranche of the Bonds become due.
<b>PDEX</b>	means the Philippine Dealing & Exchange Corp., a domestic corporation duly registered with the SEC to operate an exchange and trading market for fixed income securities and a member of the Philippine Dealing System Group.
<b>PDEX Rules</b>	mean the PDEX Rules for the Fixed Income Securities Market, as amended, and as the same may be revised from time to time, as well as other related rules, guidelines, and procedures that may be issued by PDEX.
<b>PDEX Trading Participant</b>	means a trading participant of the PDEX, as defined under its rules.
<b>PDS Group</b>	means the group of companies comprised of the Philippine Dealing System Holdings Corporation, which is the parent company of the group, and its operating subsidiaries, which are affiliates of PDTC, namely, PDEX, and the Philippine Securities Settlement Corp.

<b>PDTC</b>	means the Philippine Depository & Trust Corp.
<b>Person</b>	means an individual or an entity such as a corporation, partnership, joint venture, trust, unincorporated organization, political subdivision, agency, or instrumentality (whether or not having separate legal personality), and its permitted successor and assigns.
<b>Pesos or the symbol “₱”</b>	means the lawful and official currency of the Republic of the Philippines.
<b>Placement Agreement</b>	means the agreement executed in relation to each Series or Tranche of Bonds and sets out the terms on which the Bank shall engage the Lead Arranger/s and Selling Agent/s for that particular Series or Tranche of Bonds.
<b>Pricing Supplement</b>	means the pricing supplement issued in relation to each Series or Tranche of Bonds and giving details of that Series or Tranche and, in relation to any particular Series or Tranche of Bonds, “ <b>applicable Pricing Supplement</b> ” means the Pricing Supplement applicable to that Series or Tranche.
<b>Program Agreement</b>	means the Program Agreement dated 26 April 2019 by and among the Bank, and the Joint Lead Arrangers and the Selling Agents named in it, amended and/or supplemented and/or restated from time to time, concerning the issuance of a Series or Tranche of Bonds to be issued pursuant to the Bond Program together with any accession letters and/or as may be modified, amended, or supplemented as applicable from time to time.
<b>Prohibited Bondholders</b>	<p>mean Persons which are prohibited from purchasing or holding the Bonds, specifically:</p> <ol style="list-style-type: none"> <li>1) the Bank, including its related parties expressly prohibited under prevailing BSP Rules (subject to such exceptions as may be provided therein), provided that, unless otherwise provided in the BSP Rules: <ol style="list-style-type: none"> <li>a) the phrase “related parties expressly prohibited under prevailing Rules” shall refer to the related parties (i) identified in Section 131 of the MORB (as defined below) and (ii) which are in possession of or have access to material and nonpublic information affecting the pricing and marketability of the Bonds or that which substantially impacts an investor’s decision to buy or sell the Bonds once the same is disseminated to the public; and</li> <li>b) the following shall not be considered as Prohibited Bondholders: (1) the Bank’s trust departments or related trust entities and (2) underwriters and/or arrangers that is a related party of the Bank, where such underwriter and/or arranger is part of the underwriting agreement;</li> </ol> </li> <li>2) non-resident aliens not-engaged in trade or business in the Philippines and non-resident foreign corporations; provided that in the event that the BIR provides guidelines to PDEX to supplement the PDEX rules, conventions and guidelines with respect to the withholding of interest income of non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporation from Bonds with maturities of not less than five (5) years, the Bank may exclude non-resident aliens not engaged in trade or business in the Philippines and non-resident foreign corporations in the list of Prohibited Bondholders.</li> <li>3) US Persons under the FATCA including: a U.S. citizen (including a dual citizen); a U.S. resident alien for U.S. tax purposes; a U.S. partnership; a U.S. corporation; any U.S. estate; any U.S. trust if: (a) a court within the United States is able to</li> </ol>

exercise primary supervision over the administration of the trust; or (b) one or more U.S. persons have the authority to control all substantial decisions of the trust; and any other person that is not considered a non-US person under the FATCA.

For purposes of the definition of Prohibited Bondholders, “**Related parties**” means the related parties identified in Section 131 of the BSP Manual of Regulations for Banks which includes the following: (i) subsidiaries and affiliates of the Bank, and any party (including their subsidiaries, affiliates and special purpose entities) that the Bank exerts direct or indirect control over or that exerts direct or indirect control over the Bank; (ii) the Bank’s directors, officers, stockholders, related interests and their close family members, as well as corresponding persons in affiliated companies; or (iii) persons and entities that have direct or indirect linkages to the Bank identified as (a) ownership, control or power to vote, of 10% to less than 20% of the outstanding voting stock of the Bank; (b) interlocking directorship or officership, except in cases involving independent directors as defined under existing regulations or directors holding nominal share in the Bank; (c) common stockholders owning at least 10% of the outstanding voting stock of the Bank and 10% to less than 20% of the common outstanding voting stock of the Bank; and (d) permanent proxy or voting trusts in favor of the Bank constituting 10% to less than 20% of the outstanding voting stock of the Bank, or vice versa.

A “**subsidiary**” shall refer to a corporation or firm more than fifty per cent (50%) of the outstanding voting stock of which is directly or indirectly owned, controlled or held with power to vote by its parent corporation. An “**affiliate**” shall refer to an entity linked directly or indirectly to the Bank by means of: (1) Ownership, control (as defined below), or power to vote of at least twenty per cent (20%) of the outstanding voting stock of the entity, or vice-versa; (2) interlocking directorship or officership, where the director or officer concerned owns, controls, as defined under Item “d” hereof, or has the power to vote, at least twenty per cent (20%) of the outstanding voting stock of the entity; (3) common ownership, whereby the common stockholders own at least ten per cent (10%) of the outstanding voting stock of the Bank and at least twenty per cent (20%) of the outstanding voting stock of the entity; (4) management contract or any arrangement granting power to the Bank to direct or cause the direction of management and policies of the entity; or (5) permanent proxy or voting trusts in favor of the Bank constituting at least twenty per cent (20%) of the outstanding voting stock of the entity, or vice versa. As used herein, “control” of an enterprise exists when there is: (1) power over more than one-half of the voting rights by virtue of an agreement with other stockholders; or (2) power to govern the financial and operating policies of the enterprise under a statute or an agreement; or (3) power to appoint or remove the majority of the members of the board of directors or equivalent governing body; or (4) power to cast the majority votes at meetings of the board of directors or equivalent governing body; or (5) any other arrangement similar to any of the above.

**Record Date**

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

**Registrar**

means Philippine Depository and Trust Corp. pursuant to the Registry and Paying Agency Agreement.



<b>Registry</b>	means the electronic book of the Registrar containing the official information on the Bondholders and the amount of Bonds they respectively hold, including all transfers and assignments thereof or any liens or encumbrances thereon.
<b>Registry and Paying Agency Agreement</b>	means the Registry and Paying Agency Agreement by and between the Bank and the Registrar and Paying Agent dated 26 April 2019, as supplemented, amended and/or restated from time to time.
<b>Registry Confirmation</b>	means, in relation to any Series or Tranche of Bonds, the written advice sent by the Registrar to the relevant Bondholders, confirming the registration in the name of such Bondholder in the Registry of the specified amount of the Bonds issued to or purchased by a Bondholder, in the Registry.
<b>Sanctions</b>	means the economic sanctions laws, regulations, embargoes or restrictive measures administered, enacted or enforced by: (i) the Republic of the Philippines; (ii) the United States government; (iii) the United Nations; (iv) the European Union (v) the United Kingdom; (vi) the respective governmental institutions and agencies of any of the foregoing, including, without limitation, the Office of Foreign Assets Control of the US Department of Treasury ( <b>OFAC</b> ), the United States Department of State, and His Majesty's Treasury ( <b>HMT</b> ) or (vi) any other relevant sanctions authorities; (together " <b>the Sanctions Authorities</b> ").
<b>SEC</b>	means the Securities and Exchange Commission of the Philippines and its successor agency/ies.
<b>Selling Agent/s</b>	means with respect to each Series or Tranche of Bonds, each of the entity/ies which the Bank may appoint as selling agent of such Series or Tranche of Bonds as specified in the Placement Agreement and applicable Pricing Supplement, and " <b>Selling Agent</b> " means any one of them.
<b>Series or Tranche</b>	means an issuance of Bonds pursuant to the Bond Program under the same Terms and Conditions as specified under the Trust Agreement, except for their respective Issue Dates, Interest Rates, Maturity Dates, Interest Commencement Date, Tenor and such other terms and conditions as may be specifically provided in the Pricing Supplement to be issued for such particular issuance.
<b>Tax Exempt/Treaty Documents</b>	<p>means the following documentary requirements to be submitted by Bondholders claiming exemption from any applicable tax or application of a preferential tax rate as proof of its tax-exempt or preferential tax treatment status to the Registrar:</p> <ol style="list-style-type: none"> <li>1) a current and valid BIR-certified true copies of the tax exemption certificate, ruling or opinion addressed to the relevant applicant or Bondholder confirming its exemption or preferential rate as required under BIR Revenue Memorandum Circular (<b>RMC</b>) No. 8-2014 including any clarification, supplement or amendment thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the exemption certificate is a true copy of the original; (b) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (c) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting the said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount equivalent to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an</li> </ol>

apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one (1) year from the date of issuance. Should the submitted tax exemption certificate, ruling or opinion expire during the Offer Period, the Bondholder must submit an updated/revalidated tax exemption certificate;

- 2) with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the duly executed and apostilled/consularized BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR, as required under Revenue Memorandum Order (**RMO**) No. 14-2021, (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Bank, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Bank that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due, (i) three (3) originals of the duly executed and apostilled/consularized new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Bank deems applicable, and (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; and (c) such other additional documents as may be required by the Bank or pursuant to applicable tax regulations, including, but not limited to, the documentary requirements enumerated in BIR RMO No. 14-2021 in relation to BIR RMC Nos. 77-2021 and 20-2022, which shall be submitted by the Bondholder/Registrar and Paying Agent to the Bank no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto; for the avoidance of doubt, the Bank shall retain sole discretion in determining whether the non-resident Bondholder is entitled to the preferential tax treaty rate based on the documents submitted by the non-resident Bondholder, provided that all the conditions for the availment thereof, other than residency, have been satisfied;
- 3) a duly notarized undertaking executed by (1) the Corporate Secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption or preferential rate treatment based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its

account, or (2) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax exempt status or preferential rate entitlement, undertaking to immediately notify the Bank and the Registrar and Paying Agent of (i) any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (ii) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature, and method of operation, which are inconsistent with the basis for its income tax exemption; or (iii) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Bank, the Registrar and Paying Agent, the Joint Lead Arrangers, and the Selling Agents free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such Bondholder shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose; and

- 4) such other documentary requirements as may be required by the Bank or the Registrar and Paying Agent, or as required under the applicable regulations of the relevant taxing or other authorities, e.g., BIR RMO No. 14-2021, and BIR RMC Nos. 77-2021 and 20-2022, which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Bondholder is not doing business in the Philippines; provided that the Bank shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax exempt status to the Registrar and Paying Agent.

**Terms and Conditions** means, in relation to any Series or Tranche of the Bonds, the terms and conditions endorsed on or incorporated by reference into the Master Certificate of Indebtedness constituting each Series or Tranche, such terms and conditions being in or substantially in the form set forth in **Schedule 1** of the Registry and Paying Agency Agreement, as such terms and conditions may be amended with respect to any subsequent tranche of the Bonds.

**Trade Related Transactions** means transactions on the Bonds other than Non-Trade Related Transactions executed through the PDEX (upon listing of the Bonds).



<b>Trust Agreement</b>	means the Trust Indenture Agreement between the Bank and the Trustee dated 26 April 2019, as supplemented, amended and/or restated from time to time.
<b>Trustee</b>	means the Development Bank of the Philippines through its Trust Banking Group, the entity appointed by the Bank which shall act as the legal title holder of all Series or Tranche of Bonds and shall monitor compliance and observance of all covenants of and performance by the Bank of its obligations under the relevant Series or Tranche of Bonds issued under the Bond Program and enforce all possible remedies pursuant to such mandate, or any of its successors.

### SECTION 3. FORM OF PRICING SUPPLEMENT

Set out below is the form of Pricing Supplement which will be completed for each Tranche of Bonds issued under the Bonds Program.



**Union Bank of the Philippines**

(A corporation duly organized and existing under Philippine laws)

#### PRICING SUPPLEMENT

dated [●]

Offer of up to [P●] Senior Fixed Rate Bonds under its P100,000,000,000 Bond Program consisting of

[●]% p.a. Series [●] Bonds due [●] at an Offer Price of 100% of Face Value  
to be listed and traded through

the Philippine Dealing and Exchange Corporation

*Joint Lead Arrangers and Bookrunners [Logo]  
[Logo] Selling Agents [Logo] [Logo]*

## SECTION 4. INVESTMENT CONSIDERATIONS

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

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

The investment considerations discussed in this section are of equal importance and are separated into categories for ease of reference only.

### 4.1 RISKS RELATING TO THE BANK

#### 4.1.1 The Bank may not be successful in implementing its strategies or entering new markets.

The Bank is currently strengthening its business model by repositioning itself as a digital bank, leveraging on technology to continuously improve customer experiences in a cost-efficient manner. Through City Savings Bank, Inc. (**City Savings** or **CSB**) and the Bank's other subsidiaries, the Bank is expanding its core reach to the unbanked and underbanked segments of the population, currently serviced by fragmented institutions relying on traditional brick-and-mortar and face-to-face delivery segments. Meanwhile, with technology at the core of its strategy, the Bank established its technology and innovation arm, UBX PH, to lead the Bank's initiatives in building electronic platforms and exploring and applying emerging technologies in banking. In July 2021, the Bank was one of six entities granted permits by the BSP to operate a digital bank. See "Description of the Bank— Business Strategies". Expansion of the Bank's business activities exposes it to a number of risks and challenges, such as unstable markets, increased competition, an inability of the Bank to execute its strategies in a timely manner or at all, and less growth or profit potential than the Bank anticipates. In addition, new business endeavours may require knowledge and expertise which differ from those used in the current business operations of the Bank, including management skills, risk management procedures, guidelines and systems, credit appraisal, monitoring, and recovery systems. The Bank may not be successful in developing such knowledge and expertise. Furthermore, managing such growth and expansion requires significant managerial and operational resources, which the Bank may not be able to procure on a timely basis or at all.

The Bank's competitors may have substantially greater experience and resources for the new and expanded business activities and thus the Bank may not be able to attract customers from its competitors. The Bank may also fail to identify and offer attractive new products and services in a timely manner or at all, putting it at a disadvantage to its competitors. The Bank's inability to implement its business strategies could have a material adverse effect on its business, financial condition and results of operations.

#### 4.1.2 The Bank may not be able to integrate its acquisitions to its existing business.

The Bank's growth strategy contemplates, among other things, organic growth and growth through acquisitions. The Bank has made a number of strategic acquisitions in the past few years. From 2017 to 2022, the Bank, either directly or through its subsidiaries, acquired all or majority of the common shares in, among others: (i) First-Agro Industrial Rural Bank Inc. (**Fair Bank**), a rural bank that provides banking and microfinance services and loan

products to micro, small and medium enterprises, and micro housing institutions, (ii) Philippine Resources Savings Bank Corporation (**PR Savings Bank**), a thrift bank engaged in providing motorcycle, agri-machinery, and teachers' salary loans, (iii) PETNET, Inc. (**PETNET**), more widely known by its retail brand name PERA HUB, a remittance channel with over 3,000 outlets in the Philippines, (iv) Bangko Kabayan, a bank with one head office and 24 branches in the areas of Batangas, Laguna and Quezon, and (v) Progressive Bank, Inc. (**Progressive Bank**), a rural bank based in Iloilo, the Philippines, and engaged in the business of providing credit to farmers, and small, medium and micro business enterprises. The Bank has also acquired certain associates, in which it holds minority equity interest. On 1 August, 2022, the Bank completed the acquisition of the consumer banking business of Citigroup, Inc. in the Philippines. As part of its acquisition strategy, the Bank regularly evaluates potential acquisition targets, and may in the future seek to acquire other businesses to expand its operations.

There can be no assurance that the Bank will be able to meet all closing conditions or obtain all regulatory approvals required for its acquisitions, or that the Bank will not experience difficulties integrating acquired businesses, retaining, and integrating key employees of acquired companies, or addressing new business risks not currently faced by the Bank. If general economic and regulatory conditions or market and competitive conditions change, or if the Bank's operations do not generate sufficient funds, or other unexpected events occur, the Bank may decide to delay, modify, or forgo some aspects of its growth strategies. This could have an adverse effect on the Bank's financial condition and results of operations, as well as its future growth prospects.

In addition, completing acquisitions could require the use of a significant amount of the Bank's available capital. Acquisitions and investments may also have negative effects on the Bank's reported results of operations and capital adequacy levels due to acquisition-related charges, amortisation of acquired technology and other intangibles, and/or actual or potential liabilities, known and unknown, and recognising goodwill (which will be a key deduction from qualifying capital), each associated with the acquired businesses or joint ventures. Any of these acquisition-related risks or costs could adversely affect the Bank's business, financial condition, and results of operations.

#### **4.1.3 The Bank may not realise the anticipated synergies from the acquisition of the consumer banking business of Citigroup, Inc. in the Philippines.**

On 23 December 2021, the Board of the Bank approved the acquisition of the consumer banking business of Citigroup, Inc. in the Philippines, and on 1 August 2022, the Bank completed such acquisition. While the Bank expects the acquisition to unlock value through enhanced synergy and scale, there is no assurance that these will be fully realised, or that the acquisition will have the anticipated effects. The expected synergies may not materialise due to difficulties, delays, or unexpected costs in implementing the integration of the consumer banking business.

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

Any lending activity is exposed to credit risk arising from the risk of default by borrowers. The Bank's results of operations may potentially be negatively affected by the level of its NPLs. For the years ended 31 December 2022, 2023 and 2024, the Bank's provision for credit losses (i.e. impairment losses) amounted to ₱4,068.5 million, ₱14,040.9 million, and ₱19,598.7 million, respectively, representing 10.5 per cent., 27.0 per cent. and 33.8 per cent., respectively, of net interest income for these periods. A number of factors affect the Bank's ability to control and reduce its NPLs, such as the economic conditions and inflation risks in the Philippines and overseas, including volatile exchange and interest rates, which can affect the Bank and its customers and significantly increase the Bank's exposure to credit risk. These and other factors could impact the amount of NPLs or delinquencies in the Bank's credit card portfolio in the future and may require the Bank to book additional provisions for impairment on loans. While the Bank regularly monitors its NPL levels and has strict credit processes in place, there can be no assurance that the Bank will be successful in reducing its NPL levels, that the percentage of NPLs that the Bank will be able to recover will be similar to the Bank's historical recovery rates, or that the overall quality of its loan portfolio will not deteriorate in the future.



For the year ended 31 December 2024, the Bank recognised provision for credit losses of ₱19,598.7 million, representing an increase when compared to the provision for credit losses of ₱14,040.9 million for the year ended 31 December 2023 and ₱4,068.4 million for the year ended 31 December 2022. Meanwhile, the Bank's net NPL ratio increased slightly, from 3.9 per cent. as of 31 December 2023 to 4.0 per cent. as of 31 December 2024. Net NPL ratio is the result of total non-performing loans (NPLs), less specific loan loss reserves for NPLs, divided by total gross loans inclusive of interbank loans receivables. If the Bank is not able to control and reduce its NPLs or if there is a significant increase in its provisions for loan losses, the Bank's business, financial condition, results of operations and capital adequacy could be adversely affected.

**4.1.5 The Bank's provisioning policies are based on PFRS 9 expected credit loss standards, which require significant subjective determinations and are based on Philippine regulations, which may be less stringent than those in other countries.**

Regulations of the BSP require that Philippine banks classify loans that have a greater-than-normal risk into several categories corresponding to various levels of credit risk, as follows: pass, loans especially mentioned, substandard, doubtful, and loss. Generally, the classification of loans depends on a combination of a number of qualitative and quantitative factors, such as the number of months that payment is in arrears and the recoverability of collateral. Periodic examination by the BSP of these classifications in the future may also result in changes being made by the Bank to such classifications and to the factors relevant thereto. In addition, these requirements in certain circumstances may be less stringent than those applicable to banks in other countries and may result in particular loans being classified as non-performing later than would be required in such countries or being classified in a category reflecting a lower degree of risk. As a result, the amount of the Bank's NPLs as well as reserves may be lower than what would be required if the Bank were located in such countries. Further, if the Bank changes its provisioning policies to become more in line with international standards or practices, or otherwise, the Bank's results of operations may be adversely affected.

Furthermore, the level of loan loss provisions which the Bank recognises may increase significantly in the future due to the introduction of new accounting standards. See “- Risks Relating to the Philippine Banking Industry - Any future changes in PFRS may affect the financial reporting of the Group's business”. The Bank is unable to predict future changes in the accounting standards applicable to it and future changes may affect the Bank's loan loss provisioning.

The level of provisions currently recognised by the Bank in respect of its loan portfolio depends largely on the estimated value of the collateral coverage for the portfolio. The level of the Bank's provisions may not be adequate to cover increases in the amount of its NPLs, or any deterioration in the overall credit quality of the Bank's loan portfolio, including the value of the underlying collateral. The Bank may be unable to recover the assessed value of its collateral when its borrowers default on their obligations, which may expose the Bank to significant losses. In particular, the amount of the Bank's reported loan losses may increase in the future as a result of factors beyond the Bank's control.

Certain accounting standards, including the PFRS 9 expected credit loss standards, have been adopted in the Philippines, based on International Financial Reporting Standards, which require the Bank's loan loss provisions to reflect an unbiased and probability-weighted amount, which is determined by evaluating a range of possible outcomes, the time value of money, and reasonable and supportable information about past events, current conditions, and forecasts of future economic conditions, with the objective of recognising lifetime losses on all financial instruments which have experienced a significant increase in credit risk since their initial recognition. These accounting standards may result in the Bank recognising significantly higher provisions for loan loss.

While the Bank believes its current level of provisions and its collateral position are more than adequate to cover its NPL exposure, an unexpected or significant increase in NPL levels may result in the need for a higher level of provisions in the future. If the Bank fails to properly appraise or review its collateral or its appraised value declines,

the Bank's provisions may be inadequate and the Bank may be required to make further provisions, which could have a material adverse effect on its business, financial condition, and results of operations.

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

The Bank has expanded and plans to continue to expand its retail loan operations. Such expansions increase the Bank's exposure to consumer debt and changes in general economic conditions affecting Philippine consumers. Accordingly, economic difficulties in the Philippines that have a significant adverse effect on Philippine consumers could result in reduced growth and deterioration in the credit quality of the Bank's retail loan portfolios. For example, a rise in unemployment or an increase in interest rates could have an adverse impact on the ability of borrowers to make payments and increase the likelihood of potential defaults, while reducing demand for retail loans. In addition, the number of loan accounts may be negatively affected by declines in household income, public concerns about unemployment, or other negative macroeconomic factors. There can be no assurance that the Bank will be successful in its retail loan operations or that it will not incur losses. Losses from retail loan operations can negatively affect the Bank's results of operations.

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

As of 31 December 2022, 2023, and 2024, the Bank's secured loans represented 16.7 per cent., 15.4 per cent., and 14.6 per cent., respectively, of the Bank's gross loans. As of the same dates, 2.6 per cent., 1.7 per cent., and 1.7 per cent., respectively, of the Bank's total loans were secured by real estate properties.

The recorded values of the Bank's collateral may not accurately reflect its liquidation value, which is the maximum amount the Bank is likely to recover from a sale of collateral, less expenses of such sale. There can be no assurance that the realised value of the collateral would be adequate to cover the Bank's loans. An economic downturn, in particular, a downturn in the real estate market, could result in a fall in relevant collateral values for the Bank. Some of the valuations in respect of the Bank's collateral may also be out of date or may not accurately reflect the value of the collateral. In certain instances, where there are no purchasers for a particular type of collateral, there may be significant difficulties in disposing of such collateral at a reasonable price. Any decline in the value of the collateral securing the Bank's loans, including with respect to any future collateral taken by the Bank, would mean that the Bank may not be able to recover fully the provisions that absorbed the NPL. Any increase in the Bank's loan loss provisions would adversely affect its business, financial condition, results of operations, and capital adequacy ratio (CAR).

In addition, the Bank may not be able to recover in full the value of any collateral or enforce any guarantee, due, in part, to difficulties and delays that may be involved in enforcing such obligations through the Philippine legal system. The procedures to foreclose on collateral or enforce a guarantee are subject to administrative and bankruptcy law requirements, which may be more burdensome than in certain other jurisdictions. The resulting delays can last several years and lead to the deterioration in the physical condition and market value of the collateral, particularly where the collateral is in the form of inventory or receivables. In addition, such collateral may not be insured. These factors may expose the Bank to legal liability while in possession of the collateral. These factors may also significantly reduce the Bank's ability to realise the value of its collateral and therefore reduce the effectiveness of taking security for the loans it grants. Furthermore, the Bank may incur expenses to maintain such properties and prevent their deterioration. In realising the cash value for such properties, the Bank may incur further expenses such as legal fees and taxes associated with such realisation. There can be no assurance that the Bank will be able to realise the full value, or any value, of any collateral on its loans.

**4.1.8 The Bank has significant credit exposure to certain borrowers and industries and deterioration in the performance of any of these industry sectors may adversely impact the asset quality of the Bank's loan portfolio and its business.**

The Bank's largest industry exposures were to other consumption, real estate activities, and financial and insurance activities, representing 46.3 per cent., 17.5 per cent., and 6.8 per cent., respectively, of the Bank's total loan portfolio as of 31 December 2024. The global and domestic trends in these industries may have a bearing on the Bank's financial position. Any significant deterioration in the performance of a particular sector, driven by events outside the Bank's control, such as regulatory action or policy announcements by the Government or the general condition of the domestic and global economies, would adversely impact the ability of borrowers in that industry to service their debt obligations to the Bank. If the loans to these borrowers or sectors were to become non-performing, this could adversely affect the Bank's business and results of operations. Although the Bank continues to adopt risk controls and diversification strategies to minimise risk concentrations, financial difficulties in these industries could increase the level of non-performing assets and restructured assets, and adversely affect the Bank's business, its financial condition, and results of operations.

**4.1.9 The Bank's portfolio of real and other properties acquired (ROPA) exposes the Bank to risks related to realising the value of its ROPA and risks related to the valuation of, and provisions with respect to, its ROPA.**

The Bank has significant exposure to the Philippine property market due to its portfolio of loans to customers in the real estate industry, as well as the level of real estate it holds as collateral. The Bank's outstanding mortgage loans to customers amounted to ₱65.8 billion, ₱70.7 billion and ₱68.8 billion as of 31 December 2022, 2023, and 2024, respectively, representing 13.9 per cent., 13.5 per cent. and 13.1 per cent., respectively, of its total loans from customers as of those dates. The Bank acquires ROPA when it forecloses on the collateral provided by a borrower or whenever assets, usually real estate, are conveyed to or acquired by the Bank as payment. Accordingly, the level of the Bank's ROPA varies according to the level of its NPLs. As of 31 December 2024, its ROPA amounted to ₱8.5 billion, representing 0.7 per cent. of the Bank's total assets.

The Bank periodically disposes of its ROPA in public auctions and through negotiated sales at prevailing market prices, which are largely determined by purchasers. The Philippine property market has in the past been cyclical and property values have been affected by supply of and demand for comparable properties, the rate of economic growth in the Philippines, and political and social developments.

To the extent that property values decline in the future, there can be no assurance that the Bank will be able to sell and recover the value of the ROPA stated in the financial statements or that the ability of the Bank's customers in the real estate industry to make timely payment on their loans will not deteriorate. Furthermore, given the Bank's significant amount of ROPA, it may take a number of years before the Bank is able to realise a significant part of the value of its ROPA.

If the Bank is unable to dispose of its ROPA, it may be required to recognise levels of provisions in future years, which are higher than those currently recognised by the Bank. Furthermore, if the Bank's customers in the real estate industry fail to make timely payment on their loans, it may have to set aside additional provisions for impairment losses. An increase in the level of the Bank's provisions will reduce the Bank's net income and, consequently, adversely affect the Bank's business, financial condition, and results of operations.

**4.1.10 The Bank's funding is primarily short term and if depositors do not roll over deposited funds upon maturity, the Bank's business could be adversely affected.**

A significant portion of the Bank's funding needs is satisfied from short-term sources, primarily in the form of demand, savings, and time deposits. Accordingly, the maturity profile of the Bank's assets and liabilities may from time to time show a negative gap in the short term when the Bank's liabilities, which are composed of short-term funding sources (primarily in the form of deposits), subordinated notes, and other liabilities are of shorter average maturity than its loans and investments, thereby creating a potential for funding mismatches. Although these

deposits have historically been a stable source of funding for the Bank, there can be no assurance that this will continue to be the case. In the event that the Bank is unable to attract or retain sufficient deposits or if a substantial number of the Bank's depositors do not roll over deposited funds upon maturity, its liquidity position could be adversely affected and the Bank may be unable to fund its loan portfolio and may be required to seek alternative sources of funding such as swaps, sale of its securities portfolio, or entering into repurchase agreements. The Bank can provide no assurance as to the availability or terms of such funding. To the extent that the Bank is unable to obtain sufficient funding on acceptable terms or at all, the Bank's financial condition and results of operations may be adversely affected.

#### **4.1.11 The Bank may not be able to maintain its technological advantage over its competitors.**

The Bank is heavily reliant on technology in certain business operations and uses technology to differentiate its products and services from those of its competitors. While the Bank aims to remain at the forefront of technology banking in the Philippines, there are no significant barriers that prevent its competitors from adopting a similar technology for their products and services. The Bank may also fail to develop, acquire, or implement any new technology in a timely manner or at all, putting it at a disadvantage to its competitors. Furthermore, the Bank may need to incur a significant amount of research and development and/or capital expenditures to maintain its technological advantage. Accordingly, there can be no assurance that the Bank will be able to maintain its technological advantage over its competitors which may have an adverse effect on the Bank's business, financial condition, or results of operations.

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

The Bank's failure to manage information technology risks could adversely affect the Bank's business, financial condition, and results of operations. Any disruption, outage, delay or other difficulties in the operation of hardware, software, and connectivity infrastructure used by the Bank may result in loss of income and decreased consumer confidence. Such risk and the extent of potential loss may increase as the Bank continues its digital transformation and as it is transforming its services to digital channels and shifting to a cloud-only strategy. There is also potential for fraud, litigation and financial losses that are not fully covered by any insurance maintained by the Bank.

Cognisant of these risks, the Bank continues to invest heavily in upgrading its security systems and IT infrastructure to implement the requisite controls and monitoring systems, while ensuring that legal contracts also protect the Bank's interests. The holistic approach to securing and building this digital space is guided by a technological blueprint (i.e., enterprise architecture), which ensures that all inclusions to the digital infrastructure have adequately been risk assessed and controls are instituted. This secure IT environment has enabled the Bank to complete its vision of six sigma, 24/7, and straight-through operations.

As an on-going and continuous effort to improve the electronic defences, the Bank instituted a 24/7 integrated operation centre (IOC), manned by certified IT and cyber security controllers and headed by an incident management officer. In addition, the Bank upgraded its information and data storage and back-up solutions, along with building the capabilities of its IT practitioners using the IT Service Management model. The Bank is also building its digital bank via UnionDigital Bank Inc. (**UnionDigital**), a subsidiary, which was granted a digital banking licence by the BSP in November 2020, and the digital bank commenced its operation on 18 July 2022. The potential for fraud and securities problems continues to increase and there can be no assurance that these security measures will be adequate or successful. The costs of maintaining such security measures may also increase substantially. Failure in security measures could have a material adverse effect on the Bank's business, financial condition, and results of operations.

#### **4.1.13 The Bank is subject to foreign currency risk and interest rate risk.**

As a financial organisation, the Bank is exposed to exchange rate risk. Movements in foreign exchange rates could affect the Bank's business and results of operations. The decline or appreciation in the value of the Peso against



foreign currencies, in particular, the U.S. dollar, may affect the ability of the Bank's customers to service debt obligations denominated in foreign currencies and, consequently, potentially increase NPLs depending on the pace of currency adjustment, the nature of the clients' enterprises, and the degree to which they are hedged. There can be no assurance that the Peso will not fluctuate further against other currencies and that such fluctuations will not ultimately have an effect on the Bank. In addition, the foreign exchange transactions of Philippine banks are subject to certain BSP regulations. Under BSP guidelines, the Bank is required to provide a 100.0 per cent. foreign asset cover for all foreign currency liabilities, except for USD-denominated repurchase agreements with the BSP, in its foreign currency deposit unit (FCDU) books. As of 31 December 2024, ₱206.2 billion and ₱205.0 billion of the Bank's total resources and total liabilities, respectively, were in the Bank's foreign currency deposit unit books and denominated in foreign currencies, primarily in U.S. dollars. These represent 18.0 per cent. and 21.6 per cent. of the Bank's total resources and total liabilities, respectively, as of 31 December 2024.

The Bank realises income from the margin between interest-bearing assets, such as investments and loans, and on interest-bearing liabilities, such as deposits and borrowings. The business of the Bank is subject to fluctuations in market interest rates as a result of mismatches in the re-pricing of assets and liabilities. These interest rate fluctuations are neither predictable with certainty nor controllable, and might have a material adverse impact on the operations and financial condition of the Bank. In a rising interest rate environment, if the Bank is not able to pass along higher interest costs to its customers in a timely manner, it might negatively affect the Bank's profitability. If such increased costs are passed along to customers, such increased rates might make loans less attractive to potential customers and result in a reduction in customer volume and hence operating revenues. In a decreasing interest rate environment, potential competitors might find it easier to enter the markets in which the Bank operates and to benefit from wider spreads. As a result, fluctuations in interest rates could have an adverse effect on the Bank's margins and volumes and in turn affect the Bank's business, financial condition, and results of operations.

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

Domestic interest rates have remained manageable since 2009, with the monetary policy directed towards stimulating the economy. After mid-2019, domestic interest rates have been reduced several times, for the purpose of stimulating the economy in light of global economic downturn due to increasing geopolitical tensions. At the meeting of the Monetary Board of the BSP (the Monetary Board) on 25 June 2020, the BSP reduced its key policy rates to 2.25 per cent. for overnight reverse repurchase facility, 1.75 per cent. for overnight deposit facility, and 2.75 per cent. for overnight lending facility. On 19 November 2020, the BSP further reduced its key policy rates to 2.00 per cent. for overnight reverse repurchase facility, 1.50 per cent. for overnight deposit facility, and 2.50 per cent. for overnight lending facility. On 17 February 2022, BSP decided to maintain the interest rate on overnight reverse repurchase facility at 2.00 per cent. The interest rates on the overnight deposit and lending facilities were likewise kept at 1.50 per cent. and 2.50 per cent., respectively. The BSP maintained its key policy rates until 19 May 2022, when it decided to raise the overnight reverse repurchase facility rate by 25 bps to 2.25 per cent., effective on 20 May 2022. Accordingly, the interest rates on the overnight deposit and lending facilities were raised to 1.75 per cent. and 2.75 per cent., respectively. The BSP proceeded to regularly increase its key policy rates until 18 May 2023 when the BSP decided to keep its key policy interest rates which stood at 6.25 per cent., 5.75 per cent., and 6.75 per cent. for the overnight reverse repurchase facility, overnight deposit, and lending facilities, respectively. Since then, the BSP either kept or increased the key policy interest rates; however, on 15 August 2024, the BSP reduced its key policy rates by 25 bps, resulting in a decrease in the interest rates for the overnight reverse repurchase, deposit, and lending facilities to 6.25 per cent., 5.75 per cent., and 6.75 per cent., respectively. And on 16 October 2024, the BSP further reduced its key policy rates by 25 bps, resulting in a decrease in the interest rates for the overnight reverse repurchase, deposit and lending facilities to 6.0 per cent., 5.50 per cent., and 6.50 per cent., respectively. On 19 December 2024, the BSP further reduced its key policy rates by 25 bps, resulting in a decrease in the interest rates for the overnight reverse repurchase, deposit, and lending facilities to 5.75 per cent., 5.25 per cent., and 6.25 per cent., respectively. On 13 February 2025, the BSP decided to keep the target reverse repurchase rate at 5.75%, thus keeping interest rates on the overnight deposit and lending facilities at 5.25 per cent. and 6.25 per cent., respectively. The BSP decided to keep the foregoing policy rates on

13 February 2025. There is no assurance that interest rates in the Philippines will not increase further in the future, including in response to inflationary pressures. The biggest uncertainty surrounds the severity of El-Nino weather conditions. Similar events are often accompanied by periods of higher food prices.

The Bank realises income from the margin between income earned on its interest-earning assets (due from BSP on balances above the minimum reserve requirement, due from other banks, interbank loans receivable, and securities purchased under resale agreements with BSP, investment securities, and loans and receivables) and interest paid on its interest-bearing liabilities (deposit liabilities, bills payable, senior/subordinated bonds, and loans and other forms of borrowings). Fluctuations in domestic market interest rates, which are neither predictable nor controllable, can have a significant impact on the Bank, affecting its interest income, cost of funding, and general performance of its existing loan portfolio and other assets. In a period of rising domestic interest rates, the Bank may be required to compete aggressively to attract deposits by offering higher rates to depositors in order to increase the Bank's loanable funds, which may result in a decrease in the Bank's profitability.

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

As interest rates rise, the Bank's profitability may decline accordingly. Elevated interest rates could prompt a reduction in the value of securities within the Bank's portfolio, potentially impacting its capacity to generate surplus trading gains as revenue. As interest rates increase, the Bank's profitability may decrease as a result. Moreover, increased interest rates on the Bank's customers' floating rate loans can also potentially negatively affect the Bank's business by increasing default rates among the Bank's borrowers, which could in turn lead to increases in the Bank's NPL portfolio and its ROPA. Likewise, rising interest rates may impact the value of the Bank's investment securities resulting in unrealised marked-to-market losses in its trading and FVOCI investment portfolios. Furthermore, the Bank may suffer trading losses as a result of the decline in value of these securities.

A sustained increase in interest rates will also raise the Bank's funding costs without a proportionate increase in loan demand (if at all). For example, in the context of rising interest rates, the Bank may be slower in repricing loans than deposits, therefore narrowing its net interest margin and negatively affecting its revenues and profitability. Rising interest rates will therefore require the Bank to re-balance its assets and liabilities in order to minimise the risk of potential mismatches and maintain its profitability. In addition, rising interest rate levels may adversely affect the economy in the Philippines and the financial position and repayment ability of its corporate and retail borrowers, which in turn may lead to a deterioration of the Bank's credit portfolio in addition to lower levels of liquidity in the system which may lead to an increase in the cost of funding.

#### **4.1.15 The Bank relies on certain key personnel, and the loss of any such key personnel or the inability to attract and retain them may negatively affect its business.**

The Bank's continued success depends upon, among other factors, the retention of its key management executives and its ability to attract and retain other highly capable individuals. The loss of some of the Bank's key management and senior executives, or an inability to attract or retain other key individuals, could materially and adversely affect the Bank's business, financial condition, and results of operations, thus, the Bank has leadership development and retention programmes, and a succession plan in place to manage such risk. This ensures that business continuity is achieved even if key personnel are separated from employment with the Bank. These programmes are regularly reviewed by the Bank's business centre heads and the Compensation and Remuneration Committee of the Bank's board of directors (the Board). The loss of the Bank's key management, senior executives, or an inability to attract or retain other key individuals could hinder the Bank's implementation of its strategies, which may adversely affect its business and financial condition.

**4.1.16 The Bank's business, reputation and prospects may be adversely affected if the Bank is not able to detect and mitigate incidents of fraud, cyberattacks, or other misconduct committed by outsiders or on other financial institutions on a timely basis.**

The Bank is exposed to the risk that fraud and other misconduct committed by employees or outsiders could occur. Such incidents may adversely affect banks and financial institutions more significantly than companies in other industries due to the large amounts of cash that flows through their systems.

For example, in December 2021, BDO Unibank, Inc. was the subject of a cyberattack, whereby certain account holders of BDO Unibank, Inc. lost their deposits through unauthorised transfers to accounts at several financial institutions, including the Bank (the **December Cyberattack**). The incident prompted an investigation by the BSP, which required all financial institutions involved to immediately implement remedial measures to address the fraudulent transfers. On 28 April 2022, as a result of this investigation, the BSP imposed sanctions on BDO Unibank, Inc. and the Bank, which was an additional capital charge for operational risk with no material financial impact. No monetary sanctions or restrictions on the Bank's business or suspension were imposed by the BSP and the Bank was informed that the BSP's investigation had been concluded. The Bank has put in place various processes and structures to detect and prevent fraud and other misconduct committed by the Bank's employees or outsiders on a timely basis; however, there can be no assurance that these processes and structures will detect and prevent fraud and other misconduct in a timely manner or at all. Failure on the part of the Bank to prevent such fraudulent actions may result in administrative or other regulatory sanctions by the BSP or other Government agencies, which may be in the form of suspension or other limitations placed on the Bank's banking and other business activities. While the Bank was not the target of the December Cyberattack and does not believe that this specific incident of fraud will have a long-term material impact on its business or reputation, any further occurrence of such fraudulent events may damage the reputation of the Bank and may adversely affect its business, financial condition, results of operations, and prospects. For instance, in April 2022, although the Bank was merely the receiving bank of the funds stolen from BDO Unibank, Inc.'s customers and the NBI noted that suspects were not able to cash in the stolen money as their transactions were flagged by the Bank, the BSP still imposed sanctions against the Bank.

Although the Bank has in place certain internal procedures and a robust information technology system to prevent and detect fraudulent activities, these may be insufficient to prevent such further occurrences and activities. There can be no assurance that the Bank will be able to avoid future incidents of fraud that could materially and adversely affect the Bank's business, financial condition, and results of operations. Further, there can be no assurance that the BSP or other regulators or Government agencies will not impose additional penalties or requirements, including extending or increasing capital allocation requirements to address operational risk.

**4.1.17 The Bank is subject to legal and regulatory risks, including the risks of legal, administrative, regulatory, and similar proceedings, which could have a material adverse effect on its business, results of operations or financial condition.**

The Bank is, and may in the future be, implicated in lawsuits on an ongoing basis. In addition, from time to time, the Bank is subject to proceedings of administrative, regulatory, or other authorities. Legal, administrative, regulatory, or similar proceedings could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities or operating restrictions. There can be no assurance that the results of such legal, administrative, regulatory, or similar proceedings will not materially harm the Bank's business, reputation, or standing in the marketplace or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. In addition, there can be no assurance that: (i) losses relating to legal, administrative, regulatory, or similar proceedings will not be incurred beyond the limits, or outside the coverage, of the Bank's insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial condition or results of operation, or (ii) any provision made for legal, administrative, regulatory, or similar proceedings will be sufficient to cover the Bank's ultimate loss or expenditure.

#### **4.1.18 The Bank's past or current results may not be indicative of the Bank's future performance.**

The Bank's results in the future are dependent upon many factors, including the Bank's ability to implement its business strategies, economic growth in the Philippines and foreign markets, performance of the Bank's loan portfolio, and fluctuation in interest rates and exchange rates. There can be no assurance that the Bank will be profitable or will not incur operating losses in the future.

#### **4.1.19 Losses in the Bank's subsidiaries' operations may affect the financial standing of the Bank.**

As a universal bank, the Bank is authorised, subject to certain limits, to invest in allied and non-allied undertakings and joint ventures.

A portion of the Bank's earnings may be derived from dividends or may otherwise be affected by the financial performance of its subsidiaries. For the years ended 31 December 2022, 2023, and 2024, the Bank derived equity income of ₱1.7 billion and ₱2.8 billion, and loss of ₱0.6 billion, respectively, in its consolidated net income. Losses in these undertakings may affect the financial standing of the Bank and could have a material adverse effect on the Bank's financial condition.

Furthermore, certain financial institutions owned or controlled by the Bank are also subject to BSP audit, the results of which may affect the banking licence of these subsidiaries, and consequently affect the cashflow to the Bank in terms of dividends.

#### **4.1.20 There is no assurance that the credit ratings given to the Bank will be maintained or that credit ratings will not be reviewed, downgraded, suspended or withdrawn in the future**

In 21 April 2025, Moody's downgraded the Bank's credit rating from Baa2 with a negative outlook to Baa3 with a stable outlook. According to Moody's, the recent downgrade reflects the increase in the Bank's problem loan ratio and higher problem loan formation in 2023 and 2024 coupled with the Bank's low provision coverage of problem loans which provided lower buffers against its riskier loan portfolio. It also takes into consideration the Bank's modest profitability, which is highly dependent on its ability to manage credit costs associated with its growing portfolio of unsecured retail loans, despite a high net interest margin.

Credit ratings are subject to revision, downgrade, suspension, or withdrawal at any time by the assigning rating agency. Rating agencies may also revise or replace entirely the methodology applied to derive credit ratings. No assurances can be given that a credit rating will remain for any period of time or that a credit rating will not be reviewed, downgraded, suspended or withdrawn as a result of future events or judgment on the part of the relevant rating agency. Any rating changes may impact the ability of the Bank to obtain financing, increase its financing costs, and/or may have a negative impact on the market value of the Bonds.

#### **4.1.21 The Bank is subject to Philippine foreign ownership limitations.**

Under the General Banking Law (Republic Act No. 8791) (the **General Banking Law**), as clarified by BSP Circular No. 256, the aggregate voting stock in a domestic bank held by foreign individuals and non-bank corporations must not exceed 40 per cent. of the outstanding voting stock of such bank. Although the aggregate ceiling on the equity ownership in a domestic bank does not apply to Filipinos and domestic non-bank corporations, their individual ownership is limited to up to 40 per cent. of the voting stock. The percentage of foreign-owned voting stock in a bank shall be determined by the citizenship of the individual stockholders in that bank. The citizenship of the corporation that is a stockholder in a bank shall follow the citizenship of the controlling stockholders of the corporation, irrespective of the place of incorporation. Since the aggregate foreign ownership in the Bank is limited to a maximum of 40 per cent. of its voting stock, the Bank cannot allow the issuance or the transfer of its common shares to persons other than Philippine nationals and cannot record transfers in its books if such issuance or transfer would result in the Bank ceasing to be a Philippine National for purposes of complying with the restrictions under the General Banking Law.

On 15 July 2014, RA 10641 was enacted, which provided that established, reputable, and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any of the

following modes of entry: (a) by acquiring, purchasing, or owning up to 100 per cent. of the voting stock of an existing bank; (b) by investing in up to 100 per cent. of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority.

The passage of RA 10641, however, did not entirely eliminate the foreign ownership controls under the General Banking Law. While qualified foreign banks may own up to 100 per cent. of voting shares in a universal bank, other foreign individuals or non-bank corporations are still subject to the 40 per cent. foreign ownership limitation under the General Banking Law. Further, the aggregate foreign-owned voting stock owned by foreign individuals and non-bank corporations shall not exceed 40 per cent. of the voting stock of the universal bank.

In addition, the Philippine Constitution and related statutes limit ownership of land in the Philippines to Filipino citizens or to corporations with at least 60 per cent. of its outstanding capital stock owned by Philippine Nationals. Republic Act No. 7042, as amended, otherwise known as the Foreign Investments Act of 1991, and the Eleventh Regular Foreign Investment Negative List, provide that certain activities are nationalised or partly nationalised, such that the operation and/or ownership thereof are wholly or partially reserved for Filipinos. Under these regulations, and in accordance with the Philippine Constitution, ownership of private lands is partly nationalised, thus companies that own land may only have a maximum of 40 per cent. foreign equity.

Such foreign ownership limitations may limit the Bank's access to foreign investment and technologies, and may affect the Bank's business growth.

#### **4.1.22 The Bank may be involved in litigation, which could result in financial losses or harm its business.**

The Bank is and may in the future be implicated in lawsuits on an ongoing basis. Litigation could result in substantial costs to, and a diversion of effort by, the Bank and/or subject the Bank to significant liabilities to third parties. There can be no assurance that the results of such legal proceedings will not materially harm the Bank's business, reputation or standing in the market or that the Bank will be able to recover any losses incurred from third parties, regardless of whether the Bank is at fault. Furthermore, there can be no assurance that: (i) losses relating to litigation will not be incurred beyond the limits, or outside the coverage, of the Bank's insurance, or that any such losses would not have a material adverse effect on the results of the Bank's business, financial condition or results of operations, or (ii) provisions made for litigation related losses will be sufficient to cover the Bank's ultimate loss or expenditure.

## **4.2 RISKS RELATING TO THE PHILIPPINE BANKING INDUSTRY**

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

The Bank is subject to significant levels of competition from many other Philippine banks and branches of international banks, including competitors which, in some instances, have greater financial and other capital resources, a greater market share and greater brand name recognition than the Bank. In addition, increased competition may arise from, among others:

- 1) other large Philippine banks and financial institutions with significant presence in Metro Manila and extensive country-wide branch networks;
- 2) full entry of foreign banks in the Philippines through any of the following modes allowed under RA 10641:
  - (a) the acquisition, purchase, or ownership of up to 100 per cent. of the voting stock of an existing bank;
  - (b) investment of up to 100 per cent. of the voting stock in a new banking subsidiary incorporated under Philippine law; or
  - (c) establishment of branches with full banking authority;
- 3) foreign banks, due to, among other things, standards which permitted large foreign banks to open branch offices;



- 4) domestic banks entering into strategic alliances with foreign banks with significant financial and management resources, and in some cases, resulting in excess capital that can be used as leverage for asset growth and market share gains;
- 5) continued consolidation and increased mergers and acquisitions in the banking sector involving domestic and foreign banks, driven in part by the gradual removal of foreign ownership restrictions;
- 6) the emergence of financial technology (**fintech**), including businesses such as an all-digital bank set up by CIMB, and mobile payment tools or e-wallet applications such as GCash and PayMaya, and the growing popularity of peer-to-peer lending through digital platforms;
- 7) the emergence and issuance of a digital banking licence to GoTyme Bank Corporation, Maya Bank, Inc., Overseas Filipino Bank, Inc., Tonik Digital Bank, Inc., Union Digital Bank and UNObank, Inc. by the BSP, which may offer banking products more aggressively on the back of reduced physical operating costs. According to the BSP Governor, the BSP will issue a circular soon on the lifting of the moratorium imposed by the BSP in 2021 on applications for digital banking licences in the Philippines to open up the industry to more players; and
- 8) as banks venture into micro-finance and other consumer financing products, other consumer-focused players, including informal lenders.

The recent mergers and consolidations in the banking industry, as well as the liberalisation of foreign ownership regulations in banks, have allowed the emergence of foreign and bigger local banks in the market. For example, there has been increased foreign bank participation in the Philippines following the lifting of the ban on the granting of new licences by the Monetary Board, as well as the amendment of banking laws with respect to the limit on the number of foreign banks. This has led to Sumitomo Mitsui Banking Corporation, Cathay United Bank, Industrial Bank of Korea – Manila Branch, Shinhan Bank – Manila Branch, United Overseas Bank Limited Manila Branch, Hua Nan Commercial Bank, First Commercial Bank – Manila Branch, CIMB Bank Philippines, Inc., Industrial and Commercial Bank of China Limited – Manila Branch, and Chang Hwa Commercial Bank, Ltd. – Manila Branch being granted new licences, and also equity investments by Bank of Tokyo-Mitsubishi UFJ into Security Bank, Cathay Life into Rizal Commercial Banking Corporation, Woori Bank into Wealth Development Bank, and Tyme Group in GoTyme Bank Corporation. In addition, the establishment of the ASEAN Economic Community in 2015 may enhance cross-border flows of financial services (in addition to goods, capital, and manpower) among member nations. This is expected to increase the level of competition from both Philippine banks and branches of international banks, and may impact the Philippine banks' operating margins. As of 31 December 2024, there were a total of 44 domestic and foreign universal and commercial banks operating in the Philippines. For the commercial banks, two are private domestic banks, two are foreign bank subsidiaries, and 18 are branches of foreign banks. For the universal banks, 13 are private domestic banks, three are government banks, and six are branches of foreign banks. The Philippines also had six digital banks as of 31 December 2024.

The emergence of digital banks and fintech companies in recent years also brings increased competition, especially in the context of the BSP's promotion of digitalisation and financial inclusion. In 2021, the BSP granted digital bank licences to six entities, including UnionDigital. There is also a large number of fintech companies providing various banking and financial services, such as payment gateways, buy-now-pay-later, mobile point-of-sale solutions, credit scoring, and fraud detection solutions. These fintech companies may rapidly develop their business and expand their service coverage and more fintech companies may be established, increasing the competition.

Although the Bank strives to innovate, particularly with respect to digital banking, in order to maintain its competitiveness, there can be no assurance that the Bank will be able to compete effectively in the face of such increased competition. Increased competition may make it difficult for the Bank to continue to increase the size of its loan portfolio and deposit base, and cause increased pricing competition, which could have a material adverse effect on its growth plans, margins, results of operations and financial condition.

#### **4.2.2 The Bank may have to comply with strict regulations and guidelines issued by banking and other regulatory authorities in the Philippines.**

The Bank is regulated and supervised principally by, and has reporting obligations to, the BSP. The Bank is also subject to the banking, corporate, taxation, and other regulations and laws in effect in the Philippines, administered by agencies such as the Anti-Money Laundering Council (AMLC), the Bureau of Internal Revenue (the **BIR**), the Philippine Securities and Exchange Commission (the **Philippine SEC** or the **SEC**), and the Philippine Stock Exchange (**PSE**), as well as international bodies such as the Financial Action Task Force (**FATF**), whose recommendations and pronouncements have been adopted, incorporated or referred to by the BSP in its regulatory issuances.

In recent years, existing rules and regulations have been modified, new rules and regulations have been enacted, and reforms have been implemented, which are intended to provide tighter control and added transparency in the Philippine banking sector. These rules include new guidelines on the monitoring and reporting of suspected money laundering activities, as well as regulations governing the capital adequacy of banks in the Philippines. Institutions that are subject to RA 9160 are required to establish and record the identities of their clients based on official documents, and update such client information at least once every three years. In addition, all records of transactions are required to be maintained and stored for a minimum of ten years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

The BSP has also ordered universal, commercial, and thrift banks to conduct real estate stress tests to determine whether their capital is sufficient to absorb a severe shock. The REST Limit combines a macro-prudential overlay of a severe stress test scenario, the principle of loss absorbency through minimum capital ratio thresholds and heightened supervisory response. If a bank fails to comply with the prescribed REST Limits, it shall be directed to explain why its exposures do not warrant immediate remedial action. If the bank is unable to render a sufficient explanation, it shall be required by the Monetary Board to submit an action plan to meet the REST Limits within a reasonable time frame. The latest regulation on the REST Limit, BSP Circular No. 1093, Series of 2020, provides that total real estate loans of universal banks and commercial banks shall not exceed 25 per cent. of the total loan portfolio of a bank, net of interbank loans, excluding certain items listed in the relevant BSP regulations and the Manual of Regulations for Banks (the **MORB**). This percentage is an increase from the previous 20 per cent.

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

On 29 October 2014, the BSP issued BSP Circular No. 855 regarding guidelines on sound credit risk management practices, including the amendment on loan loss provisions on loans secured by real estate mortgages. Under this regulation, loans may be considered secured by collateral to the extent that the estimated value of net proceeds at the disposition of such collateral can be used without legal impediment to settle the principal and accrued interest of such loan, provided that such collateral has an established market and a sound valuation methodology. Under the new rules, the maximum collateral value for real estate collateral shall be 60 per cent. of the value of such collateral, as appraised by an appraiser acceptable to the BSP. While this maintains existing regulations already applicable to universal and commercial banks, the collateral value cap will be particularly relevant in securing DOSRI transactions and in potentially accelerating the setting up of allowable loan for losses in case a loan account becomes distressed. The BSP also clarified that the collateral cap on real estate mortgages is not the same as a loan-to-value ratio limit. Under the current rules, the minimum borrower equity requirement remains a bank-determined policy (which, according to the BSP, averages 20 per cent. under current industry practice). However, under the enhanced guidelines of the BSP, a bank's internal policy as to minimum borrower equity will be subject to closer regulatory scrutiny as to whether the borrower equity requirement of a bank is prudent given the risk profile of its target market. Stricter lending and prudential regulations may reduce the lending appetite of the Bank

or cause the Bank to alter its credit risk management systems, which may adversely affect the Bank's business, financial condition, and results of operations.

In June 2016, the BSP implemented the interest rate corridor (**IRC**) which effectively narrowed the band among the BSP's key policy rates. The pricing benchmark, which used to be the special deposit account prior to the implementation of the IRC, was replaced by the overnight deposit facility, with a rate of 5.25% (as of 19 March 2025), and forms the lower band of the IRC. Meanwhile, the rate for the overnight lending facility replaced the previous repurchase facility and forms the upper bound of the IRC, is at 6.25% (as of 19 March 2025). On 8 September 2020, the BSP issued Circular No. 1095, series of 2020, to operationalise the additional instrument for the BSP monetary operations, specifically the inclusion of the Bangko Sentral Issued Securities, in particular bills and bonds issued by the BSP, under the IRC system. The Bangko Sentral Issued Securities shall be offered to banks, subject to the rules and guidelines issued by the BSP.

Additionally, universal and commercial banks are required to maintain reserves against deposits and deposit substitute liabilities, which, effective 6 January 2024, are imposed at the following rates: (a) 7.0 per cent. against demand deposits, negotiable order of withdrawal (**NOW**) accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificates of time deposits (**CTDs**), long-term non-negotiable tax-exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad of banks (a Philippine branch of a foreign bank); (b) nil against deposit substitutes evidenced by repurchase agreements; (c) 4 per cent. against long-term negotiable certificates of time deposits; (d) 1 per cent. against green, social sustainable bonds as defined under the relevant regulations of the SEC or other relevant regional or international standards acceptable to the market (**Sustainable Bonds**) issued within one year from 6 January 2024; (e) nil for Sustainable Bonds issued one year after 6 January 2024, effective for another 12 months; (f) 3 per cent. against bonds other than Sustainable Bonds; and (e) nil against basic deposit accounts as defined under Section X222 of the MORB and for IBCL transactions.

There is no assurance that the BSP or other Philippine or international regulators will not issue stricter regulations that may affect financial institutions in the Philippines. In the event of any changes to existing guidelines or rules, or the introduction of additional regulations or application of additional and new regulations as the Bank further conducts its digital transformation and applies new technologies, the Bank will have to comply with the same and may incur substantial compliance and monitoring costs. While the Bank closely monitors legal and regulatory developments, the Bank's failure to comply with current or future regulations and guidelines issued by regulatory authorities in the Philippines and in other relevant jurisdictions could have a material adverse effect on the Bank's business, financial condition, and results of operations. Such failure to comply could also result in the imposition of administrative sanctions, warning, or reprimand and incur monetary penalties, or filing of criminal charges against the Bank and its employees responsible for violations.

#### **4.2.3 Increased enforcement by the Government of regulations relating to priority lending for agrarian reform and the agricultural sector could adversely affect the Bank's business, financial condition, and results of operations.**

The Government has imposed a lending policy requiring Philippine banks to extend certain loan amounts to the agriculture and fisheries sector and agrarian reform beneficiaries of the country. All banking institutions are required to allocate 25.0 per cent. of their loanable funds for agricultural and fisheries financing requirements. Failure to meet this requirement would result in an annual penalty of 0.5 per cent. of the amount of non-compliance or under-compliance as provided by R.A. No. 11901 (the Agriculture, Fisheries and Rural Development Financing Enhancement Act of 2022). There has been, however, a recent easement in the regulations with the passage of RA No. 11901 or the Agricultural, Fisheries and Rural Development Financing Enhancement Act of 2022, removing the required allocation of credit to agrarian reform beneficiaries (i.e., 10 per cent. of total loanable funds out of the mandatory credit requirement of 25 per cent. of total loanable funds required to be set aside by banks for agricultural and fisheries financing in general) and expanding the allowable modes of alternative compliance to meet said mandatory credit requirement.

Because the Bank is unable to generate sufficient exposure to agrarian reform and agricultural sector due to its prudent credit and risk management policies, the Bank has paid penalties in the past and may continue to do so in the future.

While the Bank aims to be compliant with such law, there can be no assurance that the Government will not increase its penalties for non-compliance or under-compliance or force banks to lend in accordance with the policy.

If the Government substantially increases the penalty for non-compliance or the Bank is forced to extend loans to the sectors that are inconsistent with the Bank's credit and risk management policies, its business, financial condition, and results of operations could be adversely affected.

#### **4.2.4 The Bank may experience difficulties due to the implementation of Basel III in the Philippines.**

In 2007, the implementing guidelines of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II took effect. To supplement these guidelines, the BSP issued BSP Circular No. 639 requiring banks to have in place an Internal Capital Adequacy Assessment Process (**ICAAP**) that: (i) takes into account not just the credit, market and operational risks but also all other material risks to which a bank is exposed (such as interest rate risk in the banking book, liquidity risk, compliance risk, strategic/business risk, and reputation risk); (ii) covers more precise assessments and quantification of certain risks (i.e., credit concentration risk); and (iii) evaluates the quality of capital.

In December 2010, the Basel Committee on Banking Supervision (**BCBS**) issued an update to the Basel Accords known as Basel III that modified the structure of regulatory capital. The Basel III regulations included tighter definitions of qualifying capital, and introduced frameworks for capital conservation buffer, countercyclical buffer, systemically important financial institutions, leverage ratio, and short-term and medium-term quantitative liquidity ratios.

Effective on 15 January 2013, the BSP issued the Basel III Implementing Guidelines on Minimum Capital Requirements, effective January 2014. The guidelines include the following highlights:

- 1) adoption of a new categorisation of the capital base;
- 2) keeping the minimum CAR at 10 per cent., and prescribing: (i) a minimum CET1 ratio of 6.0 per cent., (ii) a minimum Tier 1 CAR ratio of 7.5 per cent., and (iii) an additional capital conservation buffer (**CCB**) of 2.5 per cent;
- 3) revaluation of certain available-for-sale securities and the impairments that could arise from trading losses;
- 4) requiring "systemically important" banks to hold additional capital reserves;
- 5) rendering ineligible existing capital instruments that do not meet the eligibility criteria for capital instruments under the revised capital framework; and
- 6) subjecting covered banks and quasi-banks to the enhanced disclosure requirements pertaining to regulatory capital.

On 29 October 2014, the BSP issued BSP Circular No. 856, known as the Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks (**D-SIBs**) under Basel III, as amended by BSP Circular No. 1051 on 27 September 2019, to address systemic risk and interconnectedness by identifying banks which are deemed systemically important within the domestic banking industry. Banks identified as D-SIBs are required to have higher loss absorbency, on top of the minimum CET1 capital and CCB. Identified D-SIBs will need to put up an additional 1.5 per cent. to 2.5 per cent. CET1, depending on their classification.

Banks identified as D-SIBs will be required to have higher loss absorbency (**HLA**) to ensure that D-SIBs have a higher share of their balance sheets funded by instruments which increase their resilience as a going concern. To ensure a maximum degree of consistency in terms of effective loss absorbing capacity, the HLA requirement will be addressed through CET1 capital. Further, the BSP imposes restrictions on distributions, depending on the CCyB

rate of the bank; however, payments which do not result in the depletion of CET1 capital are not considered capital distributions.

A D-SIB will not be subject to any restriction on distribution if it has positive retained earnings as of the preceding quarter and complies with the regulatory requirements for the declaration of dividends and is compliant with total required CET1 capital and minimum capital ratios after distribution.

Banks will be required to maintain higher minimum levels of capital if they are designated as D-SIBs by the BSP.

On 16 April 2021, BSP Circular No. 1113 amended the guidelines on the recovery plan of banks designated as D-SIBs. In order to reduce the negative impact of D-SIBs on the economy, the BSP provided for a framework consisting of three parts: assessment methodology; HLA and interaction with other elements of the Basel III framework; and the intensive supervisory approach. Under the intensive supervisory approach, a D-SIB must prepare a concrete and reasonable recovery plan which must be implemented in the event that the HLA capital requirement is breached. This includes specific initiatives such as restructuring and disposing of assets, capital raising activities and streamlining businesses. Along with a recovery plan, the D-SIB must also submit an ICAAP.

On 10 March 2016, the BSP issued BSP Circular No. 905, known as the Implementation of Basel III Framework on Liquidity Standards — Liquidity Coverage Ratio (LCR) and Disclosure Standards, requiring banks to hold a sufficient level of high-quality liquid assets (HQLA) to enable them to withstand a 30-day liquidity stress scenario. Furthermore, banks face new liquidity requirements under Basel III's new liquidity framework, namely the LCR and the net stable funding ratio (NSFR). The LCR requires banks to hold sufficient levels of high-quality liquid assets to enable them to withstand a 30-day liquidity stress scenario. Banks have been required to meet an LCR threshold of 100% beginning on 1 January 2019.

Subsequently, the BSP imposed a 70 per cent. LCR floor for subsidiary banks and quasi-banks, which are required to comply with the minimum LCR of 100 per cent. starting 1 January 2020.

On 6 June 2018, the BSP issued Circular No. 1007 in relation to the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards – NSFR. As of 1 January 2020, the minimum 100% NSFR became effective for covered banks and quasi-banks. Compliance with these ratios may also further increase competition among banks for deposits, as well as high-quality liquid assets.

The BSP has approved the Philippine Adoption of the Basel III CCyB under Circular No. 1024 issued on 6 December 2018, which imposes a CCyB of 0 per cent. subject to upward adjustment to a rate determined by the Monetary Board when systemic conditions warrant, but not to exceed 2.5 per cent. Any increase in the CCyB rate shall be effective 12 months after its announcement, while decreases shall be effective immediately. A CCyB is expressed as an additional percentage of CET1 capital on top of the regulatory requirements.

On 4 May 2020, the BSP issued BSP Memorandum Circular No. M-2020-039, which allows universal and commercial banks, and their subsidiary banks and quasi-banks, which have built up their CCB and LCR buffer to utilise the same during a state of health emergency. A covered bank, which draws down its 2.5 per cent. minimum capital conservation buffer will not be considered in breach of the capital adequacy framework. On 14 September 2022, BSP Circular No. 1154 extended the coverage to digital banks. A covered bank which utilises its capital conservation buffer, is restricted from making distributions in the form of dividends, share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff. A covered bank may draw on its stock of liquid assets to meet liquidity demand even if it may cause it to maintain an LCR that is below the 100 per cent. minimum requirement; however, a covered bank that has recorded a shortfall in the stock of its High-Quality Liquid Assets for three banking days within any two-week rolling calendar period, causing it to fall below 100 per cent., must notify the BSP on the banking day immediately following the occurrence of the third liquidity shortfall.



As of 31 December 2024, the Bank had CAR of 17.3 per cent., CET1 ratio of 15.6 per cent., and capital conservation buffer of 9.6 per cent. Compliance with these ratios may further increase competition among banks for deposits as well as high-quality liquid assets.

These regulations serve to increase the capital adequacy requirements of the Bank. Unless the Bank is able to access the necessary amount of additional capital, any incremental increase in the capital requirement due to the implementation of ICAAP and Basel III may impact the Bank's ability to grow its business, which could materially and adversely affect the Bank's business, financial condition, and results of operations. There can be no assurance that the Bank will be able to raise adequate additional capital in the future on terms favourable to it or at all and comply with the requirements of Basel III as implemented by the BSP.

Whenever the capital accounts of a bank are deficient with respect to the prescribed risk-based CAR of 10 per cent., the Monetary Board, may impose monetary and non-monetary sanctions. The Monetary Board will also prohibit the opening of new branches whenever a bank's CAR falls below 12 per cent. on a non-consolidated and consolidated basis. Furthermore, the Monetary Board will also prohibit the distribution of dividends whenever a bank's CET1 ratio and CAR falls below 8.5 per cent. and 10 per cent., respectively. Such limitations or restrictions imposed by the BSP's implementation of Basel III could materially and adversely affect the Bank's business, financial condition, and results of operations, as well as limit the Bank's ability to declare dividends.

Although intended to strengthen banks' capital positions and prevent potential asset bubbles, these regulations increase pressure on local banks to meet these additional capital adequacy requirements, which may effectively create greater competition among local banks for deposits and temper bank lending in the commercial property and home mortgage loan sectors, given that banks' ability to lend to these sectors depends on their exposure to the sector and the capital levels they maintain. This may also lead banks in the Philippines to conduct capital raising exercises. Through its compliance with these regulations, the Bank's business, financial position, and results of operations may be adversely affected. While the Bank closely monitors its compliance with the requirements of Basel III as implemented by the BSP, there can be no assurance that it will be able to raise adequate additional capital in the future on terms favourable to it or at all.

#### **4.2.5 Any future changes in PFRS may affect the financial reporting of the Group's business.**

PFRS continues to evolve, and certain newly promulgated standards and interpretations taking effect at the beginning of a relevant year may affect the financial reporting of the Bank's businesses. A discussion on the newly adopted PFRS and amendments to existing standards to be adopted or which will be effective after 1 January 2024 can be found in Note 2 to the Audited Consolidated Financial Statements included elsewhere in this Offering Circular.

On 1 January 2027, PFRS 18, Presentation and Disclosure in Financial Statements, becomes effective. This new standard impacts the classification of profit or loss items (i.e., operating, investing, and financing categories) and the presentation of subtotals in the statement of profit or loss (i.e., operating profit and profit before financing and income taxes). The new standard also changes the aggregation and disaggregation of certain information presented in the primary financial statements and in the notes and introduces required disclosures about management-defined performance measures. Apart from the changes in the presentation of subtotals in the statement of profit or loss, and the aggregation and disaggregation of certain information in the primary financial statements, the Bank does not expect that the future adoption of the new standard will have a significant impact on its financial statements. The Bank intends to adopt PFRS 18 when it becomes effective.

The International Sustainability Standards Board also issued IFRS S1, General Requirements for Disclosure of Sustainability-related Financial Information, and IFRS S2, Climate-Related Disclosures requiring an entity to disclose information about all sustainability-related risks and opportunities under IFRS S1 and those of climate-related under IFRS S2 that could reasonably be expected to affect the entity's cash flows, its access to finance or cost of capital over the short, medium or long term. IFRS S1 and IFRS S2 also prescribe how an entity prepares and reports its sustainability- and climate-related financial disclosures, respectively, and sets out general

requirements for the content and presentation of those disclosures so that the information disclosed is useful to users in making decisions relating to providing resources to the entity. The SEC is yet to adopt IFRS S1 and S2 in the Philippines but has announced plans to release updated sustainability reporting guidelines and digitalization of the SEC Sustainability Reporting (**SuRe**) Form to reflect the latest developments in global sustainability frameworks. As of 31 December 2024, this had not yet been issued.

The Group believes that other amendments and improvements to PFRS issued as effective after 31 December 2024 will not have a material impact on the Group's future financial statements.

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

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

Although the Philippine banking sector has generally recovered from the past regional and global economic crisis, the Philippine banking industry may face significant financial and operating challenges in the event of any regional or global economic downturn. These challenges may include, among other things, a sharp increase in the level of NPLs, variations of asset and credit quality, significant compression in bank net interest margins, low loan growth and potential, or actual under-capitalisation of the banking system. According to data published by the BSP as of January 2025, past due ratios in the Philippine banking system were at 4.17 per cent. Further, the NPL coverage ratio in the Philippine banking system only amounted to 95.25 per cent. as of January 2025. Fresh disruptions in the Philippine financial sector, or general economic conditions in the Philippines, such as persistent inflation or slowdown in growth, in Asia or globally, may cause the Philippine banking sector in general, and the Group in particular, to experience similar problems to those faced in the past, including substantial increases in NPLs, problems meeting capital adequacy requirements, liquidity problems and other challenges.

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

The sovereign credit ratings of the Philippines directly affect companies residing and domiciled in the Philippines as international credit rating agencies issue credit ratings by reference to that of the sovereign. In 2014, international credit rating agency Moody's Investors Service, Inc. (**Moody's**) upgraded its credit rating for the Philippines to "Baa2," and affirmed this rating multiple times, with the most recent affirmation in August 2024. In April 2019, international credit rating agency Standard & Poor's (**S&P**) upgraded its credit rating for the Philippines to "BBB+" and affirmed this rating multiple times, with the most recent affirmation in November 2024. In December 2017, Fitch Ratings (**Fitch**) upgraded its credit rating for the Philippines to "BBB" and affirmed the rating in February 2020 and May 2020. In June 2024, Fitch retained the sovereign rating of "BBB" with a "Stable" outlook, citing the Philippines' strong medium-term growth, which supports a gradual reduction in government debt/GDP over the medium term and the large size of the economy relative to "BBB" peers. All ratings are above investment grade and the highest that the Philippines has received so far from any credit ratings agency.

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

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

Philippine banks are subject to the credit risk that Philippine borrowers may not make timely payment of principal and interest on loans and, in particular that, upon such failure to pay, Philippine banks may not be able to enforce the security interest they may have. The credit risk of Philippine borrowers is, in many instances, higher than that of borrowers in developed countries due to the greater uncertainty associated with the Philippine regulatory, political, legal and economic environment, the vulnerability of the Philippine economy in general to a severe global downturn as it impacts on its export sector, employment in export-oriented industries, and overseas Filipino workers' (OFW) remittances, the large foreign debt of the Government and the corporate sector, relative to the gross domestic product of the Philippines, and the volatility of interest rates and U.S. dollar/Peso exchange rates.

Higher credit risk has a material adverse effect on the quality of loan portfolios and exposes Philippine banks, including the Bank, to more potential losses and higher risks than banks in more developed countries. In addition, higher credit risk generally increases the cost of capital for Philippine banks compared to their international counterparts. Such losses and higher capital costs arising from this higher credit risk may have a material adverse effect on the Bank's financial condition, liquidity, and results of operations. According to data from the BSP, the monthly average gross NPL ratios exclusive of interbank loans of the Philippine banking system were 3.2 per cent., 3.3 per cent., 3.3 per cent., and 3.5 per cent., respectively, as of the years ended 31 December 2022, 2023, and 2024 and as of 31 January 2025.

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

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

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

The Bank is subject to the taxation laws and regulations in effect in the Philippines. In the event of any changes to existing laws, the Bank's business, financial condition, and results of operations could be materially affected. The TRAIN Law, which is the first package of the Comprehensive Tax Reform Program (CTRP) of the Duterte administration, brought about extensive changes to individual income taxation. Republic Act No. 11534, or the Corporate Recovery and Tax Incentives for Enterprise Act (CREATE Act), which became effective on 11 April 2021, amended the fiscal incentives and lowered the regular corporate income tax rate from 30 per cent. to 25 per cent. (with retroactive application from 1 July 2020). On 8 November 2024, RA No. 12066, known as the Corporate Recovery and Tax Incentives for Enterprises to Maximize Opportunities for Reinvigorating the Economy (CREATE MORE), was passed, amending the CREATE Act. The CREATE MORE establishes a simplified value-added tax (VAT) refund system to reduce delays in tax processes. Moreover, the CREATE MORE streamlines processes for projects that are eligible for incentives, by raising the investment capital threshold for approval by investment promotion agencies. Finally, the CREATE MORE also extends the maximum duration of availment of tax incentives from 17 years to 27 years.

On 29 April 2025, the enrolled copies of the Capital Market Efficiency Promotion Act (CMEPA), which consolidated Senate Bill No. 2865 and House Bill No. 9277, were sent to the Office of the President for his signature. Should the President fail to act on the enrolled bill, and does not veto the same, the enrolled bill automatically passes into law after thirty (30) days from receipt thereof by the Office of the President. The proposed amendments under the CMEPA include: (1) lowering of the stock transaction tax from 0.6% to 0.1% of the gross selling price or gross value in money; (2) lowering the DST due from the original issuance of shares from 1% to 0.75% of the par value, and introducing DST exemption on the grounds of original issuance of certificate, redemption, and disposition of unit investment trust funds and mutual funds; (3) inclusions of gains from redemption of shares or units of participation unit investment trust funds and mutual funds on the list of items excluded from gross income and exempt from taxation; (4) removal of preferential tax rates and exemptions on long-term deposits and investments in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments; (5) removal of exemption from income tax of income of non-residents of the Philippines from transactions with depository banks under the expanded system and (6) increase in the final withholding tax rate on interest income from foreign currency deposits from 15% to 20%.

If the Bank is unable to comply with existing and new rules and regulations applicable to it, it could incur penalties and its business reputation may suffer, which could have a material adverse effect on its business, financial position, and results of operations. Further, no assurance can be given that the CMEPA will be passed in its present form. Any increase in taxes on the Bank will reduce the net income of the Bank, which may have a material and adverse effect on the Bank's business, results of operations and financial condition. Further, the expiration, non-renewal, revocation or repeal of any tax exemptions or tax incentives, the enactment of any new laws, or any increase in taxes could have an effect on the Bank's business, financial condition, and results of operations.

#### **4.2.11 Heightened volatility, uncertainties and instability in global market conditions could adversely affect the Bank's business, financial condition, and results of operations.**

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

Geopolitical tensions, coupled with the slowing of economic growth in various regions around the world, have had an impact on the prospective economic growth in the global financial markets and downward pressure on equity prices. In particular, the ongoing Russia-Ukraine conflict and Gaza-Israel conflict, and the supply chain bottleneck and high inflation which are partially attributable to the conflicts, would also have a negative impact on the world's and the Philippines' economy and thus adversely affect the Bank's business. On 14 April 2022, the head of the IMF warned that the Russia-Ukraine conflict was weakening the economic prospects for most of the world's countries and called the high inflation a clear and present danger to the global economy. On 8 June 2022, the OECD reduced its outlook for global economic growth for 2022 to 3% from the 4.5% it predicted in December 2021, and its expected global economic growth was 2.8%. As the situation evolves, there can be no assurance that the conflict, high inflation, and any adverse impact would not continue or even worsen, and there can be no assurance that the Philippine economy and the Bank's depositors, borrowers and other customers would not be adversely affected, thus resulting in an adverse impact on the Bank's results of operations, financial condition, and prospects.

In March 2023, as a result of elevated interest rates and a sluggish economy, regional banks in the United States, namely Silicon Valley Bank, Signature Bank, and First Republic Bank, collapsed, declaring insolvency. This series of bank runs, known as the Banking Crisis of 2023, may continue to have long-term effects on consumers' confidence levels in the banking system. Additionally, in March 2023, Credit Suisse, the second-largest bank in Switzerland and one of the global leading financial institutions, collapsed following numerous scandals in recent

years. The collapse led to the bank being bought by rival UBS Group AG for approximately U.S.\$3.3 billion to prevent more devastation in the global financial system.

Trade tensions between the United States and major trading partners, most notably China, remain heightened following the introduction of a series of tariff measures in both the United States and China and a U.S. investment ban on certain Chinese companies. The newly elected U.S. administration has also issued executive orders to impose new tariffs on imports, including on steel and aluminum, from its key economic partners, including China, Canada, and Mexico, giving rise to fears of a global trade war. In particular, in March and April 2025, the US imposed “retaliatory tariffs” on exports from nearly every other nation and jurisdiction in the world, which has prompted other jurisdictions and major economies such as the European Union, Canada, and China to retaliate with tariffs on US exports. The imposition of tariffs and escalating trade war has severely shocked equity and commodity markets and increased volatility to levels not seen since the global financial crisis in 2008 or the beginning of the COVID-19 pandemic in 2020. As a result of the imposition of tariffs, based on news reports, certain economists and banks have predicted a major slowdown in US and global growth and an increased probability of a recession in the near term. As of 10 April 2025, the US had imposed tariffs of over 100% on China, and China has imposed tariffs of over 80% on certain US exports. The Philippines is one of the jurisdictions subject to US tariffs. Although the tariff of 17% imposed by the US on exports from the Philippines is lower than other Southeast Asian nations (other than Singapore) and the Philippine government has announced that it is willing to negotiate tariffs with the US and/or open to cut tariffs on imports from the US, there is no assurance that such actions will be able to abet or mitigate any negative or long-term effects of the raised tariffs on the Philippine economy or the potential reduction in US consumption or demand for Philippine exports. The United States and/or its trading partners may announce further trade restrictions, the scope and effect of which remain uncertain. These tensions could significantly impact global trade. Such tensions are set to continue in the areas of data and technology security and the maritime claims in the South and East China Seas, and as the result of China-Taiwan relations and human rights accusations. In addition, financial market volatility and increased economic uncertainty may arise due to factors for specific countries. For example, the Chinese government may maintain tight regulatory oversight on specific sectors (such as property and platform technology companies) and rein in debt increases, even as it attempts to stabilize economic growth.

As of the date of this Offering Circular, the Bank has identified certain clients in its wholesale loan portfolio that may be affected by the proposed U.S. reciprocal tariffs. Industries that are potentially affected include semiconductors, garments, coconut exports, canned tuna, rattan furniture, and BPO services, among others. The Bank does not foresee any immediate operational or financial distress; it continues to remain in active discussions with potentially affected clients to monitor any emerging concerns, particularly related to pricing pressure, export flow disruptions, or changes in customer behavior. Furthermore, the Bank closely monitors export-exposed accounts/ clients through sectoral watchlists and early warning triggers.

To the extent that uncertainty regarding the economic outlook is heightened and starts to negatively impact consumer confidence and consumer credit factors globally or regionally, the Bank’s business, financial condition and results of operations could be significantly and adversely affected. There has also been continued and lingering political unrest in certain countries within the Southeast Asia region in recent years. Such geopolitical risks could continue to emerge in the region, resulting in economic slowdown, financial and commodity market volatilities and capital flight from emerging markets.

Moreover, the continued appreciation of the U.S. dollar relative to a number of emerging economy currencies (including the Peso) in recent years resulted in capital outflows from these economies. Further, economic conditions in some Eurozone sovereign states, including as a result of uncertainty caused by Brexit, could possibly lead to a material change in the current political and/or economic framework of the European Monetary Union.

The broad ramifications of Brexit in the United Kingdom, the European Union and the global economy have started to surface, casting uncertainty on global prospects and possible volatility in financial markets. In addition, the interplay of U.S. tariffs, fiscal and monetary policies may lead to more volatile global capital flows, which



could in turn impact global growth. There can be no assurance that the uncertainties affecting global markets will not negatively impact credit markets in Asia, including in the Philippines. These developments may adversely affect trade volumes with potentially negative effects on the Philippines. A potential tightening of liquidity conditions in the future as a result of further deterioration of public finances of certain countries, for example, may lead to new funding uncertainty, resulting in increased volatility and widening credit spreads. The success of the Bank's business is highly dependent upon its ability to maintain certain minimum liquidity levels, and any rise in market interest rates could materially and adversely affect the Bank's liquidity levels and force it to reduce or cease its offering of certain banking and other financial services.

#### **4.2.12 Inability to adapt to technology shifts and address changing consumer demand may negatively impact the Bank's competitiveness and customer experience.**

The prevalence of smartphones and other connectivity devices and mobile data applications has increased the number of platforms providing online payment solutions, electronic money and e-wallets, and other similar services and products. The emergence of such web- and app-based products and services has significantly increased competition with those traditionally provided by banks, including the Bank. The quarantine and other movement restrictions imposed in connection with the COVID-19 pandemic also served to increase demand for such digital and online solutions.

Banks compete with expanding fintech solutions covering (i) mobile payment or e-wallet applications, such as but not limited to GCash and PayMaya, and (ii) peer-to-peer lending platforms, among others. Moreover, the BSP has granted several digital bank licences to Overseas Filipino Bank, Tonik Digital Bank, Inc., UNObank, UnionDigital Bank, GoTyme Bank, and Maya Bank. On 31 August 2021, the BSP imposed a three-year moratorium on the grant of digital banking licences, limiting the number of digital banks to the current six banks. On 8 August 2024, BSP issued BSP Circular No. 1025 which lifted the moratorium on the grant of new digital banking licenses starting 1 January 2025 and allowed a maximum of ten digital banks to operate in the country. The grant of new digital bank licenses also included the conversion of an existing bank's license to a digital bank license. In addition, there are banks offering no-branch banking services through their respective mobile apps, such as CIMB Bank Philippines which provides all-online retail banking services despite having an existing commercial banking licence.

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

### **4.3 RISKS RELATING TO THE PHILIPPINES**

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

The Philippine economy has experienced volatility in the value of the Peso and also limitations to the availability of foreign exchange. In July 1997, the BSP announced that the Peso can be traded and valued freely on the market. As a result, the value of the Peso underwent significant fluctuations between July 1997 and December 2004 and depreciated from approximately ₱29.00 to U.S.\$1.00 in July 1997 to ₱56.18 to U.S.\$1.00 by December 2004. As of 31 December 2020, the Philippine Peso was at ₱48.04 per U.S.\$1.00 and had depreciated to ₱55.567 per

U.S.\$1.00 as of 29 December 2023, based on BSP data. As of 21 April 2025, the BSP reference rate was at ₱56.6 per U.S.\$1.0. While the value of the Peso has recovered since 2010, its valuation may be adversely affected by certain events and circumstances, such as the strengthening of the U.S. economy, the rise of the interest rates in the U.S. and other events affecting the global markets or the Philippines, causing investors to move their investment portfolios from the riskier emerging markets such as the Philippines. Consequently, an outflow of funds and capital from the Philippines may occur and may result in increasing volatility in the value of the Peso against the U.S. dollar and other currencies. Also, a decline in the value of the Peso as regards foreign currencies may affect the ability of the Bank's customers to service debt obligations denominated in foreign currencies and increase NPLs. There can be no assurance that the Peso will not depreciate further against other currencies and that such depreciation will not have an adverse effect on the Bank. In addition, fluctuations in the exchange rate between the Peso and other currencies will affect the foreign currency equivalent of the Peso price of the Common Shares listed on the PSE. Such fluctuations will also affect the amount of foreign currency received from any sale of the Bonds, and the conversion of cash dividends or other distributions paid by the Bank in Pesos. The Bank cannot provide assurance of effective mitigation to such systemic risk.

Under BSP guidelines, the Bank is required to match FCDU liabilities (other than USD-denominated repurchase agreements with the BSP) with foreign currency assets in its FCDU books. As of 31 December 2024, on a consolidated basis, the Bank had ₱1,145.4 billion of resources and ₱949.4 billion of liabilities (of which ₱206.2 billion of resources and ₱205.0 billion of liabilities were in its FCDU books). The Bank has entered into foreign exchange forward contracts as a means of hedging against foreign currency fluctuations. More importantly, it is the Bank's policy to extend foreign exchange loans only to entities with natural or regulatory hedge (exporters or those with foreign exchange adjustment mechanisms like utilities). However, there can be no assurance that the Bank will be able to successfully hedge its exposure to foreign currency risks.

Under the BSP Guidelines, a bank's consolidated net open foreign exchange position (either overbought or oversold) shall not exceed 25 per cent. of its qualifying capital (as computed under the Risk-Based Capital Adequacy Framework of the BSP) or U.S.\$150 million, whichever is lower.

#### **4.3.2 Substantially all of the Bank's business activities are conducted in the Philippines and substantially all of its assets are located in the Philippines, which exposes the Bank to risks associated with the Philippines, including the performance of the Philippine economy.**

Substantially all of the Bank's operations and assets are based in the Philippines and, therefore, a slowdown in economic growth in the Philippines could materially and adversely affect the Bank's business, financial position, and results of operations. In the past, the Philippines has experienced periods of slow or negative growth, high inflation, significant devaluation of its currency and the imposition of exchange controls.

Other factors that may adversely affect the Philippine economy include:

- decreases in business, industrial, manufacturing, or financial activities in the Philippines, Southeast Asia or globally;
- scarcity of credit or other financing, resulting in lower demand for products and services provided by companies in the Philippines, Southeast Asia or globally;
- exchange rate fluctuations and foreign exchange controls;
- rising inflation or increases in interest rates;
- levels of employment, consumer confidence and income;
- changes in the Government's fiscal and regulatory policies and regulations, including tax laws and regulations that impact or may impact inflation and consumer demand;
- government budget deficits;
- adverse trends in the current accounts and balance of payments of the Philippine economy;
- public health epidemics or outbreaks of diseases, such as COVID-19, re-emergence of Middle East Respiratory Syndrome- Corona virus (MERS-CoV), SARS, avian influenza (commonly known as bird

flu), or H1N1, or the emergence of another similar disease (such as Zika) in the Philippines or in other countries in Southeast Asia;

- natural disasters, including but not limited to tsunamis, typhoons, earthquakes, fires, floods and similar events;
- political instability, terrorism, or military conflict in the Philippines, in other countries in the region or globally; and
- other regulatory, social, political, or economic developments in or affecting the Philippines.

Any deterioration in economic conditions in the Philippines as a result of these or other factors could materially and adversely affect the Bank or its customers and contractual counterparties. This, in turn, could materially and adversely affect the Bank's business, financial condition and results of operations and its ability to implement its business strategy. The Bank cannot provide assurance of effective mitigation to such systemic risk.

The Philippine's GDP growth rate in 2024 was 5.6 per cent., which was the same as the GDP growth rate in 2023, according to the National Economic and Development Authority. There can be no assurance that the Philippines will maintain strong economic fundamentals in the future. Any deterioration in economic conditions in the Philippines could materially and adversely affect the Bank's financial position and results of operations, including the Bank's ability to grow its asset portfolio, the quality of the Bank's assets and its ability to implement the Bank's business strategy. Changes in the conditions of the Philippine economy could materially and adversely affect the Bank's business, financial condition, or results of operations.

#### **4.3.3 Political instability may have a negative effect on the general economic conditions in the Philippines, which could have a material adverse impact on the business, financial position, and results of operations of the Bank.**

The Philippines has from time to time experienced political and military instability. The Philippine Constitution provides that, in times of national emergency, when the public interest so requires, the Government may take over and direct the operation of any privately owned public utility or business. In the last few years, there were instances of political instability, including impeachment proceedings against two former presidents and the Chief Justices of the Supreme Court of the Philippines, hearings on graft and corruption issues against various government officials, and public and military protests arising from alleged misconduct by a previous administration.

On 25 May 2022, Ferdinand "Bongbong" Marcos, Jr. was officially declared by the Philippine Congress as the 17th President of the Republic of the Philippines. Deviations from the policies of the previous administration or fundamental changes in direction, including with respect to Philippine foreign policy, may lead to an increase in political or social uncertainty and instability. Controversies surrounding the President's family and history may also raise risks of social and political unrest.

In the international arena, however, the International Criminal Court (ICC) conducted an inquiry on the "war on drugs" of former President Rodrigo Duterte, which was thereafter suspended in 2021 after the Philippine government asked the ICC to defer its investigation, arguing that the national authorities were already investigating the same allegations domestically. The ICC prosecutor asked that he be authorised to resume the investigation, noting that the domestic proceedings did not amount to an investigation that would sufficiently mirror the ICC's. On 26 January 2023, the ICC ruled to resume its investigation on former Philippine President Duterte's "war on drugs". While the Philippine government appealed the ICC's decision, this was subsequently denied in July 2023, with the Philippine government continuing to argue that the ICC has no jurisdiction to investigate the "war on drugs" campaign, insisting that the country's judicial system can sufficiently conduct such investigation. On 11 March 2025, the ICC issued, and Philippine authorities executed, an arrest warrant, and thereafter transferred custody of former President Duterte to the ICC.

Also, in mid-2023, the Office of the Vice President (OVP) was scrutinised for having spent ₱125 million in confidential and intelligence funds in a matter of less than three weeks, such period of time likewise being a point

of controversy for citizens and lawmakers. Several petitions have since been filed with the Supreme Court, questioning the legality of the fund transfer from the Office of the President to the OVP, requesting that the high court order the restitution of such contested public funds. On 5 February 2025, the House of Representatives impeached Vice President Sara Duterte. The impeachment trial, however, has yet to start because the Senate did not discuss the articles of impeachment at the plenary level before the session adjourned on 5 February 2025.

An unstable political environment, whether due to the imposition of emergency executive rule, martial law, charter change, or widespread popular demonstrations or rioting, could negatively affect the general economic conditions and operating environment in the Philippines, which could have a material adverse effect on the business, operations, and financial condition of the Bank. No assurance can be given that any changes in regulations or policies imposed by the Government from time to time or the future political environment in the Philippines will be stable or that the current or future administrations will adopt economic policies conducive to sustaining economic growth. Political instability in the future could reduce consumer demand for retail and consumer goods to the Bank's disadvantage or result in inconsistent or sudden changes in regulations and policies that could adversely affect the Bank.

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

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

The Philippines has been subject to a number of terrorist attacks. The Philippine army has been in conflict with various groups which have been identified as being responsible for kidnapping and terrorist activities in the Philippines, as well as clashes with separatist groups. In addition, bombings have taken place in the Philippines, mainly in cities in the southern part of the country. For example, in January 2019, bombs were detonated in the Jolo Cathedral in the Municipality of Jolo, Sulu, and in a Mosque in Zamboanga City, Zamboanga del Sur. In May 2017, a clash erupted in Marawi, Lanao del Sur, between government security forces and the ISIS-affiliated Maute group, following the Government's offensive to capture alleged ISIS leader in Southeast Asia, Isnilon Hapilon, who was believed to be in the city. Former President Duterte immediately declared Martial Law in Mindanao amid protests from the opposition and sectors of civil society. In a special joint session convened on 22 July 2017, both Houses of Congress voted to extend Martial Law until the end of 2017. On 17 October 2017, former President Duterte declared the liberation of Marawi City. The clashes resulted in the loss of the lives of civilians, soldiers, and ISIS-inspired extremists, as well as damage to property and livelihood of Marawi residents. The reconstruction of the city is ongoing. Martial Law in Mindanao was extended by both Houses of Congress until 31 December 2019. The Martial law in Mindanao was lifted on 1 January 2020; however, in certain areas in Mindanao, law enforcement groups remain in heightened security as a measure against potential terror threats.

On 3 July 2020, Republic Act No. 11479, otherwise known as the Anti-Terrorism Act of 2020, was signed into law to replace Republic Act No. 9372, otherwise known as the Human Security Act of 2007. The law is currently being challenged in the Supreme Court by multiple groups.

The potential escalation in the frequency, severity or geographic reach of these terrorist acts, violent crimes, bombings, and similar events could have a material adverse effect on investment and confidence in, and the performance of, the Philippine economy. Any such destabilisation could cause interruption to the Bank's business and materially and adversely affect the Bank's financial conditions, results of operations and prospects. For example, isolated security-related incidents have in the past disrupted operations and transmission projects under construction, including in Mindanao.

Continued conflicts between the Government and separatist or terrorist groups could lead to further injuries or deaths of civilians and police or military personnel, which could destabilise parts of the country and adversely affect the country's economy. There can be no assurance that the Philippines will not be subject to further acts of

terrorism or violent crimes in the future, which could have a material adverse effect on the Bank's business, financial condition, and results of operations. The Bank cannot provide assurance of effective mitigation to such systemic risk.

**4.3.5 Other than COVID-19, other public health epidemics or outbreaks of diseases could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition, and results of operations.**

In April 2009, an outbreak of the H1N1 virus, commonly referred to as "swine flu", occurred in Mexico and spread to other countries, including the Philippines. In August 2014, the World Health Organisation declared the Ebola outbreak that originated in West Africa as an international health emergency in view of the rising death toll due to the disease. That month, a Filipino seaman in Togo was quarantined for exhibiting symptoms of the Ebola virus infection, but was later released after testing negative for the disease. In March 2016, the Director-General of the World Health Organisation terminated the Public Health Emergency of International Concern in regard to the Ebola virus disease outbreak.

In February 2015, a Filipina nurse who arrived from Saudi Arabia tested positive for MERS-CoV.

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

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

In September 2019, the DOH confirmed that polio re-emerged in the Philippines, 19 years after the country was declared polio-free by the World Health Organisation (WHO) in 2000. As of 25 November 2019, the total number of confirmed polio cases was eight.

Since early May 2022, cases of monkeypox have been reported from countries where the disease is not endemic and continue to be reported in several endemic countries. On 23 July 2022, WHO Director-General Tedros Adhanom Ghebreyesus declared the ongoing monkeypox outbreak a Public Health Emergency of International Concern.

The Philippines remains vulnerable to exposure and spread of diseases for the following reasons: (a) the considerable number of overseas Filipino workers across the globe; (b) the impact of international travel, which raises the probability of transmission; and (c) the lack of the necessary infrastructure to contain the spread of diseases.

If an outbreak of the Ebola virus, MERS-CoV, Zika virus, bird flu virus, polio, monkeypox, or COVID-19 and any of its variants, or any public health epidemic becomes widespread in the Philippines or increases in severity, it could have an adverse effect on economic activity in the Philippines, and could materially and adversely affect the Bank's business, financial condition, and results of operations. The Bank cannot provide assurance of effective mitigation to such systemic risk.



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

The Philippines has experienced a number of major natural catastrophes over the years, including typhoons, droughts, volcanic eruptions, and earthquakes.

Significant calamities that hit the country were Typhoon Ondoy in 2009, Typhoon Yolanda in 2013, the Bohol and Cebu Earthquake in 2013, the Cotabato and Batangas Earthquakes in 2019, the eruption of Taal Volcano in 2020, Typhoon Odette in 2021, and the series of strong earthquakes that hit Surigao del Sur in 2023.

In December 2021, Typhoon Rai, locally known as Typhoon Odette, caused significant destruction and damage to infrastructure, including telecommunication facilities and power lines, which temporarily reduced the Bank's ATM availability in the areas affected.

On 26 March 2022, Taal Volcano erupted, resulting in PHIVOLCS raising the classification to Alert Level 3 and recommending the immediate evacuation of residents in the surrounding area. While Taal Volcano currently has a classification of Alert Level 1, in September 2023, it spewed above average sulphur dioxide and volcanic smog, prompting authorities to close schools in dozens of cities and towns and to urge people to stay indoors.

In July 2022, a magnitude 7.0 earthquake struck Abra province in Northern Luzon, causing multiple casualties, cutting off power and fresh water in some areas and causing damage estimated at about ₱316 million. In October 2022, tropical storm Paeng caused flooding and landslides in the island of Mindanao. Its strong winds and heavy rains took the lives of at least 45 people, with many more left missing as it displaced thousands of residents and submerged schools and households in floodwater.

In July 2023, the National Disaster Risk Reduction and Management Council reported that around 5,882,288 people had been affected by tropical storm Egay. Its heavy rainfall and strong winds caused damage to infrastructure in Regions 1, 2, 5, 6, 11, 12, and MIMAROPA, amounting to an estimate of over ₱1 billion in damages, and damage to agriculture amounting to an estimated ₱800 million.

In August 2023, another super typhoon, Goring, caused damage amounting to an estimated ₱442 million in the Cordillera, Ilocos, Cagayan Valley, and MIMAROPA regions.

In December 2023, a magnitude 7.4 earthquake and magnitude 6.8 earthquake hit the province of Surigao del Sur in the span of three days, resulting in at least three casualties and leaving 79 people injured.

Natural catastrophes will continue to affect the Philippines. The Bank may incur losses for such catastrophic events, which could materially and adversely affect its business, financial condition, and results of operations.

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

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

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

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

In July 2016, the UNCLOS tribunal rendered a decision stating that the Philippines has exclusive sovereign rights over the West Philippine Sea (in the South China Sea) and that China's claim over the same area is invalid. Despite the decision, the Chinese Government has maintained its position that the tribunal has no jurisdiction over the dispute, and thus the decision is not binding on the Chinese Government.

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

The U.S. President at that time stated that the United States would not be easing up its military operations in the West Philippine Sea. South Asian nations and claimants involved in the West Philippine Sea dispute also continue to enforce their sovereign rights against China as well as other South Asian nations.

On 6 February 2023, a Chinese Coast Guard ship purportedly harassed a Philippine Coast Guard vessel in the Ayungin Shoal in the West Philippine Sea. The President of the Philippines summoned the Chinese Ambassador to the Philippines on 14 February 2023 to discuss the reported harassment. On 24 September 2023, the Philippine Coast Guard reported that the Chinese Coast Guard had installed a floating barrier near the Bajo de Masinloc (Scarborough Shoal) in the West Philippine Sea in an attempt to prevent Filipino fishermen from entering the Scarborough Shoal. In a special operation conducted the following day, the Philippine Coast Guard confirmed that it had removed and cut the floating barrier.

On 30 April 2024, while Philippine government vessels were distributing fuel and food to the fisherfolk in the Scarborough Shoal, China Coast Guard vessels attacked them using high-pressure water cannons, causing damage to the vessels. This led the Philippine government to file another diplomatic protest against China. As of 13 January 2025, the Philippines had filed a total of 199 diplomatic protests against China during President Marcos' tenure, with 63 of these protests filed in 2024. Despite these protests, confrontations between the Chinese Coast Guard and the Philippine Coast Guard and civilian vessels continued throughout 2024, confrontations which included the use of grey-zone tactics by the Chinese Coast Guard such as water cannons, the ramming of vessels, and most recently, the use of acoustic devices and high-powered lasers.

Should these territorial disputes continue or escalate further, the Philippines and its economy may be disrupted, and the Bank's operations could be adversely affected as a result. In particular, this may lead both countries to impose trade restrictions on the other's imports. The Philippines' interests in fishing, trade and offshore drilling and the volume of trade between the Philippines and China may be adversely affected, which in turn may affect the general economic and business conditions in the Philippines. The Bank cannot provide assurance of effective mitigation to such systemic risk.

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

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

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

Consequently, the Bank's Manual of Corporate Governance provides that one of the Board's responsibilities is to act in the best interest of the Bank, and consistent with the Bank's corporate objectives.

### **4.4 RISKS RELATING TO THE BONDS**

#### **4.4.1 Liquidity of the Bonds**

The Bank intends to list the Bonds for trading in PDEX on the Issue Date. Upon listing of the Bonds with PDEX, investors shall course their secondary market trades through the trading participants of PDEX for execution in the PDEX Trading Platform in accordance with the PDEX Trading Rules, Conventions and Guidelines, as these may be amended or supplemented from time to time, and must settle such trades on a Delivery versus Payment (**DvP**) basis in accordance with PDEX Settlement Rules and Guidelines. These Settlement Rules and Guidelines include guidelines on minimum trading lots and record dates. The secondary trading of Bonds in PDEX may be subject to such fees and charges of PDEX, the trading participants of PDEX, and other providers necessary for the completion of such trades. The PDEX rules and conventions are available in the PDEX website ([www.pds.com.ph](http://www.pds.com.ph)). An investor Frequently Asked Questions (**FAQ**) discussion on the secondary market trading, settlement, documentation, and estimated fees are also available in the PDEX website.

As with other fixed income securities, no assurance can be given that an active trading market for the Bonds will develop. Even if such a market were to develop, the Bonds could trade at prices that may be higher or lower than the price at which the Bonds are issued depending on many factors, among them:

- prevailing interest rates;
- the Bank's results of operations and financial condition;
- political development in the Philippines;
- market for similar securities, and

- financial condition and stability of the banking sector

Subject to the “**Events of Default**” in the Terms and Conditions, the Bonds cannot be pre-terminated at the instance of any Bondholder before Maturity Date. In the case of an event of default, the Trustee or the Majority Bondholders may declare the principal and all accrued interest (including Penalty Interest) on all the Bonds and other charges thereon (including any incremental tax that may be due on the interest income already earned under the Bonds), if any, to be immediately due and payable.

However, the Bank may, subject to the General Banking Law of 2000, BSP Circular Nos. 975 and 1010 and other related circulars and issuances, as may be amended from time to time, redeem all and not only part of the outstanding Bonds on any Interest Payment Date prior to Maturity Date, at an Early Redemption Amount equal to the Issue Price plus interest accrued and unpaid up to but excluding the Early Redemption Date.

#### **4.4.2 The Bank may be unable to redeem the Bonds**

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

#### **4.4.3 The priority of debt evidenced by a public instrument**

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

#### **4.4.4 Secondary Transfers**

All transfers or assignments of the Bonds shall be coursed through a PDEX Trading Participant, subject to PDEX Trading Rules. Consequently, the parties to a transfer may be subject to the guidelines of PDEX and the payment to PDEX and the Registrar and Paying Agent of any reasonable fees and applicable taxes.

The Bonds may be issued in scripless or tokenized form. In the event the Bonds are issued in tokenized form, the number of registry accounts, at any given time (i.e., at the time of initial issuance and during secondary trading), shall be limited to such number as specified in the applicable Pricing Supplement, in accordance with the requirement of the PDTC and subject to such adjustments as may be allowed by the PDTC from time to time. There is no assurance that the secondary trading of the Bonds may not be affected given these restrictions as the limitation on the number of registry accounts even during secondary trading may restrict the ability of the investors to transfer or trade the Bonds when such transfer will result in a breach of the set registry accounts limit which may be imposed by the PDTC. If the bonds are issued in scripless form, no such limitation on the number of Bondholders shall be imposed.

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

#### **4.4.5 Issuance and Transfer Restrictions**

The Bonds may not be issued or transferred to any other Prohibited Holders as defined in the Terms and Conditions of the Bonds. In the event that the Bonds are issued in tokenized form, the transfer or recording of ownership in the Registry that will result in registry accounts exceeding such number as specified in the applicable Pricing Supplement will not be allowed, subject to such adjustments as may be allowed by the PDTC from time to time. The Registrar will inform PDEx of such disallowed transfer or recording of ownership and PDEx shall in turn inform the Trading Participant.

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

#### **4.4.6 Taxation of the Bond**

The Tax Code provides that interest-bearing obligations of Philippine residents are Philippine sourced income subject to Philippine income tax.

##### ***Interest Income on Short-Term Bonds***

Interest income on short-term bonds, with maturities of less than five (5) years, is subject to a final withholding tax (**FWT**) at rates of between ten per cent (10%) and twenty-five per cent (25%) depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of twenty per cent (20%) based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a twenty per cent (20%) FWT, while that received by non-resident aliens not engaged in trade or business is subject to a FWT rate of twenty-five per cent (25%). Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a FWT rate of twenty per cent (20%). Interest income received by non-resident foreign corporations from the Bonds is subject to a twenty-five per cent (25%) FWT. However, under the proposed CMEPA, the final withholding tax rate on interest income will be subject to a uniform rate of 20 per cent (20%), except for non-resident aliens not engaged in trade or business and non-resident foreign corporations, both of whom shall still be subject to a final withholding tax rate of 25 per cent (25%).

##### ***Interest Income on Long-Term Bonds***

###### **A. For Individuals**

Interest income of resident individuals and non-resident aliens engaged in trade or business in the Philippines on long-term bonds, with maturities of five (5) or more years, are generally exempt from FWT. In order to be exempt, the following characteristics/conditions must be present:

- 1) The investor is an individual citizen (resident or non-resident) or resident alien or non-resident alien engaged in trade or business in the Philippines;
- 2) The long-term bonds should be under the name of the individual;
- 3) The long-term bonds must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the BSP;
- 4) The long-term bonds must be issued by banks only and not by other entities or individuals;
- 5) The long-term bonds must have a maturity period of not less than five (5) years;
- 6) The long-term bonds must be in denominations of Ten Thousand Pesos (₱10,000) and other denominations as may be prescribed by the BSP;
- 7) The long-term bonds should not be terminated by the original investor before the fifth (5th) year, otherwise they shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings; and



- 8) Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

For interest income derived by individuals investing in common or individual trust funds or investment management accounts, the following additional characteristics/conditions must all be present:

- 1) The investment must be actually held/managed by the bank for the named individual at least five (5) years without interruption;
- 2) The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22 (FF) of the NIRC of 1997, as amended, as well as the requirements mentioned above;
- 3) The common or individual trust account or investment management account must hold on to such underlying investment in continuous and uninterrupted period for at least five (5) years.

If such long-term bond is pre-terminated before the fifth (5th) year, it shall be subject to a FWT at the rates prescribed to be deducted and withheld from the proceeds based on the length of time that the instrument was held by the taxpayer in accordance with the following schedule:

Holding Period	Rate
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

For non-resident alien not engaged in trade or business in the Philippines, interest income received from long-term bonds shall be subject to a FWT at the rate of twenty-five per cent (25%) pursuant to Section 25 (B) of the NIRC of 1997, as amended.

However, under the proposed CMEPA, tax exemption for long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments will be removed.

## **B. For Corporations**

Interest income derived by domestic and resident foreign corporations from deposit substitutes is subject to FWT at the rate of twenty per cent (20%) pursuant to Sections 27 (D) (1) and 28 (A) (7)(a) of the NIRC of 1997, as amended.

As used herein: “**deposit substitutes**”, as defined in Section 22 (Y) of the NIRC of 1997, as amended, means an alternative form of obtaining funds from the public other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of re-lending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer.

**"Public"**, is defined as borrowing from twenty (20) or more individual or corporate lenders at any one time.

For non-resident foreign corporations, interest income received from long-term bonds, shall be subject to a FWT at the rate of twenty-five (25%) pursuant to Section 28 (B)(1) of the NIRC of 1997, as amended.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state; however, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on

business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment. The Bonds may not be a suitable investment for all investors

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

- 1) have sufficient knowledge and experience to make a meaningful evaluation of the Bonds, the merits and risks of investing in the Bonds and the information contained or incorporated by reference in this Offering Circular or any applicable supplement;
- 2) have access to, and knowledge of, the appropriate analytical tools to evaluate, in the context of its particular financial situation, an investment in the Bonds and the impact the Bonds will have on its overall investment portfolio;
- 3) have sufficient financial resources and liquidity to bear all of the risks of an investment in the Bonds, including where the currency for principal or interest payments is different from the potential investor's currency;
- 4) understand thoroughly the terms of the Bonds and be familiar with the behavior of any relevant indices and financial markets; and
- 5) be able to evaluate (either alone or with the help of a financial adviser) possible scenarios for economic, interest rate and other factors that may affect its investment and its ability to bear the applicable risks.

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

**4.4.8 Early Redemption**

Under the Terms and Conditions, and subject to BSP Rules, the Bank has the option (**Early Redemption Option**), but not the obligation, to redeem all (but not less than all) of the Bonds on any Interest Payment Date at an amount equal to the aggregate issue price thereof, plus accrued and unpaid interest thereon as of the Early Redemption Date (**Early Redemption Amount**), for any cause as may be allowed under the BSP Rules, including, without limitation if or when: (i) there shall occur at any time during the term of the Bonds any change in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated which shall result in payments by the Bank becoming subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank; or (ii) the Trust Agreement or any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations thereunder; or (iii) at any time during the term of the Bonds, the Bonds become subject to additional or increased reserves required by the BSP, other than the three per cent (3%) statutory regular reserves required in BSP Circular No. 1054, Series of 2019.

In exercising the Early Redemption Option, the Bank shall give not less than thirty (30) but not more than sixty (60) days' prior notice to the Bondholders, PDEX, the Registrar and the BSP. The Bank shall also cause the publication of such notice at least once a week for two consecutive weeks in at least two newspapers of general circulation in the Philippines. Such notice shall state the Interest Payment Date on which such Bonds are to be redeemed, the Early Redemption Amount and the manner in which redemption will be effected. Such notice shall be irrevocable and shall be binding on the Bank.

After the issuance of the Early Redemption Notice, the Bank shall be obliged to repay all (and not only part) of the Bonds (**Early Redemption Bonds**) at the Early Redemption Amount on the Early Redemption Date and, upon confirmation by the Paying Agent that the Early Redemption Amount has been paid, the Registrar shall transfer all of the interests of the Bondholders in the Early Redemption Bonds to the Bank. All Early Redemption Bonds shall then be deemed fully redeemed and cancelled. If, as a consequence of the exercise of the Early Redemption Option, interest income already earned under the Early Redemption Bonds shall be subjected to incremental taxes, such taxes shall be for the account of the Bank.

The investor should seek its own tax advisors to determine its tax liabilities or exposures given that the Bank does not have gross-up obligations in case of changes in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated, which shall subject payments by the Bank to additional or increased taxes, other than the taxes and rates of such taxes prevailing as of the Issue Date.

#### **4.5 RISKS RELATING TO THE MARKET GENERALLY**

Set out below is a description of material market risks, including liquidity risk, exchange rate risk, interest rate risk and credit risk:

##### **4.5.1 An active secondary market in respect of the Bonds may never be established or may be illiquid and this would adversely affect the value at which an investor could sell his Bonds.**

The Bonds are new issues of securities, which may be issued in scripless or digital form, and may have no established trading market when issued, and one may never develop. If a market for the Bonds does develop, it may not be very liquid. Therefore, investors may not be able to sell their Bonds easily or at prices that will provide them with a yield comparable to similar investments that have a developed secondary market. This is particularly the case for Bonds that are especially sensitive to interest rate, currency, or market risks, are designed for specific investment objectives or strategies or have been structured to meet the investment requirements of limited categories of investors. These types of Bonds generally would have a more limited secondary market and more price volatility than conventional debt securities. Illiquidity may have a severely adverse effect on the market value of Bonds.

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

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

##### **4.5.3 Credit ratings assigned to the Bank may not reflect all the risks associated with an investment in those Bonds.**

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

##### **4.5.4 Legal investment considerations may restrict certain investments.**

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

#### **4.5.5 There is added risk in case the Bonds are issued using PDTC and PDEX's Live Bond Tokenization.**

The Bank may opt to issue the Bonds using Live Bond Tokenization, a new first of its kind end-to-end solution provided by PDTC and PDEX (or any other pertinent third party) to conduct live bond issuance using the STACs infrastructure powered by STACS Blockchain (or any other relevant infrastructure). Blockchain technology is relatively young and little rehearsed and tested technology. There is no assurance that the use of the Live Bond Tokenization for the Bonds will be capable of implementation or adoption, or even if implemented or adopted, may not completely function as intended. Further, the Bank bears the risk that this technology may be subject to technical difficulties or that its functionality may be impaired by external influences such as disruption of internet connectivity, which could impede the functionality of the blockchain technology. A partial or complete collapse of a blockchain would make it impossible to implement the business model. There is added risk that existing legal regulations may be amended and/or new legal regulations created which may substantially affect the use of the Live Bond Tokenization. Such risks may also arise due to changes in the supervisory practices of authorities. Certain features of blockchain technology may likewise increase the risk of fraud or cyber-attack.

In the event that the Live Bond Tokenization system does not work as anticipated, the Bank will explore alternative means of fulfilling the settlement (such as through the electronic depository and/or electronic registry), and trading may be continued on the existing trading system of PDEX.

## SECTION 5. TERMS AND CONDITIONS OF THE BONDS

*The following are the Terms and Conditions of the Bonds to be issued under the Bank's Bond Program which will be incorporated by reference into each Series or Tranche of Bonds issued thereto. The applicable Pricing Supplement in relation to any Series or Tranche of Bond may specify other terms and conditions which shall, to the extent so specified or to the extent inconsistent with the following Terms and Conditions, replace or modify the following Terms and Conditions for the purpose of such Series or Tranche of Bonds.*

*The Terms and Conditions contained herein do not purport to be a complete listing of all the rights, obligations, or privileges of the Bonds and the Bondholders. Some rights, obligations, or privileges may be further limited or restricted by other document, including the applicable Pricing Supplement in relation to any Series or Tranche of Bonds. Prospective investors are enjoined to carefully review the articles of incorporation, by-laws, and resolutions of the Board of Directors and Shareholders of the Bank, the information contained in the Offering Circular, the Trust Agreement, Program Agreement, Registry and Paying Agency Agreement, the Pricing Supplement, and other agreements relevant to the issuance of any Series or Tranche of the Bonds.*

The issuance in series or tranches of up to One Hundred Billion Pesos (₱100,000,000,000.00) aggregate principal amount of bonds under the Bank's Bond Program (each Series or Tranche to be issued, are the **Bonds**) described in this Terms and Conditions was authorized by resolutions of the Board of Directors of the Bank dated 31 August 2018, 22 February 2019, 24 March 2023, and 28 February 2025.

The Bonds have not been and will not be registered with the Securities and Exchange Commission (**SEC**). Since the Bonds qualify as exempt securities under Section 9.1(e) of the Philippine Securities Regulation Code, the Bonds may be sold and offered for sale or distribution in the Philippines without registration.

Pursuant to BSP Circular No. 1010, Series of 2018, each Series or Tranche of the Bonds to be issued under the Bank's Bond Program shall be listed or enrolled in the PDEX upon issuance. Once registered and lodged, each Series or Tranche of the Bonds will be eligible for transfer through the trading participants by electronic book-entry transfers in the relevant Register of Bondholders, and issuance of Registry Confirmations in favor of transferee bondholders. All transfers or assignments of the Bonds shall be coursed through the PDEX.

The net proceeds of the issuance of the Bonds are intended to be used to expand funding base, support business expansion plans, and for other general corporate purposes of the Bank.

The Bonds to be issued under the Bond Program is constituted by a Trust Indenture Agreement executed on 26 April 2019, and further supplemented and amended on or about 09 May 2025 (the **Trust Agreement**) entered into between the Bank and Development Bank of the Philippines - Trust Banking Group (the **Trustee**), which term shall, wherever the context permits, include all other persons or companies for the time being acting as trustee or trustees under the Trust Agreement. The description of the terms and conditions of the Bonds set out below includes summaries of, and is subject to, the detailed provisions of the Trust Agreement. A registry and paying agency agreement was executed on 26 April 2019, and further supplemented and amended on 20 May 2022, 25 October 2023, 13 November 2023, and on or about 09 May 2025 (the **Registry and Paying Agency Agreement**) in relation to the Bonds to be issued under the Bond Program between the Bank and the Philippine Depository & Trust Corp. as registrar (the **Registrar**) and as paying agent (the **Paying Agent**).

The Bonds will be repaid at 100% of face value on the relevant Maturity Date, unless the Bank exercises its optional redemption according to the conditions therefore. See "Redemption and Purchase".

The Registrar and Paying Agent has no interest in or relation to the Bank which may conflict with its role as Registrar for the Bonds. The Trustee has no interest in or relation to the Bank which may conflict with its role as Trustee for the Bonds. The ING Bank N.V. Manila Branch, Philippine Commercial Capital, Inc., and Standard Chartered Bank (as the **Joint Lead Arrangers and the Selling Agents**) and any other entity which the Bank may

appoint as issue managers and bookrunners for the offer of the Bonds under the Bond Program, and notice of whose appointment has been given to the Registrar, Paying Agent and the Trustee by the Bank in accordance with the provisions of the Program Agreement have no interest in or relation to the Bank which may conflict with their role as Joint Lead Arrangers and the Selling Agents for the offer of the Bonds under the Bond Program.

Copies of the Trust Agreement and the Registry and Paying Agency Agreement are available for inspection during normal business hours at the specified offices of the Trustee. The holders of the Bonds (the **Bondholders**) are entitled to the benefit of, are bound by, and are deemed to have notice of, all the provisions of the Trust Agreement and are deemed to have notice of those provisions of the Registry and Paying Agency Agreement applicable to them. Defined terms used herein and not otherwise defined shall have the meanings ascribed to such terms under the Trust Agreement.

## **5.1 FORM, DENOMINATION, AND TITLE**

### **5.1.1 Form and Denomination**

The Bonds, upon issuance, may be in scripless or digital form and will be maintained in electronic form with the Registrar, subject to the payment by the Bondholder of applicable fees to the Registrar, and in compliance with the provisions of Republic Act No. 8792, otherwise known as the Electronic Commerce Act, particularly on the existence of assurances on the integrity, reliability, and authenticity of the Bonds in electronic form. A Registry Confirmation will, however, be issued by the Registrar in favor of the Bondholders in accordance with the BSP Rules and shall be subject to the relevant fees of PDEX and PDTC.

The Bonds shall be issued in such form and denomination as stated in the applicable Pricing Supplement to be issued for every Series or Tranche of Bonds.

### **5.1.2 Title**

Legal title to the Bonds shall be shown in the relevant Register of Bondholders maintained by the Registrar. A Registry Confirmation confirming the principal amount of the Bonds purchased by each applicant in the relevant Offer shall be issued by the Registrar to all Bondholders following the relevant Issue Date. Upon any assignment, title to the Bonds shall pass by recording of the transfer from the transferor to the transferee in the electronic Register of Bondholders maintained by the Registrar. Settlement in respect of such transfer or change of title to the Bonds, including the settlement of any cost arising from such transfers, including, but not limited to, documentary stamp taxes, if any, arising from subsequent transfers, shall be for the account of the relevant Bondholder, unless such is otherwise assumed by the transferee in writing under the terms of the relevant transfer agreement executed between the transferring Bondholder and its transferee.

## **5.2 RATING**

The Bonds are and will be unrated. The Bonds are not required to be rated for purposes of the Offer. However, the Bank is currently rated Baa3 with a stable outlook by Moody's.

A rating is not a recommendation to buy, sell, or hold securities and may be subject to revision, suspension, or withdrawal at any time by the assigning rating organization. The rating is subject to regular annual reviews, or more frequently as market developments may dictate.

## **5.3 TRANSFER OF THE BONDS**

### **5.3.1 Register of Bondholders**

The Bank shall cause the Register of Bondholders to be kept by the Registrar, in electronic form. The names and addresses of the relevant Bondholders and the particulars of the relevant Bonds held by them and of all transfers of the relevant Bonds shall be entered into the Register of Bondholders. As required by Circular No. 428-04 issued by the BSP, the Registrar shall send each Bondholder a written statement of registry holdings, in the manner stated in the application to purchase the Bonds (**Application to Purchase**), at least quarterly (at the cost of the Bank),



and a written advice confirming every receipt or transfer of the Bonds that is effected in the Registrar's system. Such statement of registry holdings shall serve as the confirmation of ownership of the relevant Bondholder as of the date thereof. Any requests of Bondholders for certifications, reports or other documents from the Registrar, except as provided herein, shall be for the account of the requesting Bondholder. No transfer of the Bonds may be made during the period commencing on a relevant Record Date as defined in this section on "Interest Payment Dates" until a relevant Interest Payment Date.

### **5.3.2 Transfers; Tax Status**

The Registrar shall ultimately and conclusively determine all matters regarding the evidence necessary to effect any transfers of the Bonds. Settlement in respect of such transfers or change of title to the Bonds, including the settlement of any documentary stamp taxes, if any, arising from subsequent transfers, shall be settled directly between the transferee and/or the transferor Bondholders.

All secondary trading of the Bonds shall be coursed through or effected using the trading facilities of the PDEX, subject to compliance with such applicable rules of PDEX and the payment by the Bondholder of applicable fees to the PDEX and the Registrar and Paying Agent. All transfers of the Bonds shall only be effective upon the receipt by the Registrar of a duly accomplished transfer form in the forms attached to the Registry and Paying Agency Agreement from the relevant PDEX Trading Participant and other required documentation and the registration and recording by the Registrar of such assignment or transfer in the Register of Bondholders; provided, that no such registration and recording shall be allowed during the Closed Period.

Where a transfer or assignment of the Bonds will result in a change in the tax treatment of the interest income derived from the Bonds (such as but not limited to transfers between a taxable and non-taxable person), the transferor Bondholder shall be liable for any and all taxes that may be due on interest income previously earned on the Bonds. The amount of such taxes shall be calculated by the PDEX based on the length of time the transferor Bondholder shall have held such Bonds, and an amount equal to such taxes will be deducted from the purchase price due to the transferor Bondholder.

No partial transfers of title, interest and rights of the Bondholder in or to any Bonds shall be allowed unless as a result thereof: 1) the transferor shall either retain Bonds with an aggregate principal amount of at least the minimum denomination stated in the applicable Pricing Supplement registered in its name (or cease to be a registered holder of the Bonds altogether); and 2) the transferee shall have Bonds with an aggregate principal amount of at least the minimum denomination stated in the applicable Pricing Supplement registered in its name.

Any and all taxes, as well as settlement fees and other charges (other than registration fees which shall be paid for by the Bank) that may be imposed by PDEX and the Registrar and Paying Agent in respect of any transfer or change of beneficial title to the Bonds, including the settlement of documentary stamp taxes, if any, shall be for the account of the transferring Bondholder, unless such cost is otherwise assumed by the transferee in writing under the terms of the relevant transfer agreement executed between the transferring Bondholder and its transferee.

Transfers across Tax Categories shall not be allowed except on Interest Payment Dates that fall on a Business Day, provided however that transfers from a tax-exempt category to a taxable tax category on a non-Interest Payment Date shall be allowed using the applicable tax on the PDEX Trading System, ensuring the computations are based on the final withholding tax rate of the taxable party to the trade. Should this transaction occur, the tax-exempt entity shall be treated as being of the same Tax Category as its taxable counterpart for the interest period within which such transfer occurred. For purposes hereof, "Tax Categories" refer to the three (3) final withholding tax categories covering, particularly, tax-exempt entities, 20% tax-withheld entities and 25% tax-withheld entities. This restriction shall be in force until a non-restricted trading & settlement environment for corporate securities is implemented. Transfers taking place in the Register of Bondholders after the Bonds are listed in PDEX may be allowed between taxable and tax-exempt entities without restriction and observing the tax exemption of tax-exempt entities, if and/or when allowed under and are in accordance with the relevant rules, conventions and guidelines of PDEX and PDTC. Transfers to or from Bondholders claiming the benefit of any tax treaty which

subjects the interest income to a final withholding tax rate other than the final withholding tax categories indicated above shall only be allowed on Interest Payment Dates that fall on a Business Day.

A Bondholder claiming tax-exempt status is required to submit a written notification of the sale or purchase to the Trustee and the Registrar, including the tax status of the transferor or transferee, as appropriate, together with the supporting documents specified under the Registry and Paying Agency Agreement upon submission of the account opening documents to the Registrar.

In no case shall the Bonds be transferred or assigned to Prohibited Bondholders as defined in the Offering Circular.

### **5.3.3 Secondary Trading of the Bonds**

The Bank shall list or enroll the Bonds on PDEX for secondary market trading. The Bonds will be traded in such minimum board lot size, and in such multiples in excess of the relevant minimum board lot size, as indicated in the Pricing Supplement to be issued for every Series or Tranche of Bonds. Secondary market trading in PDEX shall follow the applicable PDEX rules and conventions and guidelines, including rules, conventions and guidelines governing trading and settlement between Bondholders of different tax status, and shall be subject to the relevant fees of PDEX and PDTC, all of which shall be for the account of the relevant Bondholder. The secondary trading of the Bonds shall also be subject to the limitation on the number of Bondholders imposed by the PDTC.

### **5.3.4 Limitation on the Number of Bondholders**

In the event that the Bonds are issued in tokenized form using PDTC and PDEX's Live Bond Tokenization, the number of registry accounts, at any given time, shall be limited to such number as specified in the applicable Pricing Supplement, in accordance with the requirement of the PDTC and subject to such adjustments as may be allowed by the PDTC from time to time. Otherwise, if the Bonds are issued in scripless form, no such limitation on the number of registry accounts shall be imposed.

## **5.4 RANKING**

The Bonds shall constitute the direct, unconditional, unsecured, and unsubordinated obligations of the Bank, enforceable according to the terms and conditions set out herein, and shall at all times rank *pari passu* and without any preference or priority among themselves and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

## **5.5 INTEREST**

### **5.5.1 Interest Payment Dates**

Except as may otherwise be modified, changed, or amended in the applicable Pricing Supplement, the Bonds shall bear interest on its principal amount from and including the relevant Issue Date at the rate so specified in the applicable Pricing Supplement.

The cut-off date in determining the existing Bondholders entitled to receive interest or principal amount due shall be two (2) Business Days prior to the relevant Interest Payment Dates (the **Record Date**), which shall be the reckoning date in determining the Bondholders entitled to receive interest, principal or any other amount due under the Bonds. No transfers of the Bonds may be made during this period intervening between and commencing on the Record Date and the relevant Interest Payment Dates.

### **5.5.2 Interest Accrual**

The Bonds shall cease to bear interest from and including the relevant Maturity Date, as defined in the discussion on "Final Redemption" below, unless, upon due presentation, payment of the principal in respect of the Bonds

then outstanding is not made, is improperly withheld or refused, in which case the Penalty Interest (see “Penalty Interest” below) shall apply.

### 5.5.3 Determination of Interest Amount

The interest shall be calculated on the basis of a three hundred sixty (360)-day year consisting of twelve (12) months of thirty (30) days each and, in the case of an incomplete month, the number of days elapsed on the basis of a month of thirty (30) days.

## 5.6 REDEMPTION AND PURCHASE

### 5.6.1 Final Redemption

Unless otherwise earlier redeemed or previously purchased and cancelled, the Bonds shall be redeemed at par or 100% of face value on the relevant Maturity Date. However, if the Maturity Date is not a Business Day, payment of all amounts due on such date will be made by the Bank through the Paying Agent, without adjustment for accrued interest, on the succeeding Business Day.

### 5.6.2 Optional Redemption

Subject to the BSP Rules, the Bank shall have the option (the **Early Redemption Option**), but not the obligation, to redeem all (but not less than all) of a Series or Tranche of Bonds on any Interest Payment Date (such date, the **Early Redemption Date**) at an amount equal to the aggregate issue price thereof, plus accrued and unpaid interest thereon as of the Early Redemption Date (the **Early Redemption Amount**), for any cause as may be allowed under the BSP Rules, including, without limitation if or when: (i) there shall occur at any time during the term of the relevant Series or Tranche of Bonds any change in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof (including but not limited to any decision by a court of competent jurisdiction), or a new applicable law should be enacted, issued or promulgated which shall result in payments by the Bank becoming subject to additional or increased taxes, other than the taxes and rates of such taxes prevailing on the Issue Date, and such additional or increased rate of such tax cannot be avoided by use of reasonable measures available to the Bank; or (ii) the Trust Agreement or any of the related documents is or shall become for any reason, invalid, illegal or unenforceable to the extent that it shall become, for any reason, unlawful for the Bank to give effect to its rights or obligations thereunder; or (iii) at any time during the term of the relevant Series or Tranche of Bonds, the Bonds become subject to additional or increased reserves required by the BSP, other than the three per cent (3%) statutory regular reserves required in BSP Circular No. 1054, Series of 2019.

In exercising any Early Redemption Option, the Bank shall give not less than thirty (30) but not more than sixty (60) days' prior notice (the **Early Redemption Notice**) to the relevant Bondholders, the PDEX, the Registrar and the BSP Supervision and Examination Sector. The Bank shall also cause the publication of such notice at least once a week for two (2) consecutive weeks in at least two newspapers of general circulation in the Philippines. Such notice shall state the Interest Payment Date on which such Bonds are to be redeemed, the Early Redemption Amount and the manner in which redemption will be effected. Such notice shall be irrevocable and shall be binding on the Bank.

After the issuance of any Early Redemption Notice, the Bank shall be obliged to repay all (and not only part) of the relevant Bonds (the **Early Redemption Bonds**) at the relevant Early Redemption Amount on the Early Redemption Date and, upon confirmation by the Paying Agent that the Early Redemption Amount has been paid, the Registrar shall transfer all of the interests of the Bondholders in the Early Redemption Bonds to the Bank. All Early Redemption Bonds shall then be deemed fully redeemed and cancelled. If, as a consequence of the exercise of the Early Redemption Option, interest income already earned under the Early Redemption Bonds shall be subjected to incremental taxes, such taxes shall be for the account of the Bank.

For the avoidance of doubt, the Bank may exercise its Early Redemption Option to a particular Series or Tranche of Bonds without any obligation to redeem any other Series or Tranche issued under the Bank's Bond Program.

### **5.6.3 Purchase and Cancellation**

The Bank may at any time purchase any of the Bonds at any price in the open market or by tender or by contract at any price, without any obligation to purchase (and the Bondholders shall not be obliged to sell) Bonds pro-rata from all the relevant Bondholders. Any Bonds so purchased shall be redeemed and cancelled and may not be re-issued.

Upon listing or enrollment of the Bonds on PDEX, the Bank shall disclose any such transactions in accordance with the applicable PDEX disclosure rules.

### **5.6.4 Change in Law or Circumstance**

The following events shall be considered as changes in law or circumstances as it refers to the obligations of the Bank and the rights and interests of the Bondholders under the Trust Agreement and the Bonds:

- 1) Any government and/or non-government consent, license, authorization, registration or approval now or hereafter necessary to enable the Bank to comply with its obligations under the Trust Agreement or the Bonds shall be modified, withdrawn or withheld in a manner which, in the reasonable opinion of the Trustee, will materially and adversely affect the ability of the Bank to comply with such obligations; or
- 2) Any provision of the Trust Agreement or any of the related documents is or becomes, for any reason, invalid, illegal or unenforceable to the extent that it becomes for any reason unlawful for the Bank to give effect to its rights or obligations thereunder, or to enforce any provisions of the Trust Agreement or any of the related documents in whole or in part; or any law is introduced or any applicable existing law is modified or rendered ineffective or inapplicable to prevent or restrain the performance by the parties thereto of their obligations under the Trust Agreement or any other related documents; or
- 3) Any concessions, permits, rights, franchise or privileges required for the conduct of the business and operations of the Bank shall be revoked, cancelled or otherwise terminated, or the free and continued use and exercise thereof shall be curtailed or prevented, in such manner as to materially and adversely affect the financial condition or operations of the Bank.

### **5.6.5 Payments**

The principal of, interest on, and all other amounts payable on, the Bonds shall be paid to the relevant Bondholders by crediting of the settlement accounts designated by each of the Bondholders. The principal of, and interest on, the Bonds shall be payable in Philippine Pesos. The Bank shall ensure that so long as any of the Bonds remains outstanding, there shall at all times be a Paying Agent for purposes of disbursing payments on the Bonds. In the event the Paying Agent shall be unable or unwilling to act as such, the Bank shall appoint a qualified financial institution in the Philippines authorized to act in its place. The Paying Agent may not resign its duties or be removed without a successor having been appointed.

### **5.6.6 Payment of Additional Amounts - Taxation**

#### ***Interest Income on Short-Term Bonds***

Interest income on short-term bonds, with maturities of less than five (5) years, is subject to a final withholding tax (FWT) at rates of between 10% and 25% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of twenty per cent (20%) based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a twenty per cent (20%) FWT while that received by non-resident aliens not engaged in trade or business is subject to a FWT rate of twenty-five per cent (25%). Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a FWT rate of twenty per cent (20%). Interest income received by non-resident foreign corporations from the Bonds is subject to a twenty-five per cent (25%) FWT. However, under the proposed CMEPA, the final withholding tax rate on interest income, will be subject to a uniform rate of 20 per cent (20%), except for non-resident aliens not engaged in trade or

business and non-resident foreign corporations, both of whom shall still be subject to a final withholding tax rate of 25 per cent (25%).

### ***Interest Income on Long-Term Bonds***

#### **A. For Individuals**

Interest income of resident individuals and non-resident aliens engaged in trade or business in the Philippines on long-term bonds, with maturities of five (5) or more years, are generally exempt from final withholding tax. In order to be exempt, the following characteristics/conditions must be present:

- 1) The investor is an individual citizen (resident or non-resident) or resident alien or non- resident alien engaged in trade or business in the Philippines;
- 2) The long-term bonds should be under the name of the individual;
- 3) The long-term bonds must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the BSP;
- 4) The long-term bonds must be issued by banks only and not by other entities or individuals;
- 5) The long-term bonds must have a maturity period of not less than five (5) years;
- 6) The long-term bonds must be in denominations of Ten Thousand Pesos (₱10,000) and other denominations as may be prescribed by the BSP;
- 7) The long-term bonds should not be terminated by the original investor before the fifth (5th) year, otherwise they shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings; and
- 8) Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

For interest income derived by individuals investing in common or individual trust funds or investment management accounts, the following additional characteristics/conditions must all be present:

- 1) The investment must be actually held/managed by the bank for the named individual at least five (5) years without interruption;
- 2) The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22 (FF) of the NIRC of 1997, as amended, as well as the requirements mentioned above;
- 3) The common or individual trust account or investment management account must hold on to such underlying investment in continuous and uninterrupted period for at least five (5) years.

If such long-term bond is pre-terminated before the fifth (5th) year, it shall be subject to a FWT at the rates prescribed to be deducted and withheld from the proceeds based on the length of time that the instrument was held by the taxpayer in accordance with the following schedule:

<b>Holding Period</b>	<b>Rate</b>
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

For non-resident alien not engaged in trade or business in the Philippines, interest income received from long-term bonds shall be subject to a FWT at the rate of twenty-five per cent (25%) pursuant to Section 25 (B) of the NIRC of 1997, as amended.

However, under the proposed CMEPA, tax exemption for long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments will be removed.

## **B. For Corporations**

Interest income derived by domestic and resident foreign corporations from deposit substitutes is subject to FWT at the rate of twenty per cent (20%) pursuant to Sections 27 (D) (1) and 28 (A) (7) of the NIRC of 1997, as amended.

As used herein: “**deposit substitutes**”, as defined in Section 22 (Y) of the NIRC of 1997, as amended, means an alternative form of obtaining funds from the public other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of re-lending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer.

**"Public"**, is defined as borrowing from twenty (20) or more individual or corporate lenders at any one time.

For non-resident foreign corporations, interest income received from long-term bonds, shall be subject to a FWT at the rate of twenty-five per cent (25%) pursuant to Section 28 (B)(1) of the NIRC of 1997, as amended.

Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Bank; provided however that, the Bank shall not be liable for the following:

- 1) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Bank as being sufficient in form and substance:
  - a) a current and valid BIR-certified true copy of the tax exemption certificate, ruling, or opinion addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate as required under BIR Revenue Memorandum Circular (RMC) No. 8-2014 including any clarification, supplement or amendment thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the exemption certificate is a true copy of the original; (b) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (c) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting the said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount equivalent to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one (1) year from the date of issuance. Should the submitted tax exemption certificate, ruling or opinion expire during the Offer Period, the Bondholder must submit an updated/revalidated tax exemption certificate;
  - b) with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the duly executed and apostilled/consularized BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR, as required under Revenue Memorandum Order (RMO) No. 14-2021, (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed



tax exemption or preferential tax rate, in a form acceptable to the Bank, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Bank that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due, (i) three (3) originals of the duly executed and apostilled/consularized new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Bank deems applicable, and (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; and (c) such other additional documents as may be required by the Bank or pursuant to applicable tax regulations, including, but not limited to, the documentary requirements enumerated in BIR RMO No. 14-2021 in relation to BIR RMC Nos. 77-2021 and 20-2022, which shall be submitted by the Bondholder/Registrar and Paying Agent to the Bank no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto; for the avoidance of doubt, the Bank shall retain sole discretion in determining whether the non-resident Bondholder is entitled to the preferential tax treaty rate based on the documents submitted by the non-resident Bondholder, provided that all the conditions for the availment thereof, other than residency, have been satisfied;

- c) a duly notarized undertaking executed by (1) the Corporate Secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption or preferential rate treatment based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Bank and the Registrar and Paying Agent of (i) any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (ii) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature, and method of operation, which are inconsistent with the basis for its income tax exemption; or (iii) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Bank, the Registrar and Paying Agent, the Joint Lead Arrangers, and the Selling Agents free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such Bondholder shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose; and
- d) such other documentary requirements as may be required by the Bank and the Registrar and Paying Agent or as required under the applicable regulations of the relevant taxing or other authorities, e.g., BIR RMO No. 14-2021, and BIR RMC Nos. 77-2021 and 20-2022, which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Bondholder is not doing business in the Philippines; provided that the Bank shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder

on the interest payments to such Bondholder; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar and Paying Agent.

- 2) Gross Receipts Tax under Section 121 of the Tax Code;
- 3) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
- 4) Value Added Tax (VAT) under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337 and Republic Act No. 10963.

Documentary stamp tax for the primary issue of the Bonds and the execution of the Bond Agreements, if any, shall be for the Bank's account.

#### **5.6.7 Change in Tax Rates and New Taxes**

In the event there is a change in the tax treatment of the Bonds or on the tax rates applicable to a Bondholder because of new, or changes or repeal in, tax laws, or interpretations thereof, as a result of which, a Bondholder previously exempt from tax shall be subject to tax on income earned from the Bonds, or there is a change in the applicable withholding tax rate, or any payments of principal and/or interest under the Bonds shall be subject to deductions or withholdings for or on account of any taxes, duties, assessments, or governmental charges of whatever nature imposed, levied, collected, withheld, or assessed within the Philippines by any authority therein or thereof having power to tax, including but not limited to stamp, issue, registration, documentary, value-added or similar tax, or other taxes, duties, assessments, or government charges, including interest, surcharges, and penalties thereon (the **New Taxes**), then such New Taxes imposed shall be for the account of the Bondholders and the Paying Agent, on behalf of the Bank, as applicable, shall make the necessary withholding or deduction for the account of the Bondholders concerned. All sums payable by the Bank to tax-exempt persons (upon presentation of acceptable proof of tax exemption) shall be paid without deductions for taxes, duties, assessments, or government charges.

### **5.7 REPRESENTATIONS AND WARRANTIES**

The Bank hereby makes the following representations and warranties in favor of the Bondholders:

- 1) No order preventing or suspending the use of the Offering Circular has been issued by the BSP. The Offering Circular: (i) is compliant and will remain compliant in all material respects with relevant BSP Rules; (ii) contains all information and particulars which is material in the context of the issue and the offering of the Bonds including without limitation, all information required by the applicable laws and regulations of the Philippines and the information which is required to be provided to potential investors in order to make an informed assessment of the financial position and prospects of the Bank in its entirety and the rights attaching to the Bonds; and (iii) do not contain any untrue statement of a material fact nor omit to state a material fact required to be stated or necessary to make the statements made not misleading under the circumstances under which it is made. All reasonable enquiries have been made by the Bank to ascertain such facts and to verify the accuracy of all such information and statements. Any additional written information used in the offering and sale of the Bonds, at the date of publication of such information, was in every material respect true, and accurate and not misleading and that there are no other facts in relation to the Bank, and the Bonds the omission of which would, in the context of the issue of the Bonds, make any statement in the Offering Circular and/or such other information misleading in any material respect.
- 2) No order suspending the issuance of the Bonds has been issued, and no proceeding for that purpose has been instituted or, to the best knowledge of the Bank after due and careful inquiry, threatened by the BSP.
- 3) Since the respective dates as of which information is given in the Offering Circular and/or the applicable Pricing Supplement, there has not been any material change, or any development involving a prospective material change, in or affecting the general affairs, business, prospects, management, financial position,

stockholders' equity, or results of operations of the Bank otherwise than as disclosed in the Offering Circular. Except as disclosed in the Offering Circular and/or the applicable Pricing Supplement, the Bank has not, since the dates indicated, entered into any material transaction or agreement (whether or not in the ordinary course of business) which would have an Adverse Effect.

As used herein, Adverse Effect means any material and adverse effect on the Bank's operations, activities, business, property, liabilities, condition (financial or otherwise) or prospects; implementation of the issuance of the Bonds; or its ability to duly perform and observe its obligations and duties under the Bonds and the Bond Agreements.

- 4) Except as disclosed in the Offering Circular and/or the applicable Pricing Supplement, the Bank and each of the Principal Subsidiaries is a corporation duly organized, validly existing, and in good standing under and by virtue of the laws of its place of incorporation, has its principal office at the address indicated in the Offering Circulars, is registered or qualified to do business in every jurisdiction where registration or qualification is necessary, and has the corporate power and authority to conduct its business as presently being conducted and to own its properties and assets now owned by it as well as those to be hereafter acquired by it for the purpose of its business.

As used herein, "**Principal Subsidiary**" means at any time a Subsidiary (i.e., directly controlled, or more than fifty per cent (50%) of whose issued voting equity share capital (or equivalent) is then beneficially owned, by the Bank and/or one or more of its subsidiaries or affiliates) of the Bank:

- a) whose net profits (consolidated in the case of a Subsidiary which itself has Subsidiaries) or whose net assets (consolidated in the case of a Subsidiary which itself has Subsidiaries) represent in each case (or, in the case of a Subsidiary acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, are equal to) not less than five per cent (5%) of the consolidated net profits or, as the case may be, consolidated net assets of the Bank and its Subsidiaries taken as a whole, all as calculated respectively by reference to the then latest audited accounts (consolidated or, as the case may be, unconsolidated) of such Subsidiary and the then latest audited consolidated accounts of the Bank and its Subsidiaries, provided that:
  - i. if the then latest audited consolidated accounts of the Bank and its Subsidiaries show (x) a net loss for the relevant financial period then there shall be substituted for the words "net profits" the words "gross revenues" for the purposes of this definition and/or (y) negative assets at the end of the relevant financial period then there shall be substituted for the words "net assets" the words "total assets" for the purposes of this definition;
  - ii. in the case of a Subsidiary of the Bank acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, the reference to the then latest audited consolidated accounts of the Bank and its Subsidiaries for the purposes of the calculation above shall, until consolidated accounts for the financial period in which the acquisition is made have been prepared and audited as aforesaid, be deemed to be a reference to such first- mentioned accounts as if such Subsidiary had been shown in such accounts by reference to its then latest relevant audited accounts, adjusted as deemed appropriate by the Bank;
- b) to which is transferred the whole or substantially the whole of the undertaking and assets of a Subsidiary of the Bank which immediately prior to such transfer is a Principal Subsidiary, provided that the transferor Subsidiary shall upon such transfer forthwith cease to be a Principal Subsidiary and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (b) on the date on which the consolidated accounts of the Bank and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited as aforesaid but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition; or

- c) to which is transferred an undertaking or assets which, taken together with the undertaking or assets of the transferee Subsidiary, generated (or, in the case of the transferee Subsidiary being acquired after the end of the financial period to which the then latest audited consolidated accounts of the Bank and its Subsidiaries relate, generate net profits equal to) not less than five per cent (5%) of the consolidated net profits, or represent (or, in the case aforesaid, are equal to) not less than five per cent (5%) of the consolidated net assets of the Bank and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, provided that the transferor Subsidiary (if a Principal Subsidiary) shall upon such transfer forthwith cease to be a Principal Subsidiary unless immediately following such transfer its undertaking and assets generate (or, in the case aforesaid, generate net profits equal to) not less than five per cent (5%) of the consolidated net profits, or its assets represent (or, in the case aforesaid, are equal to) not less than five per cent (5%) of the consolidated net assets of the Bank and its Subsidiaries taken as a whole, all as calculated as referred to in subparagraph (a) above, and the transferee Subsidiary shall cease to be a Principal Subsidiary pursuant to this subparagraph (c) on the date on which the consolidated accounts of the Bank and its Subsidiaries for the financial period current at the date of such transfer have been prepared and audited but so that such transferor Subsidiary or such transferee Subsidiary may be a Principal Subsidiary on or at any time after the date on which such consolidated accounts have been prepared and audited as aforesaid by virtue of the provisions of subparagraph (a) above or, prior to or after such date, by virtue of any other applicable provision of this definition.
- 5) All corporate authorizations, approvals, and other acts legally necessary for the execution and delivery by the Bank of the Bond Agreements, the Offer and issuance by the Bank of the Bonds, the circulation by the Bank of the Offering Circular, the applicable Pricing Supplement and the Bank's compliance with its obligations under the Bond Agreements and the Bonds have been obtained or effected and are in full force and effect.
  - 6) All government authorizations, approvals, rulings, registrations, and other acts legally necessary for the execution and delivery by the Bank of the Bond Agreements, the Offer, issuance, and payment by the Bank of the Bonds, and the Bank's compliance with its obligations under the Bond Agreements and the Bonds, have been obtained and are in full force and effect.
  - 7) All conditions imposed or required under the BSP Rules and other applicable laws and regulations in respect of the execution and delivery of the Bond Agreements and the Offer, issuance, and payment of the Bonds have been complied with by the Bank as of the date and/or time that they are required to be complied with.
  - 8) None of the information, data, or submissions provided or made by the Bank to any government agency, or to the Lead Arrangers, Selling Agents (other than the Bank), Registrar or Bondholders in connection with the Bonds violates any applicable statute, rule, or regulation. Such information, data, and submissions are true, complete, and accurate in all material respects. There is no fact, matter or circumstance in connection with the Bonds which has not been disclosed to the Lead Arrangers, such other Selling Agents, Registrar or Bondholders which renders any such information, data or submissions untrue, inaccurate or misleading in any material respect, or which might reasonably affect the willingness of such parties to proceed with the transactions contemplated by the Bonds and these Terms and Conditions.
  - 9) The obligations of the Bank under the Bond Agreements and (upon their issuance) the Bonds constitute the Bank's legal, valid, binding, direct, and unconditional obligations, enforceable in accordance with their terms, and the compliance by the Bank with its obligations under the Bond Agreements and the Bonds will not conflict with, nor constitute a breach or default of, the articles of incorporation, by-laws, or any resolution of the board of directors of the Bank, or any rights of the stockholders of the Bank, or any contract or other instrument by which the Bank or its properties is bound, or any law of the Republic of the Philippines, or any law, rule, regulation, or judgment, decree or order of any government, governmental body, court, office, agency, or instrumentality applicable to the Bank.
  - 10) The Bonds, upon issuance, shall constitute direct, unconditional, unsecured, and unsubordinated obligations of the Bank, enforceable according to the terms and conditions herein, and shall at all times rank *pari passu* and without any preference or priority among themselves and at least *pari passu* with all other present and future direct, unconditional, unsecured, and unsubordinated obligations of the Bank, except for any obligation enjoying a statutory preference or priority established under Philippine laws.

- 11) Except as disclosed in the Offering Circular and/or the applicable Pricing Supplement, there are no legal, administrative, or arbitration actions, suits, or proceedings pending or threatened against or affecting the Bank or its Principal Subsidiaries which, if adversely determined, would have an Adverse Effect, or which would enjoin or otherwise adversely affect the execution, delivery or performance of the Bond Agreements or the Offer, issuance or performance of the Bonds. To the best of the Bank's knowledge after due and careful inquiry, no such proceedings are threatened or contemplated by government authorities or threatened by others.

The audited financial statements of the Bank as of the last two (2) years from the date of each relevant Offer are complete and correct in all material respects. The audited financial statements of the Bank and the reviewed interim consolidated financial statements of the Bank as of the last two (2) years from the date of each relevant Offer are in accordance with the books and records of the Bank, are complete and correct in all material respects, have been prepared in accordance with Philippine Financial Reporting Standards, and fairly represent in all material respects the Bank's financial condition and results of operations as of the dates indicated. Since the last audited financial statement from the date of each relevant Offer, there has been no material change in the financial condition or results of operations of the Bank sufficient to impair its ability to perform its obligations under the Bonds according to their terms.

- 12) Except as otherwise disclosed in the Offering Circular or the applicable Pricing Supplement or its audited financial statements or the reviewed interim consolidated financial statements of the Bank as of the last two (2) years from the date of each relevant Offer, the Bank has, as of the date hereof, no liabilities or obligations of any nature, whether accrued, absolute, contingent, or otherwise, including but not limited to tax liabilities due or to become due, and whether incurred in respect of or measured by any income for any period prior to such date or arising out of transactions entered into or any state of facts existing prior thereto, which may in any case or in the aggregate, materially and adversely affect the Bank's ability to discharge its obligations under the Bonds.
- 13) Since the last audited financial statements or reviewed interim consolidated financial statements of the Bank as of the last two (2) years from the date of each relevant Offer, there has been no change in the financial condition, assets, and liabilities of the Bank, other than such changes that (i) are disclosed in the Offering Circular and/or the applicable Pricing Supplement and (ii) do not materially and adversely affect the Bank's ability to discharge its obligations under the Bonds.
- 14) No event has occurred and is continuing which constitutes a default by the Bank under or in respect of any agreement binding upon the Bank or its properties, and no event has occurred which, with the giving of notice, lapse of time, or other condition, would constitute a default by the Bank under or in respect of such agreement, which default shall (i) constitute an Adverse Effect or (ii) materially and adversely affect the Bank's ability to comply with the terms of the Bonds and pay the principal and interest that may be due on the Bonds.
- 15) The Bank has good and marketable title to all its properties, free and clear of liens, encumbrances, restrictions, pledges, mortgages, security interest, or charges, except for the following: (i) any liens, encumbrances, restrictions, pledges or mortgages over its properties existing prior to the date of the Offering Circular and disclosed in its latest audited financial statements as of the date of each relevant Offer; (ii) any lien or defect over those properties which are acquired by the Bank through any legal action or proceedings or which are conveyed to the Bank via dacion en pago or other similar arrangement in the course of the ordinary business of the Bank; (iii) liens arising in the ordinary course of its business, or imposed or arising solely by operation of law (other than any statutory preference or priority under Article 2244(14) of the Civil Code of the Philippines), such as carrier's, warehousemen's and mechanic's liens and other similar liens arising in the ordinary course of business; (iv) liens for taxes, assessments or governmental charges on properties or assets of the Bank if the same shall not at the time be delinquent or thereafter can be paid without penalty, (v) liens arising from workmen's compensation laws, pensions and social security legislations; (vi) any lien which secures foreign currency and interest rate swap and derivative transactions undertaken by the Bank in the ordinary course of its business; (vii) the Registrar and Paying Agent's lien or security right on the funds of the Bank in relation to all fees, charges, and expenses, and any credit facility or accommodation granted to the Bank by the Registrar, as contemplated by the Registry and Paying Agency Agreement; and (viii) any extension, renewal or replenishment in whole or in part of the foregoing liens.

- 16) The Bank and each of its Principal Subsidiaries is conducting its business and operations in compliance with applicable laws and regulations, has filed true, complete, and timely tax returns, and has paid all taxes due in respect of the ownership of its properties and assets or the conduct of its operations, except to the extent that the payment of such taxes is being contested in good faith and by appropriate proceedings.
- 17) The Bank and each of its Principal Subsidiaries is compliant with all Philippine laws, statutes, regulations, and circulars, including without limitation the circulars, rules, regulations, and orders issued by the BSP, applicable to it.
- 18) The Bank has in good faith complied with, and corrected the findings, and continues to implement the recommendations, to the satisfaction of the BSP, resulting from all past audits and examinations conducted by the BSP on the Bank.
- 19) The Bank and each of its Principal Subsidiaries has obtained all the necessary authorizations, approvals, licenses, permits or privileges required from all governmental and regulatory bodies for the conduct of its business and operations as well as those of its Principal Subsidiaries as currently conducted, and shall have free and continued use thereof, except where such failure to possess or obtain the same could not qualify as, or result in, an Adverse Effect.
- 20) The Bank and each of its Principal Subsidiaries, maintains insurance with responsible and reputable insurance companies in such amounts, covering such risks as are prudent and appropriate and as are usually carried by companies engaged in similar business as those in which the Bank operates. There are no claims pending, or to the best of the Bank's knowledge after due and reasonable inquiry, threatened against the Bank or any of its Principal Subsidiaries by any employee or third party, in respect of any accident or injury not fully covered by insurance.
- 21) None of the Bank or any of its Principal Subsidiaries, or, to the best of the Bank's knowledge after due and careful inquiry, their respective directors or officers nor any agent, employee, affiliate or other person acting on behalf of any of them, is aware of or has taken or will take any action, directly or indirectly, that would result in a violation by such persons of any applicable statutes, laws, rules, regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices, including, without limitation, making any offer, payment, promise to pay or authorization of the payment of any money, or other property, gift, promise to give or authorization of the giving of anything of value to any government official or any political party or official thereof or any candidate for political office, to influence official action or secure an improper advantage, or in contravention of any applicable anti-bribery or anti-corruption laws. The Bank and its Principal.
- 22) Subsidiaries have conducted and will continue to conduct their businesses in compliance with all applicable statutes, laws, rules, regulations, judgments, orders or decrees relating to anti-bribery or other corrupt practices and have instituted and maintain policies and procedures designed to ensure, and which are reasonably expected to continue to ensure, compliance therewith, and will not use the proceeds of the offering, directly or indirectly, in violation of applicable anti-bribery or anti-corruption laws. There are no pending or (to the best knowledge of the Bank and its Principal Subsidiaries after due and careful inquiry) threatened actions, suits or proceedings by or before any court or governmental agency, authority or body or any arbitrator alleging such corrupt practices against any of the Bank and its Principal Subsidiaries.
- 23) The operations of the Bank and its Subsidiaries are and have been conducted at all times in compliance with applicable financial recordkeeping and reporting requirements of all applicable laws, and in compliance with all applicable anti-money laundering and anti-terrorism financing statutes, the rules and regulations thereunder, and to the extent applicable to the Bank and its subsidiaries and affiliates or any of their respective properties, any related or similar rules, regulations or guidelines, issued, administered or enforced by any governmental agency (collectively, the **Anti-Money Laundering and Anti-Terrorism Financing Laws**) and subject to the provisions of the Bond Agreements, no action, suit or proceeding by or before any court or governmental agency, authority or body or any arbitrator involving any of the Bank or its subsidiaries with respect to the Anti-Money Laundering and Anti-Terrorism Financing Laws is pending or, to the best knowledge of the Bank after due and careful inquiry, threatened. The proceeds hereof shall not be used directly or indirectly in violation of the Anti-Money Laundering and Anti-Terrorism Financing Laws.



- 24) The Bank and each of its Principal Subsidiaries maintains systems of internal accounting controls sufficient to provide reasonable assurance that (i) transactions are executed in accordance with management's general or specific authorizations; (ii) transactions are recorded as necessary to permit preparation of financial statements in conformity with Philippine Financial Reporting Standards and to maintain asset accountability; (iii) access to assets is permitted only in accordance with management's general or specific authorization; (iv) the recorded accountability for assets is compared with the existing assets at reasonable intervals and appropriate action is taken with respect to any differences; and (v) the Bank and each of its Principal Subsidiaries has made and kept books, records and accounts which, in reasonable detail, accurately and fairly reflect the transactions and dispositions of assets of such entity and provide a sufficient basis for the preparation of the Bank's consolidated financial statements in accordance with Philippine Financial Reporting Standards; and the Bank's current management information and accounting control system has been in operation for at least twelve (12) months during which none of the Bank nor any of its Principal Subsidiaries has experienced any material difficulties with regard to (i) through (v) above;
- 25) The Bank and its Principal Subsidiaries have no outstanding guarantees or contingent payment obligations in respect of indebtedness of third parties except those issued in the ordinary course of business or as described in the Offering Circular and/or the applicable Pricing Supplement; the Bank and its Principal Subsidiaries are in compliance with all of its obligations under any outstanding guarantees or contingent payment obligations as described in the Offering Circular and/or the applicable Pricing Supplement;
- 26) The Offering Circular and/or the applicable Pricing Supplement accurately and fully describes:
- a) all trends, demands, commitments, events, uncertainties and risks, and the potential effects thereof, which the Bank believes would materially affect liquidity and are reasonably likely to occur and necessary to enable investors to make an informed assessment of the assets and liabilities, financial position, profits and losses and prospects of the Bank; and (ii) all off- balance sheet transactions, arrangements, and obligations; and neither the Bank nor any of its Principal Subsidiaries has any material relationships with unconsolidated entities that are contractually limited to narrow activities that facilitate the transfer of or access to assets by the Bank or any other subsidiary, such as structured finance entities and special purpose entities that are reasonably likely to have a material effect on the liquidity of the Bank or its Subsidiaries or the availability thereof or the requirements of the Bank or its Subsidiaries for capital resources;
- 27) The Bank has appointed and will maintain as its auditors, a firm of independent public accountants of internationally recognized standing.
- 28) All information provided by the Bank to its external auditors required for the purposes of their comfort letters in connection with the offering and sale of the Bonds has been supplied, or as the case may be, will be supplied, in good faith and after due and careful enquiry; such information was when supplied and remains (to the extent not subsequently updated by further information supplied to such persons prior to the date hereof), or as the case may be, will be when supplied, true and accurate in all material respects and no further information has been withheld the absence of which might reasonably have affected the contents of any of such letters in any material respect;
- 29) Except as specifically described in the Offering Circular, the Bank and its Principal Subsidiaries legally and validly own or possess, all patents, licenses, inventions, copyrights, know-how, trademarks, service marks, trade names or other intellectual property (collectively, **Intellectual Property**) necessary to carry on the business now operated by them, and they have not received any notice or is otherwise aware of any infringement of or conflict with asserted rights of others with respect to any Intellectual Property or of any facts or circumstances which would render any Intellectual Property invalid or inadequate to protect its interests therein, and which infringement or conflict (if the subject of any unfavorable decision, ruling or finding) or invalidity or inadequacy, singly or in the aggregate, would reasonably be expected to result in an Adverse Effect; and
- 30) Each of the Bank and its Principal Subsidiaries is Solvent. As used in this paragraph, the term "Solvent" means, with respect to a particular date, that on such date (i) the present fair market value (or present fair saleable value) of its assets is not less than the total amount required to pay its liabilities on its total existing debts and liabilities (including contingent liabilities) as they become absolute and matured; (ii) it is able to

realize upon its assets and pay its debts and other liabilities, contingent obligations and commitments as they mature and become due in the normal course of business; (iii) it is not incurring debts or liabilities beyond its ability to pay as such debts and liabilities mature; (iv) it is not engaged in any business or transaction, and does not propose to engage in any business or transaction, for which its property would constitute unreasonably small capital after giving due consideration to the prevailing practice in the industry in which it is engaged; (v) it will be able to meet its obligations under all its outstanding indebtedness as it falls due; and (vi) it is not a defendant in any action that would result in a judgment that it is or would become unable to satisfy.

These representations and warranties are true and correct as of the Issue Date and shall remain true and correct as long as any Series or Tranche of Bonds or any portion thereof remain outstanding, by reference to the facts and circumstances then existing.

## **5.8 COVENANTS**

For as long as any Series or Tranche of the Bonds or any portion thereof remain outstanding, the Bank shall:

- 1) pay and discharge all taxes, assessments, and government charges or levies imposed upon it or upon its income or profits or upon any properties belonging to it prior to the date on which penalties are assessed thereto; pay and discharge when due all lawful claims which, if unpaid, might become a lien or charge upon any of the properties of the Bank; and take such steps as may be necessary in order to prevent its properties or any part thereof from being subjected to the possibilities of loss, forfeiture, or sale; provided, that the Bank shall not be required to pay any such tax, assessment, charge, levy, or claim which is being contested in good faith and by proper proceedings or as could not reasonably be expected to have an Adverse Effect. The Registrar shall be notified by the Bank within thirty (30) days from the date of the receipt of written notice of the resolution of such proceedings;
- 2) preserve and maintain its corporate existence or, in the case of a merger, consolidation, reorganization, reconstruction or amalgamation, ensure that the surviving corporation or the corporation formed thereby effectively assumes without qualification or condition, the entire obligations of the Bank under the Bonds and for such corporation to preserve and maintain its corporate existence;
- 3) maintain adequate financial records and prepare all financial statements in accordance with Philippine Financial Reporting Standards, consistently applied and in compliance with the regulations of the government body having jurisdiction over it, and, subject to receipt of a written request within a reasonable period, furnish to such requesting Bondholder or its duly designated representatives copies of the books of accounts and records pertinent to the compliance by the Bank of the Terms and its obligations under the Bonds;
- 4) comply with all the requirements, terms, covenants, conditions, and provisions of all laws, rules, regulations, orders, writs, judgments, indentures, mortgages, deeds of trust, agreements, and other instruments, arrangements, obligations, and duties to which it, its business or its assets may be subject, or by which it, its business, or its assets are legally bound where non-compliance would have an Adverse Effect;
- 5) satisfactorily comply with all BSP directives, orders, issuances, and letters, including those regarding its capital, licenses, risk management, and operations; and satisfactorily take all corrective measures that may be required under BSP audit reports on its operations;
- 6) promptly and satisfactorily pay all indebtedness and other liabilities and perform all contractual obligations pursuant to all agreements to which it is a party to or by which it or any of its properties may be bound, except those being contested in good faith and by proper proceedings or as could not reasonably be regarded to have an Adverse Effect;
- 7) pay all amounts due under the Bonds at the times and in the manner specified herein, and perform all its obligations, undertakings, and covenants under the Bonds;
- 8) exert its best efforts to obtain at its sole expense the withdrawal of any order delaying, suspending or otherwise materially and adversely affecting the transactions with respect to the Bonds at the earliest time possible;
- 9) ensure that any documents related to the Bonds will, at all times, comply in all material respects with the applicable laws, rules, regulations, and circulars, and, if necessary, make the appropriate revisions, supplements, and amendments to make them comply with such laws, rules, regulations, and circulars;

- 10) make available to the Bondholders financial and other information regarding the Bank by filing with the SEC, PDEX, and/or the Philippine Stock Exchange (**PSE**) at the time required or within any allowed extension, the reports required by the SEC, PDEX and/or PSE, as the case may be, from listed companies in particular and from corporations in general;
- 11) maintain the services of its current external auditor and where the current external auditor of the Bank shall cease to be the external auditor of the Bank for any reason, the Bank shall appoint another reputable, responsible and internationally accredited external auditor;
- 12) not engage in any business except that authorized by its articles of incorporation;
- 13) not sell, transfer, convey, or otherwise dispose of all or substantially all of its assets;
- 14) except as may be allowed under existing Bank policies and practices pursuant to benefits, compensation, reimbursements, and allowances and BSP Rules and regulations, not extend any loan or advances to its directors and officers;
- 15) not assign, transfer, or otherwise convey or encumber any right to receive any of its material income or revenues unless in its ordinary course of business;
- 16) not declare or pay any dividends (other than stock dividends) during an Event of Default or if declaration or payment of such dividends would result in an Event of Default;
- 17) not voluntarily suspend all or substantially all of its business operations;
- 18) not grant, in any of its future loan or credit agreements, any creditor any right, above and beyond what is required under Philippine law, to apply amounts on deposit with or in possession of any such creditor by way of set-off in reduction of any amount owing under any loan or credit agreements;
- 19) except with the consent of the Majority Bondholders (which consent shall not be unreasonably withheld), not enter into any management contracts, profit-sharing, or any similar contracts or arrangements whereby its business or operations are managed by, or its income or profits are, or might be shared with, another person, firm or company, which management contracts, profit-sharing or any similar contracts or arrangements will materially and adversely affect the Bank's ability to perform its material obligations under the Bonds;
- 20) except with the consent of the Majority Bondholders (which consent shall not be unreasonably withheld), not amend its articles of incorporation or by-laws if such amendments have the effect of changing the general character of its business from that being carried on at the date hereof;
- 21) not, and shall not permit or authorize any other person to, directly or indirectly, use, lend, make payments of, contribute or otherwise make available, all or any part of the proceeds of the Bonds or other transaction(s) contemplated by these Terms and Conditions and the Bond Agreements to fund any trade, business or other activities: (i) involving or for the benefit of any Restricted Party, or (ii) in any other manner that would reasonably be expected to result in the Bank or any party to the Bond Agreements being in breach of any Sanctions (if and to the extent applicable to either of them) or becoming a Restricted Party; and
- 22) as long as any obligations under the Bonds remain outstanding, not create, issue, assume or otherwise incur any bond, note, debenture, or similar security which shall be or purport to be unsecured and unsubordinated obligations of the Bank, unless such obligations rank *pari passu* with, or junior to, the Bank's obligations under the Bonds in any proceedings in respect of the Bank for insolvency, winding up, liquidation, receivership, or other similar proceedings.

The covenants of the Bank shall survive the issuance of any Series or Tranche of the Bonds and shall be performed fully and faithfully by the Bank at all times while any Series or Tranche of the Bonds or any portion thereof remain outstanding.

## 5.9 EVENTS AND CONSEQUENCES OF DEFAULT

The Bank shall be considered in default under the Bond Agreements in respect of any Series or Tranche of the Bonds in case any of the following events (each an **Event of Default**) shall occur and is continuing:

- 1) Non-payment. The Bank defaults in the repayment of any principal in respect of the relevant Series or Tranche of Bonds on the relevant due date for payment thereof or default is made in the payment of any amount of

interest in respect of such Series or Tranche of Bonds on the relevant due date of payment thereof, provided, that such non-payment shall not constitute an Event of Default if the Bank has confirmed the relevant Payment Instruction Report (as defined in the Registry and Paying Agency Agreement) prepared by the Registrar and Paying Agent and there are sufficient funds standing in the relevant Payment Account (as defined in the Registry and Paying Agency Agreement) on a relevant payment date.

- 2) Insolvency Default. The Bank: (i) is declared insolvent or bankrupt or unable to pay its debts; (ii) stops, suspends or threatens to stop or suspend payment of all or a material part of its debts; (iii) proposes or makes any agreement for the deferral, rescheduling or other readjustment of all of its debts (or of any part which it will or might otherwise be unable to pay when due); or (iv) proposes or makes a general assignment or an arrangement or composition with or for the benefit of the relevant creditors in respect of any of such debts; or (v) appoints a trustee or receiver of all or a substantial portion of its properties. In addition, if a moratorium is agreed or declared in respect of or affecting all or any part of the debts of the Bank, such agreement or declaration shall also constitute an Event of Default under this paragraph.
- 3) Cross-default. The Bank: (i) defaults in the repayment of any amount of principal and premium (if any) or interest, in respect of any contract executed by the Bank with any bank, financial institution or other person, corporation or entity for the payment of borrowed money in an aggregate amount exceeding USD10,000,000.00 or its equivalent which constitutes an event of default, or with the giving of notice or the passage of time would constitute an event of default, under said contract; (ii) violates any other term or condition of a contract, law, or regulation, which is irremediable or, if remediable, (x) is not remedied by the Bank within thirty (30) days from notice sent to the Bank in accordance with Notice of Default provision or is otherwise not contested by the Bank, and (y) results in the acceleration or declaration of the whole financial obligation to be due and payable prior to the stated normal date of maturity; or (iii) defaults in the repayment of any amount of principal or interest, in respect of any Series or Tranche of Bonds issued pursuant to the Bond Program; provided that the events specified in (i) and (ii) shall have an Adverse Effect on the Bank's ability to perform its obligations under the Bonds.
- 4) Winding-Up Proceedings. The Bank takes any corporate action or other steps are taken or legal proceedings are started for its winding up, bankruptcy, dissolution or reorganization (except in any such case for the purposes of a merger, consolidation, reorganization, reconstruction or amalgamation upon which the continuing corporation or the corporation formed thereby effectively assumes the entire obligations of the Bank under the Bonds or for the appointment of a receiver, administrator, administrative receiver, or similar officer of it or of any or all of its revenues and assets).
- 5) Illegality. Any act or condition or thing required to be done, fulfilled, or performed at any time in order (i) to enable the Bank lawfully to enter into, exercise its rights and perform the obligations expressed to be assumed by it under the Bonds, or (ii) to ensure that the obligations expressed to be assumed by the Bank hereunder are legal, valid and binding, is not done, fulfilled or performed at such time and such failure, if remediable, is not remedied by the Bank within thirty (30) days from notice sent to the Bank in accordance with the Notice of Default provision.
- 6) Representation/Warranty Default. Any representation and warranty of the Bank or any certificate or opinion submitted by the Bank in connection with the issuance of the Bonds is untrue, incorrect, or misleading in any material respect.
- 7) Covenant Default. The Bank fails to perform or violates its covenants under the Bonds, and such failure or violation is not remediable or, if remediable, continues to be unremedied for a period of thirty (30) days from notice sent to the Bank in accordance with the Notice of Default provision.
- 8) License Default. Any governmental consent, license, approval, authorization, declaration, filing, or registration which is granted or required in connection with the Bonds expires or is terminated, revoked, or modified and the result thereof is to make the Bank unable to discharge its obligations hereunder or thereunder.
- 9) Expropriation Default. The government or any competent authority takes any action to suspend the whole or the substantial portion of the operations of the Bank, or condemns, seizes, nationalizes or expropriates (with or without compensation) the Bank or any substantial portion of its properties or assets.

- 10) Judgment Default. Any final and executory judgment, decree, or arbitral award for the sum of money, damages, fine, or penalty in excess of U.S.\$10,000,000.00 or its equivalent in any other currency is entered against the Bank and the enforcement of which is not stayed, and is not paid, discharged, or duly bonded within thirty (30) days after the date when payment of such judgment, decree, or award is due under the applicable law or agreement.
- 11) Writ and Similar Process Default. Any writ, warrant of attachment or execution, or similar process shall be issued or levied against more than half of the Bank's assets, singly or in the aggregate, and such writ, warrant, or similar process shall not be released, vacated, or fully bonded within thirty (30) days after its issue or levy.
- 12) Closure Default. The Bank voluntarily suspends or ceases operations of a substantial portion of its business for a continuous period of thirty (30) days, except in the case of strikes or lockouts when necessary to prevent business losses, or when due to fortuitous events or force majeure; provided, that in any such event, there is no Adverse Effect.
- 13) Contest Default. The Bank shall contest in writing the validity or enforceability of the Trust Agreement or the Bonds or shall deny generally in writing the liability of the Bonds under the Trust Agreement or the Bond Agreement.

#### **5.9.1 Notice of Default**

Subject to the terms of the Trust Agreement, the Trustee shall, within ten (10) Business Days after the occurrence of any Event of Default, give to the Bondholders written notice of such default known to it unless the same shall have been cured before the giving of such notice; provided that, in the case of payment default as described in item (a) of "Events and Consequences of Default" above, the Trustee shall immediately notify the Bondholders upon the occurrence of such payment default. The written notice required to be given to the Bondholders hereunder shall be published in a newspaper of general circulation in Metro Manila for two (2) consecutive days, further indicating in the published notice that the Bondholders or their duly authorized representatives may obtain any information relating to such occurrence of an Event of Default at the principal office of the Trustee upon presentation of sufficient and acceptable identification.

#### **5.9.2 Consequences of Default**

If any one or more of the Events of Default shall have occurred and be continuing, after any applicable cure period shall have lapsed, and if any such event shall not have been waived by the Majority Bondholders as set out below, then: the Trustee shall, by notice in writing delivered to the Bank, or upon the written direction of the Majority Bondholders whose written instructions/consents/letters shall be authenticated and summarized by the Registrar to the Trustee and by notice in writing delivered to the Bank, or the Majority Bondholders may, by notice in writing to the Bank and the Trustee stating the Event of Default relied upon, declare the principal and all accrued interest (including Penalty Interest, as specified below) on all the Bonds and other charges thereon (including any incremental tax that may be due on the interest income already earned under the Bonds), if any, to be immediately due and payable, and upon such declaration the same shall be immediately due and payable, without presentment, demand, protest, or further notice of all kinds, all of which are hereby expressly waived by the Bank.

This provision, however, is subject to the condition that the Majority Bondholders may, by written notice to the Bank thereafter rescind and annul such declaration and its consequences or waive any past default of the Bank under the Bonds, upon such terms, conditions and agreements, if any, as they may determine; but no such rescission and annulment shall extend or shall affect any subsequent default or shall impair any right arising therefrom. Any such waiver shall be conclusive and binding upon all the Bondholders and upon all future holders and owners of such Bonds.

#### **5.9.3 Penalty Interest**

In case any amount payable by the Bank under the Bonds, whether for principal, interest, or otherwise, is not paid on the relevant due date, the Bank shall, without prejudice to its obligations to pay the said principal, interest, and

other amounts, pay interest on the defaulted amount(s) at the rate of one per cent (1%) per month, net of applicable withholding taxes (the **Penalty Interest**) from the time the amount falls due until it is fully paid.

#### **5.9.4 Payment in the Event of Default**

Subject to the applicable laws of the Philippines on bankruptcy, winding-up or liquidation and the preferences established by law and under these Terms and Conditions, including the provisions of “Waiver of Default by the Bondholders” below, the Bank covenants that, upon the occurrence of any Event of Default, then in any such case, the Bank will pay to the Bondholders entitled to such payment, through the Registrar and Paying Agent, the whole amount which shall then have become due and payable on all such outstanding Bonds with interest at the rate borne by the Bonds on the overdue principal, net of applicable withholding taxes, and with Penalty Interest thereon, when applicable, and, in addition thereto, the Bank will pay to the Registrar and Paying Agent the actual amounts to cover the cost and expenses of collection, including reasonable compensation to the Registrar and Paying Agent, its agents, attorneys and counsel, and any reasonable expenses or liabilities incurred without gross negligence or bad faith by the Registrar and Paying Agent hereunder.

#### **5.9.5 Application of Payments**

Upon the occurrence of an Event of Default, any money collected or delivered to the Paying Agent, and any other funds held by it, subject to any other provision of the Bond Agreements relating to the disposition of such money and funds, shall be applied by the Paying Agent in the order of preference as follows:

- 1) first: to the pro-rata payment of the costs, expenses, fees and other charges of collection, including reasonable compensation to the Trustee, the Registrar, the Paying Agent, PDEX, Lead Arrangers, Selling Agents (other than the Bank), and their respective agents, attorneys and counsel, and all documented and reasonable expenses and liabilities incurred or disbursement made by them without gross negligence or bad faith;
- 2) second: to the payment of all outstanding interest (including any Penalty Interest and incremental tax thereon), in the order of maturity of such interest;
- 3) third: to the payment of the whole amount then due and unpaid on the Bonds for principal; and
- 4) fourth: the remainder, if any, shall be paid to the Bank, its successors or assigns, or to whosoever may be lawfully entitled to receive the same, or as a court of competent jurisdiction may direct.

#### **5.9.6 Prescription**

Claims in respect of principal and interest or other sums payable hereunder shall prescribe unless made within ten (10) years (in the case of principal or other sums) or five (5) years (in the case of interest) from the date on which payment becomes due.

#### **5.9.7 Remedies**

All remedies conferred by the Trust Agreement to the Trustee and the Bondholders shall be cumulative and not exclusive and shall not be so construed as to deprive the Trustee or the Bondholders of any legal remedy by judicial or extra judicial proceedings appropriate to enforce the conditions and covenants of the Trust Agreement, subject to the discussion below on “Ability to File Suit”.

No delay or omission by the Trustee or the Bondholders to exercise any right or power arising from or on account of any default hereunder shall impair any such right or power, or shall be construed to be a waiver of any such default or an acquiescence thereto; and every power and remedy given by the Trust Agreement to the Trustee or the Bondholders may be exercised from time to time and as often as may be necessary or expedient.

#### **5.9.8 Ability to File Suit**

No Bondholder shall have any right, by virtue of or by availing of any provision of the Bond Agreements or these Terms and Conditions, to institute any suit, action or proceeding for the collection of any sum due from the Bank



hereunder on account of principal, interest, and other charges, or for the appointment of a receiver or similar officer, or for any other remedy hereunder unless: (i) such Bondholder previously shall have given to the Bank and the Trustee written notice of the occurrence of an Event of Default; (ii) the Majority Bondholders shall have decided and made the written request upon the Trustee to institute such action, suit or proceeding in the latter's name; (iii) the Trustee for sixty (60) days after the receipt of such notice and request shall have neglected or refused to institute any such action, suit or proceeding; and (iv) no directions inconsistent with such written request shall have been given under a waiver of default by the Bondholders, it being understood and intended, and being expressly covenanted by every Bondholder with every other Bondholder and the Trustee, that no one or more Bondholders shall have any right in any manner whatever by virtue of or by availing of any provision of the Trust Agreement to affect, disturb or prejudice the rights of the holders of any other such Bonds or to obtain or seek to obtain priority over or preference to any other such holder or to enforce any right under the Trust Agreement, except in the manner herein provided and for the equal, ratable and common benefit of all the Bondholders.

### **5.9.9 Waiver of Default by the Bondholders**

The Majority Bondholders may, on behalf of the Bondholders, waive any past default, except the Events of Default referred to in "Events of Default" paragraphs (1), (2), (4), (8), (9), or (12), and their respective consequences.

In case of any such waiver, the Bank and the Bondholders shall be restored to their former positions and rights hereunder; but no such waiver shall extend to any subsequent or other default or impair any right consequent thereto. Any such waiver by the Majority Bondholders shall be conclusive and binding upon all Bondholders and upon all future holders and owners thereof, irrespective of whether or not any notation of such waiver is made upon the certificate(s) representing the Bonds.

### **5.10 SUBSTITUTION**

Substitution of the Bonds is not contemplated.

### **5.11 TRUSTEE; NOTICES**

#### **5.11.1 Notice to the Trustee**

All documents required to be submitted to the Trustee pursuant to the Trust Agreement, the Offering Circular and this Terms and Conditions and all correspondence addressed to the Trustee shall be delivered to:

**To the Trustee:**

Development Bank of the Philippines - Trust Banking Group

<b>Attention</b>	<b>Maria Felicia S. Magtibay</b> <i>Senior Assistant Vice President</i> <i>Head, Trust Marketing Department</i>
<b>Address</b>	Trust Banking Group Development Bank of the Philippines Sen Gil J. Puyat Avenue, corner Makati Avenue Makati City, Philippines
<b>Subject</b>	UBP Senior Fixed Rate Bonds
<b>E-mail</b>	<a href="mailto:mfsmagtibay@dbp.ph">mfsmagtibay@dbp.ph</a> ; <a href="mailto:tmd@dbp.ph">tmd@dbp.ph</a>
<b>Telephone No.</b>	+63 2 8818 9511

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

The Bank may send complaints, inquiries or concerns about trust products and services in relation to the Trust Agreement to the Trustee, either through electronic medium, verbal communication through phone, or via facsimile or other forms of written communication. For twenty-four (24)-hour access, the Bank may send complaints through the Trustee's customer contact center via electronic mail or phone to the following contact details:

**Email Address:** [customerservice@dbp.ph](mailto:customerservice@dbp.ph)

**Contact Number:** (02) 88189511

Upon receipt, the Trustee shall conduct a comprehensive investigation in accordance with its established guidelines and procedures on complaints handling and shall notify the Bank of its findings or results of its investigation through the Trustee's choice of communication. The findings of the Trustee shall be final and conclusive.

The Trustee is regulated by the BSP through its Trust Specialist Group. Alternatively, the Bank may file its complaint at the BSP Financial Consumer Department to the following contact details:

**Email Address:** [consumeraffairs@bsp.gov.ph](mailto:consumeraffairs@bsp.gov.ph)

**Contact Number:** (632) 8708-7088

The BSP Online Buddy (BOB) may be accessed by financial consumers through the following portals:

BSP Webchat: <http://www.bsp.gov.ph/>; and

BSP Facebook: <https://m.me/BangkoSentralngPilipinas/>

The Bank may provide feedback about the financial products and services rendered by the Trustee in order for the Trustee to improve its products and services. The Bank may send feedback via electronic mail or telephone communications to the contact details provided above.

#### **5.11.2 Notice to the Registrar and the Bank**

All documents required to be submitted to the Registrar or the Bank pursuant to the Registry and Paying Agency Agreement and these Terms and Conditions and all correspondence, addressed to such parties shall be delivered to the following addresses:

##### **To the Registrar:**

Philippine Depository and Trust Corporation

<b>Attention</b>	<b>Josephine Dela Cruz</b> <i>Director</i>
	<b>Atty. Patricia Camille Garcia</b> <i>Registry Officer</i>
<b>Address</b>	29th Floor BDO Equitable Tower, 8751 Paseo de Roxas, Makati City, Metro Manila, Philippines
<b>Subject</b>	UBP Senior Fixed Rate Bonds
<b>E-mail</b>	<a href="mailto:baby_delacruz@pds.com.ph">baby_delacruz@pds.com.ph</a> <a href="mailto:patricia.garcia@pds.com.ph">patricia.garcia@pds.com.ph</a>
<b>Telephone No.</b>	(+632) 8884-4425

(+632) 8884-4413

**To the Bank:**

Union Bank of the Philippines

<b>Attention</b>	<b>Johnson L. Sia</b> <i>Executive Vice President and Treasurer</i>
<b>Address</b>	23/F UnionBank Plaza, Meralco Avenue corner Onyx Street, Ortigas Center, Pasig City, Philippines
<b>Email</b>	<a href="mailto:jlsia@unionbankph.com">jlsia@unionbankph.com</a> with copy to: <a href="mailto:mpqbanta@unionbankph.com">mpqbanta@unionbankph.com</a> and <a href="mailto:cmralmonte@unionbankph.com">cmralmonte@unionbankph.com</a>
<b>Telephone No.</b>	(+632) 8638 8601 (+632) 8667 6388 local 8601

All documents and correspondence not sent to the above-mentioned address shall be considered as not to have been sent at all.

Any requests for documentation or certification and other similar matters available within the records of the Registrar must be communicated by the Bondholders to the Registrar in writing and shall be subject to review, acceptance, and approval by the Registrar. Upon such acceptance and approval, the Bondholder shall pay to the Registrar the amount as per the Registrar's pay schedule plus the costs of legal review, courier and the like. The fees may be adjusted from time to time, at the discretion of the Registrar.

#### **5.11.3 Notice to the Bondholders**

Notices to Bondholders shall be sent to their mailing address as set forth in the Register of Bondholders. Except where a specific mode of notification is provided for herein (including with respect to a notice of the occurrence of an Event of Default or a Notice of Meeting which must be disseminated by publication), notices to Bondholders shall be sufficient when made in writing and transmitted in any one of the following modes: (i) registered mail; (ii) ordinary mail; (iii); electronic mail; (iv) by one-time publication in a newspaper of general circulation in the Philippines; or (v) personal delivery to the address of record in the Register of Bondholders. The Registrar shall rely on the Register of Bondholders in determining the Bondholders entitled to notice. All notices shall be deemed to have been received: (i) ten (10) days from posting, if transmitted by registered mail; (ii) fifteen (15) days from mailing, if transmitted by ordinary mail; (iii) on the date of delivery for electronic mail; (iv) on date of publication; or (v) on date of delivery, for personal delivery.

#### **5.11.4 Binding and Conclusive Nature**

Except as provided in the Registry and Paying Agency Agreement, all notifications, opinions, determinations, certificates, calculations, quotations and decisions given, expressed, made or obtained by the Registrar for the purposes of the provisions of the Registry and Paying Agency Agreement, will (in the absence of willful default, bad faith or manifest error) be binding on the Bank and all Bondholders, and the Registrar shall not be liable to the Bank or the Bondholders in connection with the exercise or non-exercise by the Registrar of its powers, duties and discretion under the Registry and Paying Agency Agreement.

#### **5.12 DUTIES AND RESPONSIBILITIES OF THE TRUSTEE**

The Trustee is appointed as trustee for and on behalf of the Bondholders and accordingly shall perform such duties and shall have such responsibilities as provided in the Trust Agreement and inform the Bondholders of any event which has a material adverse effect on the ability of the Bank to comply with its obligations to the Bondholders,

breach of representations and warranties, and Events of Default within a reasonable period from the time that the Trustee learns or is informed of such events. The Trustee shall have custody of and hold in its name, for and in behalf of the Bondholders, the master certificates of indebtedness for the total issuance of the Bonds. The Trustee shall promptly and faithfully carry out the instructions or decisions of the Majority Bondholders issued or reached in accordance with the terms and conditions of this Trust Agreement. The Trustee shall, in accordance with the terms and conditions of the Trust Agreement, monitor the compliance or non-compliance by the Bank with all its representations and warranties, and the observance by the Bank of all its covenants and performance of all its obligations, under and pursuant to the Trust Agreement. The Trustee shall observe due diligence in the performance of its duties and obligations under the Trust Agreement. For the avoidance of doubt, notwithstanding any actions that the Trustee may take, the Trustee shall remain to be the party responsible to the Bondholders, and to whom the Bondholders shall communicate with in respect to any matters that must be taken up with the Bank.

The Trustee shall, prior to the occurrence of an Event of Default or after the curing of all such defaults which may have occurred, perform only such duties as are specifically set forth in the Trust Agreement. In case of an Event of Default, the Trustee shall exercise such rights and powers vested in it by the Trust Agreement, and use such judgment and care under the circumstances then prevailing that individuals of prudence, discretion and intelligence, and familiar with such matters exercise in the management of their own affairs.

None of the provisions contained in the Trust Agreement, the Offering Circular, or this Terms and Conditions shall require or be interpreted to require the Trustee to expend or risk its own funds or otherwise incur personal financial liability in the performance of any of its duties or in the exercise of any of its rights or powers.

### 5.13 RESIGNATION AND CHANGE OF TRUSTEE

- 1) The Trustee may at any time resign by giving ninety (90) days' prior written notice to the Bank and to the Bondholders of such resignation.
- 2) Upon receiving such notice of resignation of the Trustee, the Bank shall immediately appoint a successor trustee by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the resigning Trustee and one (1) copy to the successor trustee. If no successor shall have been so appointed and have accepted appointment within thirty (30) days after the giving of such notice of resignation, the resigning Trustee may petition any court of competent jurisdiction for the appointment of a successor, or any Bondholder who has been a bona fide bondholder for at least six (6) months (the **bona fide Bondholder**) may, on behalf of himself and all other Bondholders, petition any such court for the appointment of a successor. Such court may thereupon after notice, if any, as it may deem proper, appoint a successor trustee. Subject to the provision of subsection (e) below, such a successor trustee should possess all the qualifications required under pertinent laws, otherwise, the incumbent trustee shall continue to act as such.

In case at any time the Trustee shall become incapable of acting, or has acquired conflicting interest, or shall be adjudged as bankrupt or insolvent, or a receiver for the Trustee or of its property shall be appointed, or any public officer shall take charge or control of the Trustee or of its properties or affairs for the purpose of rehabilitation, conservation or liquidation, then the Bank may within thirty (30) days from there remove the Trustee concerned, and appoint a successor trustee, by written instrument in duplicate, executed by its authorized officers, one (1) copy of which instrument shall be delivered to the Trustee so removed and one (1) copy to the successor trustee. If the Bank fails to remove the Trustee concerned and appoint a successor trustee, any bona fide Bondholder may petition any court of competent jurisdiction for the removal of the Trustee concerned and the appointment of a successor trustee. Such court may thereupon after such notice, if any, as it may deem proper, remove the Trustee and appoint a successor trustee. Subject to the provisions of subsection (e) below, such successor trustee should possess all the qualifications required under pertinent laws; otherwise, the incumbent trustee shall continue to act as such until a successor trustee is duly appointed

- 3) The Majority Bondholders may at any time remove the Trustee for cause, and appoint a successor trustee, by the delivery to the Trustee so removed, to the successor trustee and to the Bank of the required evidence under the provisions on “Evidence Supporting the Action of the Bondholders” in this Terms and Conditions.
- 4) Without prejudice to any liabilities of the Trustee which have accrued, any resignation or removal of the Trustee and the appointment of a successor trustee pursuant to any of the provisions of this subsection shall become effective upon the earlier of: (i) acceptance of appointment by the successor trustee as provided in the Trust Agreement; or (ii) the effectivity of the resignation notice sent by the Trustee under the Trust Agreement (a) (the **Resignation Effective Date**) provided, however, that after the Resignation Effective Date and, as relevant, until such successor trustee is qualified and appointed (the **Holdover Period**), the resigning Trustee shall discharge duties and responsibilities solely as a custodian of records for turnover to the successor Trustee promptly upon the appointment thereof by the Bank provided further that the resigning Trustee shall be entitled to the payment of the fee stipulated in the Trust Agreement during the Holdover Period.

#### **5.14 SUCCESSOR TRUSTEE**

- 1) Any successor trustee appointed shall execute, acknowledge and deliver to the Bank and to its predecessor Trustee an instrument accepting such appointment, and thereupon the resignation or removal of the predecessor Trustee shall become effective and such successor trustee, without further act, deed or conveyance, shall become vested with all the rights, powers, trusts, duties and obligations of its predecessor in the trusteeship with like effect as if originally named as trustee in the Trust Agreement. The foregoing notwithstanding, on the written request of the Bank or of the successor trustee, the Trustee ceasing to act as such shall execute and deliver an instrument transferring to the successor trustee, all the rights, powers and duties of the Trustee so ceasing to act as such. Upon request of any such successor trustee, the Bank shall execute any and all instruments in writing as may be necessary to fully vest in and confer to such successor trustee all such rights, powers and duties. Upon effectivity of the removal or resignation of the Trustee as provided above, the Trustee’s liabilities and obligations shall immediately cease.
- 2) Upon acceptance of the appointment by a successor trustee, the Bank shall notify the Bondholders in writing of the succession of such trustee to the trusteeship. If the Bank fails to notify the Bondholders within ten (10) days after the acceptance of appointment by the trustee, the latter shall cause the Bondholders to be notified at the expense of the Bank.

#### **5.15 REPORTS TO THE BONDHOLDERS**

The Trustee shall submit to the Bondholders on or before 28 February of each year from Issue Date, until full payment of the Bonds, a brief report dated 31 December of the immediately preceding year with respect to:

- 1) The funds, if any, physically in the possession of the Paying Agent held in trust for the Bondholders on the date of such report; and
- 2) Any action taken by the Trustee in the performance of its duties under the Trust Agreement which it has not previously reported and which in its opinion materially affects the Bonds, except action in respect of a default, notice of which has been or is to be withheld by it.

The Trustee shall submit to the Bondholders a brief report within ninety (90) days from the making of any advance for the reimbursement of which it claims or may claim a lien or charge which is prior to that of the Bondholders on the property or funds held or collected by the Paying Agent with respect to the character, amount and the circumstances surrounding the making of such advance; provided that, such advance remaining unpaid amounts to at least ten per cent (10%) of the aggregate outstanding principal amount of the Bonds at such time.

##### **5.15.1 Inspection of Documents**

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

- 1) Trust Agreement;

- 2) Registry and Paying Agency Agreement; and
- 3) Articles of incorporation and by-laws of the Bank

## **5.16 MEETINGS OF BONDHOLDERS**

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

In respect of any matter presented for resolution that affect the rights and interests of only the holders of a particular Tranche or Series of Bonds, only such Bondholders of the particular Series or Tranche will be considered for quorum and approval purposes.

### **5.16.1 Notice of Meetings**

Meetings of the Bondholders may be called by: (1) the Bank, or (2) the Majority Bondholders (reckoned on the basis of the Register of Bondholders as of the date on which notice to the Registrar is given), by giving written instructions to issue a notice of such meeting to the Trustee, which instructions must include the proposed time, place and (in reasonable detail) purpose of the meeting.

The Trustee shall no later than the Business Day immediately following its receipt of notice from the Majority Bondholders of a request for a meeting, send a copy of such notice to the Bank by personal delivery together with information on the total amount of the Bonds required to reach the threshold for Majority Bondholders and, whether or not based on its calculations, the request for the meeting was signed by the Majority Bondholders. The Bank shall promptly and in no event later than five (5) Business Days from its receipt of such notice from the Trustee, deliver written notice to the Trustee confirming whether or not it agrees with the determination that the Bondholders calling the meeting constitute the Majority Bondholders.

If the Bank is the party calling the meeting or has confirmed that it agrees with the determination that the Bondholders calling the meeting constitute the Majority Bondholders, the Trustee shall, within twenty (20) days of its receipt of such instructions or confirmation, cause the publication of the notice received from the Bank or the Majority Bondholders (as applicable) of such meeting to the Bondholders (with a copy to the Bank, if the Bank is not the party calling for such meeting) in accordance with the provisions of “Notice to the Bondholders” above, which notice shall state the time and place of the meeting and the purpose of such meeting in reasonable detail. The date of the meeting shall not be more than forty-five (45) days nor less than fifteen (15) days from the date such notice is issued. All reasonable costs and expenses incurred by the Trustee for the proper dissemination of the requested meeting shall be reimbursed by the Bank within ten (10) days from receipt of the duly supported billing statement.

### **5.16.2 Failure of the Trustee to Call a Meeting**

In case at any time the Bank or the Majority Bondholders (reckoned on the basis of the Register of Bondholders as of the date on which instructions to call a meeting are given to the Trustee) requested the Trustee to call a meeting of the Bondholders by written notice setting forth in reasonable detail the purpose of the meeting, and the Trustee shall not have issued, in accordance with the notice requirements, the notice of such meeting within twenty (20) days after receipt of such request, then the Bank or the Majority Bondholders may determine the time and place for such meeting and may call such meeting by issuing notice thereof in accordance with the provisions of “Notice of Meetings” above.

For the avoidance of doubt, the Trustee shall not be liable for any failure to call a meeting notwithstanding the receipt of instructions to do so from the Bank or the Majority Bondholders, save when such failure is due to willful default or gross negligence.



### ***Quorum***

The presence of the Majority Bondholders, personally or by proxy, shall be necessary to constitute a quorum to do business at any meeting of the Bondholders. For the avoidance of doubt, it shall be the responsibility of the party calling the meeting to determine whether or not a quorum has been achieved (based on a list of the registered Bondholders as of the Business Day immediately preceding the meeting, as certified by the Registrar), and the Trustee shall not have any obligation to determine compliance with quorum requirements.

For the avoidance of doubt, only such Bondholders of the particular Series or Tranche shall be considered for quorum and approval purposes.

#### **5.16.3 Procedure for Meetings**

- 1) The Bank or the Bondholders calling the meeting, as the case may be, shall, in like manner, move for the election of the chairman and secretary of the meeting.
- 2) Any meeting of the Bondholders duly called may be adjourned from time to time for a period or periods not to exceed in the aggregate of six (6) months from the date for which the meeting shall originally have been called and the meeting as so adjourned may be held without further notice. Any such adjournment may be ordered by persons representing a majority of the aggregate principal amount of the Bonds represented at the meeting and entitled to vote, whether or not a quorum shall be present at the meeting.

#### **5.16.4 Voting Rights**

To be entitled to vote at any meeting of the Bondholders, a person shall be a registered holder of the particular Series or Tranche of Bonds holding the meeting, or a person appointed by an instrument in writing as proxy by any such holder as of the date of the said meeting. The only persons who shall be entitled to be present or to speak at any meeting of the Bondholders (of such particular Series or Tranche) shall be the persons entitled to vote at such meeting and any representatives of the Bank and its legal counsel.

#### **5.16.5 Voting Requirement**

All matters presented for resolution by the Bondholders in a meeting duly called for the purpose shall be decided or approved by the affirmative vote of the Majority Bondholders (of such particular Series or Tranche). Any resolution of the Bondholders which has been duly approved with the required number of votes of the Bondholders as herein provided shall be binding upon all the Bondholders and the Bank as if the votes were unanimous. A Bondholder shall have such number of votes as the amount of Bonds (of such particular Series or Tranche) held.

For the avoidance of doubt, only the vote of such Bondholders of the particular Series or Tranche subject of the meeting will be considered for approval purposes.

#### **5.16.6 Role of the Trustee in Meetings of the Bondholders**

The party calling the meeting of the Bondholders (of a particular Series or Tranche) may make such reasonable regulations as it may deem advisable for such meeting, in regard to the appointment of proxies by registered Bondholders of the particular Series or Tranche of Bonds, the election of the chairman and the secretary, the appointment and duties of inspectors of votes, the submission and examination of proxies, certificates and other evidences of the right to vote and such other matters concerning the conduct of the meeting as it shall deem fit. Proof of ownership of the particular Series or Tranche of Bonds shall be based on a list of the registered Bondholders (of a particular Series or Tranche) as of the Business Day immediately preceding the meeting, as certified by the Registrar.

### **5.16.7 Amendments**

The Bank and the Trustee may amend these Terms and Conditions or the Bonds without notice to any Bondholder but with the written consent of the Majority Bondholders. However, without the consent of each Bondholder affected thereby, an amendment may not:

- 1) reduce the amount of Bondholder that must consent to an amendment or waiver;
- 2) reduce the rate of or extend the time for payment of interest on any Bond;
- 3) reduce the principal of or extend the Maturity Date of any Bond;
- 4) impair the right of any Bondholder to receive payment of principal of and interest on such Bondholder's Bonds on or after the due dates therefore or to institute suit for the enforcement of any payment on or with respect to such Bondholders;
- 5) reduce the amount payable upon the redemption or repurchase of any Bond under the Terms and Conditions or change the time at which any Bond may be redeemed;
- 6) make any Bond payable in money other than that stated in the Bond;
- 7) subordinate any Bond to any other obligation of the Bank;
- 8) release any Bond interest that may have been granted in favor of the Bondholders;
- 9) amend or modify the Payment of Additional Amounts, Taxation, the Events of Default of the Terms and Conditions or the Waiver of Default by the Bondholders; or
- 10) make any change or waiver of this Condition.

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

### **5.16.8 Evidence Supporting the Action of the Bondholders**

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

### **5.16.9 Non-Reliance**

Each Bondholder also represents and warrants to the Trustee that it has independently and, without reliance on the Trustee, made its own credit investigation and appraisal of the financial condition and affairs of the Bank on the basis of such documents and information as it has deemed appropriate and that he has subscribed to the Issue on the basis of such independent appraisal, and each Bondholder represents and warrants that it shall continue to make its own credit appraisal without reliance on the Trustee. The Bondholders agree to indemnify and hold the Trustee harmless from and against any and all liabilities, damages, penalties, judgments, suits, expenses and other costs of any kind or nature against the Trustee in respect of its obligations hereunder, except for its gross negligence or willful misconduct.

### **5.17 GOVERNING LAW**

The Bond Agreements are governed by and are construed in accordance with Philippine law.

#### **5.17.1 Dispute Resolution**

Any legal action or proceeding arising out of, or connected with, the Bonds and the Trust Agreements shall be brought exclusively in the proper courts of Makati City or Pasig City, each of the parties expressly waiving any other venue.

#### **5.17.2 Waiver of Preference**

The obligations of the Bank to the Bondholders created under the Bond Agreements and the Bonds shall not enjoy any priority of preference or special privileges whatsoever over any other unsecured, and unsubordinated obligations of the Bank. Accordingly, whatever priorities or preferences that the Bond Agreements or the Bonds may have conferred in favor of the Bondholders or any person deriving a right from them under and by virtue of Article 2244, paragraph 14 of the Civil Code of the Philippines are hereby absolutely and unconditionally waived and renounced, provided, however, that should any creditor to the Bank hereinafter have a preference or priority over amounts owing under their respective agreements as a result of a notarization, and the Bank has not either procured a waiver of this preference to the satisfaction of the Bondholders and the Trustee or equally and ratably extended such preference to the Bondholders, then the waiver given hereunder is automatically withdrawn and deemed not given. For the avoidance of doubt, this waiver and renunciation of the priority or preference under Article 2244, paragraph 14 of the Civil Code of the Philippines shall not be deemed to have been given by any of the other parties to the Bond Agreements, including the Lead Arrangers, Selling Agent, Registrar and Paying Agent, in their capacities as such.

## **SECTION 6. USE OF PROCEEDS**

The net proceeds from the Bonds Program shall be used to extend term liabilities, expand funding base, support business expansion plans, and for other general corporate purposes.

## SECTION 7. CAPITALISATION AND INDEBTEDNESS OF THE BANK

The following table sets out the consolidated capitalisation and indebtedness of the Bank as of 31 December 2024. The information has been derived from the Audited Consolidated Financial Statements. This table should be read in conjunction with the Bank's Financial Statements included elsewhere in this Offering Circular.

	As of 31 December 2024 (audited)
	( ₱ millions)
<b>Indebtedness</b>	
Deposit liabilities.....	676,322.8
Bills payable .....	162,256.4
Notes and bonds payable .....	57,565.6
Other liabilities .....	53,228.6
Total liabilities .....	949,373.4
<b>Capital Funds</b>	
Common stock.....	33,164.0
Additional paid-in capital .....	64,367.6
Surplus free.....	97,521.6
Surplus reserves.....	3,277.8
Net unrealised fair value losses on investment securities .....	(1,766.5)
Re-measurements of defined benefit plan.....	(1,615.1)
Other reserves .....	258.2
Total capital funds attributable to the Bank's stockholders.....	195,207.6
Non-controlling interests .....	860.0
Total capital funds .....	196,067.6
<b>Total capitalisation and indebtedness<sup>(1)</sup> .....</b>	<b>1,145,441.0</b>

Note(s):

- As of 31 December 2024, the Bank had total outstanding commitments and contingent accounts of ₱787.3 billion, which includes trust department accounts (₱101.1 billion), inward bills for collections (₱19.0 billion) and others (₱91.5 million).

## SECTION 8. SELECTED CONSOLIDATED INFORMATION

The following selected financial information has been derived from the audited consolidated financial statements of the Issuer and its subsidiaries as of and for the financial years ended 31 December 2022, 2023 and 2024 (the **Audited Consolidated Financial Statements** or **Financial Statements**). The Audited Consolidated Financial Statements have been prepared in accordance with PFRS. The selected financial information set out below does not purport to project the consolidated results of operations or financial position of the Bank for any future period or date.

Investors should read the following summary of consolidated financial and other data relating to the Bank in conjunction with the Financial Statements and the related notes included elsewhere in this Offering Circular. See “Index to Financial Statements”.

### 8.1 CONSOLIDATED STATEMENTS OF INCOME

Amounts are in ₱ millions, except per share data

	For the year ended 31 December		
	2022	2023	2024
	audited	audited	audited
<b>Interest Income on</b>			
Loans and other receivables.....	36,004.7	59,219.1	63,082.4
Investment securities at amortised cost and FVOCI <sup>(1)</sup>	12,489.7	15,620.2	16,078.7
Cash and cash equivalents .....	1,000.2	2,160.2	2,656.8
Trading securities at FVTPL <sup>(2)</sup> .....	203.8	194.4	493.4
Interbank loans receivable and SPURRA.....	826.4	1,367.8	1,428.8
	50,524.8	78,561.7	83,740.1
<b>Interest Expenses on</b>			
Deposit liabilities.....	6,021.7	15,788.2	12,493.4
Bills payable and other liabilities.....	5,601.7	10,798.0	13,218.4
	11,623.4	26,586.2	25,711.8
<b>Net Interest Income</b> .....	38,901.4	51,975.5	58,028.3
<b>Provision for Credit Losses</b> .....	4,068.5	14,040.8	19,598.7
<b>Net Interest Income after Provision for Credit Losses....</b>	34,832.9	37,934.7	38,429.6
<b>Other Income</b>			
Gains on sale of investment securities at amortised cost	100.2	-	-
Gains (losses) on trading and investment securities at FVTPL and FVOCI.....	(181.4)	918.7	1,536.3
Service charges, fees and commissions.....	7,111.8	10,886.0	13,415.6
Miscellaneous .....	6,268.5	6,997.7	6,569.2
	13,299.1	18,802.4	21,521.1
<b>Total Operating Income</b>	48,132.0	56,737.1	59,950.7
<b>Other Expenses</b>			
Salaries and employee benefits.....	10,003.2	13,558.2	14,120.1
Taxes and licences .....	4,110.2	5,942.0	6,095.7
Depreciation and amortization.....	1,860.4	2,666.5	2,841.7

	For the year ended 31 December		
	2022 audited	2023 audited	2024 audited
Occupancy .....	1,026.9	1,164.2	1,172.9
Miscellaneous .....	14,347.1	21,557.4	20,037.1
	31,347.8	44,888.3	44,267.5
<b>Profit before Tax</b> .....	16,784.2	11,848.8	15,683.2
<b>Income Tax Expenses</b> .....	4,039.5	2,644.2	3,653.5
<b>Net Profit</b> .....	12,744.7	9,204.6	12,029.7
Attributable to:			
Bank's stockholders.....	12,600.7	9,072.2	11,930.0
Non-controlling interests .....	144.0	132.4	99.7
<b>Net Profit</b> .....	12,744.7	9,204.6	12,029.7
<b>Basic and Diluted Earnings per Share</b>	<b>₱4.95</b>	<b>₱3.06</b>	<b>₱3.75</b>

Note(s):

- 1) **FVOCI** refers to fair value through other comprehensive income.
- 2) **FVTPL** refers to fair value through profit or loss.

## 8.2 CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Amounts are in ₱ millions, except per share data

	As of 31 December		
	2022 audited	2023 audited	2024 audited
<b>Resources</b>			
<b>Cash and Other Cash Items</b> .....	9,891.5	10,439.1	10,143.8
<b>Due from Bangko Sentral ng Pilipinas</b> .....	94,610.3	82,643.7	82,146.6
<b>Due from Other Banks</b> .....	46,240.0	27,263.4	33,890.5
<b>Interbank Loans Receivable and SPURRA</b> .....	23,554.0	25,411.1	1,878.9
<b>Trading and Investment Securities</b>			
At fair value through profit or loss .....	8,653.5	5,805.7	10,295.1
At amortised cost.....	244,627.9	314,479.2	323,412.9
At fair value through other comprehensive income .....	79,761.8	36,974.8	39,512.7
<b>Loans and Other Receivables — Net</b> ....	479,626.6	526,145.8	522,655.8
<b>Investment in Subsidiaries and Associates</b> .....	123.4	37.7	35.8
<b>Bank Premises, Furniture, Fixtures and Equipment — Net</b> .....	8,706.6	10,193.2	11,001.2
<b>Investment Properties</b> .....	8,258.9	8,592	9,790.0
<b>Goodwill</b> .....	53,992.6	53,992.6	53,992.6
<b>Other Resources - Net</b> .....	34,839.1	43,164.8	46,685.1
<b>Total Resources</b> .....	1,092,886.2	1,145,143.4	1,145,441.0
<b>Liabilities and Capital Funds</b>			
<b>Deposit Liabilities</b>			
Demand .....	232,081.8	233,282.7	231,378.0



	As of 31 December		
	2022	2023	2024
	audited	audited	audited
Savings .....	195,020.7	195,864.3	215,542.9
Time .....	281,201.4	283,421.4	229,401.9
Long-term negotiable certificate of deposits.....	3,000.0	-	-
Total Deposit Liabilities.....	711,303.9	712,568.4	676,322.8
<b>Bills Payable</b> .....	132,846.8	155,287.9	162,256.4
<b>Notes and Bonds Payable</b> .....	51,644.4	50,493.6	57,565.6
<b>Other Liabilities</b> .....	48,877.3	51,168.0	53,228.6
<b>Total Liabilities</b> .....	944,672.4	969,517.9	949,373.4

### Capital Funds

Capital funds attributable to the Bank's stockholders:

Common stock .....	21,421.1	23,537.7	33,164.0
Treasury stock .....	-	(2.1)	-
Additional paid-in capital .....	47,949.9	57,769.4	64,367.6
Stock Dividends Distributable.....	-	6,355.1	-
Surplus free .....	90,799.4	88,719.2	97,521.6
Surplus reserves .....	2,453.0	2,542.8	3,277.8
Net unrealised fair value losses on investment securities...	(14,057.6)	(2,195.1)	(1,766.5)
Remeasurements of defined benefit plan .....	(1,227.7)	(1,627.7)	(1,615.1)
Other reserves .....	31.0	(108.1)	258.2
<b>Total capital funds attributable to the Bank's stockholders</b> .....	147,369.1	174,991.2	195,207.6
<b>Non-controlling interests</b> .....	844.7	634.3	860.0
<b>Total Capital Funds</b> .....	148,213.8	175,625.4	196,067.6
<b>Total Liabilities and Capital Funds</b> .....	1,092,886.2	1,145,143.4	1,145,441.0

## 8.3 SELECTED FINANCIAL RATIOS

Amounts are in ₱ millions unless otherwise stated

	As of 31 December		
	2022	2023	2024
Return on average assets <sup>(1)</sup> .....	1.3%	0.8%	1.1%
Return on average equity <sup>(2)</sup> .....	9.7%	5.6%	6.4%
Net interest margin <sup>(3)</sup> .....	4.8%	5.5%	6.0%
Cost-to-income ratio <sup>(4)</sup> .....	60.1%	63.4%	55.6%
Operating Expenses .....	31,347.8	44,888.3	44,267.5
Net Interest Income.....	38,901.4	51,975.5	58,028.3
Other Income .....	13,299.1	18,802.4	21,521.1
Gross Loans-to-deposits <sup>(6)</sup> .....	66.7%	73.4%	77.9%
Gross loans <sup>(5)</sup> .....	474,770.0	522,721.2	526,580.3
Loans and discounts .....	459,972.1	509,344.0	512,958.4

	As of 31 December		
	2022	2023	2024
Customers' liabilities under acceptances and trust receipts .....	11,616.9	10,945.0	11,152.2
Bills purchased .....	3,181.0	2,432.2	2,469.7
Total deposit liabilities.....	711,303.9	712,568.4	676,322.8
Tier I capital adequacy ratio <sup>(7)</sup> .....	11.3%	13.9%	15.6%
Total capital adequacy ratio <sup>(8)</sup> .....	13.0%	15.7%	17.3%
Total equity-to-total assets <sup>(9)</sup> .....	13.6%	15.3%	17.1%
Total equity.....	148,213.8	175,625.4	196,067.6
Total assets .....	1,092,886.2	1,145,143.4	1,145,441.0

Notes:

- 1) Net income (attributable to Parent Bank's stockholders) divided by average of the beginning and end of year balances of the total resources for the period indicated.
- 2) Net income (attributable to Parent Bank's stockholders) divided by average of the beginning and end of year balances of the total capital funds (attributable to Parent Bank's stockholders) for the period indicated.
- 3) Net interest income divided by average interest-earning assets. Average interest-earning assets is composed of due from BSP, due from other banks, interbank loans receivable and securities purchased under repurchase agreement, trading and investment securities, and loans and other receivables. Average interest-earning assets is calculated on the basis of the daily balances of such assets.
- 4) Total operating expenses (which consist of salaries and employee benefits, taxes and licenses, depreciation and amortization, occupancy and miscellaneous expenses) divided by the sum of net interest income and other income.
- 5) Sum of loans and discounts, customers' liabilities under acceptances and trust receipts, and bills purchased.
- 6) Total gross loans divided by total deposits.
- 7) Tier I capital divided by total risk-weighted assets (computed using Basel III standards).
- 8) Total capital divided by total risk-weighted assets (computed using Basel III standards).
- 9) Total capital funds divided by total resources.

## SECTION 9. DESCRIPTION OF THE BANK

### 9.1 OVERVIEW

Union Bank of the Philippines (the **Bank**) is a publicly-listed universal bank whose principal shareholders are Aboitiz Equity Ventures, Inc. (**AEV**), Social Security System (**SSS**) and The Insular Life Assurance Company, Ltd. (**Insular Life**). It distinguishes itself through technology and innovation, a unique branch sales and service culture, and centralised backroom operations. The Bank leverages on technology and its agile culture to meet customers' changing and diverse needs and continuously enhance customer experience. Its unique branch sales and service culture ensures efficient and quality service as well as mitigating operational risk. The Bank's distinct centralised backroom operations enable it to provide responsive, scalable, and secure transaction processing.

As of 31 December 2024, the Bank had a total of 383 branches and offices nationwide, which includes the branches and offices of its subsidiaries, City Savings, Fair Bank, and Bangko Kabayan, and 603 ATMs.

The Bank's consolidated total resources amounted to ₱1,092.9 billion, ₱1,145.1 billion, and ₱1,145.4 billion as of 31 December 2022, 2023, and 2024, respectively. As of 31 December 2024, the Bank ranked seventh in terms of total resources among publicly-listed universal banks in the Philippines based on consolidated reports filed with the Philippine SEC. Consolidated net profit was ₱12.7 billion, ₱9.2 billion, and ₱12.0 billion for the years ended 31 December 2022, 2023, and 2024, respectively.

As of 31 December 2024, the Bank's Tier 1 and total CAR remained greater than the minimum regulatory requirements, at 15.6 per cent. and 17.3 per cent, respectively. For the year ended 31 December 2024, the Bank's return on average equity, return on average assets and cost-to-income ratios were 6.4 per cent., 1.0 per cent., and 55.6 per cent., respectively. Based on consolidated quarterly reports filed with the Philippine SEC for the year ended 31 December 2024, the Bank's return on average equity ranks ninth, and its cost-to-income ratio was the seventh lowest, among publicly-listed universal banks in the Philippines.

The authorised capital stock of the Bank is comprised of 5,030,785,238 common shares with a par value of ₱10.0 each and 100,000,000 preferred shares with a par value of ₱100.0 each. As of 31 December 2024, there were 3,316,405,584 issued and outstanding common shares, fully paid. As of the date of this Offering Circular, no preferred shares have been issued. Based on the closing price of ₱36.0 of its shares on the PSE on 27 December 2024, the Bank had a market capitalisation of ₱119.4 billion.

The Bank offers a broad range of products and services, which include deposit and related services; corporate and middle market lending, consumer finance loans such as mortgage, auto, and salary loans, and credit cards; investment, treasury, and capital markets; trust and fund management; remittance, and cash management. In addition, the Bank offers estate planning solutions and a global and diversified multi-asset fund to its high-net-worth and ultra-high-net-worth clients through its partnership with Lombard Odier, and various life insurance products through its bancassurance partnership with Insular Life. These services are delivered through the Bank's branches and digital banking channels such as UnionBank Online and The Portal.

The Bank's Retail Banking Centre offers deposit and bancassurance products as well as remittance services to retail customers comprising individuals, small businesses and sole proprietorships. The Bank's Consumer Finance Centre offers three main product lines: home loans, credit cards, and auto loans. The Bank's Transaction Banking Centre offers cash management products and services, including custom-tailored disbursement, remittance, collection, and information portal solutions, to corporate customers. As part of the Bank's Transaction Banking Centre, the Bank's SME Business Group provides various solutions and loans designed for SMEs. The Bank's Corporate Banking Centre offers deposit and cash management products and loan offerings to large corporate customers, including top tier corporations, conglomerates, and large multinational companies. The Bank's Commercial Banking Centre provides loan products and services to the middle market segment. TISG provides a wide range of trust products and services as well as alternative investment opportunities through its investment fund products. The Bank's treasury, funding and trading businesses are undertaken by its Treasury Group. For the

year ended 31 December 2024, the Bank's consumer and mass market, corporate and commercial banking, and treasury and others business segments accounted for 80.4 per cent., 15.4 per cent. and 4.2 per cent., respectively, of the Bank's net revenues (net interest income and other income) amounting to ₱79.5 billion. As of 31 December 2024, the Bank's consumer loans comprised 61 per cent. of its total loan portfolio (outstanding balance of the Bank's consumer loans divided by the outstanding balance of its total loans), compared to 21 per cent. for the Philippine banking industry (outstanding consumer loans of the industry divided by the outstanding balance of total loans, net of interbank loans), according to BSP.

To achieve its goal, the Bank built a digital enterprise architecture, improved the agility of its organisations, trained its employees and engaged other stakeholders to build an innovative culture. These have enabled the Bank to make innovations such as the transformation of its customer touchpoints. In August 2017, the Bank launched UnionBank Online, its retail mobile banking app that offers a wide range of banking services. In 2020, the Bank included in this mobile banking app new features such as digital account opening which allows customers to open accounts and perform KYC procedures without the need to go to a branch, mobile cheque deposit which allows users to deposit cheques simply by taking a photo with the app, and a function named "send money to remittance centres" which allows customers to send money from their account to over 13,000 cash outlets nationwide. In May 2019, the Bank introduced its new business banking platform for corporates called The Portal, giving corporate clients access to their various accounts and the ability to perform various transactions digitally, including electronic funds transfer and remote mobile cheque deposits. The Bank also transformed its physical touchpoints and, in 2017, launched The ARK, the first fully digital bank branch in the Philippines. As of 31 December 2024, the Bank had transformed 193 branches to digital branches. The Bank has also launched three self-service hubs called UBNK.

The Bank is concurrently expanding its reach to the underbanked or underserved population (i.e., the portion of the adult population that are not necessarily unbanked, but actually serviced by the fragmented institutions and relying on face-to-face delivery and traditional brick-and-mortar banking infrastructure). The Bank's approach is to deliver services using innovative technologies to service these segments in a more cost-efficient manner. The Group's business expansion in this area is led by City Savings together with the Bank's other rural bank subsidiaries and UnionDigital.

To prepare for a future where banking will be an embedded experience, the Bank established UBX PH, a company which focuses on the building digital ecosystems and platforms and provision of technological services. Since its inception, UBX PH has launched several of its digital platforms. UBX PH also invested in selected financial technology firms that are aligned with its strategy of embedding financial services in platforms. At the same time, it provided technology support to several of the Bank's pioneering digital initiatives in the financial services space, for example, the Bank's offering of a blockchain-based cross-border remittance transaction tool, cryptocurrency ATMs, and a stablecoin named "PHX".

## 9.2 HISTORY

The Bank, originally known as "Union Savings and Mortgage Bank", was incorporated in the Philippines on 16 August 1968. On 12 January 1982, it was given a licence to operate as a commercial bank. The Bank's common shares were listed on the PSE on 29 June 1992 and shortly after, it was granted a licence to operate as a universal bank on 15 July 1992. The Bank became the 13th and youngest universal bank in the country in only its tenth year of operation as a commercial bank.

The Bank's principal shareholder groups include AEV, a shareholder of the Bank since 1988 and the public holding company of the Aboitiz group of companies (the **Aboitiz Group**), one of the largest conglomerates in the Philippines with interests in power generation and distribution, financial services, real estate, food manufacturing and industrial production; SSS, a Government-owned and controlled corporation that provides social security to workers in the private sector; and Insular Life, one of the leading and largest Filipino-owned life insurance companies in the Philippines.

The Bank has undertaken two mergers, with the International Corporate Bank in 1994 and the International Exchange Bank in 2006.

Over the years, the Bank has garnered a record-breaking amount of awards and recognition including “Marketing Company of the Year” from Agora; “Asia Trailblazer Institution of the Year” from Retail Banker International; “Best Bank Transformation in South East Asia” from Global Banking and Finance (2020 and 2021); “Best Bank for Customer Experience in South East Asia 2021” from Global Brands Magazine; six-time “Digital Bank of the Year” from The Asset Triple A (2018- 2023); “Most Recommended Retail Bank in Asia Pacific 2021” from BankQuality.com; “Fastest Growing Fintech Company, South East Asia 2021” for UBX from Global Banking and Finance; five-time “Best Retail Bank in the Philippines” from The Asian Banker; back-to-back “Best Bank for SMEs” (2020-2021) from Asiamoney; “SME Bank of the Year - Philippines 2021” from Asian Banking and Finance; back-to-back “#1 Best Service Domestic Bank in the Philippines 2020-2021” from the Asiamoney Cash Management Survey; “Asia’s Best Bank Transformation” from Euromoney; “Asia-Pacific Retail Bank of the Year” from Retail Banker International; “Top 2 Most Helpful Banks in Asia Pacific during COVID-19” from BankQuality.com; “Asia Pacific Digital Trailblazer” for UnionBank; three-time “Best Digital Bank Philippines” from Asiamoney and International Finance Magazine; “Employer of the Year” awards from Stevie Awards for Great Employers, Asian Banking and Finance, and HR Asia; “Domestic Retail Bank of the Year Philippines” (2022) from Asian Banking and Finance Retail Banking; “SME Bank of the Year” (2021) (Gold) from Efma SME Banking Awards; “Winner: Best Transaction Bank for CX” (2022) from The Digital Banker’s Digital CX Awards; “Best Bank in the Philippines” (2023) from Euromoney Real Estate Awards; “Asia Trailblazer Institution of the Year” (2023) from Retail Banker International; “Best Retail Bank in Southeast Asia” (2023) from Capital Finance International; “Most Recommended Bank in the Philippines” (2023) from The Asian Banker; “Best Private Bank” (2023) from The Digital Banker; “Best Digital Bank in Southeast Asia” (2022) from Capital Finance International; back-to-back “Best Bank for Customer Experience in Southeast Asia” from Global Brands Magazine; and “Highest Commercial Payment Volume Growth” and “Highest Active Credit Cards” (2022) from Visa Annual Awards.

### **9.3 RECENT DEVELOPMENTS**

#### **9.3.1 Syndicated Loans**

On 12 September 2022, the Bank executed a U.S.\$ 358 million Facility Agreement for a Syndicated Loan facility which was fully drawn by 25 November 2022.

The Bank also raised U.S.\$358 million from a three-year syndicated loan with 15 lenders on 25 November 2022. Due to positive market feedback, its size was raised from the original launch size of U.S.\$150 million. The proceeds were used to refinance the Bank’s maturing USD loans and existing USD bonds and fund its general corporate purposes. The Hongkong and Shanghai Banking Corporation Limited and MUFG Bank, Ltd. were the mandated lead arrangers, underwriters, and bookrunners on the transaction.

On 20 March 2025, BSP approved the Bank’s request to exercise its voluntary redemption option on its ₱6.8 Billion unsecured subordinated debt eligible as tier 2 capital (the **Tier 2 Notes**) scheduled on 24 May 2025 (the **Voluntary Redemption Option Date**). All noteholders on record have been notified of the said voluntary redemption option prior to the Voluntary Redemption Option Date in accordance with the Manual of Regulations for Banks and the terms and conditions of the Tier 2 Notes.

#### **9.3.2 Capital Markets Transactions**

On 23 July 2021, the International Finance Corporation (IFC) invested in U.S.\$150 million social bonds issued by the Bank under its sustainable finance framework.

On 16 May 2022, the Bank completed the stock rights offering of 617,188,705 Common Shares to eligible shareholders as of the record date of 11 April 2022 at a ratio of one offered Common Share for every 2.4707 existing Common Shares, at the share price of ₱64.81.

On 4 January 2023, the Bank offered for subscription of 210,970,464 rights shares by way of a stock rights offering to eligible shareholders at the proportion of one rights share for every 10.1536 existing common shares held as of the record date at the offer price of ₱56.88 per rights share.

On 4 December 2023, the Bank issued and listed on the PDEX its ₱18.2 billion of Peso-denominated fixed rate bonds via a dual tranche offering. The 1.5Y Series F Bonds due 2025 raised a total of ₱10.3 billion and carry an interest rate of 6.6% per annum while the 3Y Series G Bonds due 2026 raised a total of ₱7.8 billion and carry an interest rate of 6.7% per annum.

On 31 May 2024, the Bank issued approximately 327.1 million common shares to eligible shareholders as of the record date of 9 May 2024 at a ratio of 1 right share for every 9.1382 existing common shares.

On 13 June 2024, the International Finance Corporation invested in ₱5.8 billion social bonds issued by CitySavings Bank.

## 9.4 COMPETITIVE STRENGTHS

The Bank considers the following to be among its principal competitive strengths:

### 9.4.1 Widely acknowledged digital trailblazer in the region with an expanding customer base

Embarking on its digital transformation journey since 2016, the Bank has been at the forefront of redefining the digital banking experience and is recognised as a trailblazer in both the Philippines and Southeast Asia. In pursuit of co-creating innovative solutions for a better world and through its “Tech Up, Pilipinas” programme, the Bank leverages on technology to promote inclusive prosperity that ultimately propels the nation to become a G20 country by 2050. Fueled by this commitment, the Bank has made relentless efforts in pursuit of cutting-edge digitalisation to embed itself as a banking services platform by creating a hassle-free banking experience for customers and democratising banking for more people in the Philippines, in the belief that no one should be excluded from financial services. Given the proven resiliency and agility of the organisation, the Bank is in a unique position today to fast track its growth and transformation plans ahead of competitors, repositioning itself as a digitally transformed bank and experimenting with new business models of the future.

Since its inception, the Bank has always been among the first<sup>1</sup> to embrace technological innovations to enhance its operations and empower its customers. These innovations extend across a number of areas and initiatives, and outlined below are a few of these:

- First among its peers to launch online banking portals
- Implemented the first fully digital account opening in the country
- Launched the first fully digital branch in the Philippines (**The ARK**)
- First Philippine bank to use blockchain-based tokenised fiat for cross-border remittance
- First universal bank to successfully issue the first-ever Peso-denominated digital bond offering using blockchain technology
- Launched the first commercial bank-backed stablecoin (**PHX**)
- First publicly-listed universal bank to be granted a digital banking licence (**UnionDigital**)
- First universal bank to establish a technology platform (**UBX**)

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<sup>1</sup> The Bank identifies its peer set to be the top nine largest publicly-listed universal banks by total assets based on BSP ranking as of 31 December 2024, including BDO Unibank, Inc. (**BDO**), Bank of the Philippine Islands (**BPI**), Metropolitan Bank & Trust Company (**MBT**), China Banking Corporation (**CHIB**), Philippine National Bank (**PNB**), Rizal Commercial Banking Corporation (**RCBC**), Security Bank Corporation (**SECB**), and East West Banking Corporation (**EW**). Large government-owned banks are not considered including Land Bank of the Philippines, and Development Bank of the Philippines.

For this foresight and ability to implement new strategies, execute a digital transformation as well as deliver a new customer experience, the Bank has been recognised by many industry observers including:

- Best Retail Bank in Southeast Asia 2023 from Capital Finance International
- Six-time Digital Bank of the Year (2018-2023) from The Asset Triple A
- Most Recommended Bank in the Philippines 2023 from The Asian Banker
- Four-time Best Retail Bank in the Philippines from The Asian Banker

In pursuing its goal of setting the benchmark for modern banking in the Philippines, the Bank continues to invest in technology that enables it to deliver enhanced products and services to its existing customers and attract new customers, catering to their evolving and diverse demands along the full lifecycle in an agile, innovative and cost-efficient manner. For example, the Bank launched the remote mobile cheque deposit service on its online platforms in 2019, namely the corporate cash management platform “The Portal” and retail mobile banking application “UnionBank Online”, allowing customers to deposit cheque payments without the need to be physically present at the branch. Such innovative cash management solutions were well-received by customers, in particular, those facing mobility restrictions during the COVID-19 pandemic, allowing the Bank to retain and acquire customers in the absence of considerable spending normally associated with a large branch network.

The Bank is now reaping the fruits of its efforts in digital transformation and the numbers reflect this development. As of 31 December 2024, the Bank had served approximately 17.3 million total customers. A large amount of customers (approximately 8.2 million) were acquired efficiently through the government communities which represent an anchor component of the Bank’s customer acquisition ecosystem. Additionally, the Bank leveraged on the improved productivity of its relationship managers and its digital customer acquisition to grow its retail base. The success in its digital customer acquisition will in turn provide valuable experience to help improve digital engagement of customers from government communities. As of 31 December 2024, the Bank’s digital customers on UnionBank Online reached approximately 5.0 million, representing nine times growth from approximately 723,000 as of 31 December 2019. Customers who opened accounts digitally through the application without going into a branch expanded significantly from approximately 24,000 as of 31 December 2019, to approximately 2.5 million as of 31 December 2024.

#### **9.4.2 Positioned to become a leading retail-focused bank driven by strategic growth partnerships and acquisitions**

The Bank has undergone a balance sheet transformation over the last three years as it pivoted towards the retail segment. This strategic shift has not only reshaped the Bank’s loan portfolio but also increased the share of recurring income (net interest and fee-based sources). From just 35% as of 31 December 2019, the Bank’s consumer loan portfolio has grown to 61% of gross loans as of 31 December 2024, nearly three times the industry average of 21%. This shift reflects the Bank’s strategy to expand its reach across the Philippine population – from the mass and underserved segments to the high-net-worth clients. The benefits of the retail-focused business model are reflected in the Bank’s net interest margin which ranked the second highest among publicly listed universal peer banks as of 31 December 2024, leading its major peers.

Philippines is the thirteenth largest country in the world by population size. The country has a total population of approximately 121 million, with around 77 million<sup>2</sup> comprising of the working population. Notably, there are about 10.7 million individuals aged 15 to 17 who will be entering the workforce in the coming years—further expanding the country’s labor force and long-term economic potential. According to BSP estimates, 56%<sup>3</sup> of the working population is currently banked, which leaves an estimated 34 million Filipinos still unbanked and representing a significant underserved segment. The demographic dividend of Philippines is marked by accelerated economic growth from the productivity of an expanding workforce which can lead to steadily rising

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<sup>2</sup> Ratio and proportion to PSA 2020 Statistics data: <https://psa.gov.ph/content/age-and-sex-distribution-philippine-population-2020-census-population-and-housing>

<sup>3</sup> Taken from 2023 BSP financial inclusion report



savings and investments. Additionally, the Philippines continues to have one of the lowest GDP per capita levels in the ASEAN region, currently at ₱256,832<sup>4</sup>. The country's demographic profile reflects a developing consumer market, opportunities for financial inclusion and retail lending growth. These opportunities reinforce the Bank's strategic focus on the retail segment.

The Bank's strategy is to use innovative technologies to democratize access to financial services and be able to expand its reach to general retail segments, thereby enabling it to compete with bigger peers in the Philippines. One manifestation of this digital advantage can be seen in the Bank's transaction banking products such as The Portal, UPay, and Remote Checkwriter. These allow the Bank to onboard institutional clients without necessarily building a large lending relationship. In addition to the direct business that the Bank gets from its institutional clients, it also gets access to their ecosystems which could then also feed into the retail base.

This transformation into a retail-focused bank has been achieved through a combination of organic growth and strategic acquisitions. Mortgage growth has been driven organically, supported by strong partnerships with property developers, while Salary Loans, including the Department of Education (**DepEd**) payroll segment, have been developed through CSB. Growth in Credit Cards was both organic as well as through the landmark acquisition of Citibank's consumer business, which allowed the Bank to leapfrog competition and scale rapidly in the mass affluent and salaried segments.

Today, the Bank has one of the most diversified retail loan portfolios in the country, with the Credit Cards, Mortgage and DepEd Payroll Loans segments comprising 34.1 per cent., 21.5 per cent. and 27.3 per cent. of the total consumer book, respectively. Combined, these three segments account for 82.8 per cent. of the Bank's retail loans, boosting the Bank to become the 4th largest in terms of consumer loan portfolio among publicly listed banks in the country. The Bank's total consolidated gross loan book stood at ₱526.6 billion as of 31 December 2024, with the retail portfolio now making up the majority. Growth in the Citi-acquired portfolios and CSB salary loans anchored this shift.

CSB, the thrift banking subsidiary of the Bank, is the largest lender of teachers' salary loans among private lending institutions as of 31 December 2024, and is tasked by the Bank to drive its business expansion in the mass market segment together with UnionDigital. As of 31 December 2024, City Savings has been servicing over 300,000 public school teachers, securing 15.8 per cent. market share as measured by estimated loan balances using remittance data.

With a goal to become the leading mass market bank in the Philippines, City Savings has successfully offered other loan products such as motorcycle loans and diversified into the mainstream consumer lending market. As of 31 December 2024, City Savings has established dealer partnerships with 1,346 motorcycle stores nationwide, of which 489 are exclusive, rapidly ramping up its motorcycle loan business. Total motorcycle loan portfolio stands at ₱5.7 billion as of 31 December 2024. City Savings' motorcycle loan portfolio accounted for 17.9 per cent. market share in the motorcycle financing market as measured by outstanding loan balances among banking institutions as of 31 December 2024.

Recently the Bank has expanded its retail franchise through a strategic acquisition. The Citi Acquisition, which was completed on 1 August 2022, was a game-changer that leapfrogs the Bank's credit card business to the top four in the Philippine market as measured by total gross billings as of 31 December 2024, further boosting the Bank's retail loan contribution to 61 per cent. as of 31 December 2024, compared to 58 per cent. as of 31 December 2023. This acquisition enables the Bank to diversify its loan portfolio into higher yielding products that complement its existing strength in home loan, salary loan, and other consumer loans.

Integration of Citibank's consumer business added approximately 1 million (data as of 30 June 2022) credit card customers and depositors, representing a substantial expansion of the Bank's customer base. The Bank migrated

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<sup>4</sup> Taken from: <https://www.imf.org/external/datamapper/profile/PHL>

the Citibank clients into the UBP system in March 2024. As of 31 December 2024 (i.e., after the completion of the migration), the Acquired Citi Business contributed ₱115.1 billion or 21.8 per cent. of the Bank's loan balances, ₱48.2 billion or 7.1 per cent. of the Bank's deposit balances and ₱155.1 billion or 56.3 per cent. of the Bank's assets under management. The assets under management of the Acquired Citi Business, with much in the higher-end segment, is reinforcing the Bank's presence in the wealth management market and enhancing recurring income driven by higher asset management fee income. The Bank's strong brand as an industry-leading retail bank and digital innovator was very much accepted by Citibank's retail customers, evidenced by a low attrition rate of close to zero from credit card customers and less than 1 per cent. from depositors between the deal announcement on 23 December 2021 and the completion on 1 August 2022. To monetise on this superior customer base and unlock synergies from the acquisition, the Bank has progressed to execute cross-selling opportunities. For example, the Bank launched a pilot programme to cross-sell Acquired Citi Business' personal loans to the Bank's middle-income customers. Other opportunities include cross-selling the Bank's home loans, vehicle loans and SME loans to the acquired Acquired Citi Business' customers. Notably, extending InstaPay services to the acquired Acquired Citi Business' customers will potentially uplift the Bank to being the largest sending bank in the Philippine market.

The Bank is the first and only publicly listed universal bank in the Philippines to receive a digital banking license, the Bank established a wholly owned digital bank branded UnionDigital Bank, which commenced its banking operations on 18 July 2022. The Bank is introduced UnionDigital with a reimagined community banking approach that delivers cost-effective customer acquisition and a new level of customer experience.

With the BSP setting out its clear goal to bring 70% of Filipino adults into the banked population and increase the volume of online payments to 50% by 2023, the Philippine banking sector became an ideal market ripe for digital banking disruption. UnionDigital is uniquely positioned to capitalize on this trend and excel among peers leveraging on the Bank's large ecosystem, financial expertise and technological excellence. It stands out among the licensed digital banks in the Philippines with seamless integration of the governance and trust of a regulated bank and the mindset and agility of a technology company, led by management with extensive financial technology experiences. Empowered by the Bank's disruptive technologies, UnionDigital aspires to amplify customer lifetime value through easy-to-use services, hyper-personalized offerings, and agile product iteration.

#### **9.4.3 Strong topline revenues and profitability derived from retail-focused business model and high operating efficiency**

In the period from 2015 to 2024, the Bank continues to perform above the industry average, with average return on average assets at 1.4 per cent. and average return on average equity at 10.7 per cent. as compared to the industry averages of 1.2 per cent. and 10.2 per cent., respectively, for that same period. Profitability is mainly derived from its retail-focused business model that has greater exposure to high yielding loan products such as salary loans, mortgage loans, and credit cards. With this, the Bank generated a highly competitive net interest margin (**NIM**) of 6.0 per cent. for the year ended 31 December 2024, as compared to the industry average of 4.3 per cent. The Bank's NIM continues to exhibit an upward trend due to the Bank's steady shift toward more consumer loans. As of 31 December 2024, the Bank's consumer loans stood at ₱316.5 billion, significantly increasing 6.4 per cent. from ₱ 297.3 billion as of 31 December 2023. We expect this expansion in consumer loans to be beneficial for the Bank moving forward, especially as the interest rate environment becomes more favorable.

The Bank's topline revenues reached an all-time high in 2024, continuing a three-year record-breaking streak. This growth is anchored on the Bank's deliberate shift to a retail-focused business model. Alongside this shift in loan mix, the Bank also strengthened its funding base. As of 31 December 2024, the Bank's CASA ratio (equal to CASA to total deposits) stood at 66.1 per cent., a 17.1 percentage points improvement from its 31 December 2020 level of 49.0% and 23.1 percentage points improvement from its 31 December 2019 level of 43 per cent.

As a result, the Bank now ranks among the top performers in profitability metrics, with the second highest Net Interest Margin (**NIM**) and Fees-to-Assets ratio among publicly listed banks. In 2024, NIM reached 6.0 per cent., well above the 4.3 per cent. industry average, while the Fees-to-Assets ratio (equal to service charges, fees and

commission for the period divided by average of the beginning and end of year balances of the total resources for the period indicated) climbed to 1.2 per cent., nearly double the 0.6 per cent. industry benchmark. Even after factoring in higher credit costs from consumer expansion, the Bank continues to deliver strong Net Credit Margins (NCM, computed as net interest income plus other income (without trading income) less provision for losses) / Interest Earning Assets). At the Group level, NCM held steady at 5.9 per cent. in 2022 and 2023, before rising slightly to 6.0% in 2024. Meanwhile, Parent NCM showed marked improvement, increasing from 5.4 per cent. in 2022 and 5.3 per cent. in 2023 to 6.1 per cent. in 2024—outperforming the industry average of 4.6 per cent. The Bank’s credit card portfolio continues to perform well, even after post-integration adjustments from the Citi consumer business. In 2024, Net Credit Margin for total cards is at 13.7 per cent. compared to 2023 of 15.5 per cent.

The Bank implemented an “asset-light” business model of selective expansion of its physical branch network. Its digital distribution channels, including 193 digital-only The ARK branches and various digital platforms, have become a go-to choice for customers who desire seamless banking experiences and competitive offerings. The Bank has remained among the most cost-effective banks in the industry. In the period from 2015 to 2024, the Bank’s cost- to-income ratio average was at 56.0 per cent., as compared to the industry average of 59.8 per cent. Moving forward, the Bank believes that the continued improvement of its digital banking services and capabilities will bring a seamless customer experience and encourage customers to transact using its digital channels, rather than through its physical network.

#### **9.4.4 Leverage innovation and cash management to support healthy CASA alongside a diversified funding profile**

The Bank’s ability to use technology to develop advanced banking solutions has enabled it to capture and secure a loyal customer base, as well as to establish relationships with the suppliers, distributors, and dealers, and even further down to executives, employees, and customers, of its anchor corporate clients. This unique customer acquisition strategy has enabled the Bank to attain considerable scale without the capital investment and expenses attached to branch expansion. The Bank develops innovative products and services, including customized corporate cash management solutions, in a cost-efficient manner by leveraging on technology and its agile culture of development.

The Bank continues to scale its retail business by leveraging on an ecosystem approach. This strategy allows the Bank to acquire retail customers at low cost while steadily improving its CASA base and funding mix. The Bank’s Transaction Banking Centre offers tailored solutions for corporate and government clients across disbursement, remittance, collections, and reporting. These solutions are delivered primarily through The Portal, the Bank’s cash management platform launched in 2019. By embedding into the financial operations of its anchor clients, the Bank is able to capture transaction flows, secure CASA deposits and positions the Bank to price loans more competitively. This ecosystem-led approach allows the Bank to indirectly acquire retail customers through wholesale relationships. Of the Bank’s total 17.3 million retail customers as of 2024, approximately 9.3 million (53.7 per cent.) were onboarded via anchor institutional and government.

At the same time, UB Online enables frictionless account opening, daily banking, and digital engagement. This is evidenced by the 93.9x growth in digital account openings which grew from 24,000 in 2019 to 2.5 million in 2024 as well as the 6.9x jump in daily active customers from 723,000 to 5.0 million over the same period. The UnionBank app is now one of the highest-rated and most downloaded banking apps in the country. This allows the Bank to deliver seamless onboarding, cross-sell, and day-to-day engagement across its retail base. While 61 per cent. of the Bank’s loan portfolio is retail-focused, its deposit base is evenly split, with 49per cent. institutional and 51 per cent. retail. Compared to industry, where 79 per cent. of loans are institutional, yet 48 per cent. of deposits come from retail clients. This means the Bank is funding its retail loan book with a stable base of institutional deposits. This reflects the strength of the Bank’s ecosystem strategy, where institutional relationships generate both CASA and growth opportunities across segments.

The Bank has kept its average cost of deposits relatively low by significantly improving its CASA ratio over the last four years. As of 31 December 2024, the Bank's CASA ratio stood at 66.1 per cent., a 17.1 percentage points improvement from its 31 December 2020 level of 49.0 per cent. and 23.1 percentage points improvement from its 31 December 2019 level of 43.0 per cent.. Meanwhile, CASA stood at ₱446.9 billion as of 31 December 2024, witnessing a 4-year compound annual growth rate (CAGR) of 14.6 per cent. from its 31 December 2020 level of ₱258.7 billion. The improved share of CASA deposit funding is reflective of the Bank's strong retail focus in recent years, which is further strengthened by the acquisition of Citigroup's retail assets. Furthermore, the Bank is majority funded by deposits as demonstrated by its healthy gross loans-to-deposits ratio, which stood at 77.9 per cent. as of 31 December 2024, increasing 16.9 percentage points from 61.0 per cent. as of 31 December 2020.

The Bank continues to have access to a broad range of funding sources which it balances according to its business needs. While the Bank's total deposits have declined year-on-year in 2024, this can be attributed to a decline in the high-cost deposits as well as shift towards alternative sources of funding such as interbank borrowings, repurchase agreements, and currency swaps. The Bank also continues to explore issuances in the domestic and foreign debt markets as opportunities arise, thereby improving overall funding cost efficiencies. In summary, the Bank's strategic decision to fund its assets through alternative low-cost funding sources coupled with synergies from its cost-efficient digital channels allows it to offer clients attractive rates and investment opportunities, retain a loyal customer base and keep its funding requirements in check.

#### **9.4.5 Solid capitalization to support growth backed by strong support from major shareholder**

The Bank's capital position has significantly improved over the past two years. As of 31 December 2024, the Bank's Common Equity Tier 1 (CET1) ratio stood at 15.6 per cent. and CAR stood at 17.3 per cent., compared to 11.3 per cent. and 13.0 per cent., respectively, as of 31 December 2022, and reflecting steady capital build-up since the acquisition of the Citi's consumer business in 2022. The Bank's capital ratios, which are comfortably above the BSP's minimum CET1 ratio and CAR of 8.5 per cent. and 10 per cent., respectively, are now ahead of industry average and one of the highest compared to listed universal banks in the Philippines.

The Bank believes that it has a robust capital base to support its growth, which is further augmented by its major shareholder Aboitiz Equity Ventures (AEV), one of the largest conglomerates in the Philippines with interests in power generation and distribution, financial services, real estate, food manufacturing and industrial production. AEV has been the single largest shareholder of the Bank since 1988. As of 31 December 2024, the Bank was the second highest contributor to AEV's EBITDA. The Bank believes that its business segments and product lines effectively support the business objectives of other Aboitiz Group companies in the areas of, among others, loans and other financial services.

The Bank enjoys various synergies with the other members of the Aboitiz Group, such as new business opportunities for joint project development, cross-selling of products to customers and shared marketing networks, and knowledge and expertise with respect to key economic sectors and business industries. As the sole banking business platform and a key strategic business segment of the Aboitiz Group, the Bank enjoys strong shareholder support from AEV. Key officers of the Aboitiz Group are members of the Bank's Board and they actively participate in the Bank's various committees. The Bank's ability to raise capital in successive years demonstrates the consistent and strong support of its shareholders. Notably, each capital raise since 2022 was oversubscribed, reflecting strong shareholder support and confidence in the Bank's strategic direction. For instance, on 31 May 2024, the Bank successfully raised ₱10 billion from its Stock Rights Offering (SRO), which was fully subscribed to its principal shareholders – AEV, the Social Security System, and Insular Life. The strong response from the Bank's shareholders to the SRO further underscored their confidence and strong support in the Bank's strategic growth initiatives. Proceeds from the capital raises have been aligned with the Bank's strategy to accelerate retail growth and digital transformation. In 2022, funds were primarily used to acquire the Citi consumer banking business. In 2023 and 2024, additional capital was raised to support UnionDigital's growth and fund projected loan growth.

#### **9.4.6 Experienced management team and agile corporate culture to assure swift execution of strategic initiatives**

The Bank has an experienced management team with a track record for successfully executing business plans and achieving results in a fast and adaptive manner. The Bank's management team and senior executive officers (consisting of officers at the senior vice president level and above) have, on average, over 15 years of experience in, among others, the banking and financial services, fast-moving consumer goods, telecommunications, engineering and technology sectors. In addition, the Bank's management team and senior executive officers have a broad range of experience in their respective areas with some of the largest and most recognised institutions in the Philippines and in the region, as well as with global offices of multinational firms, thus bringing together both local and global exposure and allowing the Bank to apply international best practices in the Philippine market.

A key strength of the Bank's is its ability to retain top talent. Led by the management team, the Bank has pioneered in diversifying its talent pool with a combination of domestic and foreign employees and bringing in talents from various verticals. Following the acquisition of the Citi consumer business, the Bank successfully retained its senior leaders, who now head the Bank's Consumer Banking Group. Their expertise in managing large-scale, global retail operations has been instrumental in strengthening the Bank's consumer business. The Bank was also one of the first in the banking industry that implemented new roles such as data scientists to enhance its digital capabilities.

The Bank promotes a culture that values agility, innovation, and cross-functional collaboration, enabling it to respond swiftly to market opportunities and challenges. The Bank has built a reputation for being at the forefront of digital innovation in the Philippine banking industry. Its management has consistently led initiatives that combine technology with customer-centric design to deliver differentiated financial solutions. For example, the Bank developed and launched remote mobile check deposit for corporates in 2020, allowing clients to deposit checks without visiting a branch. This product is one of many that demonstrates how the Bank uses innovation to improve customer experience and reduce cost-to-serve.

The Bank's agile development culture and investment in technology have also supported a unique customer acquisition strategy—embedding itself into the ecosystems of its corporate clients. Through this approach, the Bank has been able to acquire not only corporate relationships but also engage their suppliers, distributors, employees, and customers. This created scalable networks without the need for aggressive branch expansion.

### **9.5 BUSINESS STRATEGIES**

The key elements of the Bank's strategy are as follows:

#### **9.5.1 Further strengthen the Bank's capital.**

The Bank will further strengthen its capital by focusing on stable recurring income to reduce mark-to-market movements in its qualifying capital. In doing so, the emphasis is to further build the Bank's core earning asset base. The Bank aims to expand its customer loan books, particularly on the higher-yielding consumer and SME segments. Earning asset expansion shall be supported by continued growth in deposits, with emphasis on low-cost current account and savings account deposits (**CASA**). The Bank expects the Citi Acquisition to support this strategy through increasing its higher-yielding consumer loan portfolio, net interest margins and overall profitability in the long run.

#### **9.5.2 Complement the Bank's branch network with digital channels.**

The Bank aims to complement its targeted branch network with optimal RM-to-branch ratio by leveraging on its transformed digital channels to attract and service customers. For example, the Bank's mobile app is envisioned to offer the majority of the services a customer can avail of at a branch, including account opening and cheque deposits. Similarly, RMs are able to attract customers outside of branches and virtually through digital account opening. UnionDigital started operations in the second half of 2022 and operates as a branchless entity, utilising its mobile application as the primary customer touchpoint; this approach enabled it to attract deposits and facilitate

loans. The Bank believes that this strategy will allow it to expand its customer base without the costs attached to a large physical network. Furthermore, this strategy is aligned with the changes in customer behavioural patterns with a shift towards digital banking.

#### **9.5.3 Deepen strategic relationships and develop new corporate relationships.**

The Bank aims to expand, diversify, and deepen its customer base by introducing new and customised products and services (including cash management and other e-commerce enabling products) that cater to the needs of a wider range of customers. One of the drivers of this strategy is to leverage on the Bank's corporate relationships by attracting customers within its corporate clients' ecosystems. The Bank generates a portion of its retail loans from its corporate relationships through workplace arrangement programmes for employees of its corporate clients. The Bank also offers financing products to the communities of suppliers and dealers surrounding the corporate entities that utilise the Bank's cash management systems. Lastly, the Bank also plans to extend the distribution of its foreign exchange and treasury products to its corporate clients.

#### **9.5.4 Grow new partnerships through technology.**

The Bank engages financial technology partners to leverage on technological advances and enhance customer experience across its banking products and services. In addition, the Bank will capitalise on City Savings, UnionDigital and PETNET to increase its reach to mass market customers. The Bank will continue to partner with companies and institutions in various industries and sectors to provide unique product offerings.

#### **9.5.5 Further improve the Bank's processes.**

The Bank aims to reduce its operating costs while improving its productivity and quality of service. To achieve this objective, the Bank intends to continue streamlining its operations and processes, and minimising costs by eliminating redundancies, automating processes, and institutionalising a quality of service throughout the Bank's operations.

The Bank intends to extend its ability to customise banking solutions to its retail customers and to build capacity for retail volume through a digital back office. The Bank plans to provide its customers with an end-to-end transaction fulfilment experience through, among others, self-service functionality at its branches and convergent banking. This will be supplemented by increased access through the integration of the Bank's channels. The Bank believes that these initiatives will reduce operating costs while serving a larger customer base. To support the utilisation of the Bank's electronic channels, the Bank also implemented various information technology and security measures such as the use of behavioural analytics for targeting and risk underwriting, the publication of its application programming interfaces (APIs), and the establishment of a 24/7 security centre.

Further, the Bank intends to (i) shift from a "cloud-first" to a "cloud-only" strategy, which the Bank believes will allow it to scale on demand without proportionately increasing cost, (ii) increase the speed of its software delivery cycle which the Bank believes will increase efficiencies on IT spending, and increase quality and security, and (iii) optimise and expand the use of artificial intelligence, which the Bank believes will drive the next phase of its digital transformation and will pave the way to a hyper-personalised banking experience, streamline the Bank's data processes and help detect and combat financial crime.

#### **9.5.6 Create a UnionBank experience for the Bank's customers.**

The Bank will continue to distinguish itself from its competitors by establishing a unique brand image in strategic markets. It will continue to position itself as a challenger of conventions to deliver smarter solutions to its customers. The Bank aims to provide a personal and efficient service to its customers through a team focused on smart banking which would help increase the loyalty of its customers.

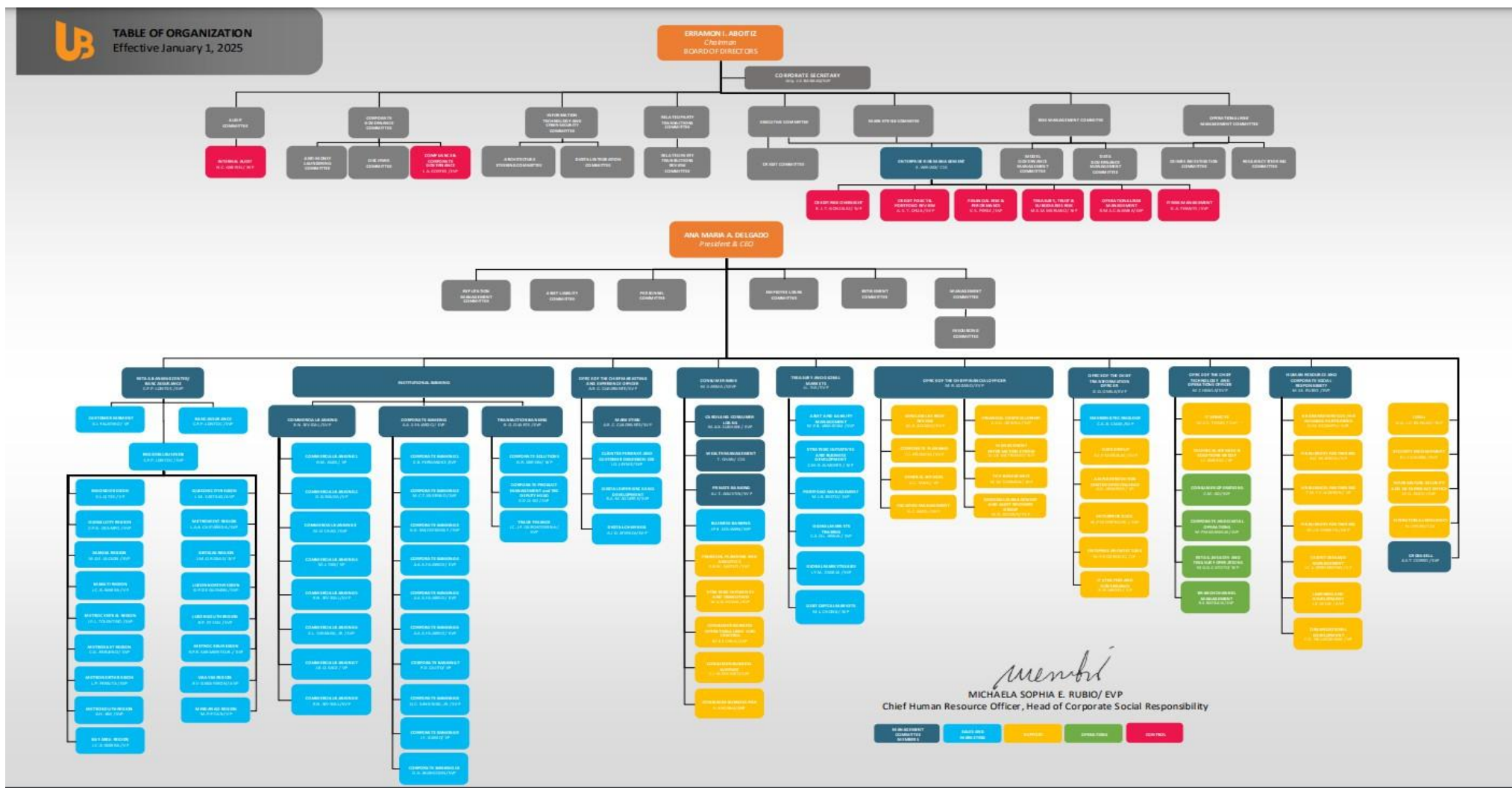
#### **9.5.7 Extend to mass market segments for financial inclusion.**

The Bank aims to expand its reach into the unbanked and underbanked segments by offering financial services in a cost-efficient manner, enabled by technology. The Bank intends to replicate the operating model of City Savings in order to lower its cost of operations in serving the mass market, mainly through salary and motorcycle loans. Lastly, the Bank plans to leverage on UnionDigital to offer digital banking services with lower cost to serve while still delivering a superior customer experience.



## 9.6 ORGANIZATIONAL STRUCTURE

The following chart sets out an overview of the functional organizational structure of the Bank and its key divisions as of 31 December 2024:



## **9.7 BUSINESS OF THE BANK**

### **9.7.1 Overview**

The Bank's core businesses are retail banking, consumer finance, corporate banking, commercial banking (comprising middle-market banking), cash management, trust banking, and treasury, funding and trading (involving management of the Bank's liquidity and funding requirements and handling of transactions in the financial markets covering foreign exchange, fixed income trading and investments, and derivatives). In addition, the Bank offers estate planning solutions and a global and diversified multi-asset fund to its high-net-worth and ultra-high-net-worth clients through its partnership with Lombard Odier, and various insurance products through its bancassurance partnership with Insular Life.

### **9.7.2 Retail Banking**

The Bank's retail banking activities principally involve offering deposit products and services to retail customers comprising individuals, small businesses and sole proprietorships. The Bank's deposit products and services are also accessible to customers through the Bank's internet banking portal and convergent banking mobile application, "UnionBank Online", where customers can, among others, open accounts, check balances, pay bills, transfer funds to banks and remittance centres on a real-time basis.

#### **9.7.2.1 Deposit Products**

The Bank offers a comprehensive range of deposit products that contain features that are tailored to each segment's financial profile and other characteristics. The Bank's deposit products consist principally of the following:

- 1) Peso demand deposits, which do not accrue interest or accrue interest at a rate that is lower than the rate applicable to time deposits and allow customers to deposit or withdraw funds at any time;
- 2) Peso savings deposits, which allow customers to deposit and withdraw funds at any time and accrue interest at a rate set by the Bank;
- 3) Peso time deposits, which generally require customers to maintain a deposit for a fixed term during which interest accrues at a fixed rate and any withdrawal before maturity may only be made by paying penalties;
- 4) U.S. dollar savings deposits, which require customers to maintain a deposit of at least U.S.\$500 and allow customers to withdraw funds at any time and accrue interest at a rate set by the Bank;
- 5) U.S. dollar access deposits, which require customers to maintain a deposit of at least U.S.\$10,000 and allow customers to withdraw funds at any time and accrue interest at a rate set by the Bank;
- 6) U.S. dollar time deposits, which generally require customers to maintain a deposit of at least U.S.\$1,000 for a fixed term during which interest accrues at a fixed rate and any withdrawals before maturity may only be made by paying penalties; and
- 7) other foreign currency time deposits, which allow customers to deposit funds denominated in Pounds Sterling, Euro, Japanese Yen or Australian dollars, generally requiring the customer to maintain a minimum deposit amount (which varies depending on the currency of the deposit) for a fixed term during which interest accrues at a fixed rate and any withdrawals before maturity may only be made by paying penalties.

The Bank offers varying interest rates on its deposit products depending on market interest rates, the rate of return on its earning assets and interest rates offered by other commercial banks. Deposits generated by retail banking, including subsidiaries, as of 31 December 2022, 2023 and 2024 amounted to ₱416.8 billion, ₱479.4 billion and ₱478.6 billion, respectively, representing 58.6 per cent., 67.3 per cent. and 70.8 per cent., respectively, of the Bank's total deposits on a consolidated basis.

The Bank offers "Access & Business Class" priority banking accounts, which are targeted specifically at, and available only to, affluent retail customers with a total relationship balance of ₱1,000,000 (or its equivalent in other currencies). The "Business Class" priority banking account offers special services, such as dedicated service counters at selected branches of the Bank, financial advisory services, preferential pricing on its retail banking products, and a wide range of electronic banking services, including internet and mobile phone banking services.

#### **9.7.2.2 Marketing**

Direct marketing and sales of the Bank's products and services are undertaken through RMs. The Bank believes that such an arrangement, as opposed to placing branch managers in charge of marketing, improves efficiencies, removes potential conflicts inherent in having the same person handling both sales and operations, and maximises sales. In addition, this increases the depth of relationships established with customers, and helps create marketing and sales opportunities at each of its branches.

As of 31 December 2024, the Bank had a total of 243 RMs.

#### **9.7.3 Transaction Banking**

The Bank's Transaction Banking Centre offers cash management products and services which consist of a wide range of custom-tailored disbursement, remittance, collection, and information portal solutions. The Transaction Banking Centre delivers its cash management products primarily through its online banking platform, The Portal, which was launched in May 2019.

The Bank is able to specifically design and alter the interface of each cash management product to meet the specific needs of its customers with the end objective of helping them increase productivity, achieve cost efficiency, and generate savings.

The Bank's electronic payment products and services are utilised by several Government agencies, including the BIR, the SSS, the PhilHealth, the Home Development Mutual Fund or Pag-IBIG and the BoC. To provide corporate customers with seamless filing and payment convenience, the Bank launched OneHub.Gov, the first single web platform offering in the Philippines that enables customers to make online payments, and file salary loan payments and tax returns electronically with government agencies, including the BIR, the SSS, PhilHealth, Pag-IBIG, and the BoC.

In 2013, the Bank was accredited as a settlement bank by the Securities Clearing Corporation of the Philippines and the PSE which enabled broker firms to open trading accounts with the Bank for the settlement of trade transactions.

In 2019, the Bank teamed up with IBM to build the Bank's Financial Supply Chain on the IBM Blockchain Platform. The Financial Supply Chain is designed to allow the Bank to access transaction records on a shared ledger on a near real-time basis, allowing the Bank to develop and offer products for SMEs within its ecosystem.

As of 31 December 2022, 2023 and 2024, the Bank's transaction banking activities accounted for 38.6 per cent., 39.8 per cent., and 46.1 per cent. of the Bank's total deposits, respectively.

#### **9.7.4 Consumer Finance**

The Bank offers various types of consumer finance products to individuals, which consist principally of residential mortgage loans, auto loans, quick loans, and credit cards.

The Bank reviews various factors in pricing its loan products, including the capacity of the borrower to repay the loan, estimated delinquency rates, funding costs, expenses related to making loans and a target spread. Loan terms are differentiated according to factors such as a customer's financial condition, loan purpose, collateral and the quality of relationship with the Bank.

The following table shows a breakdown of the consumer banking portfolio of the Bank, on an unconsolidated basis (i.e. not including its subsidiaries), as of the periods indicated.

	As of 31 December		
	2022	2023	2024
	(Percentages)		
Residential mortgage loans.....	39.3%	37.8%	33.9%
Auto loans.....	1.3%	1.4%	1.3%
Credit card business.....	47.6%	51.6%	53.8%
Others .....	11.8%	9.2%	11.0%
Total.....	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Note:

- 1) The percentages in this table do not include City Savings, UnionDigital, and Bangko Kabayan's consumer banking portfolio.

#### **9.7.4.1 Residential Mortgage Loans**

A majority of the Bank's residential mortgage loans are extended to property buyers in the Philippines who intend to occupy the premises. All of the Bank's residential mortgage loans are secured by a first mortgage on the property. In addition, the Bank generally requires residential mortgage borrowers to have an equity interest. The loan-to-value ratio typically ranges from 60.0 to 70.0 per cent. and the tenor of residential mortgage loans typically ranges from five to 20 years. Interest rates are re-priced periodically based on prevailing market rates. Fixed rate options are also offered to provide flexibility to borrowers.

As of 31 December 2024, the Bank's total residential mortgage loans amounted to ₱68.8 billion. The Bank plans to grow its residential mortgage loan portfolio by actively marketing in partnership with leading property developers. The Bank has also begun to expand its brokers channel to provide customers more venues to apply for residential mortgage loans, in addition to any of the Bank's branches. See "— Business of the Bank — Branch Network".

When a borrower falls in arrears with its mortgage payments, it can either agree to a voluntary disposition of the property to the Bank or the Bank may commence foreclosure proceedings. Once the mortgaged collateral is foreclosed, the Bank classifies such collateral as ROPA and thereafter, it is managed by the Bank's Asset Recovery Group. See "— Business of the Bank — Asset Recovery".

#### **9.7.4.2 Auto Loans**

The Bank generates new auto loans through its branch network, existing bank depositors and network of RMs. Auto loans are also generated through the Bank's corporate relationships such as the workplace arrangement programmes for employees of corporate clients, and fleet programmes for corporate clients' vehicle requirements.

All of the Bank's auto loans are secured by a chattel mortgage over the vehicles being purchased. In addition to being subject to the Bank's internal credit checks, the Bank generally requires the borrower to make a minimum down payment of 20.0 per cent. of the purchase price for a new car, and 25.0 to 30.0 per cent. in the case of a second-hand car. The tenor of auto loans generally ranges from 12 to 60 months with interest rates fixed over the life of the loan. When an instalment payment falls 90 days past the due date, the Bank may commence foreclosure proceedings. Foreclosed cars are generally sold by the Bank through a public auction. See "— Business of the Bank — Asset Recovery".

As of 31 December 2024, the Bank's total auto loans amounted to ₱2.6 billion.

### **9.7.4.3 Credit Card Products**

The Bank's credit cards were launched in 1999. As a late entrant, the Bank adopted a segmentation strategy to gain market share. It used geographic, psychographic and behavioural variables to identify specific, unique and under-served market needs, and customised unique products for particular market segments.

The total credit card balance (net of reserves) as of 31 December 2024 amounted to ₱109.2 billion. Beginning in 2010, the credit card group of the Bank shifted acquisition strategies to focus on the premium card segment, which resulted in an increase in the profitability of the portfolio. The Bank continues to acquire new customers through a wholesale approach by looking at co-branding opportunities and developing products for specific segments of the market. The Bank also continues to market its credit cards digitally through its website and UnionBank Online. Interest charged on revolved outstanding balance and deferred payments/instalments is 3.5 per cent. monthly effective interest rate which is computed based on the unpaid balance from the previous statement while annual fees range from ₱1,500.0 to ₱5,000.0.

As of 31 December 2024, the Bank had more than 1.9 million cards in force. Its products include the UnionBank Classic, Gold and Platinum (Visa and MasterCard) cards. It has more than 50 co-brand/affinity credit cards in partnership with various retail, educational, medical, financial, services, life and non-life insurance, and airline companies and institutions to provide unique offers to each partner's customer base. In 2016, the Bank, together with GetGo, the rewards programme of Cebu Pacific Air (**Cebu Pacific**), and Visa, launched the Cebu Pacific GetGo cards. This fleet of debit and credit cards enables the holder to earn GetGo points from dining, shopping, and online purchases. Accumulated points are automatically transferred to the holder's GetGo account which may be used to redeem Cebu Pacific flights. On 7 August 2020, the Bank introduced a co-branded credit card with the e-commerce site Lazada. Cardholders earn Lazada credits through spending on the Lazada site and Lazada's strategic merchants.

The Bank's credit card business has expanded significantly as a result of the Citi Acquisition. The Acquired Citi Business offers a variety of credit cards including travel cards, rewards cards, cashback cards and others and has a large customer base. The Bank aims to, in the future, convert the Citi credit cards to cards under its own brand and offer cards with the same benefits and convenience. As a result of the Citi Acquisition which was completed on 1 August 2022, the number of the Bank's active credit card customers increased from approximately 305,000 to approximately 1.9 million as of 31 December 2024, making the Bank's credit card business rank fourth by gross billings, fifth by ending receivables and third by active card customer base in the Philippines as of the same date, according to the Bank's operating information and third-party market information.

### **9.7.5 Corporate Banking**

The Bank's corporate banking activities comprise principally of deposit and cash management products and loan offerings to large corporate customers. The customer accounts under this group belong to top tier corporations, conglomerates, and large multinational companies.

#### **9.7.5.1 Deposit Products**

The Corporate Banking Centre offers a comprehensive range of deposit products that target different segments of the corporate market. To generate deposits and expand its corporate banking business, the Corporate Banking Centre is also focused in becoming the customers' main operating bank by meeting the cash management requirements of its top corporate customers by offering collection, disbursement and payroll solutions aside from the traditional deposit products and credit facilities. This initiative, in coordination with the Bank's Transaction Banking Centre, leverages the Bank's technological ability to customise its products and services to meet customer needs.

As of 31 December 2022, 2023 and 2024, the total deposits of the Bank's corporate customers amounted to ₱99.6 billion, ₱110.1 billion and ₱109.7 billion, respectively, representing 14.0 per cent., 15.4 per cent. and 16.2 per cent., respectively, of the Bank's total deposits.

### **9.7.5.2    *Loan Products***

The Bank provides a wide range of loan products and services to its corporate customers, including revolving credit lines, foreign currency loans, bills purchased, acceptances, trade finance facilities, project finance, term loans and corporate credit cards.

Most of the Bank's corporate clients are based in the Philippines and operate in various industries including real estate, power, and communications. The facilities offered to corporate customers include both secured and unsecured loan products, depending on the credit risks associated with a customer and its business. The Bank primarily provides short- to medium-term financing on a bilateral basis or participates in syndicated loans.

As of 31 December 2022, 2023 and 2024, the total loans made by the Bank to large corporate customers amounted to ₱131.1 billion, ₱133.7 billion and ₱130.4 billion, respectively, representing 27.6 per cent., 25.6 per cent., and 24.8 per cent. of the Bank's total loans. The Bank's largest industry were to other consumption, real estate activities and financial and insurance activities, representing 46.3 per cent., 17.5 and 6.8 per cent., respectively, of the Bank's total loan portfolio as of 31 December 2024.

### **9.7.6    *Commercial and SME Banking***

The Bank's Commercial Banking Centre provides loan products and services to customers from the middle market, SMEs, and individual entrepreneurs. The loan facilities provided to middle-market customers are predominantly composed of self-liquidating working capital facilities, which include promissory note lines, various discounting lines, and trade finance lines, among others.

The Bank believes that the development and expansion of its middle market and SME customer base is essential to its growth and success. The Bank plans to provide regional middle-market customers with convenient channels for addressing their borrowing and cash management requirements by offering a personalised and enhanced banking experience through loan services bundled with cash management, treasury, and trust banking products and services.

The Bank is also seeking to expand its middle-market customer base through its "Community Banking" programme. Under this initiative, the Bank leverages on its relationships with existing middle-market customers to identify their suppliers, customers, and other business relationships, and engage them as prospective clients.

As of 31 December 2024, the Bank had over 1,100 middle-market and SME banking customers with total loans amounting to ₱9.5 billion. Contingent liabilities, comprised of unused commercial letters of credit and outstanding guarantees issued, amounted to ₱6.8 billion as of the same date.

### **9.7.7    *Banking Subsidiaries***

The Bank has three banks as its subsidiaries: City Savings, Bangko Kabayan, and UnionDigital.

#### **9.7.7.1    *City Savings***

The Bank offers salary loan products principally through City Savings which include salary loans to public school teachers under the DepEd's APDS and to other government employees. The guidelines for the grant of salary loans to public school teachers are set out in a memorandum of agreement between the DepEd and City Savings.

In 2016, City Savings launched its Pensionado loans for GSIS and SSS pensioners. In 2019, City Savings entered the motorcycle financing market through its acquisition of PR Savings Bank. It has also expanded its salary loan clientele to include employees of state and private schools, companies, and government institutions.

For the years ended 31 December 2022, 2023 and 2024, City Savings' total gross loan portfolio amounted to ₱78.8 billion, ₱100.4 billion and ₱108.7 billion, respectively.

#### **9.7.7.2 *Bangko Kabayan***

Bangko Kabayan provides deposit products such as savings deposits for safekeeping of funds, time deposits that earns higher interest rate than savings, checking deposits that can be used by individuals or enterprises to support their personal or business requirements, Bibo Kid Savers savings deposits for children aged seven to 12, and basic savings deposits.

Bangko Kabayan offers various microfinance lending programmes to assist individuals (**Kabayan Loan**) or groups finance commencement of businesses (**Kapitan Loan**), house improvements (**Gabay Housing Loan**), educational expenses (**Educational Loan**) and Kabayan Plus loans for existing microfinance borrowers with excellent payment records and business that needs higher loans.

Bangko Kabayan offers SME loans to small and medium-sized enterprises for marketing and distribution of commodities, trading business, and manufacture of goods and to businesses in service industries. Bangko Kabayan offers agricultural loans for cultivation, development and improvement of agricultural land, raising poultry and livestock and improvement of fishpond and other development activities related to agriculture. Bangko Kabayan also offers housing loans to individuals for housing purposes and transport, vehicle and equipment loans as financing facilities for cars, trucks and equipment buyers.

Bangko Kabayan, FAIR Bank and Progressive Bank, Inc. (**PBI**) applied for the regulatory approvals to merge, with Bangko Kabayan as the surviving entity. On 21 March 2022, the 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 17 June 2022 and 12 September 2022, the banks received the consent from PDIC and approval of the BSP, respectively. On 13 July 2023, SEC approved the aforementioned merger. The merger resulted in an increase in the Group's ownership in Bangko Kabayan to 97.75 per cent. CSB's ownership in Bangko Kabayan remained at 49 per cent. while UIC's ownership in Bangko Kabayan increased to 23.79 per cent.

#### **9.7.7.3 *UnionDigital***

In July 2021, the Bank was one of the six entities granted permits by the BSP to operate a digital lender. In November 2021, the Bank received the Philippine SEC's approval for the incorporation of UnionDigital, its subsidiary to operate as a digital bank. UnionDigital commenced its operations on 18 July 2022.

UnionDigital is the Bank's principal digital instrument to reach a larger untapped retail segment frictionlessly and efficiently, differentiating itself from traditional banks who rely greatly on brick-and-mortar infrastructure. UnionDigital will partner with various ecosystems to offer financial services at flexible payment terms. UnionDigital's approach is to provide digital solutions to individuals and businesses to obtain the required financial resources.

#### **9.7.8 *Trust Banking – Unionbank Investment Management and Trust Corporation (UBIMTC)***

The Bank provides a wide range of trust products and services through its UBIMTC. UBIMTC is a full service trust banking subsidiary, which offers, among others, fund management, investment management services, escrow, custody, administratorship and collateral agency services, and stock and transfer agency services. In addition to offering trust services to corporate customers, UBIMTC provides retail customers with alternative investment opportunities through its investment fund products. The Bank believes that its fee-based income from such investment fund products is one of the key drivers of its recurring income.

The funds managed by UBIMTC are sourced from corporate and retail customers. As of 31 December 2024, the Bank managed 15 unit investment trust fund (**UITF**) products, which are primarily marketed to retail customers. The funds are geared towards long-term capital appreciation and are largely invested in fixed income securities of the Government and equity securities of financially sound corporations. As of 31 December 2024, total assets held in trust by UBIMTC amounted to ₱101.1 billion.



In November 2024, the Bank entered a deal with ATRAM for the merger of the trust business. In view of the BSP's approval of the proposed merger in April 2025, the Bank and ATRAM have formally signed and sealed their partnership. The merger will result in the Bank having a 27.5% ownership stake in ATR Asset Management Inc. (AAMI), while existing ATRAM shareholders will retain the remaining 72.5%. Simultaneously, AAMI will acquire 100% of UBIMTC, merging UBIMTC with AAMI's trust subsidiary, ATRAM Trust Corp.

### 9.7.9 Treasury, Funding and Trading

The Bank's treasury, funding and trading businesses are undertaken by its Treasury and Global Markets Centre, which also has the primary responsibility for managing the Bank's sources of funding, and ensuring that the Bank has adequate liquidity at all times. In addition, it manages the Bank's domestic and foreign currency-denominated investment instruments. The Treasury and Global Markets Centre actively engages in trading for its own proprietary account, as well as distribution of treasury products for individual and institutional investors who are customers of the Bank. It also engages in derivatives transactions for proprietary position-taking, to hedge the Bank's foreign exchange and interest rate risks, as well as to service the hedging requirements of its clients. The Treasury and Global Markets Centre is responsible for conducting and managing the Bank's foreign exchange business.

#### 9.7.9.1 Trading and Investment Securities

The Treasury and Global Markets Centre manages the domestic and foreign currency-denominated securities trading and investment portfolios of the Bank. As a Government Securities Eligible Dealer, the Bank has been an active participant in the trading of Government securities, which mainly consist of treasury notes. The Bank also invests in foreign currency-denominated sovereign, quasi-sovereign and corporate bonds to match its foreign currency-denominated liabilities in the form of foreign currency deposits and notes, thereby reducing its foreign exchange risks.

As of 31 December 2022, 2023 and 2024, the Bank's trading and investment securities amounted to ₱333.0 billion, ₱357.3 billion and ₱373.2 billion, respectively, accounting for 30.5 per cent., 31.2 per cent. and 32.6 per cent., respectively, of the Bank's consolidated total resources.

For the years ended 31 December 2022, 2023 and 2024, the Bank's interest income from trading and investments securities amounted to ₱12.7 billion, ₱15.8 billion and ₱16.6 billion, respectively, accounting for 25.1 per cent., 20.1 per cent. and 19.8 per cent., respectively, of its total interest income.

The following table sets out, as of the dates indicated, information relating to the Bank's total investment portfolio:

	As of 31 December		
	2022	2023	2024
	( ₱ millions)		
Government securities <sup>(1)</sup> .....	311,334.1	334,873.4	343,465.8
Other debt securities <sup>(2)</sup> .....	20,084.3	21,138.0	27,171.7
Total debt securities.....	331,418.4	356,011.4	370,637.5
Non-debt securities <sup>(3)</sup> .....	1,929.7	1,553.0	2,901.1
<b>Total</b> .....	333,348.1	357,564.4	373,538.6
Less: Allowance for impairment .	(304.9)	(304.7)	(318.0)
<b>Total</b> .....	333,043.2	357,259.7	373,220.6

Notes:

- 1) Comprised of Government bonds and other Government debt securities.
- 2) Comprised of all non-Government debt securities.
- 3) Comprised of equity securities and derivative assets.

#### **9.7.9.2 Derivatives**

In addition to generally authorised derivatives activities as a universal bank, the Bank has Type 2 and Type 3 derivatives authorities to engage in the trading of derivative instruments, such as currency and interest rate swaps, currency and interest rate forward contracts, financial futures, credit default swaps and options both for its proprietary and customers' accounts. Derivative transactions are entered into for the purpose of managing currency, interest rate, credit and liquidity risks.

#### **9.7.10 Asset Recovery**

The Bank's Asset Recovery Group is responsible for the remedial management, loan restructuring, and asset recovery activities of all business centres of the Bank. When the collateral provided by either retail or corporate borrowers is foreclosed, such collateral is classified as ROPA and is managed by the Bank's Asset Recovery Group. As of 31 December 2024, the Bank's ROPA amounted to ₱8.6 billion, comprised of the Bank's holdings in automobiles (₱318.7 million), chattels (₱8.6 million), and real properties (₱8.1 billion).

The Bank generally sells its real estate ROPA through property auctions and negotiated sales. Real estate ROPA is sold either for cash or on an instalment basis over a period of 15 years, and the Bank requires purchasers to make an initial down payment of at least 20 per cent. of the offered price. With respect to instalment payments that are classified as "sales contract receivables", the Bank generally charges an interest rate of 11.0 per cent. per annum for the entire 15-year period. Titles to the real estate ROPA remain with the Bank until it receives full payment of the purchase price. Upon default in the payment of any sales contract receivables instalment, the purchaser is deemed to forfeit all prior principal payments, while the remaining unpaid balance will be booked as ROPA. Once the Bank repossesses the real estate ROPA, the property is resold through auctions or negotiated sales.

For the year ended 31 December 2024, the Bank sold ₱595.9 million worth of real estate ROPA. Real estate ROPA sales settled in cash for the year ended 31 December 2024 amounted to ₱534.6 million, while the remainder was sold for payment on instalment basis.

#### **9.7.11 Branch Network**

As of 31 December 2024, the Bank had a total of 383 branches nationwide, which includes 193, 149, and 38 branches and offices of the Bank (on an unconsolidated basis), City Savings, and Bangko Kabayan, respectively. Customers can do over-the-counter and self-service transactions at any of the Bank's branches. High-volume transaction branches are provided with Transaction Assistant Portal, an in-house developed self-service innovation, which aims to facilitate faster processing time through paperless transactions and use of a card that stores bills payment and account information. The Bank's cheque verification system utilises the Philippine Clearing House Corporation's cheque images, which is instrumental in enabling fast and reliable cheque clearing.

The Bank provides 24-hour banking services through its 603 ATMs as of 31 December 2024, 431 of which are located in its branches while 172 are in off-site locations, such as office buildings of selected key clients, hospitals, and entertainment/shopping centres. Customers are given access to the ATM facilities through ATM cards, which are issued to checking and savings account holders. The Bank also is a member of Bancnet and Expressnet, which are ATM networks that allow its customers to use ATM terminals operated by other banks in the same network. Through these networks, customers have access to more than 14,000 additional ATMs nationwide.

The following table sets out details of the Bank's consolidated branches in the Philippines in operation as of the specified dates:

	As of 31 December		
	2022	2023	2024
Metro Manila.....	126	136	134
Other areas of Luzon .....	147	137	137
Visayas .....	72	72	72
Mindanao.....	40	40	40
<b>Total</b> .....	385	385	383
<b>ATMs</b> .....	585	602	603

The Bank launched its first fully digital branch branded The ARK in September 2017. In The ARK branch, there is no bank teller, and customers request and receive services through operating self-service machines or tablets. Located in Makati, one of the Philippines' busiest business districts, The ARK branch provides customers, mainly business people and working professionals, more efficient services. In January 2020, the Bank launched a The ARK 2.0 branch in Dasmariñas, Cavite, which leverages 5G technology for seamless connectivity with Internet of Things-enabled services. 5G technology enables the branch's employee to connect to 32 devices at the same time without sacrificing performance. In addition, the Bank also launched its self-service digital hubs called UBNK in high foot traffic areas to empower its customers to perform standard branch transactions on their own through the use of self-service machines or via UnionBank Online. UBNK ambassadors, including digital ambassadors, are present for customer queries about the use of machines or the Bank's products. The first UBNK hub was opened in Makati City in December 2019.

During the past few years, the Bank has made sustained efforts in the digital transformation of its branch network to make the branches efficient, paperless and customer-centric through application of smart devices and other technologies. As of 31 December 2024, 100 per cent. of the Parent Bank's branches had been digitally transformed, featuring self-service machines and digital transaction portals. In April 2019, the Bank also launched its first automated teller machines for Bitcoin in The Ark in Makati, which allow customers to buy and sell Bitcoin units for cash.

Branches of PETNET (more widely known as **PERA HUB**), in which the Group owns a 51 per cent. equity interest, operate as an extension of the Bank's branch network by providing loan application processing services for City Savings. As of 31 December 2024, there are 200 PETNET-owned branches and 3,175 non-owned outlets equipped to process teachers' salary and pension loans. The Group's acquisition of PETNET in 2018 was meant to increase the operational synergies between PETNET and City Savings. The sales of DepEd Teachers Loans are performed and the sales of Pensionado loans (GSIS, SSS), OFW, and Seafarer loans are exclusively performed by PETNET.

## 9.7.12 Alternative Delivery Channels

### 9.7.12.1 Mobile and E-Banking

UnionBank Online, launched in August 2017, is the online and mobile banking platform for the Bank's retail customers. It is designed with an omni-channel user experience wherein the same look and feel applies to different touchpoints (website and mobile app), operating systems (Android or IOS) and device types.

UnionBank Online enables the Bank's customers to perform account management and banking transactions such as account opening, deposit of cheques, fund transfer, and bill payment without visiting a branch or contacting the Bank's call centre. Customers may log in through fingerprint authentication, as opposed to password login. The Bank also introduced an upgraded version of its cash management platform for corporates called The Portal and

a similar app for SME clients called SME Business Banking App. Its unique features include, among others, single sign-on for customers with multi-org access, a fully featured mobile app, and real-time fund transfers.

#### **9.7.12.2 Call Centre**

Retail customer relationship and care is handled by the Bank's 24-hour call centre, catering to deposit and card product queries, among others. The call centre utilises a mix of phone, postal mail, email, fax and internet as customer touch points. In handling customer complaints, it adheres to certain service-level agreements such as feedback or resolution of ATM-related concerns within five banking days and redelivery of cards within Metro Manila after five days. Customer complaint handling is continuously improved through resolution tracking.

#### **9.7.12.3 PESONet and InstaPay**

Bank customers can transfer funds through the Government's national retail payment systems Philippine Electronic Fund Transfer System and Operations Network (**PESONet**) and InstaPay by logging on to the Bank's online platform and mobile application, eliminating the need to go into a bank branch or use a payment counter for transactions.

PESONet allows businesses and individuals to initiate electronic fund transfers and recurring payments from accounts maintained in BSP-supervised financial institutions to corresponding accounts in other BSP-supervised financial institutions. Funds transferred through PESONet are available in the recipient account within the same banking day and the service is free of charge.

InstaPay allows customers to send and receive funds or make payments in real time through an unlimited number of transactions of up to ₱50,000 per transaction. Each transaction entails a fee of ₱10.

#### **9.7.13 Information Technology**

The Bank is actively embracing technology, aiming to make its banking operations more accessible, efficient and customer-friendly and at the same time exploring new business models outside traditional banking.

The Bank's Information Technology Services Group is responsible for the proper and efficient functioning of the Bank's information technology systems and infrastructure. This group works together with other departments and groups of the Bank in applying information technology to implement the Bank's technology initiatives and experimentation and facilitate the Bank's digital transformation. The Bank is the first bank in the Philippines to commercially publish its API. The Bank believes that APIs will enable it to create entirely new businesses and provide its customers with an even richer menu of services. The Bank has been providing the financial services community with its API Developer Portal since 2017, enabling fintechs and innovative companies to tap into its banking services and other functionalities. The Bank's API Developer Portal is connected to the ASEAN Financial Innovation Network (**AFIN**) and its API Exchange platform, making the Bank the first Filipino bank part of AFIN. As of 31 December 2024, the Bank has provided over 600 APIs, making its API Developer Portal one of the largest among Filipino banks.

The Bank is a pioneer in applying blockchain technology in banking in the Philippines. The Bank's project i2i platform aims to bring unbanked Filipinos into the financial system by connecting rural banks to the Philippines' main financial network using a secure retail payment system applying blockchain.

The Bank has developed sustained advantage in digital capabilities. Apart from the above, the Bank is one of the first banks in the Philippines which enabled digital account opening, online cheque deposits and online foreign exchange transactions. The Bank is also a pioneer in several innovations such as the launch of a virtual currency ATM by a universal bank, launch of the first commercial bank-backed stablecoin called PHX, and development of a self-sovereign identity solution.

The Bank has also dedicated substantial efforts to ensure security in its information technology systems. In early 2017, the Bank received the certification for Payment Card Industry Data Security Standard version 3.2, making it the first universal bank in the Philippines to be certified with the latest card data security standard. In May 2017, the Bank inaugurated its IOC, a 24/7 security centre and a collaborative facility for developing security measures against constantly evolving cybersecurity threats. The IOC is also responsible for monitoring the performance of the Bank's systems, servers, and applications, as well as monitoring uptime of leased lines.

The Bank is also actively applying other advanced information technologies. The Bank's The ARK branches apply 5G technology and Internet of Things technologies to provide smart banking. See "— Business of the Bank— Treasury, Funding and Trading — Branch Network".

To ensure system stability and security, in 2016 and 2018, the Bank relocated its disaster recovery data centre and part of its production data centre each to one offset facility, respectively. In April 2019, the Bank shifted its strategy from a production-disaster recovery data centre to an active-active data centre to fully maximise investments and achieve maximum availability, and this shift has been enabled by the triangulated network consisting of the on-site facilities and the two offset facilities.

The Bank developed and launched its technology platforms and tools as part of a long-term digital transformation strategy aimed at building a future-ready, platform-led bank. Since 2016, it has invested significantly in core infrastructure, digital channels, and new technologies to ensure 24/7 availability, high service reliability, and a secure banking experience. These investments include the modernisation of core banking systems, transformation of physical branches, and the development of digital platforms such as UnionBank Online, The Portal, and the SME Banking App. The Bank also launched key systems like the Retail Loans Engine, AML solutions, and automated onboarding tools to support scale, speed, and regulatory compliance.

As part of its continued innovation, the Bank has adopted a cloud-first architecture, migrated key applications to the cloud, and embedded DevSecOps to enhance software delivery. It is also expanding the use of artificial intelligence to personalise customer experience, streamline operations, and detect financial crimes. These initiatives are complemented by ongoing efforts to refresh outdated systems and upgrade network infrastructure. Altogether, the Bank's technology strategy enables it to remain agile, cost-efficient, and resilient, positioning it to lead in an increasingly digital financial landscape.

## **9.8 SUBSIDIARIES**

### **9.8.1 Overview**

Universal banks in the Philippines, such as the Bank, may invest in the equity of banking-related companies or "allied undertakings". Financial allied undertakings include leasing companies, banks, investment houses, financing companies, credit card companies and financial institutions catering to SMEs.

A publicly-listed universal or commercial bank in the Philippines may own up to 100 per cent. of the voting stock of only one other universal or commercial bank. A universal bank may also own up to 100 per cent. of the equity of thrift banks, rural banks or financial or non-financial allied enterprises. Prior Monetary Board approval is required for investments in allied and non-allied undertakings.

The total investments in equities of allied and non-allied enterprises shall not exceed 50 per cent. of the net worth of the Bank, subject to the further requirement that the equity investment in any one enterprise, whether allied or non-allied, shall not exceed 25 per cent. of the net worth of the Bank.

As of 31 December 2024, the Bank's subsidiaries are as follows. Apart from UBX Private Ltd., which was incorporated in Singapore, all the others were incorporated in the Philippines:

<b>Subsidiary</b>	<b>Percentage of Ownership</b>	<b>Nature of Business</b>
City Savings Bank, Inc. (City Savings) .....	99.79%	Thrift bank
PetNet, Inc. (PETNET) <sup>(1)</sup> .....	51.00%	Foreign currency trader and remittance business
UBP Investments Corporation (UIC).....	100.0%	Holding company
First Union Plans, Inc. (FUPI) <sup>(2)</sup> .....	100.0%	Pre-need
First Union Direct Corporation (FUDC) <sup>(2)</sup> .....	100.0%	Financial products marketing
First Union Insurance and Financial Agencies, Inc. (FUIFAI) <sup>(3)</sup> .....	100.0%	Agent for insurance and financial products
UBP Securities, Inc. (UBPSI) <sup>(2)</sup> .....	100.0%	Securities brokerage
Interventure Capital Corporation (IVCC) <sup>(2)</sup> .....	60.0%	Venture capital
UBX Philippines Corporation (UBX PH) <sup>(4)</sup> .....	83.33%	Investment holding and innovation company
UBX Private Limited (UBX SG) <sup>(5)</sup> .....	83.33%	Holding company
UBX Remit Pte. Ltd. (UBX Remit) <sup>(6)</sup> .....	83.33%	Remittances company
Bangko Kabayan, Inc. (A Private Development Bank) (Bangko Kabayan) <sup>(7)</sup> .....	97.75%	Private development bank
UnionDigital Bank, Inc. (UnionDigital) .....	100.0%	Digital bank
Unionbank Financial Services and Insurance Brokerage Philippines, Inc. (UFSI) .....	100.0%	Insurance and securities brokerage
Unionbank Investment Management and Trust Corporation (UBIMTC) <sup>(8)</sup> .....	100.0%	Trust and other fiduciary business

Notes:

- 1) Subsidiary through CSB and UIC, with 40% and 11% share in ownership, respectively.
- 2) Non-operating subsidiaries.
- 3) Wholly owned subsidiary through UIC.
- 4) On 27 September 2024, the Bank's ownership interest reduced to 83.33%.
- 5) Wholly owned subsidiary of UBX.
- 6) Wholly owned subsidiary of UBX SG.
- 7) 24.96% owned by the Bank; 49% and 23.79% owned through CSB and UIC, respectively.
- 8) Incorporated on 11 October 2023.

A brief description of each of the Bank's active subsidiaries is set out below:

### 9.8.2 City Savings

City Savings was incorporated and registered with the Philippine SEC on 9 December 1965. It is a thrift bank primarily engaged in granting teachers' loans under the DepEd's APDS. On 9 December 2014, the Philippine SEC approved the amendment of City Savings' articles of incorporation extending its corporate term for another 50 years beginning on 9 December 2015. As of 31 December 2024, the Bank owned 99.79 per cent. of City Savings' issued and outstanding capital stock.

Established in 1977 as the Rural Bank of Naguilian, PR Savings Bank is a thrift banking institution dedicated to serving the mass market by catering to the financial requirements of consumers, teachers, farmers and small business owners. Its lending services consist of motorcycle loans, salary loans to public school teachers,

agricultural loans and microfinance. The Bank also offers regular savings deposit and time deposit accounts. The merger of City Savings and PR Savings Bank was approved by the BSP on 27 December 2018 while the Philippine SEC approved the same on 28 February 2019. On the date of the Philippine SEC's approval, PR Savings Bank was merged into City Savings.

### **9.8.3 PetNet, Inc. (PETNET)**

PETNET, more widely-known by its retail brand name PERA HUB, is one of the largest remittance networks in the country with over 3,000 outlets nationwide. It offers a variety of cash-based services including remittance, currency exchange and bills payment. As of 31 December 2024, the Bank owned 51.00 per cent. of PETNET's issued and outstanding capital stock.

### **9.8.4 UIC**

UIC was incorporated and registered with the Philippine SEC on 23 December 1993. Its new corporate name, UBP Investments Corporation, was approved by the Philippine SEC on 22 July 2019. It is engaged in the administration and management of the Bank's premises and other properties such as buildings, condominium, units and other real estate, wholly- or partially-owned by the Bank. UIC is also engaged in the sale of pre-need plans and marketing of financial products through its wholly-owned subsidiaries, First Union Plans, Inc. and First Union Direct Corporation. As of 31 December 2024, the Bank owned 100.0 per cent. of UIC's issued and outstanding capital stock.

### **9.8.5 FUIFAI**

FUIFAI was incorporated and registered with the Philippine SEC in 2000, and is a wholly owned subsidiary of UIC. It was organised to primarily engage in the business of a general agent for life and non-life insurance, and other allied financial services.

### **9.8.6 UBX PH**

UBX PH was incorporated and registered with the Philippine SEC in December 2018. The Bank holds 83.33 per cent. equity interest in UBX PH. UBX PH serves as the Bank's investment house to hold, purchase, and acquire businesses engaged in financial and information technology services. UBX PH also engages in the development of financial technology innovations and in the electronic commerce business.

On September 27, 2024, UBX issued 8.0 million shares to a third party for a 16.67% ownership interest at U.S. \$10.0 million (or ₱558.00 million). This resulted in a decrease in the Bank's ownership interest in UBX to 83.33%.

### **9.8.7 UBX SG**

UBX SG was incorporated in Singapore in October 2018. It was wholly owned by UIC upon incorporation and was acquired by UBX in April 2019. It is a holding company that is principally engaged in acquiring various fintech start-ups. UBX SG also engages in the development of financial technology innovations and in the electronic commerce business.

### **9.8.8 UBX Remit**

UBX Remit was incorporated in Singapore and is wholly owned by UBX SG. It provides remittance and money-changing services.

### **9.8.9 Bangko Kabayan**

Bangko Kabayan is a bank providing financial products and services to MSMEs and individuals in the local communities, including rural clients. Bangko Kabayan provides deposit products, microfinance, loan products, and other services including remittances and mobile banking.



### 9.8.10 UnionDigital

UnionDigital is a bank providing financial products and services to the local communities. UnionDigital provides deposit products, microfinance, loan products, and other services including remittances and mobile banking.

### 9.8.11 UFSI

UFSI offers a wide range of insurance products including life and general insurance products. These products are carefully selected in support of the wealth management proposition of UnionBank.

### 9.8.12 UBIMTC

UBIMTC is a full-service trust corporation. UBIMTC offers bespoke trust and investment solutions such as trustee accounts, investment management services, escrow agency, custodianship, and other fiduciary services.

## 9.9 EMPLOYEES

As of 31 December 2024, the Bank had 8,500 employees, of which 6,353 were classified as bank officers and engaged in a professional management capacity, and 2,147 were classified as staff members. The Bank effectively transitioned around 1,500 employees from Citibank's consumer business, encompassing 90% of the total workforce alongside key talents, including the leadership team.

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

	As of 31 December		
	2022	2023	2024
Bank officers	6,254	6,354	6,353
Staff	2,147	2,156	2,147
<b>Total</b>	<b>8,401</b>	<b>8,510</b>	<b>8,500</b>

The Bank's management believes it has a good relationship with its staff. In 2023, the Bank concluded its negotiations in relation to the economic provisions of its existing collective bargaining agreement for the years 1 June 2023 to 31 May 2025. The negotiation on the collective bargaining agreement for the years 1 June 2025 to 31 May 2029 is ongoing.

The Bank believes that the key for customer engagement is employee engagement. As such, the Bank provides its employees with comprehensive training facilities and programmes, and workplace benefits for their professional development and personal well-being. Through its e-Learning portal, UnionBank University, the Bank is able to expand training reach to all branches and locations nationwide, while maximising training budgets and reducing training costs.

As part of its initiatives to instill a culture of "continuous improvement" in its operations, the Bank continually sends high potential employees to Six Sigma Black and Green Belt training programmes. To engrain its commitment to service quality and productivity, the Bank has made the Six Sigma Black Belt certification a requirement for career progression of its executives involved in operations. The Bank also developed its own six sigma orange belt training programme under which candidates are responsible for regularly initiating process improvement projects with supervision from Six Sigma Green and Black Belt alumni. In addition, the Bank adopts the Define-Measure-Analyse-Improve-Control methodology for all its quality improvement projects.

The Bank was awarded "Gold Stevie for Employer of the Year in Banking" by the Stevie Awards for Great Employers in September 2017. The Bank was also named "Best Company to Work for in Asia 2019" from HR Asia and was cited as "Dream Company to Work For" and the sole winner of the "Award for Excellence in HR through Technology (1UHub)" at the 2019 Philippines Best Employer Brand. The Bank also clinched three new

awards at Asia's Best Employer Brand Awards 2019, namely, "Best Employer Brand 2019", "Award for HR Strategy", and "Award for Most Innovative Staffing & Recruitment Program".

#### **9.10 INSURANCE**

The Bank's policy is to adequately insure all of its properties (including ROPA) against fire and other risks inherent to its business. It has comprehensive crime and fidelity insurance with electronic and computer crime coverage designed specifically for banks. The Bank also requires appropriate insurance coverage for any collateral provided by its customers. The Bank's insurance policies are subject to exclusions which are customary for insurance policies of the type held by the Bank, including those exclusions which relate to war and terrorism-related events.

Consistent with standard practice in the Philippine banking industry, the Bank does not have business interruption insurance covering loss of revenues in the event that its operations are affected by unexpected events. The Bank believes that its existing insurance policies are appropriate and sufficient for its business.

#### **9.11 PROPERTIES**

As of 31 December 2024, the Bank owned 98 properties in the Philippines. Most of these properties are used as offices for the Bank's head office, branch offices, or for back office operations. These properties are not subject to any mortgage, lien or encumbrance. In addition, the Bank also leases 349 properties in the Philippines used as the Bank's branches and offices. For the years ended 31 December 2022, 2023 and 2024, the total rental expenses (including amortisation expense of ROU assets, and interest expense on lease liabilities) of the Bank amounted to ₱859.9 million, ₱954.8 million and ₱987.2 million, respectively. The average term of these leases is five years.

#### **9.12 INTELLECTUAL PROPERTY**

As of 31 December 2024, the Bank had registered 90 trademarks and tradenames, including the logo of the Bank, "UnionBank" and "UBP". The Bank also has a number of registrations of trademarks in connection with its products that have been filed with the Intellectual Property Office at the Department of Trade and Industry of the Philippines, which are currently pending.

#### **9.13 LEGAL PROCEEDINGS**

The Bank is a party in legal proceedings which arise in the ordinary course of its business activities. None of such legal proceedings arising in the ordinary course, either individually or in the aggregate, are expected to have a material adverse effect on the Bank or its consolidated financial position.

#### **9.14 CORPORATE SOCIAL RESPONSIBILITY**

The Bank believes that it has a vital role and responsibility in building strong and resilient communities and has supported different causes in the areas of e-commerce, education, community well-being, and the environment.

GoBeyond Communities is the Bank's main corporate social responsibility intervention. It is an employee engagement programme where employees can promote their personal advocacies by conceptualising, developing, and implementing community-enriching programmes, with funding provided by the Bank. As of 31 December 2024, the Bank's employees had recorded 7,459 hours, reaching a total of 116 communities with 103,401 beneficiaries.

The Bank's Xcellerator programme has also been making an impact through developing digital talents, with the aim of building up the capabilities of Filipino workers and making them tech-ready for emergent digital landscapes. UB Xcellerator focuses on educational institutions by enabling education partners to increase talents that will bring about innovations and game-changing products.

UBP Xcellerator had provided courses and educational programmes on digital skills such as blockchain, data science, and artificial intelligence to 21,117 individuals as of 31 December 2024. As of the same date, UBP Xcellerator had 25 educational partners, including colleges and universities in the Philippines.

### 9.15 COMPETITION

The Bank faces competition in all its principal areas of business. Philippine domestic and foreign banks are the Bank's main competitors, followed by finance companies, mutual funds and investment banks. The Bank also faces competition from financial technology firms and non-financial firms. In particular, non-financial firms pose a challenge to Philippine banks by offering digital products such as mobile payments or online services. Financial technology firms utilise software to provide financial services, and disrupt existing financial systems and corporations that rely less on software by offering faster, more convenient, and more efficient ways of transacting. In addition, purely digital financial technology or non-financial firms have no branches and thus have lower costs. The Bank seeks to gain a competitive advantage by continuing to implement its digital transformation strategies.

As of 31 December 2024, according to data from the BSP, there were a total of 44 domestic and foreign universal and commercial banks operating in the Philippines. While mergers, acquisitions, and closures reduced the number of industry players, the entry of foreign banks under new and liberalised banking laws and regulations resulted in a growth of the number of universal and commercial banks. Corporate lending remained competitive resulting in even narrower spreads especially under a low interest rate environment. Pockets of growth were, however, seen in the middle corporate market, SMEs, and consumer segments.

See "The Philippine Banking Industry — Competition".

### 9.16 PARTNERSHIPS

In August 2016, the Bank established the first alliance of its kind in the Philippines with Lombard Odier, a Swiss-based, global private bank, to expand its wealth and asset management businesses. Lombard Odier is a family-owned business with over two centuries of rich heritage and stability and thus, has established expertise in the fields of wealth management and transition, succession planning, business sustainability, and family governance. In July 2017, with Lombard Odier as investment consultant, the Bank launched the first local fund that uses a risk-based investment strategy, the UnionBank Capital Accumulation Global Fund of Funds, a USD-denominated UITF that is invested in various funds traded in the global markets. In 2018, the Bank launched a PHP-denominated (currency hedged) version of the fund, making it a multi-currency-class global fund of funds. In March 2019, the Bank officially launched its private banking business, with the objective of providing clients with bespoke best-in-class wealth management solutions, with the support of its strategic partner Lombard Odier.

In January 2017, the Bank and City Savings entered into a bancassurance partnership with Insular Life for the sale and distribution of Insular Life insurance products across the Bank's and City Savings' respective networks. The bancassurance partnership with Insular Life is a first in the Philippine market. Unlike the traditional model where a bank's staff is limited to referrals, the bancassurance partnership with Insular Life allows the Bank to have ownership of the sales force. The Bank's RMs and financial advisors (**FAs**) are trained and licensed to cross-sell Insular Life insurance products. The Bank believes that its model enables a seamless sales process and facilitates client suitability analysis.

In May 2018, the Bank entered into a partnership with ConsenSys, a New York-based blockchain start-up, to utilise Kaleido, an enterprise blockchain solution launched on top of the Ethereum blockchain protocol that is used to process information and transactions more securely and transparently. In connection with this partnership, the Bank launched a pilot programme named "Project i2i" with the aim of connecting rural banks to the country's main financial network and help bring unbanked Filipinos under the mainstream financial system. Project i2i is currently managed by UBX PH and has more than 100 rural banks and financial institutions in its network.

## 9.17 SUSTAINABLE DEVELOPMENT

UnionBank remains committed to advancing sustainability at both national and global levels. Anchored on our sustainability framework, we actively support the United Nations Sustainable Development Goals (SDGs) and recognise our role in driving meaningful impact. As we continue our transformation journey, we integrate our sustainability commitments across Digital Transformation, Sustainable Finance, and Inclusive Prosperity—aligning with relevant SDGs to create long-term value for our stakeholders and communities. UnionBank is also committed to building a bank for the next generation—one that not only meets evolving financial needs but also makes a lasting positive impact on society and the environment.

UnionBank actively engages with key stakeholders to address the most material economic, environmental, and social issues, guiding the journey of our sustainability policy, framework, and ESG metrics. Rooted in the UnionBank DNA—Purpose, Values, Vision, and Brand—our sustainability framework aligns initiatives under Purpose, Planet, and People. By leveraging our scale, resources, and the collective passion of our colleagues nationwide, we drive meaningful impact and advance our vision of becoming a Bank of enduring greatness.

### 9.17.1 Sustainable Policy

The Bank contributes to sustainability by pursuing digital transformation and investing in relevant social and environmental programmes, which benefit its stakeholders. The Bank powers the future of banking by co-creating innovations for a better world. In the Bank's day-to-day activities, the Bank commits to:

- uphold, protect, and respect the environment, human rights, and labour standards;
- contribute to enhancing positive social and environmental impacts;
- provide products and services that contribute to the well-being of people, the environment, and the economy; reduce or avoid unsustainable practices; and demonstrate positive impacts to the most important issues of the business;
- implement inclusive business programmes and initiatives;
- engage internal and external stakeholders for continuous improvement and to promote cooperation;
- foster the development of in-house learning, management capacity, and leadership on sustainability issues;
- comply with all laws and regulations; and
- communicate transparently about our sustainability performance.

### 9.17.2 Sustainable Framework

The Bank's sustainability framework complements its sustainability policy. It serves to guide the Bank in how it identifies, develops, implements, and pursues programmes and initiatives that are geared towards promoting its sustainability performance. The Bank's sustainability framework focuses on three following pillars.

First, the Bank ensures that its stakeholders are empowered to #OwnTheFuture, fueled by its culture to collaborate with like-minded partners to support sustainable communities. The Bank believes that its employees form its lifeblood. The Bank invests in their personal and professional growth by ensuring the highest standards in talent attraction and retention, career development, health and wellness, providing meaningful volunteering opportunities, and building a culture of sustainability so that they become the Bank's ambassadors in the communities.

Second, the Bank will push for innovative thinking in designing products and modelling programmes that result in a sustainable way of life. The Bank is committed to managing its environmental impact responsibly and delivering meaningful products and services. The Bank recognises the need to operate differently to address the threats of climate change and enable our stakeholders to pursue a sustainable lifestyle.

Third, the Bank is an industry disruptor seeking to transform banking and financial services. Most importantly, the Bank aims to ensure that no employee, customer, business partner or other stakeholder gets left behind in its sustainability and digital transformation journey. The Bank acts according to our core values to cultivate long-term relationships with the people that it serves. The Bank believes that it can only aim for enduring greatness if it can engage its customers and business partners with genuine empathy. The Bank's sustainability framework complements its sustainability policy. It serves to guide the Bank in how it identifies, develops, implements, and pursues programmes and initiatives that are geared towards promoting its sustainability performance. The Bank's sustainability framework focuses on three following pillars.

### **9.17.3 Unionbank Sustainability Scorecard 2023 – Tech Up Pilipinas Metrics**

The ESG mission of 'Teching Up' the country is expressed through three focus areas of the Bank's sustainability efforts:

- Digital Transformation – By developing innovative platforms, the Bank is able to contribute through investing in the future of the nation. This is driven by initiatives in digital capability building through internal and external training as well as through innovation-driven initiatives for the communities the Bank serves.
- Sustainable Finance – The Bank understands its inherent responsibility of moving capital and taking an active role in mitigating environmental and social risks in all of its financing activities. By lending to an ecosystem engaged in commerce and local economies such as MSMEs and by investing in technologies that enable financial inclusion, it contributes to a higher purpose of co-creating innovations for a better world.
- Inclusive Prosperity – This focus area translates to the overall impact of the Bank in terms of Sustainability. From employment generation to digitally-enabled Filipinos and a number of communities empowered, this focus area monitors how effective the measures in place are in aligning the Bank's ESG agenda with its business strategy.

Efforts made on these focus areas include, among others, for the year of 2023, ₱34.4 million investment in employee development and training, 142 Xcellerator modules offered to the public, 25,909 Filipinos in the UBXcellerator Programme, ₱74.1 billion economic value given back to society and ₱36.1 million investment on corporate social responsibilities.

All these will differentiate the Bank from other banks and enable it to truly innovate and improve lives.

## SECTION 10. RISK MANAGEMENT

The Bank is exposed to a range of potential risks arising from its business activities. Risk management is the process by which the Bank identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be accomplished, and establishes procedures for monitoring the resultant risk positions. The objective of risk management is to ensure that the Bank conducts its business within the risk levels set by the Board while business units pursue their objective of maximising returns.

### 10.1 RISK MANAGEMENT STRUCTURE

The Board exercises oversight of the 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 Bank established independent risk management units that objectively review and ensure compliance to the risk parameters set by the Board. They are responsible for the monitoring and reporting of risks to senior management and the various committees of the Bank.

The Board is primarily responsible for setting the risk appetite, approving risk parameters, credit policies, and investment guidelines, as well as establishing the overall risk taking capacity of the Bank. Committees have been established by the Board to oversee the increasingly varied risk management activities of the Bank with the active participation of senior management. The committees of the Board relevant in this context are the Executive Committee, Risk Management Committee, Market Risk Committee (**MRC**), Operations Risk Management Committee, and Audit Committee. For a description of these committees, see "Management - Board Committees".

The Bank's Asset and Liability Committee (**ALCO**) is responsible for ensuring that the Bank's liquidity management process is adequate, and that the Bank maintains adequate liquidity and sufficient capital. It manages the Bank's balance sheet and ensures that business strategies are consistent with the Bank's liquidity, capital, and funding strategies as well as setting targets for balance sheet size. It also establishes asset/liability pricing policies appropriate to the Bank's balance sheet objectives, and determines the level of stress the Bank is experiencing.

The ALCO is composed of the President, the Treasurer, Centre Heads and Group Heads. The ALCO is chaired by the President.

### 10.2 CREDIT RISK

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honour 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 board of directors of the various companies within the Group. In addition, the Bank has a well-structured and standardised credit approval process and credit scoring system for each of its business and/or product segments.

The Risk Management Unit (**RMU**) of the Bank undertakes several functions with respect to credit risk management. The RMU independently performs credit risk assessment, evaluation and review for its retail, commercial and corporate financial products to ensure consistency in the Bank's risk assessment process. It also ensures that the 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 RMU also reports to the Board's Risk Management Committee on credit impairment and the credit portfolio's credit risk profiles.

The RMU's portfolio management function involves review of the Bank's loan portfolio, including assessment of the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and the development of strategies for the Bank to achieve its desired portfolio mix and risk profile. The RMU reviews the Bank's loan portfolio quality in line with the 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 Bank's performance to developments affecting a particular industry or geographic location.

In order to avoid excessive concentrations of risk, the Bank's policies and procedures include guidelines for maintaining a diversified portfolio mix such as setting concentration limits. Identified concentrations of credit risks are controlled and managed accordingly. The RMU also monitors compliance with the BSP's limit on risk exposures.

#### **10.2.1 Credit Risk Assessment for Corporate Lending**

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

The 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 Bank assesses risks on a three-dimensional level: borrower risk, facility risk and security risk. Borrower risk is evaluated by considering (i) quantitative factors, such as profitability, liquidity, capital adequacy, and sales growth; (ii) qualitative factors, such as management skills and management integrity; and (iii) industry risk. Industry risk is assessed by considering certain industry characteristics, such as its importance to the economy, growth outlook, cyclicalities, industry structure, and relevant Government policies. Facility risk is assessed based on features of the facility such as length of loan exposure. Security risk is assessed based on quality of the collateral and the risk of potential deterioration over the term of the loan.

The credit rating for each borrower is reviewed annually or 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 risk asset acceptance criteria (**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:

- 1) High Quality Grade - These accounts are of the highest quality and are likely to meet financial obligations.
- 2) Standard Grade - These accounts may be vulnerable to adverse business, financial and economic conditions but are expected to meet financial obligations.
- 3) Substandard Grade - These accounts are vulnerable to non-payment but for which default has not yet occurred.
- 4) Non-Performing - These refer to accounts which are in default or those that demonstrate objective evidence of impairment.

#### **10.2.2 Credit Risk Assessment for Commercial Lending**

The Bank's commercial banking activities are undertaken by its Commercial Banking Center (**ComBank**). These products and services are similar to those provided to large corporate customers, with the predominance of trade finance-related products and services. Credit evaluation and risk assessment are aligned with corporate loans.

From the beginning of 2019, the Bank started to apply for non-financial ComBank accounts an adjusted obligor rating scale derived from the one applied for corporate loans, and the obligor rating scale followed the same RAAC framework. The obligor rating scale the Bank applies for ComBank accounts classified as banks and non-bank financial institutions has remained unchanged and is the same as the scale for corporate loans.

#### **10.2.3 Credit Risk Assessment for Consumer Lending**

Each of the product groups in the Bank's consumer banking segment has its own risk guidelines and risk assessment system. Although each loan application is examined through an individual credit evaluation process

(combined manual and automated process), the consumer loans are managed on a portfolio basis with respect to defaults as well as accept, reject and review standards.

The Bank has categorised the scorecard into three levels: outright accept, review band, and outright reject. The outright accept category refers to applicants that are within the risk profile acceptable to the Bank and whose applications are automatically approved, subject to the verification and validation system presently in place. The outright reject category refers to applicants that are below the minimum risk profile acceptable to the Bank. Applications that fall within the review band are borderline cases which are accepted or rejected based on the predetermined review parameters.

#### **10.2.4 Credit Approval Authority and Process**

Before any extension of credit, the Bank identifies the needs of the prospective borrower, analyses the appropriateness of the exposure, and evaluates inherent risks. The lending officers are responsible for soliciting target customers, identifying borrowing requirements, and initiating credit lines. The RMUs independently perform credit risk assessment and evaluation and prepare the credit application for approval by the relevant approving authority.

The Risk Management Review Committee is a senior-level committee comprised of a chairman (the **Chief Risk Officer**) and four members who are senior credit officers of the Bank. It is responsible for, among others, reviewing credit facilities approved within management's credit authority limit, screening credit proposals which exceed management-delegated authorities prior to endorsement to the Executive Committee and the Board, and approving credit procedural guidelines.

All credit proposals approved by the Executive Committee are confirmed by the Board. Credit proposals exceeding the Executive Committee's credit authority limit and those which carry an unusual or material risk require approval of the Board. The Board has the ultimate authority to approve credit transactions, and is also the only body with authority to approve DOSRI loans.

#### **10.2.5 Credit Monitoring and Review Process**

Pursuant to the BSP's regulations, the Bank is required to establish a system of identifying and monitoring existing or potential problem loans and other risk assets, and of evaluating credit policies vis-à-vis prevailing circumstances and emerging portfolio trends. In compliance with this requirement, the RMUs, on a regular basis or as circumstances require, establish and maintain a system for monitoring, among others, the financial condition and compliance with existing covenants of individual accounts or a portfolio of accounts, and update senior management accordingly. All individual accounts of corporate and commercial lending are reviewed at least once a year together with the credit line renewal. Larger exposures and lower-rated borrowers or counterparties are reviewed more frequently, as necessary. The Credit Review Unit (**CRU**) is responsible for reviewing the Bank's credit process and loan portfolio quality.

The RMU and CRU are also responsible for monitoring compliance with DOSRI rules and guidelines. The Bank and its subsidiaries, from time to time and in the ordinary course of business, enter into loan transactions with DOSRI. All such loans are on a commercial and arm's-length basis. The General Banking Law of 2000 or Republic Act No. 8791 (the **General Banking Law**) and BSP regulations require that (a) the amount of individual outstanding loans, other credit accommodations, and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and the book value of their paid-in capital investment in the Bank; (b) unsecured loans, other credit accommodations, and guarantees to DOSRI (of which 70.0 per cent. must be secured) should not exceed 30.0 per cent. of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower; and (c) the total outstanding loans, other credit accommodations, and guarantees to DOSRI may not, without the prior approval of the Monetary Board, exceed 15.0 per cent. of the Bank's total loan portfolio or 100.0 per cent. of the Bank's net worth, whichever is lower. The total outstanding loans, other credit accommodations, and guarantees granted to each subsidiary or affiliate of a bank should not



exceed (a) 10.0 per cent. of the net worth of the lending bank, or (b) 5.0 per cent. of such net worth, if unsecured. The total outstanding loans, other credit accommodations, and guarantees granted to all subsidiaries and affiliates of a bank should not exceed 20.0 per cent. of the net worth of the lending bank.

### **10.3 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. The market risk for the non-trading positions is managed and monitored using other sensitivity analyses.

The Group applies the 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 Group uses the historical VaR approach in assessing the possible changes in the market value of its trading portfolio based on historical data for a rolling one-year period. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will have the same distribution as they had in the past. This involves running the portfolio across a set of historical price changes, thus creating a distribution of changes in portfolio value which may or may not be normal. The historical approach does not make any assumptions regarding the distribution of the risk factors and therefore can accommodate any type of distribution.

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 per cent. confidence level.

The VaR figures are back-tested 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 Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Bank's VaR model.

#### **10.3.1 Market Risk Management Process**

The Bank's Treasury Group, in coordination with the Market Risk Unit (**MRU**), develops a risk measurement and management process that is appropriate for the Bank's business. Such process is approved by the MRC and the Board. A product programme manual which sets out, among other things, a standardised process of measuring and managing credit, market and liquidity risks, operational procedures, and controls and approval procedures, is then prepared for each product.

#### **10.3.2 Market Risk Limits**

The Bank also manages its market risks through application of various limits set by the MRC and approved by the Board. Such limits primarily include the following:

- 1) aggregate control limits — These place a ceiling on the total volume of trading/ownership of given product lines at given tenors;
- 2) aggregate VaR limit — This places a ceiling on the monetary amount of potential loss on the FVTPL and FVOCI portfolios of the Bank deemed tolerable by management;
- 3) nominal position limits — These determine the maximum size of open risk positions that may be held by the Bank within a given time period. Such limits include overnight and daylight position limits which may vary for overbought and oversold positions. These limits must conform to the regulatory limits set by the BSP;

- 4) management action trigger/loss alert/stop loss limits — These establish management’s tolerance levels for accepting cumulative year-to-date and month-to-date market risk losses on trading positions; and
- 5) trader/dealer limits — These set the maximum volume of transactions that a trader/dealer may execute, and is determined relative to the depth of experience and level of expertise of the personnel making the risk-bearing decision.

Compliance with the above limits is closely monitored and reported in accordance with an escalation process established by the MRC.

The Internal Audit Division is responsible for conducting back-testing to compare hypothetical and actual trading results with the Bank’s internal model-generated risk measures at the end of each quarter. Based on the results of the back-testing, if a certain market risk is not addressed by the Bank’s internal model, the internal model is modified to capture such risk. The MRU is also responsible for conducting quarterly stress tests on the Bank’s portfolio of financial instruments and reporting the results of such tests to the MRC for a more concrete assessment of the risks. The stress tests evaluate the Bank’s potential losses resulting from changes in market factors, such as foreign exchange rates and interest rates, caused by simulated hypothetical scenarios or historical events where extreme movements have been observed.

#### **10.4 INTEREST RATE RISK**

A critical element of the Group’s risk management programme consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Group’s net interest income, and ensuring that the exposure in interest rates is kept within acceptable limits.

The Group employs “gap analysis” to measure the interest rate sensitivity of its assets and liabilities, also known as Earnings-at-Risk (**EaR**). This sensitivity analysis is performed at least every quarter. 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 into tenor buckets based on time remaining to the next re-pricing date or the time remaining to maturity and then subtracting the liabilities from the assets to obtain the re-pricing gap. The re-pricing gap per tenor bucket is then multiplied by the assumed interest rate movement and appropriate time factor to derive the EaR per tenor. The total EaR is computed as the sum of the EaR per tenor within one year. To manage the interest rate risk exposure, Board approved EaR limits were established.

#### **10.5 FOREIGN EXCHANGE RISK**

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.

#### **10.6 LIQUIDITY RISK**

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Bank’s customers and repay deposits on maturity. The ALCO and the Treasurer of the Bank 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.

The Bank also manages its liquidity risks through the use of a maximum cumulative outflow (**MCO**) limit which regulates the outflow of cash on a cumulative basis 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 Board.

As of 31 December 2024, the total amount of funds that were available to the Bank under credit facilities for secured and unsecured borrowings, swaps, and settlement were ₱618.0 billion.

The Bank takes a multi-tiered approach to maintaining liquid assets. BSP regulations require the Bank to maintain minimum cash reserves and liquid assets as a proportion of its overall deposits. As of 31 December 2024, the Bank's principal source of liquidity is comprised of ₱10.1 billion of cash, deposits with other banks of ₱33.9 billion, due from the BSP of ₱82.1 billion, and interbank loans receivable and securities purchased under repurchase agreements of ₱1.9 billion. In addition to regulatory reserves, the Bank maintains what it believes to be a sufficient level of secondary reserves in the form of liquid assets such as investment securities that can be realised quickly. As of 31 December 2024, the total portfolio of investment securities of the Bank amounted to ₱373.2 billion.

## **10.7 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 risk. This also covers potential losses that could occur as a result of the Bank's use of technology-related products, services, delivery channels, and processes.

Each specific unit of the Bank has its roles and responsibilities in the management of operational risk and these are clearly stated in the Bank's operational risk management framework. At the Board level, an Operational Risk Management Committee was formed to provide overall direction in the management and execution of the Operational Risk Framework across the Bank.

### **10.7.1 Operational Controls and Procedures in Branches**

The Bank has operating manuals detailing the procedures for the processing of various banking transactions and the operation of the application software. Amendments to these manuals are implemented through circulars sent to all offices.

The Bank has a scheme of delegation of financial powers that sets out the monetary limit for each employee concerned with respect to the processing of transactions in a customer's account. The Bank's banking software has multiple security features to protect the integrity of applications and data.

The Bank gives importance to computer security and has a comprehensive information technology security policy. Most of the information technology assets including critical servers are hosted in centralised data centres, which are subject to appropriate physical and logical access controls.

### **10.7.2 Operational Controls and Procedures for Internet Banking**

The Bank has established a multi-factor security system to improve internet banking security. The Bank issues each customer that opens an internet banking account a user identity and password to access his account online. For security purposes, the customer will be required to change the default password on his first successful log-in attempt. To further strengthen the security, the customer shall also be required to enroll a transaction password for his internet banking account. This transaction password will be required for every internet banking transaction made by the customer, to ensure the transaction's authenticity. Encryption, authentication, and validation are also in place for internet-based transactions. Network controls are implemented for secured internet banking.

### **10.7.3 Operational Controls and Procedures in Central Processing Services (CPS) locations**

To improve operational controls, enhance customer service at the Bank's physical locations, reduce operating costs, and capitalise on economies of scale, the Bank handles processing of common transactions at central locations by taking away such operations from each business centre.

With two operating locations, one in Metro Manila and the other in Cebu City, the Bank's main backroom operations hub uses a high level of automation in its operations. Except for some critical processes that are jointly handled by both Manila and Cebu as a business continuity strategy, each central processing services (CPS) location, in general, houses its own centralised processes, thus setting it apart from the other location. The CPS location in Cebu City handles branch accounting, subsidiaries accounting, account reconciliation, expense accounting, and regulatory reporting while the CPS location in Metro Manila handles centralised production of cards, operation processes for cheque clearance, as well as back office activities for auto and residential mortgage loans and other administrative support services.

### **10.7.4 Operational Controls and Procedures in Treasury**

The Bank has a high level of automation in its trading operations. The Bank uses technology to monitor risk limits and exposures. The Bank's front office, middle and back office, and accounting and reconciliation functions are fully segregated. The respective middle offices use various risk monitoring tools such as counterparty limits, nominal position limits, aggregate control limits, aggregate VaR limit, earnings-at-risk limits, MCO limits, stop loss, loss alert, and individual dealer limits (per trader, position limits, stop loss and loss alert, among others). Procedures for reporting breaches in limits and escalation to management are also in place.

The Bank's front office treasury operations cover transactions in fixed income securities, inter-bank money markets, and foreign exchange. The Bank's traders analyse the market conditions and take views on price movements. Thereafter, they enter into transactions in conformity with various limits relating to counterparties, securities, and brokers. The agreements are confirmed by the middle office and then forwarded to the back office for settlement. The Bank also monitors delayed transactions.

The Treasury Middle Office Unit confirms trades and monitors counterparty credit risk limits and the MRU evaluates the mark-to-market impact on various positions taken by dealers, and monitors market risk exposure of the investment portfolio and adherence to various market risk limits set up by the MRC.

The Bank's back office undertakes the settlement of funds and securities. The back office has procedures and controls for minimising operational risks, including procedures with respect to deal confirmations with counterparties, verifying the authenticity of counterparty cheques and securities, ensuring receipt of contract notes from brokers, monitoring receipt of interest and principal amounts on due dates, ensuring transfer of title in the case of purchases of securities, reconciling actual security holdings with the holdings pursuant to the records, and reporting any irregularity or shortcoming observed.

## **10.8 AUDIT**

The Internal Audit Division (IAD) is an independent unit responsible for providing assurance and consulting activity designed to add value and improve the Bank's operations. It helps the Bank accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

The IAD is responsible for undertaking a comprehensive audit of all business groups and other functions, in accordance with a risk-based audit plan, and provides an independent appraisal of the adequacy and effectiveness of the risk management and control processes in operation throughout the Bank. Various components of information technology from applications to databases, networks, and operating systems are covered under the annual audit plan. The audit plan for every fiscal year is approved by the Audit Committee.

The Head of the IAD reports directly to the Audit Committee and the Board. These reporting lines and organisational structures ensure that the IAD has the full support and access required to efficiently and systematically conduct its work independently. The IAD issues various reports to the Audit Committee, the Chairman of the Board, management, and other relevant parties throughout the year, including audit reports, compulsory audit reports of branch visits, and periodic reports issued to the Audit Committee, the Board and management.

## **10.9 ANTI-MONEY LAUNDERING CONTROLS**

Under the RA 9160, the Bank is required to submit a “covered” transaction report involving a single transaction in cash or other equivalent monetary instruments in excess of ₱500,000.00 within one banking day. The Bank is also required to submit a “suspicious” transaction report to the AMLC of the BSP if there are reasonable grounds to believe that any amounts processed are the proceeds of money-laundering activities. Further, pursuant to AMLC Regulatory Issuance (ARI) A, B, and C No. 1, series of 2020 issued on 29 January 2020, the suspicious transaction report shall cover all transactions, whether completed or attempted, and shall be promptly filed within the next working day from the occurrence thereof. The Bank is required to establish and record the identities of its clients based on official documents. In addition, all records of transactions are required to be maintained and stored for five years from the date of a transaction. Records of closed accounts must also be kept for five years after their closure.

In an effort to further prevent any money-laundering activities through the Bank, it has adopted more stringent KYC policies and guidelines. Under the KYC guidelines, each business unit is required to validate the true identity of a customer based on official or other reliable identifying documents or records before an account is opened. Each business unit is also required to monitor account activities to determine whether transactions conform to the normal or expected transactions for a customer or an account. Persons with higher potential or risk for money laundering require enhanced due diligence. Decisions to enter into a business relationship with a higher risk customer, such as a politically exposed person or a private individual holding a prominent position, are made exclusively at the senior management level.

## **10.10 LEGAL RISK**

Legal risks belong to non-quantifiable risks that are not subject to specific numerical measurements but likewise require similar management attention. While unpredictable, non-quantifiable risk may cause a severe impact on the Bank’s profit and loss. These risks are mitigated by developing a strong “control culture” and an organisational structure that is risk-aware and an effective internal control system that continually monitors and updates processes and procedures.

Legal risks include the potential for the Bank to suffer a financial loss due to non-existent, incomplete, incorrect, and unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. This risk is closely related to credit risk as it most often involves legal problems with counterparties to the Bank’s transactions. It is also closely related to other non-quantifiable risks that have to be assessed: fiduciary risk, reputational risk, and regulatory risk.

A legal review process is the primary control mechanism for legal risks and shall be part of every product programme of the Bank. The review aims to validate the existence, propriety, and enforceability of documents, and verify the capacity and authority of counterparties and customers to enter into transactions.

## **10.11 REGULATORY RISK**

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The monitoring of the Bank’s compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank’s Chief Compliance and Corporate Governance Officer. The Chief Compliance and Corporate Governance Officer is responsible for communicating and disseminating new rules and regulations to all units,

analysing and addressing compliance issues, performing periodic compliance testing and regularly reporting to the Corporate Governance Committee and the Board.

## SECTION 11. DESCRIPTION OF THE BANK'S ASSETS AND LIABILITIES

The tables below and accompanying discussions provide selected financial highlights regarding the Bank's assets and liabilities. The following audited information should be read together with the Financial Statements included in this Offering Circular as well as "Risk Management" and "Description of the Bank".

### 11.1 FUNDING

The Bank's funding operations are designed to ensure both a stable source of funds and effective liquidity management. The Bank's main sources of funding are time, savings and demand deposits. Total deposits represented 62.0 per cent. of the Bank's sources of funding as of 31 December 2024. As of the same date, time, savings and demand deposits represented 33.9 per cent., 31.9 per cent. and 34.2 per cent., respectively, of total deposits of ₱676.3 billion. In recent years, the Bank has made directed efforts to increase its deposit base. Other sources of funding include bills payable, notes and bonds payable and stockholders' capital (total capital funds attributable to the Parent Bank's stockholders), which represented 14.2 per cent., 5.0 per cent. and 17.0 per cent. of the Bank's total liabilities and capital funds, respectively, as of 2024. The Bank also sources its funding requirements from the interbank market and general financings.

#### 11.1.1 Sources of Funding

The following table sets out an analysis of the Bank's principal funding sources and the average cost of each funding source as of the periods indicated:

	As of 31 December		
	2022	2023	2024
	(₱ millions)		
Deposits by currency:			
Peso.....	619,749.7	616,554.6	541,061.5
Foreign .....	91,554.3	96,013.8	135,261.3
<b>Total.....</b>	<b>711,304.0</b>	<b>712,568.4</b>	<b>676,322.8</b>
Borrowings <sup>(1)</sup> :			
Peso.....	33,543.6	70,451.5	89,022.2
Foreign (included under bills payable) .....	99,303.2	84,836.4	73,234.2
<b>Total.....</b>	<b>132,846.8</b>	<b>155,287.9</b>	<b>162,256.4</b>

Note:

1) Comprised of bills payable only.

Deposit liabilities bore an annual interest of up to 8 per cent. in 2022, up to 7.0 per cent. in 2023 and up to 7.5 per cent. in 2024.

The range of the interest rates of bills payable per currency is set out in the table below:

	As of 31 December		
	2022	2023	2024
Peso.....	1.9% - 8.4%	3.5% - 8.4%	6.1% - 8.4%
Foreign .....	1.1% - 5.2%	0.3% - 6.4%	1.2% - 4.9%

#### 11.1.2 Deposits

Historically, the Bank's principal source of deposits is its retail banking customers. As of 31 December 2024, retail banking customers accounted for 55.4 per cent. of the Bank's total deposit liabilities while customers of corporate banking and treasury accounted for the balance at 16.2 per cent. and 0.6 per cent., respectively.

The Bank's foreign currency deposits and funding are primarily handled through its FCDU operation, which is permitted to accept deposits and extend credit in foreign currencies. As of 31 December 2022, 2023 and 2024, the Bank's foreign currency deposits made up 12.9 per cent., 13.5 per cent. and 20.0 per cent., respectively, of its total deposits.

The Bank has expanded its sources of funds in order to diversify the scheduled maturities of deposits and maintain a funding portfolio that will enable it to achieve funding stability, liquidity, and reduce the discrepancies between its loan and deposit maturities. The Bank continues to grow its CASA through internal and external programmes to encourage increases in deposits, particularly traditional demand and savings deposits.

As of 31 December 2024, 66.1 per cent. of the Bank's outstanding deposits were demand and savings deposits which can be withdrawn on demand without any prior notice from the customer.

The general increase in deposits was primarily the result of the Bank's efforts to expand its deposit business, through digital offerings both to retail and corporate customers. The following table sets out an analysis of the maturities of the deposit base of the Bank:

	<b>As of 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	(₱ millions)		
Demand.....	232,081.8	233,282.7	231,378.0
Savings.....	195,020.7	195,864.3	215,542.9
Time.....	281,201.4	283,421.4	229,401.9
Long-term negotiable certificate of deposits .....	3,000.0	-	-
<b>Total.....</b>	<b>711,303.9</b>	<b>712,568.4</b>	<b>676,322.8</b>
	<b>As of 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	(₱ millions)		
Up to one year .....	649,537.3	680,343.0	650,045.6
Up to five years .....	44,696.5	31,363.9	25,479.6
Over five years .....	17,070.1	861.5	797.6
<b>Total .....</b>	<b>711,303.9</b>	<b>712,568.4</b>	<b>676,322.8</b>

### 11.1.3 Credit Lines

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

The Bank is a member of the Philippine Deposit Insurance Corporation (which insures all deposits up to a maximum of ₱1,000,000.00 per depositor). The Philippine Deposit Insurance Corporation is funded by semi-annual assessment fees at a prescribed percentage of the Bank's deposit liabilities less certain exclusions.



### 11.1.4 Bills Payable and Other Borrowings

The Bank also sources funds through bills payable and other borrowings which include senior bonds. The Bank's bills payable represent borrowings from local and foreign banks. As of 31 December 2022, 2023, and 2024, bills payable amounted to ₱132.8 billion, ₱155.3 billion, and ₱162.3 billion, respectively, of which 74.8 per cent., 54.6 per cent., and 45.1 per cent., respectively, were denominated in foreign currencies. The Bank also issues subordinated debt from time to time to strengthen its capital base as well as to raise funds. The following describes certain details of the Bank's outstanding bills payable and other borrowings as well as its outstanding subordinated debt.

- On 24 February 2020, the Bank issued and listed on PDEX its ₱6.8 billion unsecured subordinated notes qualifying as tier 2 capital due 2030 under its BSP-approved issuance of ₱20.0 billion unsecured subordinated notes qualifying as tier 2 capital.
- On 22 October 2020, the Bank issued U.S.\$300 million in fixed rate senior notes with a coupon of 2.125% per annum, maturing on 22 October 2025 under the Bank's MTN Programme.
- On 9 December 2020, the Bank issued ₱885.0 million in fixed rate senior bonds under its ₱39.0 billion bond programme. The bonds carry a coupon rate of 3.375% per annum and mature on 9 March 2026.
- On 23 June 2021, the International Finance Corporation (IFC) invested in U.S.\$150 million social bonds issued by the Bank under its sustainable finance framework. The social bonds carry an interest rate of 1.15% and are unsecured.
- On 12 September 2022, the Bank executed a U.S.\$358 million Facility Agreement for a Syndicated Loan facility which was fully drawn and participated in by 15 lenders by 25 November 2022. Due to positive market feedback, its size was raised from the original launch size of U.S.\$150 million. The proceeds will be used to refinance the Bank's maturing USD loans and existing USD bonds and fund its general corporate purposes.
- On 4 December 2023, the Bank issued and listed on the PDEX its ₱18.2 billion of Peso-denominated fixed rate bonds via a dual tranche offering. The 1.5Y Series F Bonds due 2025 raised a total of ₱10.3 billion and carry an interest rate of 6.5625% per annum while the 3Y Series G Bonds due 2026 raised a total of ₱7.8 billion and carry an interest rate of 6.6800% per annum.

Interest expense on notes and bonds payable amounted to ₱5.6 billion, ₱10.8 billion, and ₱13.2 billion for the years ended 31 December 2022, 2023, and 2024, respectively, and is included under the interest expense on bills payable and other liabilities account in the statements of income.

## 11.2 LIQUIDITY

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

Pursuant to BSP Circular No. 1082, universal and commercial banks are required to maintain a statutory legal reserve against deposit and deposit substitute liabilities.

On 31 March 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from the reserve week of 3 April 2020 for universal and commercial banks, to 12 per cent. against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable certificate of time deposits (CTDs), long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks.

On 27 July 2020, the BSP issued BSP Circular No. 1092 reducing the reserve requirements against deposit and deposit substitute liabilities in local currency of banks, with effect from 31 July 2020 for thrift banks, to 3 per cent. against demand deposits, “NOW” accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes.

The required reserves must be kept in the form of deposits placed in a demand deposit account with the BSP. Government securities, which may form part of the reserves against deposit/deposit substitute liabilities of banks must bear an interest at the rate of 4.0 per cent. per annum, must be non-negotiable, and shall carry BSP support.

Pursuant to BSP Circular No. 1083, loans that are granted to MSMEs shall be allowed as alternative compliance with the required reserves against deposit and deposit substitute liabilities, subject to the following conditions: (1) that the MSME loan was granted after 15 March 2020; and (2) that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose. Qualified MSME loans are to be valued at amortised cost, gross of allowance for credit losses. The use of MSME loans as allowable alternative compliance with the reserve requirement was available to banks from 24 April 2020 to 30 December 2021.

On 8 October 2020, the BSP issued Circular No. 1100 amending Circulars No. 1087 and 1083, which provides the following allowable alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities:

- 1) Peso-denominated loans that are granted to MSMEs, excluding banks and non-bank financial institutions with a quasi-banking licence (**NBQB**), subject to the following conditions:
  - a) that the MSME loan was granted after 15 March, 2020, provided, that if such MSME loan becomes past due or non-performing, it is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such MSME loan has been subsequently renewed/restructured by the bank/NBQB in accordance with existing regulations. Notwithstanding this provision, a bank/NBQB may continue to utilise said past due or non-performing MSME loan as alternative compliance with the reserve requirements for an additional 30 calendar days from the date on which the loan becomes past due or non-performing, whichever comes earlier;
  - b) that the MSME loan that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements; provided, that the bank demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. For purposes of determining the increase in the bank’s MSME loan portfolio, the bank shall exclude accrued interest and accumulated charges which have been capitalised or made part of the principal restructured MSME loans; and
  - c) that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

The use of MSME loans as allowable alternative compliance with the reserve requirement was available to banks from 24 April 2020 to 30 December 2022, subject to early closure of the eligibility window by the Monetary Board, if warranted and with prior notice; and

- 2) Peso-denominated loans that are granted to large enterprises, excluding banks and NBQBs, subject to the following conditions:
  - a) that the loan to the large enterprise was granted after 15 March, 2020, provided, that a loan to a large enterprise that becomes past due or non-performing is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such loan to a large enterprise has been subsequently renewed/restructured by the bank/NBQB in accordance with existing regulations. Notwithstanding this provision, a bank/NBQB may continue to utilise said past due or non-performing loan to a large enterprise as alternative compliance with the reserve requirements for an additional 30 calendar days from the date on which the loan becomes past due or non-performing, whichever comes earlier;

- b) that the loan to the large enterprise that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements; provided, that the bank demonstrates an increase in its loan portfolio to large enterprises during the month preceding the reserve day. For purposes of determining the increase in the bank's loan portfolio to large enterprises, the bank shall exclude accrued interest and accumulated charges which have been capitalised or made part of the principal restructured MSME loans; and
- c) that the loan to the large enterprise is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

The use of loans to a large enterprise as allowable alternative compliance with the reserve requirements was available to banks/NBQBs from 29 May 2020 to 29 December 2022, subject to early closure of the eligibility window by the Monetary Board, if warranted and with prior notice.

The BSP also requires banks to maintain asset cover of 100.0 per cent. for foreign currency liabilities of their FCDUs, of which 30.0 per cent. must be in liquid assets. On 8 April 2020, the BSP issued BSP Memorandum Circular No. M-2020-023, which allows the alternative treatment of net unrealised losses arising from marking-to-market of financial assets/liabilities and revaluation of third currencies to U.S. dollars of assets in the FCDU book for purposes of determining compliance with the FCDU asset cover requirement. Under the Memorandum Circular, whenever the total of the following FCDU accounts: (x) items comprising the 'Net Unrealised Gains/(Losses) from Operations' credited/debited to 'Undivided Profits/(Losses)', as well as those not yet credited/debited to 'Undivided Profits/(Losses)'; (y) 'Net Unrealised Gains/(Losses) on Available For Sale Financial Assets' recognized directly in equity; and (z) 'Gains/(Losses) on Fair Value Adjustments of Hedging Instruments' recognised, results in a net "debit balance", a bank may, for the period beginning at the effectivity of the Memorandum Circular until 30 September 2020, add back the "net debit amount" to total assets in the FCDU book for purposes of determining compliance with the 100 per cent. asset cover requirement instead of transferring eligible foreign currency assets from the RBU book to the FCDU book as required under the Manual of Regulations on Foreign Exchange Transactions.

The Bank has consistently complied with the reserve requirements for Peso deposits and the cover requirements for FCDU described above.

The Bank's liquid assets as of 31 December 2024 amounted to ₱138.4 billion, representing 12.1 per cent. of the Bank's total assets. Liquid assets include cash and other cash items, due from BSP, due from other banks, interbank loans receivable and securities purchased under reverse repurchase agreements and trading and investment securities (excluding financial assets at amortised cost and FVOCI).

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

	As of 31 December		
	2022	2023	2024
Liquid assets <sup>(1)</sup> .....	182,949.3	151,562.9	138,355.0
Cash and other cash items.....	9,891.5	10,439.1	10,143.8
Due from BSP.....	94,610.3	82,643.7	82,146.6
Due from other banks.....	46,240.0	27,263.3	33,890.5
Interbank loans receivable.....	23,554.0	25,411.1	1,879.0
Financial assets at FVTPL.....	8,653.5	5,805.7	10,295.1
<b>Financial Ratios</b>			
Liquid assets to total assets.....	16.7%	13.2%	12.1%
Liquid assets.....	182,949.3	151,562.9	138,355.0
Total assets.....	1,092,886.2	1,145,143.4	1,145,441.0

	As of 31 December		
	2022	2023	2024
Liquid assets to total deposits.....	25.7%	21.3%	20.5%
Liquid assets.....	182,949.3	151,562.9	138,355.0
Total deposits.....	711,303.9	712,568.4	676,322.8
Net loans to total deposits.....	65.3%	71.2%	75.1%
Total loans <sup>(2)</sup> .....	478,259.9	526,533.8	531,053.2
Less: Allowance for Impairment....	14,038.7	19,166.0	22,870.6
Net loans.....	464,221.2	507,367.8	508,182.5
Total deposits.....	711,303.9	712,568.4	676,322.8

Notes:

- 1) Liquid assets includes cash and cash items, deposits with the BSP and deposits with other banks, interbank loans receivable and securities purchased under reverse repurchase agreements and trading and investment securities but excludes those accounted for at amortised cost and FVOCI.
- 2) Sum of gross loans and accrued interest receivable less unearned discounts

### 11.3 LOAN PORTFOLIO

As of 31 December 2022, 2023 and 2024, the Bank's gross loans amounted to ₱474.8 billion, ₱522.7 billion, and ₱526.6 billion, respectively, representing 43.4 per cent., 45.6 per cent., and 46.0 per cent., respectively, of its total assets.

The Bank maintains a well-diversified loan portfolio. The following table sets out the Bank's gross loans and advances by principal lending units, as of the dates indicated:

	As of 31 December		
	2022	2023	2024
	(₱ millions)		
Corporate Banking.....	131,122.1	133,678.2	130,390.1
Commercial Banking.....	89,327.3	86,382.2	75,771.4
Consumer Finance <sup>(1)</sup> .....	244,427.1	297,327.9	316,490.3
Others <sup>(2)</sup> .....	9,893.5	5,322.9	3,928.5
Total loan portfolio.....	474,770.0	522,711.2	526,580.3

Notes:

- 1) Consumer finance consists of credit cards, auto, mortgage, personal loans, and loans from subsidiaries).
- 2) Others consist of: bills purchased, branch loans, community banking, salary loans, HR loans, and others.

#### 11.3.1 Industry Concentration

As of 31 December 2024, consumer lending – classified under 'other consumption' – accounted for the largest portion of the Bank's loan portfolio at 46.3 per cent. This concentration reflects the Bank's strategic focus on the retail segment, with the majority of loans consisting of credit card receivables, teachers' loans, and personal loans extended to individual customers. The Bank has no specific limits with respect to portfolio mix, except for the regulatory limits for loans to the real estate sector and the credit concentration limit to a particular industry or economic activity.

The internal limits are expressed as a percentage of the Bank's net worth. These vary across industries depending on the prospects of the Bank. For the regulatory limits, loans to real estate business are limited by BSP regulations

to 25.0 per cent. in the aggregate of the Bank's total loan portfolio. Excluded from this ceiling are loans extended to individual households to finance the acquisition or improvement of residential units, regardless of amount, loans extended to land developers/construction companies for the purpose of development and/or construction of socialised and low-cost residential properties, loans to the extent guaranteed by the Home Guaranty Corporation, loans to the extent collateralised by non-risk assets, and loans to finance the construction, rehabilitation, and improvement of infrastructure projects intended for public use. The trust departments of universal and commercial banks are also exempt from the said loan ceiling. The BSP also imposes a credit concentration limit of 30.0 per cent. of total loan portfolio to any industry or economic activity.

Banks are required to allocate 25.0 per cent. of their loanable funds for agriculture and agrarian reform credit in general, of which at least 10.0 per cent. must be made available for agrarian reform beneficiaries. Alternatively, a bank may meet all or a portion of the mandatory agriculture and agrarian reform credit by investing in eligible government securities, and loans and other credits under certain conditions. Due to the lack of agriculture and agrarian borrowers that meet the Bank's credit standards and due to the shortage in eligible Government securities, the Bank is unable to meet the required agricultural and agrarian reform credit.

The following tables set out an analysis of the Bank's gross loans by economic activity, as defined and categorised by the BSP:

	As of 31 December					
	2022	%	2023	%	2024	%
Other Consumption.....	181,052.6	38.1%	225,084.9	43.1%	243,872.8	46.3%
Real estate activities.....	90,229.4	19.0%	95,946.5	18.4%	92,260.2	17.5%
Information and communication.....	35,095.7	7.4%	30,272.8	5.8%	28,061.7	5.3%
Wholesale and retail trade, repair of motor vehicles.....	32,255.4	6.8%	30,774.9	5.9%	31,255.4	5.9%
Financial and insurance activities.....	33,248.9	7.0%	51,103.4	9.8%	36,050.5	6.8%
Manufacturing.....	28,514.9	6.0%	18,041.4	3.5%	17,309.9	3.3%
Transportation and storage.....	21,838.1	4.6%	22,141.1	4.2%	14,940.9	2.8%
Arts, entertainment and recreation...	12,627.8	2.7%	13,396.2	2.6%	22,578.9	4.3%
Electricity, gas, steam and air conditioning supply.....	13,090.6	2.8%	12,777.5	2.4%	14,145.6	2.7%
Other service activities.....	4,156.5	0.9%	2,171.3	0.4%	1,559.0	0.3%
Construction.....	6,109.5	1.3%	5,557.1	1.1%	7,819.4	1.5%
Activities of households as employers and undifferentiated goods and services.....	2,104.3	0.4%	2,436.9	0.5%	2,074.5	0.4%
Agriculture, forestry and fishing.....	2,035.2	0.4%	2,900.2	0.6%	2,788.7	0.5%
Accommodation and food service activities.....	1,541.8	0.3%	1,610.4	0.3%	1,652.1	0.3%
Professional, scientific and technical activities.....	472.8	0.1%	522.7	0.1%	459.3	0.1%
Others.....	10,396.7	2.2%	7,984.0	1.5%	9,711.4	1.8%
<b>Total</b>	<b>474,770.0</b>	<b>100.0%</b>	<b>522,721.2</b>	<b>100.0%</b>	<b>526,580.3</b>	<b>100.0%</b>

The Bank maintains a flexible policy toward exposure to the Philippine economy, in principal avoiding exposure of more than 30.0 per cent. to a particular individual sub-sector of the economy in accordance with regulatory requirements. The Bank also monitors its exposure to specific sectors of the economy, specifically the real estate sector, to ensure compliance with specific pre-determined lending requirements imposed by law on all Philippine banks. The Bank must likewise comply with legal requirements to make loans available to SMEs. Mandatory credit allocation laws require all Philippine banks to allocate 8.0 per cent. of their loan portfolios to micro and small-sized enterprises and 2.0 per cent. to medium-sized enterprises.

### 11.3.2 Maturity

As of 31 December 2024, loans due within one year represented 44.0 per cent. of the Bank's total loans. Loans repayable on demand principally comprise inter-bank loans, while short-term loans principally comprise loans to corporates for working capital and loans to consumers and SMEs. Medium and long-term loans are typically granted to corporations and businesses to finance capital expenditures and mortgages advanced for property purchases.

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

	As of 31 December					
	2022		2023		2024	
	(₱ millions, except percentages)					
Within one year .....	187,138.7	39.4%	182,633.7	34.9%	231,760.6	44.0%
One to five years.....	169,117.0	35.6%	222,135.7	42.5%	205,063.0	38.9%
More than five years.....	118,514.3	25.0%	117,951.8	22.6%	89,756.7	17.1%
<b>Total</b> .....	474,770.0	100.0%	522,721.2	100.0%	526,580.3	100.0%

### 11.3.3 Currencies

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

As of 31 December 2024, 96.5 per cent. of the Bank's loan portfolio was denominated in Pesos with 3.5 per cent. being denominated in foreign currencies, the majority of which comprised U.S. dollars. Substantially all of the Bank's foreign currency-denominated loans are loans to corporate customers.

The following table shows an analysis of the Bank's gross loans (gross of allowance and unearned discount) by currency:

	As of 31 December					
	2022		2023		2024	
	(₱ millions, except percentages)					
Pesos.....	461,095.5	97.1%	505,359.7	96.7%	507,962.6	96.5%
Foreign currency.....	13,674.5	2.9%	17,361.5	3.3%	18,617.7	3.5%
<b>Total</b> .....	474,770.0	100.0%	522,721.2	100.0%	526,580.3	100.0%

### 11.3.4 Interest Rates

An important component of the Bank's asset and liability policy is its management of interest rate risk, which is the relationship between market interest rates and the Bank's interest rates on its interest-earning assets and interest-bearing liabilities. (See "Risk Management — Interest Rate Risk".)

The Bank's loan pricing is set by the ALCO. The Bank's loan pricing is driven by market factors, the Bank's funding position, and the credit risk associated with the relevant borrower. The lending market in the Philippines is principally based on floating rate lending. The Bank's floating rate loans are re-priced periodically by reference to the Philippine domestic interest rates, and to the Bank's internal cost of funds known as the transfer pool rate plus a spread. As a result, the Bank's exposure to interest rate fluctuations is significantly reduced. (See "Risk Management — Interest Rate Risk".) The Bank's pricing policy with respect to its interest-bearing liabilities is

set by the Bank's ALCO. CASA deposits do not pay any interest for deposits falling below a maintaining balance. The basic rate for savings account deposits that are above the minimum threshold is 0.10 per cent. per annum. The Bank also offers special interest rates for deposits under its time deposits account. These larger deposits are placed on pre-agreed terms and pay interest rates that generally track Philippine domestic interest rates.

### 11.3.5 Size and Concentration of Loans

The BSP generally prohibits any bank from maintaining a financial exposure to any single person or group of connected persons in excess of 25.0 per cent. of its net worth. In determining whether the Bank meets the single borrower limit (SBL), the Bank includes exposure to related accounts (including accounts of subsidiaries and parent companies of the borrower). This limit does not apply to loans which are secured with non-risk assets, including cash deposits and Government securities. The Bank has complied with the SBL on all of its loans. In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of Bangko Sentral-Supervised Financial Institutions (BSFIs), the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020, as amended by BSP Memorandum No. M-2020-057 dated 21 July 2020, which increased the single borrower's limit from 25 per cent. to 30 per cent. until 19 March 2021.

On 22 July 2020, the BSP issued BSP Memorandum Circular No. 1091, excluding debt securities held by market makers from the SBL. Under such circular, the debt securities will be excluded from the SBL for a period of time, such as 90 days from date of acquisition if this happened from 1 August 2020 until 31 July 2021 or not exceeding 60 days if acquired on 1 August 2021 and onwards.

As of 31 December 2024, the Bank's single largest corporate borrower accounted for 2.1 per cent. of the Bank's gross loan portfolio. As of the same period, the Bank's ten highest performing borrowers (including groups of individuals and companies) accounted for ₱72.1 billion or 13.7 per cent. of the Bank's gross loan portfolio. Of the Bank's top ten borrowers, none were related parties.

The following table presents a breakdown of total loans by outstanding balance as of the periods indicated:

	As of 31 December					
	2022		2023		2024	
	(₱ millions, except percentages)					
₱5,000,000 or less .....	255,403.5	53.8%	312,093.5	59.7%	315,665.7	59.9%
₱5,000,001 to ₱10,000,000.....	14,531.1	3.1%	18,828.2	3.6%	17,191.4	3.3%
₱10,000,001 to ₱15,000,000.....	5,673.7	1.2%	4,710.6	0.9%	5,164.8	1.0%
More than ₱15,000,000 .....	199,130.4	41.9%	187,089.0	35.8%	188,558.4	35.8%
<b>Total.....</b>	<b>474,770.0</b>	<b>100.0%</b>	<b>522,721.2</b>	<b>100.0%</b>	<b>526,580.3</b>	<b>100.0%</b>

### 11.3.6 Secured and Unsecured Loans

The Bank principally focuses on cash flows and cash generating capabilities in assessing the creditworthiness of borrowers. However, the Bank will secondarily seek to minimise credit risk with respect to a loan by securing loans with collateral or guarantees. As of 31 December 2024, 14.6 per cent. of the total loans were extended on a secured basis, with 1.7 per cent. backed by real estate mortgages.

The following table sets out the Bank's secured and unsecured loans (gross of allowance and net of unearned discount), classified (in the case of secured loans) according to type of security:

	As of 31 December					
	2022		2023		2024	
	(₹ millions, except percentages)					
Secured						
Real estate.....	12,265.7	2.6%	9,123.9	1.7%	8,818.9	1.7%
Chattel mortgage.....	84.7	0.0%	37.0	0.0%	6,677.4	1.3%
Deposit hold-out.....	374.1	0.1%	389.0	0.1%	560.4	0.1%
Others.....	66,576.6	14.1%	70,712.3	13.5%	60,750.6	11.5%
<b>Total Secured.....</b>	<b>79,301.3</b>	<b>16.7%</b>	<b>80,262.2</b>	<b>15.4%</b>	<b>76,807.3</b>	<b>14.6%</b>
<b>Unsecured.....</b>	<b>395,468.7</b>	<b>83.3%</b>	<b>442,459.0</b>	<b>84.6%</b>	<b>449,773.0</b>	<b>85.4%</b>
<b>Total.....</b>	<b>474,770.0</b>	<b>100.0%</b>	<b>522,721.2</b>	<b>100.0%</b>	<b>526,580.3</b>	<b>100.0%</b>

## 11.4 LOAN ADMINISTRATION AND LOAN LOSS PROVISIONING

### 11.4.1 Loan Classifications

The Bank classifies loans into three stages based on the ECL model, in accordance with the provisions of PFRS 9. The Bank recognises credit impairment/allowance for credit losses even before objective evidence of impairment becomes apparent. The Bank considers past events, current conditions, and forecasts of future economic conditions in assessing impairment. Credit exposures are classified as follows:

- Stage 1. Credit exposures that are considered “performing” and with not significant increase in credit risk since initial recognition or with low credit risk.
- Stage 2. Credit exposures that are considered “under-performing” or not yet non-performing but with significant increase in credit risk since initial recognition.
- Stage 3. Credit exposures with objective evidence of impairment, thus considered as “non-performing”.

### 11.4.2 Provisions

Under existing BSP regulations, the Bank should develop and document a sound loan loss methodology that can reasonably estimate provisions for loans and other credit accommodations and risk assets in a timely manner, using its experience and research and the guidance under existing BSP regulations to ensure that the specific and collective allowances for credit losses are adequate, and approximate the expected losses in the credit portfolio. In line with BSP Circular No. 1011 governing PFRS 9 implementation, stages 2 and 3 ECL are classified as specific provision, while stage 1 ECL for loans is booked as general provision. Compliance with the required 1 per cent. minimum floor for general loan loss provision is maintained by appropriating retained earnings with an amount equivalent to the excess of 1 per cent. of outstanding loan exposures over computed stage 1 ECL. The appropriated retained earnings are considered part of the Tier 2 capital subject to the limit provided under the CAR framework.

In 2018, the Bank adopted the full version of PFRS 9 which requires the Bank to record an allowance for ECL for all loans and other debt financial assets carried at amortised cost and FVOCI, together with loan commitments and financial guarantee contracts. Equity instruments are not subject to impairment under PFRS 9.

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances are measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL for those financial instruments which have experienced a significant increase in credit risk since initial recognition (general approach). The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within



the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument.

The Bank and its subsidiaries have established a policy to perform an assessment, at the end of each reporting period, of whether a financial instrument's credit risk has increased significantly since initial recognition, by considering the change in the risk of default occurring over the remaining life of the financial instrument.

The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgement, in particular, of 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. The estimation is driven by a number of factors, changes in which can result in different levels of allowances.

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

Significant factors that have affected the estimates on the ECL model include:

- The Group's internal grading model, which assigns probabilities of default to individual grades. Sensitivities were applied to consider uncertainties on available economic forecasts.
- The Group's definition of default, which is consistent with regulatory requirements.
- Development of ECL models, including the various formulas and the choice of inputs. In 2020, models were reviewed and revised as appropriate based on latest economic outlook and studies from external sources.
- Determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels, level of government spending, and collateral values, and their effect on probabilities of default, exposures at default and losses given default. Because of the uncertainties surrounding the business landscape, the quantitative overlays were complemented by experience-based expert judgement inputs through management overlay considered integral to the systematic process.

As of 31 December 2024, the Bank's ratio of allowance for impairment (loans) to total NPLs was at 60.7 per cent. The following table sets out the Bank's reconciliation of its balance of reserves as of the periods indicated:

	As of 31 December		
	2022	2023	2024
	(₹ millions)		
Balance of reserves at beginning of year	13,435.0	14,038.7	19,166.5
Provision during the year.....	4,068.4	14,040.9	19,598.7
Other adjustments <sup>(1)</sup> .....	(3,464.8)	(8,913.1)	(15,894.6)
Balance at end of year.....	14,038.7	19,166.5	22,870.6

Note:

1) Includes write-offs, collections and other movements.

On a monthly basis, all past-due accounts are updated for movements according to aging of past due accounts reports, which are summarised for portfolio tracking purposes and used to implement pro-active strategies. Going forward, the Bank may consider sales of a portion of its NPLs to manage its liabilities and performance.

#### 11.4.2.1 Non-Performing Assets

In accordance with BSP guidelines, loans and other assets in litigation are classified as non-performing assets (NPAs). The Bank's NPAs are principally comprised of ROPA and NPLs. The table below sets out details of the Bank's NPLs, non-accruing loans, ROPA, NPAs, restructured loans, and write-offs for loan losses as of the specified periods:

	2022	2023	2024
<b>Total NPLs to total Gross loans (including IBCL)<sup>(1)</sup></b> .....	4.6%	6.5%	7.1%
<b>Total NPLs to total Gross loans (without IBCL)<sup>(1)</sup></b> .....	4.6%	6.5%	7.1%
NPLs – gross.....	21,879.7	34,236.2	37,650.4
Gross loans (without IBCL).....	474,770.0	522,721.2	526,580.3
Gross loans (including IBCL).....	474,770.0	522,909.7	526,759.3
<b>Past due and NPL to total loans (without IBCL)</b> .....	7.0%	9.3%	10.0%
Past due and NPL.....	33,379.4	48,605.0	52,623.9
Gross loans (without IBCL).....	474,770.0	522,721.2	526,580.3
<b>NPAs as a percentage of total assets</b> .....	2.6%	3.6%	4.0%
NPAs.....	28,734.7	41,772.5	46,127.1
NPLs – gross.....	21,879.7	34,236.2	37,650.4
ROPA.....	6,855.1	7,536.4	8,476.8
Total Assets.....	1,092,886.2	1,145,143.4	1,145,441.0
<b>Allowance for impairment (loans) as a percentage of total NPLs</b> .....	64.2%	56.0%	60.7%
Allowance for impairment (loans).....	14,038.7	19,166.5	22,870.6
NPLs – gross.....	21,879.7	34,236.2	37,650.4
<b>Allowance for impairment (total) as a percentage of NPAs</b> .....	49.1%	46.1%	49.8%
Allowance for impairment (total).....	14,110.4	19,271.3	22,970.9
NPAs.....	28,734.8	41,772.6	46,127.2
<b>Restructured loans as a percentage of total loans (without IBCL)</b> .....	0.6%	0.5%	0.8%
Total restructured loans <sup>(2)</sup> .....	2,766.6	2,534.8	4,127.8

Notes:

- 1) In September 2002, the BSP issued BSP Circular No. 351 allowing banks that have no unbooked valuation reserves to exclude from non-performing classification loans classified “loss” in the latest examination of the BSP which are fully covered by allowance for impairment, provided that interest on said loans shall not be accrued.
- 2) Total restructured loans includes restructured credit card receivables.

Loans are classified as non-accruing (or past due) if (i) any repayment of principal at maturity or any scheduled payment of principal or interest due quarterly (or longer) is not made when due and (ii) in the case of any principal or interest due monthly, if the amount due is not paid and has remained outstanding for three months. In the case of (i), such loans are treated as non-performing if the payment is not made within a further 30 days. In the case of (ii), such loans are treated as non-performing upon the occurrence of the default in payment.

Accrued interest arising from loan accounts is classified according to the classification of corresponding loan accounts except for those which remain uncollected after six months from the date such loans or instalments have matured or have become past due for which a 100.0 per cent. allowance for uncollected accrued interest receivables is made.

#### 11.4.2.2 Ten Largest NPLs

As of 31 December 2024, the Bank's ten largest NPLs accounted for 1.3 per cent. of its total loans to customers and 17.8 per cent. of its gross NPLs to customers. As of 31 December 2024, the Bank's exposure to its ten largest NPLs amounted to ₱6.7 billion in aggregate.

The following table sets out certain information relating to the Bank's gross top ten NPLs as defined by industry or economic activity as of 31 December 2024:

Industry	Gross Type of Banking Arrangement	Gross Outstanding Balance	Provisions	Net Carrying Amount	Type of Collateral
(₱ millions)					
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	L&D <sup>(1)</sup>	3,945.8	1,693.5	2,252.4	CLEAN
FINANCIAL AND INSURANCE ACTIVITIES	L&D	775.3	339.2	436.1	CLEAN
WHOLESALE AND RETAIL TRADE; REPAIR OF MOTOR VEHICLES AND MOTORCYCLES	L&D	514.6	301.9	212.7	CLEAN
MANUFACTURING	L&D	295.4	155.7	139.7	CLEAN
ELECTRICITY, GAS, STEAM AND AIR CONDITIONING SUPPLY	L&D	217.5	144.6	72.9	CLEAN
INFORMATION AND COMMUNICATION	L&D	215.7	215.7	-	CLEAN
MANUFACTURING	L&D	204.0	105.1	98.9	CLEAN
TRANSPORTATION AND STORAGE	L&D	198.0	82.9	115.1	CLEAN
MANUFACTURING	L&D	196.7	189.7	7.0	CLEAN
MANUFACTURING	L&D	134.6	134.6	-	CLEAN
<b>Total</b>		<b>6,697.6</b>	<b>3,362.9</b>	<b>3,334.8</b>	

Note:

1) L&D means loans and discounts.

#### 11.4.2.3 Loan Restructuring

The Bank has, from time to time, restructured those NPLs which it considers suitable for restructuring in order to manage its loan portfolio and reduce its exposure to NPLs. The decision to restructure an NPL, as well as the method of restructuring, is borrower-specific. The Bank has restructured loans through extensions of maturity or rescheduling interest or principal payments based on expected cash flows of the borrower. The Bank has, in some instances, agreed to debt-for-asset swaps as part of a broader restructuring scheme.

In accordance with BSP guidelines, NPLs which are successfully restructured are considered to be current and no longer treated by the Bank as non-performing, generally following three consecutive payments of required amortisation of principal and/or interest, and for restructured loans with capitalised interest and which are not fully secured, six consecutive payments are generally required for the loan to be considered performing. However, these loans may only be removed from classified status following a review by the BSP or the credit review unit of the Bank.

#### ***11.4.2.4 Foreclosure and Disposal of Assets***

The Bank's preferred strategy for managing its exposure to NPLs that are secured is to foreclose on an NPL if the borrower cannot or will not repay the loan on acceptable terms. In the case of larger loans, the Bank may also consider accepting a dacion en pago arrangement.

The Bank had real estate ROPA of ₱6.9 billion and ₱8.1 billion as of 31 December 2023 and 2024, respectively. This represents a net increase of 18.1 per cent. from 31 December 2023. For the year ended 31 December 2024, a total of ₱2.3 billion worth of real estate ROPA were foreclosed by the Bank.

For details of the Bank's NPLs, non-accruing loans, ROPA, NPAs, restructured loans, and write-offs for loan losses as of and for the periods indicated, please refer to the table on NPAs above.

## SECTION 12. BOARD OF DIRECTORS AND MANAGEMENT

### 12.1 BOARD OF DIRECTORS

The overall management and supervision of the Bank is undertaken by its Board. The Board is empowered to direct, manage, and supervise, under its collective responsibility, the affairs of the Bank. The Articles of Incorporation of the Bank provide for a Board of not more than 15 directors. Directors are elected at the annual meeting of shareholders which is, in accordance with the Bank's by-laws, held on the fourth Friday of April each year. The 15 candidates receiving the highest number of votes shall be declared elected. Each elected director has a term of office of one year and is eligible for re-election the following year. As of the date of this Offering Circular, the Board consists of 15 directors.

The following table sets out certain information regarding the Bank's directors as of 30 April 2025.

Name	Citizenship	Position
Erramon I. Aboitiz	Filipino	Chairman
Justo A. Ortiz	Filipino	Vice Chairman
Ana Maria A. Delgado	Filipino	Director, President and Chief Executive Officer <sup>5</sup>
Sabin M. Aboitiz	Filipino	Director
Samel A. Aboitiz	Filipino	Director
Iker M. Aboitiz	Filipino	Director
Jose Emmanuel U. Hilado	Filipino	Director
Nina Perpetua D. Aguas	Filipino	Director
Victor Alfonso A. Limlingan	Filipino	Director
Robert Joseph M. De Claro	Filipino	Director
Roberto G. Manabat	Filipino	Lead Independent Director
Manuel D. Escueta	Filipino	Independent Director
Josiah L. Go	Filipino	Independent Director
Francisco Ed. Lim	Filipino	Independent Director
Honorio G. Poblador IV	Filipino	Independent Director

The business experience of each of the Bank's directors is set out below.

**Erramon I. Aboitiz** serves as Chairman of UnionBank. He is also the Chairman of Board of Directors of Endeavor Philippines and UnionBank Investment Management and Trust Corporation, Mr. Aboitiz sits as Director of Aboitiz Equity Ventures, Inc.<sup>6</sup> and Aboitiz Power Corporation<sup>7</sup>. He is the Chairman of the Board of Trustees of the Asian Institute of Management, and a Board Observer of Aboitiz & Company, Inc.

Mr. Aboitiz was awarded the Management Association of the Philippines' Management Man of the Year and Ernst & Young's Entrepreneur of the Year, both in 2011.

Mr. Aboitiz earned a Bachelor of Science degree in Business Administration, majoring in Accounting and Finance, from Gonzaga University in Spokane, USA. He was also conferred an Honorary Doctorate Degree in Management by the Asian Institute of Management. He is not connected with any government agency or instrumentality.

<sup>5</sup> Appointment as President and Chief Executive Officer effective as of 01 January 2025

<sup>6</sup> Publicly listed company

<sup>7</sup> Ibid.

#### *Committee Memberships*

Chairman	-	Executive Committee
Vice Chairman	-	Non-Executive Board
Alternate Member	-	Corporate Governance Committee

**Justo A. Ortiz** serves as the Vice Chairman of UnionBank. He holds the position of Chairman and/or Director of various subsidiaries of the Bank: UnionDigital Bank Inc. and UBX Philippines Corporation; as Director of the following companies: Aboitiz Equity Ventures, Inc., Aboitiz Foods Holdings, Inc., Pilmico Foods Corporation, Pilmico Animal Nutrition Corporation, Concepcion Industrial Corporation<sup>8</sup>, Philippine Payments Management, Inc., and Advanced Data Innovation, Inc.; and as Member of the Board of Trustees of The Insular Life Assurance Co., Ltd., Member of the Management Association of the Philippines; and Member of the Board of Trustees of Philippine Trade Foundation, Inc.

Mr. Ortiz was the Chief Executive Officer of UnionBank from 1993 to 2017. Prior to his stint in the Bank, he was the Managing Partner for Global Finance and Country Executive for Investment Banking at Citibank, N.A.

Mr. Ortiz became a member of the Claustro de Profesores of the University of Santo Tomas (UST) as he was conferred a Doctor of Humanities degree, Honoris Causa, on 11 December 2015. He was inducted as Honorary Fellow of Institute of Corporate Directors (ICD) on 12 August 2022. Other recognitions bestowed to him were Asian Banker Lifetime Award and Philippine Blockchain Leader of the Year 2022. He graduated Magna Cum Laude with a degree in the Economics Honors Program from Ateneo de Manila University.

#### *Committee Memberships*

Chairman	-	Information Technology and Cybersecurity Committee
Member	-	Non-Executive Board, Executive Committee, Risk Management Committee, Market Risk Committee, Operations Risk Management Committee, Corporate Governance Committee

**Ana Maria A. Delgado** serves as the director, president and chief executive officer of UnionBank (effective 1 January 2025). Prior to her current role, she was the senior executive vice president and institutional banking head of the Bank. She is also the Chairman of City Savings Bank, Inc., Director of Aboitiz Equity Ventures, Inc., and a Director of UnionDigital Bank.

She began her career at UnionBank as a product manager under the Retail Banking Center and has since held multiple leadership roles spanning institutional banking, customer experience, SME Lending, and consumer finance. Before joining the Bank, she was an assistant vice president for product management at Citibank, N.A. from 2006 to 2008.

Ms. Delgado holds a Bachelor of Arts in Art History and Painting from Boston College and earned her Master's Degree in Business Administration from New York University Stern School of Business in 2010.

She is passionate about innovation and enhancing customer experiences, believing that modern banking extends beyond financial services to designing transformative products and solutions that improve people's lives.

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<sup>8</sup> Publicly listed company

#### *Committee Memberships*

Member	-	Executive Committee, Information Technology and Cybersecurity Committee
Alternate Member	-	Market Risk Committee

**Sabin M. Aboitiz** serves as a director of UnionBank. He is the Director, President and Chief Executive Officer of Aboitiz Equity Ventures, Inc. (**AEV**), and Chairman of the Board of Aboitiz Power Corporation.

Mr. Aboitiz is also the President of AEV Aviation, Inc., and AEV-CRH Holdings, Inc., wholly-owned subsidiaries of AEV.

He is the: Chairman of Aboitiz Foundation, Inc., Aboitiz Land, Inc.; and Director of Aboitiz & Company, Inc., Aboitiz InfraCapital, Inc., AEV CRH Holdings, Inc., Republic Cement and Building Materials, CRH Aboitiz Holdings, Inc., Apo Agua Infraestructura, Inc., Aboitiz Construction International, Inc., Aboitiz Construction, Inc., Republic Cement Services, Inc., Unity Digital Infrastructure Inc., Pilmico International Pte. Ltd., Aboitiz Power International Pte. Ltd., AEV International Pte. Ltd, and Manila-Oslo Renewable Enterprise, Inc.

He spent much of his professional life with Aboitiz Transport, Inc.; his last position was as President and Chief Executive Officer of one of its subsidiaries, Aboitiz One, Inc. (owner of the 2GO brand), now called 2GO Group, Inc. He graduated from Gonzaga University in the USA with a B.S. Business Administration degree, majoring in Finance.

#### *Committee Memberships*

Member	-	Non-Executive Board, Executive Committee, Corporate Governance Committee
Alternate Member	-	Operations Risk Management Committee,

**Samel A. Aboitiz** serves as a director of UnionBank. He is First Vice President for Finance, Accounting and Risk of Aboitiz Equity Ventures, Inc. He is also concurrently Treasurer and Controller of Aboitiz & Company (**ACO**). He is a member of the board of advisors of ACO, and the board of directors of Aboitiz Renewables Inc. and San Fernando Light & Power Co. He served as: Assistant Vice President and Controller for the Coal Business Unit of Aboitiz Power Corporation from January 2019 to July 2021; Deputy Head of Operations of PETNET, Inc. from July 2018 to December 2018; and Corporate Finance Manager of AEV from September 2016 to July 2018. Prior to joining the Aboitiz Group, he was an Investment Banking Analyst for CLSA Exchange Capital, and a Freight Analyst for Castleton Commodities International.

#### *Committee Memberships*

Member	-	Non-Executive Board, Risk Management Committee, Operations Risk Management Committee, Audit Committee
Alternate Member	-	Executive Committee, , Market Risk Committee

**Iker M. Aboitiz** serves as director of UnionBank. He is currently Director of Aboitiz InfraCapital, Inc. He held various roles with the Aboitiz Group as follows: First Vice President - Finance of Aboitiz Equity Ventures, Inc.<sup>9</sup> and First Vice President - Chief Financial Officer and Corporate Information Officer of Aboitiz Power

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<sup>9</sup> Publicly listed company

Corporation<sup>10</sup>; Director and Chief Financial Officer of Abovant Holdings, Inc.; Director and Chief Financial Officer and Treasurer of Hijos de F. Escaño; Director of Cotabato Light and Power & Power Company, Therma Power, Inc., Aboitiz Renewables, Inc., Cebu Private Power Corporation, East Asia Utilities Corporation, AEV Aviation, Inc; Treasurer of Mactan Enerzone Corporation and Subic Enerzone Corporation. He was Treasurer of Mendal Realty Management and Development Corporation.

Mr. Aboitiz began his career with the Aboitiz & Company, Inc. in 1994 and held various positions in the company including Analyst - Corporate Planning Department from 1994-1995, Trader - Treasury Department from February 1995 to June 1995, Assistant Treasurer - Treasury Department from 1995 to 1997 and Assistant Vice-President, Head - Corporate Finance Dept. from 1998 to 1999. He served also as Treasurer of Davao Light & Power Company, Inc. and Cotabato Light & Power Company from 1998 to 1999. He was previously Adviser to the Board of Directors of City Savings Bank from 1998 to 1999. Mr. Aboitiz was also Executive Assistant to the Chairman & CEO of Union Bank of the Philippines and Member of UnionBank Asset and Liability Committee (ALCO) from 1999 to 2000. He served as Analyst – Corporate Finance Group of Credit Lyonnais SA Exchange Capital Corp. from 2000 to 2003 and Chief Finance Officer of Aboitiz Construction Group Inc. from 2003 to 2007. He worked for FBMA Marine Inc. in several positions including Chief Finance Officer, Member of the Board of Directors and Executive Committee from 2003 to 2007.

He graduated cum laude from Boston College, Newton, Massachusetts with a degree in Bachelor of Science in Business Management, Major in Finance.

#### *Committee Memberships*

Member - Non-Executive Board

Alternate Member - Executive Committee, Risk Management Committee

**Jose Emmanuel U. Hilado** serves as a director of UnionBank and its subsidiaries, UnionBank Investment Management and Trust Corporation, UnionDigital Bank Inc., and UBX Philippines Corporation. He currently serves as Senior Vice President, Chief Financial Officer, Corporate Information Officer, and Chief Risk Officer at Aboitiz Equity Ventures Inc. (AEV) and holds directorships in various entities under the Aboitiz Group, including Aboitiz Foundation, Inc., AEV CRH Holdings, Inc., AEV International Pte. Ltd., Aboitiz Data Innovation Pte. Ltd., Aboitiz Renewables, Inc., AEV Aviation Inc., and CCEP Aboitiz Beverages Philippines, Inc., among others. With over 30 years of banking experience, he has held various positions in treasury, trading, investments, correspondent banking, bank operations, human resources, and purchasing.

Mr. Hilado joined UnionBank in July 2017 as Senior Executive Vice President, Treasurer, and Head of Global Markets. He later became its Senior Executive Vice President and Chief Financial Officer, a position he held until December 2022.

His previous roles with publicly listed companies include Senior Executive Vice President and Chief Operating Officer at East West Bank<sup>11</sup>, Treasurer at RCBC<sup>12</sup>, and Chief Trader at BDO Unibank, Inc.<sup>13</sup> He is also a current member of the Financial Executives Institute of the Philippines.

He earned his bachelor's degree in Business Economics from the University of the Philippines and completed his MBA at Kellogg-Hong Kong University of Science and Technology. Additionally, he is a Certified Treasury Professional, which he obtained from the BAP-Ateneo Graduate School.

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<sup>10</sup> Ibid.

<sup>11</sup> Publicly listed company

<sup>12</sup> Ibid.

<sup>13</sup> Ibid.



### *Committee Memberships*

Member	-	Non-Executive Board, Executive Committee, Market Risk Committee
Alternate Member	-	Risk Management Committee, Information Technology and Cybersecurity Committee

**Nina Perpetua D. Aguas** serves as a director of UnionBank. She is currently the Executive Chairperson of the Board of Trustees of The Insular Life Assurance Co., Ltd. and its subsidiaries: Insular Health Care, Inc. and Insular Foundation, Inc. She also sits as: the non-executive director of Pilipinas Shell Petroleum Corporation<sup>14</sup> and as independent director of Monde Nissin Corporation<sup>15</sup>. She sits in the Governing Council of the Philippine Business Coalition for Women Empowerment (**PBCWE**). She is a member of Nextgen Organization of Women Corporate Directors (**NOWCD**) Philippines and its global community network Women Corporate Directors (**WCD**). She was also a member of the Board of Directors and Chairperson of Bank of Florida (A Rural Bank) and has served as a member of the World Bank Group's Advisory Council on Gender and Development.

She was the president and chief executive officer of Philippine Bank of Communications<sup>16</sup>, from August 2012 to March 2015. Prior to this, she was the managing director for Private Banking, Asia-Pacific at ANZ Banking Group Ltd., Singapore. She also held various positions with Citigroup Inc: managing director for Corporate Compliance, New York; Country Business Manager, Global Consumer Group, Philippines; Head of Sales & Distribution, Global Consumer Group, Philippines; and Regional Audit Director, Citigroup, Asia-Pacific.

### *Committee Memberships*

Member	-	Non-Executive Board, Executive Committee, Audit Committee, Market Risk Committee, Corporate Governance Committee
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**Robert Joseph M. De Claro** serves as Director of UnionBank. He was appointed as President and Chief Executive Officer of the SSS on December 6, 2024. He serves as Vice Chairperson of the Social Security Commission (**SSC**), the governing body of the SSS. Prior to becoming president and chief executive officer of the SSS, he was a member of the SSC representing the employers sector since 11 January 2023. In the SSC, he served as Chairperson of the SSC Information Technology and Collection Committee and a member of the SSC Audit Committee, SSC Risk Management and Investment Committee, and SSC Governance Committee.

He also represented the SSS in the boards of UBP Investment Management and Trust Corporation and PLDT Inc.<sup>17</sup> He was a former director of Ionics, Inc.<sup>18</sup>

With a background in creating and spearheading startup and operating entities for over twenty-five (25) years, Mr. De Claro is a seasoned business leader with decades of professional experience and equipped with the necessary knowledge to achieve common and long- term corporate goals. He is able to deliver double-digit gain in revenue through strategic growth strategies and with expertise in identifying opportunities, coupled with exceptional customer relationship management skills. He held various roles in companies such as: President and CEO for People4u, Inc.; operating partner for FutureNow Business Services, Inc.; president and general manager for JMango Philippines, Inc.; and general manager, APAC for GlobalOne Solutions, Inc. and Cloud Sherpas.

Mr. De Claro holds a Bachelor of Science in Computer Science with specialisation in Information Technology from De La Salle University.

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<sup>14</sup> Ibid.

<sup>15</sup> Ibid.

<sup>16</sup> Publicly listed company

<sup>17</sup> Ibid.

<sup>18</sup> Ibid.

#### *Committee Memberships*

- |                  |   |  |
|------------------|---|--|
| Member           | - | Non-Executive Board, Executive Committee, Operations Risk Management Committee, Corporate Governance Committee, Information Technology & Cybersecurity Committee |
| Alternate Member | - | Risk Management Committee, Market Risk Committee   |

**Victor Alfonso A. Limlingan** serves as Director of UnionBank. He was appointed as a Social Security Commission (SSC) Commissioner, representing Employer's group on November 19, 2024 and took his oath on November 25, 2024. On January 2025, he was designated as Chairperson of the SSS Risk Management and Actuary Committee, and a member of the SSS Investment Committee, Contribution and Collection Committee, and Corporate Governance Committee.

Mr. Limlingan concurrently serves as the Managing Director at Regina Capital Development Corporation, a leading local institutional stock brokerage in the Philippines. He also acts as Chief Financial Officer for Solar Techno Design Solutions Inc., and Technofarm Agricultural and Aquatic Products Inc. He is an entrepreneur with investments in Information Technology, Renewable Energy and Real Estate industries. He was a member of the Board of Directors of the Development Bank of the Philippines in 2024.

Prior to this, he was Senior Vice President of Small Business Corporation; and Managing Director of Argyle Street Management Limited (Hongkong). He has held positions at Cerberus/ GMAC LLC (New York and Detroit Offices), and Sun Life Asset Management Co., (Manila). He also served in the National Economic Development Authority as Technical Consultant under the Office of the Secretary as well as Consultant to Office of the Chairman in Banco Filipino. Mr. Limlingan started his career as Private Equity Analyst as Clemente Capital Consultants.

Mr. Limlingan holds an MBA from the Kellogg School of Management and obtained his undergraduate degree in Interdisciplinary Studies Major in History and Humanities from the Ateneo De Manila University. He obtained his Chartered Financial Analyst designation in 2001. He is a member of the Financial Executives Institute, Rotary Club of Makati Central, and the Foundation for Economic Freedom.

#### *Committee Memberships*

- |                  |   |   |
|------------------|---|---|
| Member           | - | Non-Executive Board, Risk Management Committee, Market Risk Committee, Audit Committee  |
| Alternate Member | - | Executive Committee, Corporate Governance Committee, Operations Risk Management Committee, Information Technology & Cybersecurity Committee |

**Roberto G. Manabat** serves as Lead Independent Director of UnionBank. He is also an Independent Director of the following companies: City Savings Bank, Inc.; UnionDigital Bank Inc.; UnionBank Financial Services and Insurance Brokerage Philippines, Inc.; Goldilocks Bakeshop, Inc.; Pluxee Philippines, Inc.; and National Reinsurance Corporation<sup>19</sup>. He is a Certified Public Accountant. Mr. Manabat is a Board Adviser on Internal Audits of SM Investments Corporation<sup>20</sup> and its subsidiaries/affiliates. He sits as Director of PA Properties and Development Corp. and Canelle Food Corporation, and as Chairman of KPMG R.G. Manabat Foundation.

As the first General Accountant of the SEC from 2003-2005, he set up the mechanism for effective financial reviews of the financial reports submitted by listed and other public companies regulated by the SEC. His past

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<sup>19</sup> Publicly listed company

<sup>20</sup> Ibid.

experience involves being: Chairman and Chief Executive Officer of KPMG R.G. Manabat & Co.; a member of the Global Council of KPMG International; a member of the Asia-Pacific Board of KPMG International; Chairman of Auditing & Assurance Standards Council; a Consultant of the SEC; and Partner of SyCip Gorres Velayo & Co., among others. Mr. Manabat has a track record of more than 40 years in the field of accountancy and has been a prominent advisor to many corporate and government agencies on good governance principles and practices.

In 2018, he received The Outstanding Professional Award in the Field of Accountancy given by the Professional Regulation Commission. In 2019, he was honoured by The Federation of Asian Institute of Management Alumni Associations, Inc. (**FAIM**) with an AIM Alumni Achievement (Triple A) Award, the most prestigious recognition given to AIM graduates. In 2023, Mr. Manabat was the recipient of the Top 100 Notable CPAs Centenary Award granted by the Professional Regulatory Board of Accountancy during the Centennial Celebration of the Accountancy profession.

Mr. Manabat graduated from the University of the East with a degree in Business Administration. He obtained his Master's degree in Business Management from Asian Institute of Management.

#### *Committee Memberships*

Chairman	-	Non-Executive Board, Audit Committee
Member	-	Risk Management Committee, Market Risk Committee, Operations Risk Management Committee, Corporate Governance Committee, Related Party Transaction Committee

**Manuel D. Escueta** serves as Independent Director of UnionBank. He is also an Independent Director of the following companies: City Savings Bank, Inc., UnionBank Financial Services and Insurance Brokerage Philippines, Inc., and Pascual Laboratories, Inc.

Mr. Escueta sits as: a member of the Executive Committee and Marketing Adviser of Mega Prime Foods Corporation; vice chairman of the Board of Trustees and Advisory Council of Educhild Foundation, Philippines; and Vice Chairman of the Board of Trustees of PAREF Southridge School for Boys. He served as Independent Director of Vitarich Corporation<sup>21</sup> from 2014 to mid-2022. He was the President of Educhild Foundation Philippines from 2004 to 2019, and the President and CEO of Pascual Laboratories, Inc. from 2009-2012. He also served as the Chairman of the Board of Directors and Business Head of Pascual Consumer Health Corporation, Inc. and Pascual Consumer Health Division, respectively. He was the Vice President for Corporate Marketing and Communications of United Laboratories, Inc. from September 2001 to March 2004. He also worked as General Advertising and Marketing Manager for Procter & Gamble, Asia.

Mr. Escueta is a graduate of the University of the Philippines in Diliman, Quezon City, with a degree in Business Administration, majoring in Marketing.

#### *Committee Memberships*

Chairman	-	Risk Management Committee
Member	-	Non-Executive Board, Audit Committee, Market Risk Committee, Operations Risk Management Committee, Corporate Governance Committee, Related Party Transaction Committee

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<sup>21</sup> Ibid.

**Josiah L. Go** is an Independent Director of UnionBank and serves as Chairman and Chief Innovation Strategist of Mansmith and Fielders, Inc., the first private company to be honored with the Agora Award for Nation Building. Mansmith also won the Innovation Excellence Award from the ASEAN Business Awards. Mr. Go is the founder and chairman of Waters Philippines, the market leader in the direct selling of premium home water purifiers in the Philippines. His leadership roles include serving as National President of the Philippine Marketing Association in 1991, Chairman of the Direct Selling Association of the Philippines in 2002, and National President of the Association of Marketing Educators from 2004-2005.

Mr. Go is widely regarded as one of the Philippines' foremost marketing gurus and is the most awarded marketing educator in the country, with 20 bestselling and record-breaking books on marketing and entrepreneurship. He has received numerous accolades, including multiple Agora Awards in 1994 and 2025, recognition as one of the Ten Outstanding Young Men (**TOYM**) of the Philippines in 2001, and as one of the Ten Outstanding Young Persons (**TOYP**) of the World in 2002. He was one of only two Lifetime Achievement Awardees from the Association of Marketing Educators in 2007, being the youngest educator to receive this distinction. Additionally, he earned the Brand Leadership Award at the World Brand Congress in India in 2009 and was listed in the 10th edition of the International Who's Who of Intellectuals (England).

Mr. Go is qualified in Blue Ocean Strategy from the Blue Ocean Strategy Institute at INSEAD, France. He has taught at De La Salle and Ateneo Universities and holds an Executive Scholar designation from Kellogg Business School (in Marketing and Sales Management) as well as from MIT Sloan (in Strategy and Innovation). He has also completed advanced programmes at Harvard, Wharton, and London Business School. Specializing in the intersection of marketing and innovation, he focuses on data-driven entrepreneurship and teaches advanced marketing courses. Over the years, he has conducted over 1,000 seminars and talks on marketing, both in the Philippines and internationally, covering a range of industries and contexts.

Mr. Go holds a degree in Management from De La Salle University and took Master of Arts in Religious Studies from Maryhill School of Theology.

#### *Committee Memberships*

Chairman	-	Operations Risk Management Committee
Member	-	Non-Executive Board, Risk Management Committee, Audit Committee, Market Risk Committee, Corporate Governance Committee, Related Party Transaction Committee

**Atty. Francisco Ed. Lim** serves as Independent Director of UnionBank. He was a Senior Partner of the Angara Concepcion Regala & Cruz Law Offices (**ACCRALAW**) but retired as such effective 31 December 2020. He is one of the several of counsels of the firm with the title Senior Legal Counsel. He is the chairman of the Air Asia, Inc., Philippines Air Asia Philippines, Inc., Justice Reform Initiative (**JRI**); Chairman and President of AA Com Travel Philippines, Inc., and Co-Chairman (together with Finance Secretary Ralph Recto and SEC Chairman Emilio B. Aquino) of the Capital Market Development Council.

Atty. Lim is former President of the Philippine Stock Exchange, Inc.<sup>22</sup> (**PSE**), Securities Clearing Corporation of the Philippines (**SCCP**), Financial Executives Institute of the Philippines (**FINEX**), Management Association of the Philippines (**MAP**) and Shareholders' Association of the Philippines (**SharePHIL**). He also served as chairman of the Philippine Stock Exchange Foundation, FINEX Foundation and the FINEX Academy.

Atty. Lim currently serves as a Director/Trustee of several Philippine stock and non-stock corporations, among which are the AirAsia Aviation Group Limited (Malaysian company), Air Asia, Inc., Alphaland Corporation,

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<sup>22</sup> Publicly listed company

Converge Information and Communications Technology Solutions, Inc.<sup>23</sup>, First Philippine Holdings Corporation<sup>24</sup>, The Insular Life Assurance Co., Ltd., and Philippines Air Asia, Inc.

Atty. Lim is a member of the Integrated Bar of the Philippines, the Philippine Bar Association, the New York State Bar Association and the American Bar Association.

Atty. Lim is a columnist of Rappler and former columnist of the Philippine Star and Philippine Daily Inquirer.

Atty. Lim is the Chairman of the Commercial Law Department of the Philippine Judicial Academy.

Atty. Lim is a law professor in the School of Law of Ateneo de Manila University (on leave) and School of Law of San Beda University (on leave).

Atty. Lim actively assisted in the enactment of several Philippine laws, such as the Financial Rehabilitation and Insolvency Act (**FRIA**), Credit Investment System Act (**CISA**), Real Estate Investment Trust Act (**REITA**), Personal Equity Retirement Account Act (**PERAA**), and the Philippine Competition Act (**PCA**).

As a member of various committees of the Supreme Court, Atty. Lim actively participated in the drafting of several Supreme Court rules of procedure, such as the 2019 Rules of Evidence, Interim Rules on Intra-Corporate Controversies, Rules on Electronic Evidence, Rules on Notarial Practice, Rules on DNA Evidence, Financial Rehabilitation Rules of Procedure, Financial Liquidation and Suspension of Payments, Rules of Procedure on the Liquidation of Closed Banks, and Interim Rules on Electronic Notarization.

Atty. Lim has received various awards and citations throughout the years, among which are: “Senior Statespeople” in Dispute Resolution (2025) by Chambers Asia-Pacific”; “Commended External Counsel of the Year” (2023) by the In-House Community; “Market Leader” in Banking and M&A (2022-2024) by IFLR1000; “A-List Philippines’ Top 100 Lawyers” (2022-2024) by the Asia Business Law Journal; “Elite Practitioner” in Capital Markets and Dispute Resolution (2022-2024) by the Asialaw Profiles; “Lawyer of the Year – Philippines” by Benchmark Litigation, Asia-Pacific Awards 2019; “Deal Maker of the Year” by the Thomson Reuters Asian Legal Business Philippine Law Awards 2017; Punong Gabay Award from the Philippine Council of Deans and Educators (PCDEB); and Professorial Chair in Commercial Law from the Philippine Supreme Court, Philippine Judicial Academy and the Metrobank Foundation, Inc.

Atty. Lim is a co-author of The Philippine Competition Act: Salient Points and Emerging Issues and the Bench Book for Commercial Courts published by the Supreme Court of the Philippines.

Atty. Lim has Bachelor of Arts (cum laude) and Bachelor of Philosophy (magna cum laude) degrees from the University of Santo Tomas, Bachelor of Laws (Second Honors) from the Ateneo de Manila University and Master of Laws from the University of Pennsylvania, USA.

#### *Committee Memberships*

Chairman	-	Corporate Governance Committee, Related Party Transaction Committee
Member	-	Non-Executive Board, Audit Committee, Market Risk Committee, Operations Risk Management Committee

**Honorio G. Poblador IV** serves as Independent Director of UnionBank. He is a Founder and Managing Partner of The Navegar Fund. He also serves as Independent Director for ABS-CBN Corporation<sup>25</sup>. He is a Non-Executive

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<sup>23</sup> Ibid.

<sup>24</sup> Ibid.

<sup>25</sup> Publicly listed company

Director of the following corporations: The Bistro Group, Bo's Coffee, Royale Cold Storage, and Asia Digital Holdings and a member of the board of trustees of Ateneo Scholarship Foundation. Mr. Poblador has over two decades of investment banking and private equity experience having worked with Credit Suisse First Boston, Morgan Stanley, Iron Capital Management, and Rothschild.

Mr. Poblador holds a bachelor's degree in Management Economics from the Ateneo de Manila University and earned his Master's degree in Business Administration from Columbia University.

#### *Committee Memberships*

Chairman	-	Market Risk Committee
Member	-	Non-Executive Board, Risk Management Committee, Corporate Governance Committee, Information Technology and Cybersecurity Committee, Related Party Transaction Committee

#### **12.1.1 Involvement in Legal Proceedings**

UnionBank is not aware of any of the following events having occurred during the past five years up to the date of this Offering Circular that are material to an evaluation of the ability or integrity of any director, nominee for election as director, Senior Management, underwriter or controlling person of UnionBank:

- any bankruptcy petition filed by or against any business of which such person was a general partner or executive officer either at the time of the bankruptcy or within two years prior to that time;
- any conviction by final judgment, including the nature of the offence, in a criminal proceeding, domestic or foreign, or being subject to a pending criminal proceeding, domestic or foreign, excluding traffic violations and other minor offences;
- being subject to any order, judgment or decree, not subsequently reversed, suspended or vacated, of any court of competent jurisdiction, domestic or foreign, permanently or temporarily enjoining, barring, suspending or otherwise limiting his involvement in any type of business, securities, commodities or banking activities;
- being found by a domestic or foreign court of competent jurisdiction (in a civil action), the Philippine SEC or comparable foreign body, or a domestic or foreign exchange or other organised trading market or self-regulatory organisation, to have violated a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated; and
- a securities or commodities law or regulation, and the judgment has not been reversed, suspended or vacated.

#### **12.1.2 Compensation of Directors and Executive Officers**

The compensation of key management personnel for the Group follows (in millions):

	<b>2022</b>	<b>2023</b>	<b>2024</b>
Short-term benefits.....	<b>₱2,565.6</b>	<b>₱3,948.4</b>	<b>₱4,245.2</b>
Post-employment benefits.....	<b>₱197.0</b>	<b>₱178.9</b>	<b>₱205.0</b>
Other long-term benefits.....	<b>₱211.2</b>	<b>₱135.2</b>	<b>₱124.0</b>
<b>Total</b>	<b>₱2,973.8</b>	<b>₱4,262.5</b>	<b>₱4,574.2</b>

The Group incurred directors' fees amounting to ₱130.8 million, ₱159.6 million and ₱192.8 million in 2022, 2023 and 2024.

The non-executive directors each receive a per diem of ₱160,000.00 for attendance in meetings of the Board, except for the Chairman of the Board who receives ₱240,000.00. The executive directors receive a per diem of ₱1,500.00 for attendance in Board meetings and ₱3,000.00 for each committee meeting. The Chairman of each committee receives a per diem of ₱120,000.00 per meeting attended and a committee member receives a per diem of ₱80,000.00. Per diems and bonuses of some directors who represent institutional shareholders are received by said directors for and on behalf of their respective institutions. The executive officers receive salaries and bonuses which are covered by UnionBank's standard employment contract.

## **12.2 BOARD COMMITTEES**

The Board has created each of the following committees and appointed board members thereto.

### **12.2.1 Executive Committee**

The Executive Committee, composed of seven members of the Board, exercises during intervals between Board meetings the functions and powers which are reserved for the Board. Excluded from such powers is the power to initiate reversals of, or departure from, fundamental policies, procedures and guidelines prescribed by the Board itself, and it is subject to such restrictions as the Board may determine. All matters passed and acted upon by the Executive Committee are reported to the Board for its consideration and approval. The Executive Committee exercises certain functions as delegated by the Board, including the approval of credit proposals, asset recovery, and real and other properties acquired.

### **12.2.2 Risk Management Committee**

The Risk Management Committee is composed of seven members of the Board. It is primarily responsible for overseeing the enterprise risk management framework and ensuring that there is periodic review of the effectiveness of the risk management systems and recovery plans. It shall ensure that corrective actions are promptly implemented to address risk management concerns.

### **12.2.3 Market Risk Committee**

The Market Risk Committee is composed of nine members of the Board. It is primarily responsible for reviewing the risk management policies and practices relating to market risk, including interest rate risk and liquidity risk. The Market Risk Committee also: reviews and endorses treasury risk limits for Board approval; approves models and systems used to calculate market risk; conducts ongoing review and validation of the adequacy and soundness of market risk policies, assumptions and practices; and monitors the sensitivity of the Bank's financial condition to the effects of market volatility and adverse price changes of the Bank's portfolio of financial instruments.

### **12.2.4 Operations Risk Management Committee**

The Operations Risk Management Committee is composed of seven members of the Board. It is responsible for reviewing various operations risk policies and practices, including, among others, policies and practices of the Bank's branches, internet banking, central processing services, and treasury operations.

### **12.2.5 Technology Steering Committee**

The Technology Steering Committee is composed of six members, one of whom is from senior management. It primarily oversees the Bank's overall IT strategy and ensures its alignment with the business strategies and objectives. It is in charge of the development and implementation of a cohesive IT risk management system to identify and address IT risk concerns on a continuous basis, and to monitor IT performance, the status of major IT projects and other significant IT issues.

### **12.2.6 Audit Committee**

The Audit Committee, composed of seven members of the Board, includes four independent directors. It provides oversight of the institution's financial reporting and controls internal and external audit functions. It also monitors

and evaluates the adequacy and effectiveness of the Bank's internal control system, and assesses the adequacy of the Bank's risk management system. The Audit Committee reviews and approves the procedures for the audit of the ICAAP.

### 12.2.7 Corporate Governance Committee

The Corporate Governance Committee is composed of nine members of the Board, including Chairman of the Board. It is responsible for ensuring the Board's effectiveness and due observance of good corporate governance principles and guidelines. It also brings to the attention of the Board possible improvement in the policies, procedures, charter, practices and structure in order to conform to the requirements of good corporate governance.

### 12.2.8 Related Party Transactions Committee

The Related Party Transaction Committee is composed of three members. It assists the Board in the performance of its governance responsibility with respect to transactions concerning related parties of the Bank. It reviews and approves transactions or endorses to the Board for approval or confirmation.

## 12.3 KEY OFFICERS

The following table sets out certain information regarding the Bank's executive officers as of 28 February 2025.

Name	Citizenship	Position
Ana Maria A. Delgado	Filipino	President and Chief Executive Officer
Manoj Varma	American	Senior Executive Vice President, Head of Consumer Banking
Manish Chawla	Indian	EVP and Chief Technology and Operations Officer
Atty. Isagani R. Cortes	Filipino	EVP and Head, Chief Compliance and Corporate Governance Officer
Ramon G. Duarte	Filipino	EVP and Head, Transaction Banking
Antonino Agustin S. Fajardo	Filipino	EVP and Head, Corporate Banking
Manuel R. Lozano	Filipino	EVP and Chief Financial Officer
Dennis D. Omila	Filipino	EVP and Chief Transformation Officer
Michaela Sophia E. Rubio	Filipino	EVP and Chief Human Resource Officer and Head, Corporate Social Responsibility
Johnson L. Sia	Filipino	EVP, Treasurer and Head, Global Markets
Mukul Sukhani	Indian	EVP and Head, Cards and Consumer Loans
Arlene Joan T. Agustin	Filipino	SVP and Head, Private Banking Group
Joselito V. Banaag	Filipino	SVP, General Counsel and Corporate Secretary
Antonio Sebastian T. Corro	Filipino	SVP and Chief Cross-Sell Officer
Albert Raymond C. Cuadrante	Filipino	SVP and Chief Marketing and Experience Officer
Admiral Rommel Jason L. Galang (Ret.)	Filipino	SVP and Chief Security Officer
Norman C. Gabriel	Filipino	SVP and Chief Audit Executive
Concepcion Perla P. Lontoc	Filipino	SVP, Head, Retail Banking
Edgar Allan G. Oblena	Filipino	SVP and Financial Controller
Jose Paulo G. Rufo	Filipino	SVP and Chief Information Security Officer and Data Protection Officer
Raquel N. Sevidal	Filipino	SVP, Head, Commercial Banking
Therese G. Chan	Filipino	Head, Wealth and Brokerage
Erwin Wiriadi	Indonesian	Chief Risk Officer

The business experience of each of the Bank's executive officers is set out below.



**Ana Maria A. Delgado** serves as Director, President and Chief Executive Officer of Union Bank of the Philippines. Prior to her current role, she was the Senior Executive Vice President and Institutional Banking Head of the Bank. She is also the Chairman of City Savings Bank, Inc., a Director of Aboitiz Equity Ventures, Inc., and a Director of UnionDigital Bank.

She began her career at UnionBank as a Product Manager under the Retail Banking Center and has since held multiple leadership roles spanning Institutional Banking, Customer Experience, SME Lending, and Consumer Finance. Before joining the Bank, she was an Assistant Vice President for Product Management at Citibank, N.A. from 2006 to 2008.

Ms. Delgado holds a Bachelor of Arts in Art History and Painting from Boston College and earned her Master's degree in Business Administration from New York University Stern School of Business in 2010.

She is passionate about innovation and enhancing customer experiences, believing that modern banking extends beyond financial services to designing transformative products and solutions that improve people's lives.

**Manoj Varma** is Senior Executive Vice President and Head of the Consumer Bank Group of UnionBank. He is also the Chairman of UnionBank Financial Services and Insurance Brokerage Philippines, Inc., and Director of PETNET, Inc. Prior to joining the Bank, he was the Country Business Manager of Citibank Philippines from 2018 to 2022. During his 30-year career with Citibank, he served in various business management across all functional units in finance, sales, credit, and marketing from the Philippines, India, Taiwan, South Korea, and the United States of America. Mr. Varma graduated with a bachelor's degree in mechanical engineering from New Delhi, India and obtained his MBA degree from Georgetown University, Washington DC.

**Manish Chawla** is Executive Vice President and Chief Technology and Operations Officer of UnionBank. Prior to joining the Bank, he was Site Head of Citigroup Business Process Solutions Pte. Ltd. He was the Head of Operations & Technology at Citibank Philippines from June 2019 to December 2022. Mr. Chawla has about 20 years of experience handling various positions in the operations and technology functions of Citibank, specifically in collections and the project management office in Indonesia, from 2005 to 2012 and then moved to Singapore to be part of the Regional Credit Operations in 2013. Before joining Citi, he spent five years of his career in GE Capital and GE SBI Cards in collections and risk. Mr. Chawla has a Master of Finance and Control post-graduate degree from the Kurukshetra University in India.

**Atty. Isagani A. Cortes** is Executive Vice President and Chief Compliance and Corporate Governance Officer of UnionBank. He is a highly experienced compliance professional with over two decades of demonstrated leadership in the banking and financial sector, particularly in regulatory and financial crime compliance, and corporate governance. He served as the Executive Vice President and Chief Compliance Officer of the Philippine National Bank<sup>26</sup> from 2019 to 2024 where he managed the Bank's regulatory compliance and financial crime risk programmes, including its overseas branches and subsidiaries. Prior to this role, he was the Senior Vice President and Deputy Head of the Regulatory Affairs Group at Rizal Commercial Banking Corporation<sup>27</sup>. Atty. Cortes spent 14 years at The Hongkong and Shanghai Banking Corporation, where he held various positions, including Senior Vice President of Legal and Compliance, Country Head of Regulatory and Financial Crime Compliance, and Country Head of Financial Crime Compliance (Band 3). In his last role with HSBC, he was a subject matter expert and risk steward on financial crime risk, implementing and overseeing controls on transaction monitoring and screening, customer due diligence, and acceptance and exit processes, among others. He has also worked as Vice President and Compliance Officer of East West Banking Corporation<sup>28</sup>, and as Assistant Vice President for Legal and Remediation Office of ABN-AMRO, Philippines.

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<sup>26</sup> Publicly listed company

<sup>27</sup> Ibid.

<sup>28</sup> Ibid.

Atty. Cortes obtained his Bachelor of Arts degree, majoring in English, from the University of the East and his Bachelor of Laws degree from the University of the Philippines.

**Ramon G. Duarte** is Executive Vice President and Center Head of Transaction Banking of UnionBank. His previous role at the Bank includes Center Head of Transaction (2020 to 2021) and Platform Development Head (2006 to 2020). Before joining the Bank, he was previously: Chief Technology Officer of Dotenable, Inc. from 2000 to 2001; Head of Electronic Banking Transaction Services at ABN AMRO Philippines from 1999 to 2000; and Assistant Vice President of Product Management under Global Transaction Services at Citibank from 1996 to 1999.

**Antonino Agustin S. Fajardo** is Executive Vice President and Center Head of Corporate Banking of UnionBank and serves as Director of First Union Insurance & Financial Agencies, Inc., a subsidiary of the Bank. He is also a Senior Credit Officer and has had broad experience in the corporate and consumer sectors of the Bank in various leadership roles. He headed the Mortgage Business from 2013 to 2017 and, in the early years of the Bank from 1994 to 1998, also played key roles in the Specialized Lending Group, which was involved in general project finance and the on-lending of official development funds to key accounts. Prior to joining the Bank, he was Project Officer for the Private Development Corporation of the Philippines.

**Manuel R. Lozano** is Executive Vice President and Chief Financial Officer of UnionBank. He is currently a Director of the different subsidiaries of the Bank, namely FUPI, UFSI, UBIMTC, and CSB, and Chairman/Director of UIC. He also served as Director of the Bank from May 2017 to April 2023. He was Senior Vice President and Chief Financial Officer of Aboitiz Equity Ventures, Inc.<sup>29</sup> from June 2015 to December 2022, and Aboitiz Power Corporation<sup>30</sup> from January 2014 to June 2015. He was also the Chief Financial Officer of the Aboitiz Power Generation Group and AP Renewables, Inc. from December 2008 to December 2013. Prior to joining the Aboitiz Group, Mr. Lozano was the Chief Financial Officer and Director of PAXYS, Inc. and held various positions in financial institutions, including Jardine Fleming & CLSA.

**Dennis D. Omila** is Executive Vice President and Chief Transformation Officer of UnionBank. He was previously the Chief Technology and Operations Officer, Chief Information Officer and IT Services Group and Operations and Shared Services Group Head of the Bank. He was the former Senior Vice President of the Infrastructure Engineering and Service Operations cluster of Globe Telecom, Inc.<sup>31</sup> from 2014 to 2016. He was also the President and COO of NetX Technology Solutions, Inc. from 2002 to 2007. His certifications include Certified Information Systems Security Professionals (CISSP), Certified Check Point Security Instruction (CCSI), Certified Check Point Security Engineer (CCSE), Certified Check Point Security Administrator, Vulnerability Assessment Specialist, Threat Assessment Specialist, Certified Core and Edge ATM Network Specialist (Fore Systems), Certified Networks Administrator (Nortel Networks), Certified SINIX, IRIX, Solaris and BSD UNIX Administrator and Business Continuity Certified Planner (BCCP).

Mr. Omila is a graduate of De La Salle University with a degree in Bachelor of Science, majoring in Computer Science, with specialisation in Computer Technology (BSCS-CT).

**Michaela Sophia E. Rubio** is Executive Vice President and Chief Human Resource Officer of Union Bank of the Philippines.

Prior to this, she was the Vice President and the Philippine Country Human Resource, Quality and Corporate Communications Head of the global electrical engineering and power company Asea Brown Boveri. She was a Senior Consultant at OTi Consulting Singapore where she got involved with government and private organisations in establishing Singapore Quality Class, People Developer, Industry Capability Upgrading (ICAP) certifications, Work Life and Work Redesign. For these capabilities she was certified by SPRING Singapore. Before a career in

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<sup>29</sup> Publicly listed company

<sup>30</sup> Ibid.

<sup>31</sup> Ibid.

Human Resource and Management Consulting, she worked as an engineer in the semiconductor and electronics manufacturing industry in the areas of Statistical Process Control and Quality Assurance. Michelle obtained a degree in Industrial Management Engineering, minoring in Chemical Engineering, from De La Salle University.

She was named as one of the Most Influential HR Executives in 2022 by CIO Views, and has won several Stevie Awards for Great Employers, including a Gold Stevie Award as HR Thought Leader of the Year (2023).

**Johnson L. Sia** is Executive Vice President, Treasurer and Head of Global Markets of UnionBank. He was formerly the Head of Financial Markets of ING Philippines. He has 28 years of experience in treasury and financial markets from Citibank Philippines, Singapore and Korea. Mr. Sia started his banking career in Citibank by being part of the bank's Management Associate Program and rose from the ranks. He has broad treasury experience spanning risk management, sales, operations, product development and general treasury management, including balance sheet management.

He has been active in leading industry market issues in the Philippines as Vice Chair of the Open Markets Committee of the Bankers Association of the Philippines (BAP) as well as the Chairperson of the BAP's Benchmark Committee.

He graduated Magna Cum Laude and obtained his Bachelor of Science degree in Computer Science from Ateneo de Manila University. He obtained his Master of Science in Business Management from the Asian Institute of Management and finished his graduate studies with high distinction.

**Mukul Sukhani** is Executive Vice President and Head of Cards and Personal Loans of UnionBank. He is a seasoned banker and business leader in the area of credit cards and consumer loans. Prior to joining UnionBank, he was Senior Vice President for Business Development of Mastercard, responsible for India and Nepal. He managed all aspects of the Mastercard relationship with issuing partners in terms of profitability, product development and solutioning. He worked with product leads to identify new segments and product opportunities to broaden their reach and market penetration.

Prior to Mastercard, he was Director and Head of Credit Cards and Personal Loans in Citi Philippines from August 2018-2021. He held the same position in Citi Vietnam from 2015-2017 and was the Head of Small Business Payments Solutions in Citi India from 2011-2015. Early in his career, he worked as COO of Loyalty Management Insights Network and Exchange Pvt Ltd., a startup in the business of customer loyalty programmes from 2009-2011. He was Director of American Express in Gurgaon from 2004-2009. He completed a post-graduate course in Business Management from XLRI, Jamshedpur and gained a bachelor's degree in chemical engineering from Laxmi Narayan Institute of Technology, Nagpur University, India.

**Atty. Arlene Joan Roxas Tanjuaquio-Agustin** is Senior Vice President and Head of Private Banking Group of UnionBank. She is a Chartered Wealth Advisor and a Chartered Trust and Estate Planner. Atty. Agustin brings with her more than two decades of experience and expertise in treasury and trust. She started her career in banking in 1990 as a Trader in Asiatrust Bank, then moved to China Banking Corp.<sup>32</sup> as an Assistant Manager for Treasury. In 1997, she transferred to Jade Progressive Savings and Mortgage Bank where she became the Senior Assistant Vice President-Treasurer. After her two-year stint, she went to join Robinsons Bank and became its First Vice President, Head of Treasury and concurrent Head of Legal & Credit Administration. From 2007 to 2009, she worked for GE Money Bank where she was appointed as First Vice President and Treasurer. When GE Money Bank was acquired by BDO Unibank, Inc.<sup>33</sup> she was appointed as the Customer Solutions Desk Head of the Treasury Capital Markets and Derivatives Division and at the same time served as the First Vice President and Treasurer of BDO Elite Savings Bank until 2011. In the same year, she joined Maybank Philippines, Inc. where she became the Senior Vice President, Treasurer and Head of Global Markets.

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<sup>32</sup> Publicly listed company

<sup>33</sup> Ibid.

Atty. Agustin completed her bachelor's degree in Political Science and Economics from the University of the Philippines, Diliman. She earned her Juris Doctor Law degree at the Ateneo De Manila University and later completed her Master's degree in Business Administration at De La Salle University. She is a member of the Integrated Bar of the Philippines.

As part of her continuing endeavours to enhance her skills as an industry Leader, she was trained by a Swiss-based Private Bank in Geneva on Wealth Management, Investments and Family Services. She represented the Philippines in various international forums in the Asia-Pacific region as a recognised expert by her peers in the Private Banking Industry.

**Atty. Joselito V. Banaag** is Senior Vice President, Corporate Secretary, and General Counsel of UnionBank. He was the former Head of the Legal and Compliance Division and Corporate Governance of GT Capital Holdings, Inc.<sup>34</sup> from 2012 to 2015. He also previously worked at the Philippine Stock Exchange (PSE) as the General Counsel and concurrently as Chief Legal Counsel of the Securities Clearing Corporation of the Philippines (SCCP). He was also Officer-in-Charge of the Exchange's Issuer Regulation Division. Prior to that, he held various positions in SGV & Co., Cayetano Sebastian Ata Dado & Cruz Law Offices, PNOC Exploration Corporation, and Padilla Jimenez Kintanar & Asuncion Law Offices.

He earned his Bachelor of Arts in Political Science, minoring in Japanese Studies, from the Ateneo de Manila University and his Bachelor of Laws from the University of the Philippines.

**Antonio Sebastian T. Corro** is Senior Vice President and Chief Cross-Sell Officer of UnionBank. Prior to joining the Bank, he held various positions from 2001 to 2017 in MasterCard Asia/Pacific Pte. Limited, such as: Country Manager in Thailand and Myanmar, leading the execution of business development strategies to expand MasterCard products and services throughout Thailand and Myanmar; Country Manager and Chief Representative in Indochina Region, guiding the member banks across the Indochina region (Vietnam, Cambodia and Laos) and Myanmar through the execution of franchise-related activities, among others; and Vice President for Operations and Member Relations in the Philippines. He also held various positions in Standard Chartered Bank from 1997-2001 and Citibank N.A. Philippines from 1996-1997. Mr. Corro has a degree on Administracion de Recursos Fisicos Y Financieros from Colegio Universitario Fermin Toro, Venezuela.

Mr. Corro earned his Administracion de Recursos Fisicos Y Financieros from Colegio Universitario Fermin Toro, Venezuela.

**Albert Raymond C. Cuadrante** is Senior Vice President, Chief Customer Experience, and Chief Marketing Officer of UnionBank. He is the current Chairman and formerly the President of Acumen Strategy Consultants, providing consultancy services focused on strategy, transformation and capability building to enable higher business performance. He also sits as a Member of the Board of Trustees of the Digital Marketing Association of the Philippines (DMAP) and the Advisory Board of the Asia Pacific Tambuli Awards. He is also presently a part-time Marketing faculty lecturer at the Ateneo De Manila University JG School of Management. Mr. Cuadrante has over 30 years of collective experience in the field of digital commerce, brand management and marketing. In 2008, he joined Jollibee Foods Corporation<sup>35\*</sup> and handled various positions from Marketing Director for Red Ribbon, Vice President and Marketing Head of Jollibee, President for Greenwich, and established and headed the Digital Commerce and Customer Loyalty division for the Philippines, which was tasked with leading the digital transformation for customer-facing touchpoints. He was the recipient of the 2013 Asia Pacific Tambuli Chief Marketing Officer of the Year award, the 2023 Top 10 CMOs from the Philippines by CEO Insights Asia and the 2022 10 Most Inspiring CMOs by C Level Focus and most recently awarded as 2024 CMO of the Year by Marketech APAC. He started his Marketing career at Procter & Gamble Philippines. Mr. Cuadrante graduated with a Bachelor of Science, majoring in Management Engineering, (Honors Program) from Ateneo De Manila

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<sup>34</sup> Publicly listed company

<sup>35</sup> Ibid.

University.

**Rear Admiral Rommel Jason L. Galang PN, (Ret.)** is Senior Vice President and Chief Security Officer of UnionBank. Prior to his employment at UnionBank, he is a senior officer of the Philippine Navy where he held various positions. Rear Admiral Galang is a distinguished military officer with over 38 years of active service, exhibits an exceptional standard of excellence and fine leadership acumen, is a notable innovator in navy modernisation and has perspective vision. He has expertise in the field of strategic and tactical planning, operations and research, project management on the Philippine Navy Modernization program, and special operations. His notable positions while on active service were: the former Commander of the Naval Sea Systems Command; Commander, Naval Forces West; Deputy Commander, Philippine Fleet; Commander, Littoral Combat Force; Chief of United Command Staff, Western Command, AFP; Director, Naval Research and Technology Development Center; and Commander of the Naval Special Operations Group (Navy seals).

Rear Admiral Galang PN (Ret) is a recipient of the Philippine Legion of Honors medal given by President Rodrigo Duterte, and the Order of Lakandula (rank of Commander) given by President Gloria Macapagal arroyo. He also received four Distinguished Service Stars, two Distinguished Navy Crosses, two Meritorious Achievement Medals, one Distinguished Service Medal, one Gawad sa kaunlaran Medal, five Bronze Cross Medals, two Silver Wing Medals, 33 Military Merit Medals, two Military Civic Action Medals, seven Military Commendation Medals, and ten more assorted medals, making him one of the few Navy Officers who received more than 50 different medals throughout their Naval Career. He is a graduate of the Philippine Military Academy Class of 1987 and obtained his Master's degree in Management (Public Administration) from the Philippine Christian University.

**Concepcion Perla P. Lontoc** is Senior Vice President and Head of Retail Banking of UnionBank. Prior to this, she was Sales Director and Deputy Head for Retail Banking Center until 31 December, 2024; and First Vice President and Sales Director from July 2016 to June 2020. She started her career with the Bank as Assistant Manager/Sales Officer in May 1996. She graduated with a degree in BS Economics from the University of the Philippines Diliman in 1989.

**Raquel N. Sevidal** is Senior Vice President and Head of Commercial Banking of UnionBank. She has been the Deputy Head for Commercial Banking and the Chief Wholesale Credit Officer of the Bank. She has more than 24 years of experience in the banking industry. She was formerly First Vice President and Sub-Group Head – Countryside of the Commercial Banking Group of Metropolitan Bank and Trust Company\* (MBTC). During her stint in MBTC, she also: held the position of Division Head of Credit Group and a Designated Senior Credit Officer; and served as Vice Chairman of Credit Committee and as a member of the Non-Performing Asset Committee. She started her career as Relationship Manager of Equitable PCI Bank. Ms. Sevidal graduated with a Bachelor of Science degree in Psychology from the University of Santo Tomas and holds a Master's degree in Business Administration from De La Salle University.

**Norman C. Gabriel** is Senior Vice President and Chief Audit Executive of UnionBank. He is a Certified Public Accountant (CPA), is a Certified Internal Auditor (CIA) and also holds certifications in Risk Management Assurance (CRMA) and Controls Self-Assessment. He has more than 20 years of audit, operations and financial controllership experience from consumer goods, consumer electronics, banking and other industries. He previously worked as Country Controller for Accenture and Internal Audit Head at Goodyear Tires Asia Pacific and Samsung Electronics Philippines. He spent most of his career at Procter & Gamble, majority of which doing regional and global roles in the Internal Audit function. While at P&G, he also held roles in Credit Risk, Revenue and Trade Fund Management in the Asia HQ in Singapore. His early audit experience includes stints in KPMG, Security Bank Corporation<sup>36</sup> and UnionBank. Mr. Gabriel obtained his Bachelor of Science degree in Accountancy from De La Salle University.

**Edgar Allan G. Oblena** is Senior Vice President and Financial Controller of UnionBank. He also sits as Director

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<sup>36</sup> Publicly listed company

of UBP Investments Corporation, a subsidiary of the Bank. Mr. Oblena was Vice President and Local Regulatory Reporting Head of Citibank N.A prior to joining the Bank in 2020. He also held a position at ING Bank N.V. Manila Branch as Assistant Vice President and Head of Regulatory and Tax Accounting Services. He started his career as Audit Staff until he was promoted to Associate Director at E&Y Sycip Gorres Velayo & Co.

Mr. Oblena is a Certified Public Accountant and a member of the Philippine Institute of Certified Public Accountants. He holds a Bachelor of Science degree in Accountancy from the University of Santo Tomas.

**Jose Paolo G. Rufo** is Senior Vice President, Chief Information Security Officer, and Data Protection Officer of UnionBank. Mr. Rufo is a Certified Information Systems Security Professional and Founding Member and Treasurer of ISC2 Philippine Chapter. Prior to joining the Bank, he was Head of Data Privacy and Information Security Governance, and formerly served as Head of Data Management and Development of Globe Telecom, Inc.<sup>37</sup> from 2010 to 2018. He also served under the Government Service Insurance System as the Head of SAP and Database Administration Unit from 2009 to 2010.

Mr. Rufo graduated with the degree in BS Statistics from the University of the Philippines, Diliman.

**Therese G. Chan** is the Head of Wealth and Brokerage of UnionBank. She serves as Director of UFSI. Prior to joining the Bank, she was Retail Bank Director of Citibank N.A. Philippines. She also held various roles with Citibank N.A. Philippines, such as Consumer Sales & Distribution Director from 2016-2019, and Senior Vice President and Cards and Loans Sales Head (2012-2015) and CitiPhone Head (2010-2011), among others. Ms. Chan holds a Bachelor of Science degree in Broadcast Communication, minoring in Economics, from the University of the Philippines, Diliman, Quezon City.

**Erwin Wiriadi** has been the Chief Risk Officer of UnionBank since 2022. Prior to joining the Bank, he was the Director and Head of Consumer Risk Management of Citibank N.A. Philippines from 2017 to 2022 and was also a TransUnion Philippines Board of Director member representing Citibank. He held various capacities relating to Risk Management in Citibank N.A. Indonesia for over 20 years prior being assigned to the Philippines. He held Senior Credit Officer entitlement since 2005 during his stint in Citibank N.A. Indonesia and had international exposures through risk reviews/audits and short-term assignment. Mr. Wiriadi graduated from The Ohio State University, Columbus, Ohio with a degree in MSc Industrial and Systems Engineering in 1995.

#### 12.4 FAMILY RELATIONSHIPS

Chairman Erramon I. Aboitiz and Directors Sabin M. Aboitiz and Iker M. Aboitiz are siblings and are related within the second degree of consanguinity. Mr. Samel A. Aboitiz is the son of Mr. Sabin M. Aboitiz and thus, related to each other within the second degree of consanguinity. Other than these relationships, none of UnionBank's directors or executive officers are related to one another within the second degree of consanguinity or affinity.

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<sup>37</sup> Publicly listed company

## SECTION 13. RELATED PARTY TRANSACTIONS

The Bank is a member of the Aboitiz Group. The Aboitiz Group, through AEV, owned approximately 49.92 per cent., 49.94 per cent. and 49.99 per cent. of the Bank's issued and outstanding shares as of 31 December 2022, 2023 and 2024, respectively. The Bank, in its ordinary course of business, engages in transactions with the Aboitiz Group. The Bank's policy with respect to related party transactions is to ensure that related party transactions are all entered into at the arm's-length standard. These transactions are made and entered into substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. For further information on the related party transactions of the Bank, see the respective note on Related Party Transactions in the Financial Statements.

### 13.1 DOSRI LOANS AND DEPOSITS

In the ordinary course of business, the Bank has loan transactions with investees and certain DOSRI (as discussed in BSP Circular No. 423 dated 15 March 2004, as amended). The General Banking Law and BSP regulations require that: (a) the amount of individual outstanding loans, other credit accommodations, and guarantees to DOSRI should not exceed an amount equivalent to their unencumbered deposits and the book value of their paid-in capital investment in the bank; (b) unsecured loans, other credit accommodations, and guarantees to DOSRI should not exceed 30.0 per cent. of the aggregate ceiling or the outstanding loans, other credit accommodations and guarantees, whichever is lower; and (c) the total outstanding loans, other credit accommodations and guarantees to DOSRI should not, without the prior approval of the Monetary Board, exceed 15.0 per cent. of the bank's total loan portfolio or 100.0 per cent. of the bank's net worth, whichever is lower.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts as of the period indicated:

	As of 31 December		
	2022	2023	2024
	(₱ millions)		
Total outstanding DOSRI loans: .....	640.5	830.2	747.7
Percentage of DOSRI loans to total loans.....	0.1%	0.2%	0.1%
Percentage of unsecured DOSRI loans to total DOSRI loans .....	0.0%	0.1%	0.1%
Percentage of past due DOSRI loans to total DOSRI loans .....	0.0%	0.1%	0.1%
Percentage of non-accruing DOSRI loans to total DOSRI.....	0.0%	0.0%	0.0%

Note:

- 1) The total unsecured DOSRI loans above represent fringe benefits that are excluded in determining the compliance with the individual ceiling under subsection X330.1 of the MORB. Accordingly, the percentage of unsecured DOSRI loans to total DOSRI loans as presented above is nil.

BSP Circular No. 560, issued on 31 January 2007, as amended by BSP Circular No. 914, issued on 23 June 2016, provides the rules and regulations that govern loans, other credit accommodations, and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, other credit accommodations, and guarantees to each of the bank's/quasi-bank's subsidiaries and affiliates shall not exceed 10.0 per cent. of the net worth of the lending bank/quasi-bank, provided that the unsecured portion shall not exceed 5.0 per cent. of such net worth. Further, the total outstanding loans, credit accommodations, and guarantees to all subsidiaries and affiliates shall not exceed 20.0 per cent. of the net worth of the lending bank/quasi-bank; and the subsidiaries and affiliates of the lending bank/quasi-bank are not related interest of any director, officer, and/or stockholder of the lending institution, except where such director, officer, or stockholder sits on the board of directors or is appointed officer of such corporation as representative of the bank/quasi-bank

as reported to the BSP. As of 31 December 2022, 2023 and 2024, the total outstanding loans, other credit accommodations, and guarantees to each of the Bank's subsidiaries and affiliates did not exceed 10.0 per cent. of the Bank's net worth, and the unsecured portion did not exceed 5.0 per cent. of such net worth.

BSP Circular No. 1001, issued on 12 May 2009, provides a separate individual limit (25.0 per cent. of the net worth of the lending bank/quasi-bank) to loans of banks/quasi-banks to their subsidiaries and affiliates for the purpose of project finance, which is defined as a method of funding in which the lender looks primarily to the revenues generated by a single project, both as a source of repayment and as security for the exposure. Subject to compliance with the following conditions: (a) the unsecured portion thereof shall not exceed 12.5 per cent. of such net worth when the project is already operational; (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programmes and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include a pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents; (d) the lending bank shall consider its total project finance exposures in complying with the BSP guidelines on managing credit limits, large exposures and credit risk concentration; (e) the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (f) the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions. As of 31 December 2022, 2023 and 2024, the total outstanding loans, other credit accommodations, and guarantees to each of the Bank's subsidiaries and affiliates engaged in energy and power generation did not exceed 25.0 per cent. of the Bank's net worth, and the unsecured portion did not exceed 12.5 per cent. of such net worth.

The outstanding balances as of 31 December 2022, 2023 and 2024 with respect to the subsidiaries' transactions with the Bank are as follows:

	<b>As of 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<b>(₱ millions)</b>		
Loans and receivables.....	79.6	129.4	96.0
Deposit liabilities.....	1,961.2	1,799.2	2,650.6

The income and expenses for the year ended 31 December 2022, 2023 and 2024 with respect to the subsidiaries' transactions with the Bank are as follows:

	<b>As of 31 December</b>		
	<b>2022</b>	<b>2023</b>	<b>2024</b>
	<b>(₱ millions)</b>		
Interest income .....	0	0	1.8
Interest expense (on deposits).....	2.4	4.6	53.2

The effects of the foregoing transactions are shown under the appropriate accounts in the Financial Statements.



## SECTION 14. PHILIPPINE BANKING INDUSTRY

The information presented in this section has been extracted from publicly available documents from various sources, including officially prepared materials from the Government, and has not been prepared or independently verified by the Issuer, the Joint Lead Arrangers and the Selling Agents, or any of their respective affiliates or advisers. None of the Issuer, the Joint Lead Arrangers and the Selling Agents, or any of their respective affiliates or advisers makes any representation as to the accuracy or completeness of this information.

### 14.1 INTRODUCTION

The banking industry in the Philippines is composed of universal banks, commercial banks, rural banks, thrift banks (including savings and mortgage banks, private development banks, and stock savings and loan associations), cooperative banks, and Islamic banks.

According to BSP's report on the Physical Network of the Philippine Banking System as of 10 March 2025, the commercial banking sector consisted of 44 banks, of which 22 were universal banks and 22 were commercial banks. Of the 22 universal banks, 13 were private domestic banks, three were Government banks and six were branches of foreign banks. Of the 22 commercial banks, two were private domestic banks, two were foreign bank subsidiaries, and 18 were branches of foreign banks.

Commercial banks are organised primarily to accept drafts and to issue letters of credit, discount and negotiate promissory notes, drafts, bills of exchange, and other evidences of indebtedness, receive deposits, buy and sell foreign exchange and gold and silver bullion, and lend money on a secured or unsecured basis. Universal banks are banks that have authority, in addition to commercial banking powers, to exercise the powers of investment houses, to invest in the equity of a business not related to banking, and to own up to 100 per cent. of the equity in a thrift bank, a rural bank, or a financial allied or non-allied enterprise. A publicly-listed universal or commercial bank may own up to 100 per cent. of the voting stock of only one other universal or commercial bank.

Thrift banks primarily accumulate the savings of depositors and invest them, together with capital loans secured by bonds, mortgages in real estate and insured improvements thereon, chattel mortgage, bonds and other forms of security or in loans for personal and household finance, secured or unsecured, or in financing for home building and home development; in readily marketable debt securities; in commercial papers and accounts receivables, drafts, bills of exchange, acceptances or notes arising out of commercial transactions. Thrift banks also provide short-term working capital and medium- and long-term financing for businesses engaged in agriculture, services, industry, and housing as well as other financial and allied services for its chosen market and constituencies, especially for SME and individuals. There are 41 thrift banks as of 10 March 2025.

Rural banks are organised primarily to make credit available and readily accessible in the rural areas on reasonable terms. Loans and advances extended by rural banks are primarily for the purpose of meeting the normal credit needs of farmers and fishermen, as well as the normal credit needs of cooperatives and merchants. There are 361 rural banks and 21 cooperative banks as of 10 March 2025.

Specialised Government banks are organised to serve a particular purpose. The existing specialised banks are the Development Bank of the Philippines (**DBP**), Land Bank of the Philippines (**LBP**), and Al-Amanah Islamic Investment Bank of the Philippines (**AAIIB**). DBP was organised primarily to provide banking services catering to the medium- and long-term needs of agricultural and industrial enterprises, particularly in rural areas and preferably for SME. LBP primarily provides financial support in all phases of the Philippines' agrarian reform programme. In addition to their respective special functions, DBP and LBP are allowed to operate as universal banks. AAIIB was organised to promote and accelerate the socio-economic development of the Autonomous Region of Muslim Mindanao through banking, financing, and investment operations, and to establish and participate in agricultural, commercial and industrial ventures based on Islamic banking principles and rulings.

During the past decade, the Philippine banking industry has been marked by two major trends — the liberalisation of the industry, and mergers and consolidation.

Foreign bank entry was liberalised in 1994, enabling foreign banks to invest in up to 60 per cent. of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of ten new foreign bank branches in 1995. The General Banking Law further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100 per cent. of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60 per cent. of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100 per cent. of the voting stock thereof. As of 10 March 2025, there are 2 foreign banks with subsidiaries and 24 foreign banks with branches.

Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014, which amended the relevant provisions of the Manual of Regulations for Banks (the **MORB**) implementing RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing, or owning up to 100 per cent. of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100 per cent. of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60 per cent. of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this as a means to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been over one hundred mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalisation, and to the mergers and consolidation trend, the BSP issued Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking licence or establishment of new domestic banks and Memorandum No. M-2016-023 dated 21 December 2016 which provides the sample list of possible incentives for mergers or consolidations and/or acquisitions of majority or all of the outstanding shares of stock of a bank. As provided in the Circular “the suspension of the grant of new banking licences or the establishment of new banks under the MORB is lifted under a two-phased approach. Under Phase 1 of the liberalisation, the grant of new universal/commercial banking licence shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalised starting 1 January 2018.

The following table sets out a comparison, based on publicly available data, of the five largest private domestic commercial banks in terms of assets, as of 31 December 2024:

Name	Market Capitalization <sup>1</sup>	Total Capital <sup>2</sup>	Total Assets <sup>2</sup>	Loans and Receivables – net <sup>2</sup>	Deposit <sup>2</sup>	No. of Branches <sup>3</sup>
(in ₱ millions, except in number of branches)						
BDO Unibank, Inc.	759,205.10	576,819.89	4,668,556.06	3,121,994.92	3,680,551.11	1,791
Bank of the Philippine Islands	600,155.50	428,248.79	3,295,752.08	2,181,517.11	2,564,224.00	1,252
Metropolitan Bank and Trust Company	323,813.90	374,941.12	3,220,012.90	1,593,288.51	2,321,464.77	960
China Banking Corporation	170,900.10	162,635.18	1,777,293.45	802,908.49	1,166,509.50	650
Philippine National Bank	60,125.5	205,053.58	1,253,050.18	737,240.84	967,245.18	631

Notes:

- 1) Market data as of 31 December 2024.
- 2) Data as of 31 December 2024 from disclosures to the BSP.
- 3) Data from 4Q2024 financial statements of respective banks.

## 14.2 MAJOR TRENDS

### 14.2.1 Digitalization

Philippines is one of the Most Digitalized Countries in ASEAN Presenting a Massive Opportunity to Bank the Unbanked and Underbanked.

According to a Google-commissioned Kantar SEA e-Conomy 2021 research report, the gross merchandise value of Philippines' internet economy is expected to experience a CAGR of 24% between 2021 to 2025 to reach U.S.\$40 billion, and the Philippines has seen 12 million new digital consumers since the start of the pandemic. This can be given evidence through Visa's latest survey wherein half of the Filipino population opted to pay cashless back in 2022, having 82% of the Filipino attempting to go cashless during the same year. As digitalization continue to improve in a drastic manner, the population's sentiment for cashless payments continue to increase having 89% of Filipinos using mobile wallets in 2022, showing a promising digital-intensive future.

There is massive market opportunity in the Philippines to bank the unbanked and underbanked. According to the World Bank, 48.6% of Philippines' population aged above 15 does not own an account at a financial institution or with a mobile-money-service provider in 2021. The main pain points of the underbanked can be resolved by digital banks. According to the 2019 Philippines Financial Inclusion Survey, 45% of respondents quoted the high cost of opening and maintaining an account to be a reason for being unbanked, 26% quoted insufficient personal identification documents, 31% are intimidated by a formal bank setup while 8% cited the distance to bank branches to be a major consideration. As part of the National Strategy for Financial Inclusion 2022-2028, targets are to raise the percentage of adults, defined as aged 15 years and above, with transaction banking accounts from 29% in 2019 to 90% in 2028, and the percentage with savings in formal financial institutions from 22% in 2019 to 50% in 2028. The same strategy report recognizes that digital banks drive financial inclusion. The BSP's promotion in financial inclusion and digitalization aims to bring 70% of the Filipino adults into the banked population by 2023 and increase the volume of online payments to 50% by the same year (up from 20.1% in 2020). As more players within the Philippine banking capitalize on the large market opportunity with the digitalization of financial services, it brings more opportunities to the unserved and underserved areas all with the use of digital tools.

### **14.2.2 Liberalization**

Foreign bank entry was liberalized in 1994, enabling foreign banks to invest in up to 60% of the voting stock of an existing bank or a new banking subsidiary, or to establish branches with full banking authority. This led to the establishment of ten new foreign bank branches in 1995. The General Banking Law of 2000 further liberalized the industry by providing that the Monetary Board may authorize foreign banks to acquire up to 100% of the voting stock of one domestic bank. Under the General Banking Law, any foreign bank, which prior to the effectiveness of the said law availed itself of the privilege to acquire up to 60% of the voting stock of a domestic bank, may further acquire voting shares of such bank to the extent necessary for it to own 100% of the voting stock thereof. As of January 2024, there are 44 universal and commercial banks in the Philippines. When narrowing down the foreign banks, according to the BSP's report on Physical Network of the Philippine Banking System, 6 fall under the universal foreign bank branch category, 2 under the commercial foreign bank subsidiary category, and 18 under the commercial foreign bank branch category.

Under RA 10641 and BSP Circular No. 858, Series of 2014 dated 21 November 2014 which amended the relevant provisions of the MORB implementing RA 10641, established, reputable and financially sound foreign banks may be authorized by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or owning up to 100% of the voting stock of an existing domestic bank (including banks under receivership or liquidation, provided no final court liquidation order has been issued); (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches and sub-branches with full banking authority. The foreign bank applicant must also be widely owned and publicly listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. Such established subsidiaries and branches of foreign banks shall be allowed to perform the same functions and enjoy the same privileges of, and be subject to the same limitations imposed upon, a Philippine bank of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

### **14.2.3 Merger and Consolidation**

The BSP has also been encouraging mergers and consolidations in the banking industry, seeing this to create stronger and more globally competitive banking institutions. To encourage this trend, the BSP offered various incentives to merging or consolidating banks. Based on BSP data, since the new package of incentives took effect in September 1998, there have been over 100 mergers, acquisitions, and consolidations of banks. However, while recent mergers increased market concentrations, BSP studies showed that they were not enough to pose a threat to the overall competition levels since market share remained relatively well dispersed among the remaining players.

Pursuant to the liberalization, and to the mergers and consolidation trend, the BSP issued BSP Circular No. 902, Series of 2016 dated 15 February 2016 to implement the phased lifting of the moratorium on the grant of new banking license or establishment of new domestic banks and Memorandum No. M-2016-023 dated 21 December 2016 which provides the sample list of possible incentives for mergers or consolidations and/or acquisitions of majority or all of the outstanding shares of stock of a bank. As provided in the Circular, the suspension of the grant of new banking licenses or the establishment of new banks under the Manual is lifted under a two-phased approach. Under Phase 1 of the liberalization, the grant of new universal/commercial banking license shall be allowed in connection with the upgrading of an existing domestic thrift bank. Under Phase 2, the moratorium on the establishment of new domestic banks shall be fully lifted and locational restrictions shall be fully liberalized starting 1 January 2018.

### **14.3 COMPETITION**

The Bank faces competition from both domestic and foreign banks, in part, as a result of the liberalisation of the banking industry by the Government. Since 1994, a number of foreign banks, which have greater financial resources than the Bank, have been granted licences to operate in the Philippines. Such foreign banks have generally focused their operations on larger corporations and selected consumer finance products, such as credit cards. The foreign banks have not only increased competition in the corporate market, but have as a result caused more domestic banks to focus on the commercial middle-market, placing pressure on margins in both markets. On 21 January 2016, the Monetary Board approved the phased lifting of the moratorium on the grant of new banking licence or establishment of new domestic banks. The moratorium on the establishment of new domestic banks and locational restrictions was lifted effective 1 January 2018.

Since September 1998, the BSP has been encouraging consolidation among banks in order to strengthen the Philippine banking system. Mergers and consolidation result in greater competition, as a smaller group of “top tier” banks compete for business.

As of 31 December 2024, the ten largest universal/ commercial banks (including unlisted banks such as LBP and DBP) account for 81.95% of total assets and 82.72% of total deposits of the Philippine banking system, based on latest available published statements of condition.

Certain factors arising from the 1997 Asian crisis and the 2008 global financial crisis also resulted in greater competition and exert downward pressure on margins. Banks instituted more restrictive lending policies as they focused on asset quality and reduction of their NPLs, which resulted in increasing liquidity. As Philippine economic growth further accelerates and banks apply such liquidity in the lending market, greater competition for corporate, commercial, and consumer loans is expected. As of 31 December 2024, the ten largest universal banks (in terms of total assets and including unlisted banks such as LBP and DBP) account for approximately 82.73% of the Total Loan Portfolio-Net of the Philippine banking system, based on published statements of condition.

The emergence of digital banks and fintech companies in recent years also brings increased competition, especially in the context of the BSP’s promotion of digitalization and financial inclusion. In 2021, the BSP granted digital bank licenses to six entities including UnionDigital. There are also a large number of fintech companies providing various banking and financial services such as payment gateways, buy-now-pay-later, mobile point-of-sale solutions, credit scoring, and fraud detection solutions. These fintech companies may quickly develop their business and expand their service coverage and more fintech companies may be established, increasing the competition.

In 2023, the BSP capped the number of digital bank licenses to six (6) and temporarily closed the application window effective 31 August 2021, to enable the BSP to monitor the performance and impact of digital banks on the banking sector as well as evaluate their contribution to the BSP’s digital transformation and financial inclusion goals/agenda. In 2024, the Monetary Board has approved the lifting of the moratorium on the grant of new digital banking licenses starting 1 January 2025 and allowed a maximum of ten (10) digital banks to operate in the country. The BSP lifted the moratorium on applications for new electronic money issuers starting 6 December 2024.

The Philippine Competition Act was signed into law in 2015 and establishes competition-related rules and procedures in the Philippines in relation to mergers and acquisitions. See “Banking Regulation and Supervision —Banking Regulation and Supervision — Philippine Competition Act.”

### **14.4 CERTAIN GOVERNMENT POLICIES AND REGULATIONS IN RELATION TO THE PHILIPPINE BANKING SYSTEM**

The Philippine banking industry is highly regulated by the BSP and operates within a framework that includes requirements on capital adequacy, corporate governance, management, anti-money laundering and provisioning

for NPLs. The BSP can alter any of these requirements and can introduce new regulations to control any particular line of business. Certain policies that the Bank believes could affect its results of operations include the following:

- 1) **Implementation of Basel III Framework on Liquidity Standards.** On 10 March 2016, the BSP issued Circular No. 905 which provided guidelines for the implementation of Basel III framework on liquidity standards as it relates to LCR and disclosure standards. The Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. Beginning on 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. On 3 November 2017, the BSP issued BSP Circular No. 981 which amended the guidelines on liquidity risk management. The banks have until 1 September 2018 to develop or make appropriate changes to their policies and procedures, provided that banks complete a gap analysis of the requirements in BSP Circular No. 981 vis-à-vis their existing risk management systems by 31 March 2018, the result of such gap analysis shall be documented and made available for review of the BSP. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi banks on both solo (head office and branches/other offices) and consolidated (Bank and subsidiary financial allied undertakings) bases.

On 15 March 2019, BSP issued Circular No. 1035 to introduce certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework. Circular No. 1035: (i) extended the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adopted the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amended the formula for minimum liquidity ratio. The LCR threshold is now at 100%, following the full implementation of the provisions of Circulars 1035. On 13 February 2020, the BSP issued Memorandum No. M-2020-003, and entitled Guidelines on the Electronic Submission of the BASEL III NSFR Report and Liquidity Coverage Ratio Report. It states that all subsidiary banks and quasi-banks must observe the guidelines for purposes of the NSFR and LCR reports beginning reporting period ended 31 January 2020, in line with BSP Circular Nos. 1035 and 1034.

- 2) **Implementation of Basel III Framework for Dealing with D-SIBS.** On 29 October 2014, the BSP issued Circular No. 856 which provided the guidelines for implementing the framework for dealing with D-SIBs under Basel III. Banks deemed as D-SIBs by the BSP will be imposed with capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.5% to 2.5%, on top of the combined requirement for capital conservation buffer and countercyclical capital buffer. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to Global Systemically Important Banks given that this framework was patterned for regional/global banks and which may not thus be appropriate for local banks. The phased-in compliance started on 1 January 2017 and will become fully effective on 1 January 2019. On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by DSIBs which shall form part of the DSIBs' ICAAP submitted to the BSP every 31 March of each year. The recovery plan identifies the course of action that a DSIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the DSIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document, which includes the first recovery plan, was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year. On 17 June 2022, the BSP issued BSP Circular No. 1148 on the Amendment to the Framework for D-SIBs which provides that the list of D-SIBs

shall now be assessed/determined annually based on latest available data submitted by each bank and shall be subject to approval of the Monetary Board, with the results to be released annually. Banks identified as D-SIBs shall be informed individually, including the bucket they belong to and the individual score for each indicator.

- 3) **Regulations Governing the Derivatives Activities of Banks.** In line with the policy of the BSP to support the development of the Philippine financial market by providing banks and their clients with expanded opportunities for financial risk management and investment diversification through the prudent use of derivatives, Circular No. 594 was issued by the BSP in January 2008 amending the existing regulations governing the derivatives activities of banks. Furthermore, Circular No. 688 issued by the BSP in May 2010 prescribes guidelines on the determination of the credit risk weighted assets for banks that will engage in derivatives activities as end-users for hedging purposes and/or under limited-use authority. In February 2017, BSP issued Memorandum No. M-2017-004 advising all banks and quasi-banks that cross-border derivative transactions involving non-centrally cleared derivatives shall be subject to margin requirements pursuant to the policy framework adopted by the Basel Committee on Banking Supervision and the International Organisation of Securities Commissions. The framework requires all covered entities that engage in non-centrally cleared derivatives to exchange initial and variation margins. Assets collected as collateral for margin purposes should be highly liquid and should, after the application of an appropriate haircut, be able to hold their value in time of stress. Variation margin requirements are being phased in from 1 September 2016 to 1 March 2017 while initial margin requirements are being phased in from 1 September 2017 to 1 September 2020. As an initial step, banks and quasi-banks should make a determination of the transactions that will be subject to margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the margin requirements implemented in other jurisdictions and assess whether they will be able to comply with the pertinent legal and operational arrangements. The Bank expects increased competition in the swaps and other derivative transactions allowed under the regulations. The Bank has already obtained its limited dealer authority for foreign exchange forwards (including non-deliverables), foreign exchange swaps, interest rate swaps, cross currency swaps, forward rate agreements as well as European foreign exchange, interest rate, bond and swap options. Meanwhile, there are currently no changes in the application process.
- 4) **Amendments to UITF Regulations.** In September 2004, the BSP issued Circular No. 447 which provided guidelines for the launching and offering of new products to be known as UITFs, and was intended to completely phase out common trust funds or convert them into UITFs within two years from the date of the circular. UITFs are open-ended pooled trust funds denominated in any acceptable currency that are to be operated and administered by trust entities. Eligible assets of UITFs include bank deposits, securities issued by or guaranteed by the Government or the BSP, tradable securities issued by the government of a foreign country, exchange listed securities, marketable instruments that are traded in an organised exchange, loans traded in an organised market, loans arising from repo agreements which are transacted through an exchange recognised by the Philippine SEC, and such other tradable investments outlets/categories as the BSP may allow. These assets are subject to mark-to-market valuation on a daily basis. The stated objective of the BSP is to align the operation of pooled funds with international best practices and enhance the credibility of pooled funds to investors. In January 2008, the BSP issued Circular No. 593 to improve risk disclosure on investing in UITFs, by requiring banks to conduct a client suitability assessment to profile the risk-return orientation and suitability of the client to the specific type of UITF that he wants to participate in, and to update the client's profile at least every three years. In September 2012, the BSP issued Circular No. 767 to include investments by UITFs in units/ shares in collective investment schemes as an allowable investment and recognising UITF structures such as feeder funds and fund-of-funds. On 21 October 2014, the BSP issued Circular 852, amending the UITF Regulations. Through this circular, the BSP strengthened the disclosure requirements for UITFs by prescribing the use of the Key Information and Investment Disclosure Statement and online posting of UITF information via a website. On 10 March 2016, the BSP issued Circular 907 to amend certain exposure limits, and allowable investment and valuation on UITFs invested in feeder fund and fund-of-funds. UITF investments shall only be limited to bank deposits and collective investment schemes (e.g., target fund, exchange-traded funds), subject to such target fund not being structured or similarly structured as a feeder fund or a fund-of-funds. UITF investments shall only be limited to bank deposits and

collective investment schemes (e.g., target fund, exchange-traded funds), subject to such target fund not being structured or similarly structured as a feeder fund or a fund-of-funds. On 14 March 2018, BSP issued BSP Circular No. 999 which further amended the allowable investment and valuation of UITFs invested in feeder fund or fund-of-funds. Under the circular, offshore/global funds which use financial derivatives for efficient portfolio management (EPM) may be allowed as target fund, provided that financial derivatives are not extensively or primarily used as an investment strategy of the target fund and that the risk level of the target fund remain consistent with the objective and risk profile of the investor fund. Alternatively, the target fund shall comply with the relevant regulatory requirements of its home jurisdiction as regards the use of financial derivatives for EPM. On 5 September 2022, the BSP issued BSP Circular No. 1152, further amending the UITF Regulations. Under said circular, the BSP provided the requirements and procedure for the creation of a UITF which may require either prior approval from, or notification with, the BSP, as well as the procedure for any subsequent amendment of key features of a fund. Further, the BSP also amended, among others, the operating and accounting methodology of a UITF, the manner by which the fund is operated, depending on the fund classification, and the minimum disclosure requirements to be contained in the KIIDS, the Participating Trust Agreement, and other marketing materials pertaining to a UITF. On 9 August 2023, the BSP issued BSP Circular No. 1178, providing for the guidelines on the selection of benchmarks for UITFs and expanding the information required to be disclosed in the KIIDS.

- 5) **Limit on Real Estate Loans of Universal Banks.** In February 2008, the BSP issued Circular No. 600 removing interbank loans from the total loan base to be used in computing the aggregate limit on real estate loans, and amending the inclusions and exclusions to be observed in the computation. On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans. On 20 August 2020, the BSP issued Circular No. 1093, expanding the real estate loan limit for UKBs from 20% to 25%.
- 6) **Exemption of Paired Government Warrants from Capital Charge for Market Risk.** In connection with the Government's Paired Warrants Programme, the BSP issued Circular No. 605 in March 2008 exempting warrants paired with the Philippines' Global Bonds from capital charge for market risk to the extent of a bank's holdings of bonds paired with warrants equivalent to not more than 50% of total qualifying capital. The Bank holds such investments which give it additional flexibility for capital deployment.
- 7) **Guidelines on Securities Borrowing and Lending Transactions.** Guidelines by the PSE on securities borrowing and lending (SB&L) govern SB&L transactions between local/foreign borrowers and local/foreign lenders. BSP Circular No. 611, Series of 2008, provides guidelines on SB&L transactions in the PSE involving borrowings by foreign entities of PSE-listed shares from local investors/lenders. In May 2008, the Monetary Board authorised the issuance of BSP registration documents to cover the PSE-listed shares of stock borrowed by foreign entities from local investors and lenders. This will allow foreign borrowers to purchase foreign exchange from the banking system for remittance abroad using the Peso sales proceeds of the borrowed shares including the related income from the SB&L transaction, such as rebates or shares in the income earned on the reinvestment of the cash collateral, interest, and dividends earned on the Peso denominated Government securities and PSE-listed shares used as collateral. On 10 February 2020, the Philippine SEC approved the Implementing Guidelines on Securities Borrowing and Lending and Short Selling that had been proposed by the Capital Markets Integrity Corporation (**CMIC**).
- 8) **Taxes.** In addition, all banks are subject to certain tax rules specific to financial institutions. In November 2005, the Government increased the gross receipts tax, which is applied to the Bank's non-interest income, from 5% to 7%. On 13 June 2016, the BIR issued Revenue Memorandum Circular 62-2016 (RMC 62-2016), seeking to clarify the tax treatment of the gross receipts tax (**GRT**), which is passed on by banks through contractual stipulations to their clients. RMC 62- 2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income and should itself be subject to a GRT of either 5% or 7%, depending on the provision of the National Internal Revenue Code of the Philippines or the Tax Reform Act of 1997 (the **Tax Code**) covering the type of income or activity. Any further changes in the



regulatory or tax environment as pertaining to the Philippine banking industry could have a material impact on the Bank's results of operations and financial position.

- 9) **Adjustment of Reserve Requirements of Peso Deposits Liabilities and Deposit Substitutes.** Under BSP Circular No. 732 (2011), as further amended by Circular No. 753 (2012), Circular No. 830 (2014) and Circular No. 832 (2014), universal and commercial banks are required to maintain regular reserves of: (a) 20% against demand deposits, savings deposit, time deposit, and deposit substitutes, Peso deposits lodged under due to foreign banks, and Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 20% against negotiable order of withdrawal accounts; (c) 4% against long-term negotiable certificates of time deposits under Circular No. 304 (2001), and deposit substitutes evidenced by repossession agreement; (d) 6% against bonds; and (e) 7% against long-term negotiable certificates of time deposits under Circular No. 824 (2014). BSP Circular No. 1082 was issued lowering the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 3 April 2020 for universal and commercial banks, to 12% against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks. On the other hand, BSP Circular No. 1092 reduced the reserve requirements against deposit and deposit substitute liabilities in local currency of banks, with effect from 31 July 2020 for thrift banks, to 3% against demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, and deposit substitutes. Since 31 July 2020, the BSP has regularly adjusted the reserve requirements as part of the liquidity management of the BSP. Under BSP Circular No. 732 (2025), the BSP further reduced the reserve against deposit and deposit substitute liabilities in local currency of banks effective reserve week starting 28 March 2025 to 5% for universal and commercial banks and 2.5% for digital banks with respect to demand deposits, "NOW" accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks. The reserve against deposit and deposit substitute liabilities in local currency of banks with respect to thrift, rural and cooperative banks currently remains at zero per cent.
- 10) **Marking to market of financial instruments.** BSP Circular No. 1021 dated 15 November 2018 provides that financial instruments that are required to be classified and measured at fair value, within the scope of PFRS 9 shall be marked-to-market in accordance with the provisions of PFRS 13 on Fair Value Measurement and the related rules and regulations issued by the Securities and Exchange Commission.
- 11) **Adoption of National Retail Payment System (NRPS) Framework.** On 6 November 2017, in line with BSP's adoption of the NRPS framework consistent with its regulations on risk management, the BSP issued Circular No. 980, which requires BSFIs to ensure that the retail payment systems they participate in demonstrate sound risk management and effective and efficient interoperability. The NRPS framework covers all retail payment-related activities, mechanisms, institutions and users. Under this framework, sound governance shall be performed by a payment system management body (PSMB), which is duly recognised and overseen by BSP. In the absence of a PSMB, the functions of providing sound governance to the retail payment system participated in by BSFIs shall be discharged by BSP.
- 12) **Enhanced Guidelines in Information Security Management.** On 9 November 2017, BSP issued Circular No. 982, providing enhanced guidelines on information security risk management of BSFIs in view of the rapidly evolving technology and cyber-threat landscape in which they operate. The amendments highlight the role of the BSFIs' board and senior management in spearheading sound information security governance and strong security culture within their respective networks. Likewise, BSFIs are mandated to manage information security risks and exposures within acceptable levels through a dynamic interplay of people, policies, processes, and technologies following a continuing cycle (i.e. identify, prevent, detect, respond, recover and test phases). The new guidelines also recognise that BSFIs are at varying levels of cyber-maturity and cyber-risk exposures which may render certain requirements restrictive and costly vis-à-vis expected benefits. Thus, the IT profile classification has been expanded from two to three, namely: "Complex," "Moderate" and "Simple" to provide greater flexibility in complying with the requirements.

- 13) **Guidelines on the Conduct of Stress Testing Exercises.** On 4 January 2018, BSP issued Circular No. 989, which defined minimum prudential requirements on stress testing and supplement the relevant provisions on stress testing provided under the risk management guidelines that were earlier issued by BSP. It provides that a board of directors should consider the results of stress testing exercises in capital and liquidity planning, in setting risk appetite, and in planning for business continuity management, and, in the case of DSIBs, in developing recovery plans. These expectations are consistent with the earlier issued guidelines on corporate governance under Circular No. 969.
- 14) **Basic Deposit Accounts.** BSP Circular No. 992, issued on 1 February 2018, requires banks to establish a basic deposit account which refers to interest or non-interest-bearing account designed to promote financial inclusion. The basic deposit account shall have an opening amount of not more than ₱100.00 and no minimum maintaining balance but with a maximum balance of not more than ₱50,000.00. If the depositor exceeds the ₱50,000.00 maximum balance, the bank shall convert the basic deposit account to a regular deposit account. The basic deposit account shall have no dormancy charges and has no reserve requirement. On 1 March 2018, the BSP issued Circular No. 998, clarifying the guidelines on the basic security deposit requirements. The circular provides that, as security for the faithful performance of its trust and other fiduciary duties, the basic security deposit shall be at least 1% of the book value of the total trust, other fiduciary and investment management assets, and at no time shall be less than ₱500,000.00; further, as security for the faithful performance of its investment management activities, the basic security deposit shall be at least 1% of the book value of the total investment management assets, and at no time less than ₱500,000.00. The Circular also prescribes the methodology in determining compliance with the basic security deposit for the faithful performance of trust and other fiduciary business and investment management activities, and amends the compliance period to require banks, that are authorised to engage in trust and other fiduciary business and investment management activities, to comply with the basic security deposit requirement on a quarterly basis, as well as, at the time of withdrawal, replacement or redemption of the government securities deposited with the BSP within the quarter period. On 15 February 2019, the BSP issued Circular No. 1032 amending the guidelines on the basic security deposit requirement. The circular provided that the trustee or fiduciary/investment manager shall ensure compliance with the required basic security deposit. Any deficiency must be corrected through the immediate posting of additional securities. Trustees or fiduciary/investment managers shall submit quarterly reports on compliance with the basic security deposit requirement and report on the basic security deposit transactions.
- 15) **Electronic Banking Services and Other Electronic Operations.** On 22 February 2019, the BSP issued BSP Circular No. 1033, which classifies electronic payments and financial services (EPFS) into basic and advanced and establishes guidelines for the licensing of EPFS. Further, BSFIs that are licensed to offer funds transfer services shall make these interoperable by participating in automated clearing houses.
- 16) **Reserves against trust and other fiduciary accounts (TOFA).** BSP Circular No. 1025 dated 13 December 2018 provides that in addition to the basic security deposit, banks authorised to engage in trust and other fiduciary business shall maintain reserves on TOFA -others, except accounts held under (1) administratorship; (2) trust under indenture; (3) custodianship and safekeeping; (4) depository and reorganisation; (5) employee benefit plans under trust; (6) escrow; (7) personal trust (testamentary trust); (8) executorship; (9) guardianship; (10) life insurance trust; (11) pre-need plans (institutional/individual); (12) Personal Equity And Retirement Account (**PERA**); (13) legislated and quasi-judicial trust; and (14) specialise institutional accounts under trust.
- 17) **Currency Rate Risk Protection Programme (CRPP Facility) and the Implementing Guidelines.** On 24 September 2018, and 5 October 2018, the BSP issued Circular No. 1014 and 1015, respectively, revising the guidelines on the CRPP Facility. The CRPP Facility is a non-deliverable USD/PHP forward contract between BSP and a universal/commercial bank in response to the request of bank clients desiring to hedge their eligible foreign currency obligations. Transactions under the CRPP facility are considered part of banks' Generally Authorised Derivatives Activities. Under the CRPP Facility, only the net difference between the contracted forward rate and the prevailing spot rate shall be settled in pesos at maturity of the contract. Should the eligible obligation be denominated in a foreign currency other than the USD, the CRPP contract shall be denominated in USD equivalent using the exchange rate indicated in the BSP Reference Exchange Rate Bulletin on deal

date. The BSP shall have supervisory enforcement actions or right to deploy its range of supervisory tools to promote adherence to the requirements set forth in the guidelines. Any violation of the guidelines, including willful delay in the submission, non-submission and/or willful making of a false or misleading statement in the notarised certification required to be submitted therein to the BSP Sections shall constitute grounds for the imposition on the bank of penalties. Under BSP Circular No. 1172 (2023), in addition to monetary sanctions, the BSP may require the pre- termination of CRPP contracts which are found ineligible during the BSP's performance of post-verification of the CRPP contracts through on-site examination or off-site verification to ascertain the eligibility of the underlying foreign currency obligation/transaction with the CRPP Facility.

- 18) **Adoption of Policy Framework on the Grant of Regulatory Relief to Banks/Quasi Banks Affected by Calamities.** On 10 October 2018, the BSP issued Circular No. 1017, which provides the policy framework on the grant of regulatory relief measures to banks/quasi-banks affected by calamities. Under the framework, banks/quasi-banks may avail of the regulatory relief packages, including the provision of financial assistance to officers who are affected by the calamity even in the absence of BSP approved purposes, for a period of one (1) year from the date of declaration of state of calamity.
- 19) **Technology and Cyber-Risk Reporting and Notification Requirements.** On 31 October 2018, the BSP issued Circular No. 1019, which amended provisions relating to the technology and cyber-risk reporting and notification requirements for BSFIs. The amendments were made to enable the BSP to have ready access to accurate, timely, and actionable information regarding BSFI's technology risk profiles as well as the evolving cyber-threat environment for a more responsive, proactive and effective banking supervision.
- 20) **Amendments to the FX Manual.** On 5 February 2019, the BSP issued Circular No. 1030, which amended provisions of the Manual of Regulations on Foreign Exchange Transactions in furtherance of the BSP's aim of liberalizing the regulations applicable to (among others) inward investments. The issuance expanded the scope of the categories of inward foreign investments such that the presence of control and significant degree of influence between the investor and the investee firm is considered for certain types of investments to be categorised as direct investment or portfolio investment. It also established a grace period to register existing investments that are unregistered as of the effectivity date of the issuance.
- 21) **Revised Framework on the Selection of External Auditors.** On 20 May 2019, the BSP issued Circular No. 1040, which revised the framework on selection of external auditors for BSP Supervised Financial Institutions in accordance with the cooperative arrangement among the BSP, the Philippine SEC, Insurance Commission and the PDIC. On 17 February 2025, the BSP issued Circular No. 1210, which provides the guidelines for the selection of external auditors for BSP supervised financial institutions. Circular 1210 provides for the minimum provisions that must be included in the engagement contract of the BSP supervised financial institutions with its external auditor.
- 22) **Rules and Regulations on Operators of Payment Systems.** On 9 September 2019, Circular No. 1049 was issued approving the rules and regulation on the registration of operators of payment systems to implement Republic Act No. 11127 or the National Payment Systems Act. These rules and regulations form part of the newly-created Manual of Regulations for Payment Systems. On 17 September 2021, the BSP approved through BSP Circular No. 1127 (2021) the governance guidelines for operators of a payment system, including the BSP as operator of the real time gross settlement system, BSFIs including banks and non-bank financial institutions, as well as non-BSFIs such as cooperatives regulated by the Cooperative Development Authority. The said guidelines provided for the powers, duties and responsibilities, and composition of the board of directors. To further regulate the operators of payment systems, the BSP issued Circular No. 1138 (2022) which sets forth reporting standards by requiring the operators of a payment system to have in place a reporting system that has at least the following functionalities: (i) generates accurate, complete and reliable information; (ii) aggregates all material data across various business lines, entities, services, instruments and other groupings that are relevant to regulatory reporting; and (iii) produces in a timely manner, regular, on-demand and ad hoc reports. BSP Circular 1138 mandates the operators of a payment system to adopt a policy requiring data and report retention of no less than five years.as well as the qualifications and disqualifications of the directors and officers of such OPS. Under BSP Circular No. 1191 (2024), the BSP approved the creation

of the Manual of Regulations for Payment Systems which consolidates the regulations relating to operators of payments systems.

- 23) **Guidelines on Voluntary Surrender of a Banking License.** On 18 September 2019, Circular No. 1050 issued the guidelines on voluntary surrender of banking license in case of voluntary dissolution and liquidation, or to convert into a non-bank entity.
- 24) **Amendments to the Prudential Requirements and Guidelines on the Public Offering and Listing of Bank Shares for Universal Banks.** On 15 November 2019, Circular No. 1060 was issued amending the prudential requirements on the public offering and listing of bank shares for universal banks. The amendments are aimed at supplementing the enhanced corporate governance frameworks of the BSP by encouraging dispersed shareholdings on banks.
- 25) **Amendment of the Requirements on the Issuance of Long-Term Negotiable Certificates of Time Deposit (LTNCTDs), Bonds and Commercial Papers.** On 26 November 2019, Circular 1062 was issued amending the provisions of the MORB to relax certain requirements on the issuance of LTNCTDs, Bonds and Commercial Papers. Of note is the amendment expanding the entities that are now prohibited from holding the LTNCTDs, Bonds and Commercial Papers.
- 26) **Report on Intraday Liquidity of Universal and Commercial Banks (UBs/KBs) and their Subsidiary Banks/Quasi-Banks (QBs).** On 3 December 2019, Circular No. 1064 was issued amending the MORB to implement and adopt the report on intraday liquidity for universal banks and their subsidiary thrift banks/quasi-banks. The report is aimed at appropriately monitoring the intraday liquidity position of BSP supervised financial institutions, their sources of intraday liquidity, and their ability to meet payment and settlement obligations on a timely basis under both normal and stressed conditions. The reporting requirements are also intended to facilitate the sound management of intraday liquidity risk as well as provide sufficient understanding and allocation of resources to effectively manage the same. Under BSP Circular 1123 (2021), standalone thrift banks and quasi-banks, and all rural and cooperative banks are required to comply with the intraday liquidity reporting requirements of the BSP starting end of January 2022.
- 27) **Amendments to Regulations on Financial Audit of Banks.** On 7 February 2020, Circular No. 1074 was issued amending regulations on the financial audit of BSP supervised financial institutions which aim to enhance the quality of information channelled to the supervisory process and ultimately promote fairness, transparency and accuracy in financial reporting. Amendments pertain to changes in prescribed formats of statements in the financial statements, changes in deadline of report submissions to the BSP, new and amended disclosure requirements to the financial statements, among others.
- 28) **Amendments to the Regulations on the Disqualifications and Watchlisting of Directors/Officers.** On 18 February 2020, Circular No. 1076 was issued to strengthen the disqualification and watchlisting of directors and officers of banks and other financial institutions. The amendments aim to further promote the integrity of the financial system and better protect the interest of the public.
- 29) **Correspondent Banking Relationships.** On 9 March 2020, the BSP issued Circular No. 1078, prescribing the Guidelines on Correspondent Banking Relationships. The circular states that covered persons must adopt the stated policies and procedures to prevent correspondent banking activities from being used for money laundering or terrorist financing activities; furthermore, covered persons must designate an officer responsible to ensure compliance with the Guidelines and the covered person's policies and procedures.
- 30) **Payment System Oversight Framework.** On 7 July 2020, the BSP issued BSP Circular No. 1089 provides for the Payment System Oversight Framework, which sets out the approach and rules of the BSP in the conduct of its oversight function pursuant to R.A. No. 11127 The New Central Bank Act. Under this circular, the BSP approved the accreditation of the Philippine Payments Management Inc. (PPMI) who will promote the development of the retail payment systems, and establish payment system rules, agreements, and standards to ensure that payment transactions are safely and efficiently cleared and settled with finality.
- 31) **Cash Service Alliance Guidelines.** On 6 October 2020, the BSP issued BSP Circular No. 1099 which provides for the adoption of the Cash Service Alliance (CSA) general guidelines. The CSA is a currency circulation mechanism that aims to enable Authorized Agent Banks to enter into a mutually beneficial agreement to service requirements for fit Philippine currency of other banks from their available currency

holdings. The CSA General Guidelines is issued to formalize the direct exchange of fit currency among banks, and to serve as a general reference guide that participating banks shall adopt in drafting their bilateral agreements. CSA transactions shall cover fit currency, which are legal tender Philippine banknotes and coins of good quality such that genuineness is obvious.

- 32) **Extension of Transition Period for the Implementation of the Guidelines on the Management of Interest Rate Risk in the Banking Book.** On 19 October 2020, the BSP issued Circular No. 1101 which extended the transition period for the implementation of the guidelines on the management of interest rate risk in the banking book by allowing banks and quasi-banks to develop or make changes in their policies and procedure until 1 January 2022.
- 33) **Guidelines on the Establishment of Digital Banks.** On 2 December 2020, the BSP issued Circular No. 1105 which provides for the guidelines on the establishment of digital banks. Among the salient provisions are: (i) minimum capitalization of P1.0 billion; (ii) maintenance of a principal/head office in the Philippines to serve as main point of contact for stakeholders including the BSP and other regulators; (iii) allowable services which include granting loans, accepting savings and time deposits as well as foreign currency deposits, investing in readily marketable bonds and other debt securities, issuing credit cards, buying and selling foreign exchange, and selling and servicing microinsurance products; and (iv) other documentary and regulatory, including reportorial, requirements for the establishment of digital banks. On September 14, 2022, the BSP issued Circular No. 1154, further amending the MORB to clarify that the three (3)-year capital build-up shall not apply to committed capital infusion of new investors in the converting bank arising from acquisition, purchase/sale, transfer of the converting bank's shares of stock or other similar arrangements, where such required minimum capital shall be infused before the issuance of the Certificate of Authority to Register with the SEC. Currently, a moratorium on the application for a new digital bank license, including conversion of an existing bank's license to a digital bank license, has been imposed beginning 31 August 2021 to date, pursuant to BSP Memorandum No. M-2021-046. The moratorium also covers applications for the establishment of other types of banks which will primarily offer financial products and services that are processed end-to-end through a digital platform and/or electronic channel. In 2024, the Monetary Board has approved the lifting of the moratorium on the grant of new digital banking licenses starting 1 January 2025 and allowed a maximum of ten (10) digital banks to operate in the country.
- 34) **Amendments to the Regulations on Investment Management Activities.** Under BSP Circular No. 1109 dated 4 February 2021, the minimum size of an investment in an investment management account (IMA) was reduced to P100,000.00. Moreover, commingling of funds from multiple IMAs for the sole purpose of investing in qualified assets was allowed, subject to specified conditions.
- 35) **Rationalization of Prudential Reporting Requirements.** To adhere to internationally recognized standards and practices on data aggregation and governance as well as to promote ease of doing business, the BSP, in its Circular No. 1110 dated 24 February 2021, deleted several prudential reports required from BSP-Supervised Financial Institutions ("BFSI") found in Annex 7 of the MORB and Appendices Q-3, S-2 and N-1 of the MONBFI but required the submission of a certification on loans and other credit accommodations to DOSRI.
- 36) **Amendments to the Rules and Regulations on the Mandatory Credit Allocation for Agriculture and Agrarian Reform Credit.** On March 3, 2021, the BSP issued Circular No. 1111 to amend the rules and regulations governing the mandatory credit allocation for agriculture and agrarian reform credit. Under the amendments, banks shall set aside at least 25% of their total loanable funds for agriculture, fisheries and agrarian reform credit in general, of which at least 10% of the total loanable funds shall be made available for ARBs and/or ARB households or ARCs. Excess compliance in the 10% agrarian reform credit may be used to offset a deficiency, if any, in the 15% other agricultural and fisheries credit, in general, but not vice versa. Banks are given guidelines on direct compliance and allowable alternative compliance. On 28 July 2022, Republic Act No. 11901 or the Agricultural, Fisheries and Rural Development Financing Enhancement Act of 2022 (RA 11901) lapsed into law, formally repealing Republic Act No. 10000. RA 11901 provides that all banking institutions, whether government or private, except newly established banks, for a period of five (5) years from the date of commencement of the banks' operations, shall set aside a credit quota, or a minimum mandatory agricultural and fisheries financing requirement of at least 25% of their total loanable funds. The

law gives more flexibility to the banks in extending credit to the agriculture and fisheries sectors as it removed the required allocation of credit to agrarian reform beneficiaries (i.e., 10% of banks' total loanable funds) under Republic Act No. 10000. RA 11901 also provides that banks may comply with the mandatory credit requirement by lending to rural community beneficiaries, or may invest in debt securities, and fixed term deposit products and equity securities of rural financial institutions, undertake agricultural value chain financing, and grant agri-business loans to fund agricultural and community-enhancing activities, among others. On 9 June 2023, the BSP issued Circular No. 1174 amending the regulations and prudential reports on the Mandatory Allocation for Agriculture and Agrarian Reform Credit. The Circular provided for amendments to the computation of total loanable funds and the Financial Reporting Package (FRP).

- 37) **Amendments to Operational Risk Management and Internal Control Measures.** On 8 April 2021, the BSP issued Circular No. 1112 which requires the management of banks and non-bank financial institutions to adopt a risk-focused screening process in the recruitment and selection of personnel. With this approach, appropriate level of screening is employed based on factors like the position, reputational risk implication and responsibilities associated with a particular position. The human resources department of the BSFI are also mandated to require all those who passed the initial stages of pre-employment screening to accomplish the Authorization Form for Querying of the BSP for purposes of deciding the fitness and propriety of the applicant. Management shall also ensure that BSFIs culture, values and expectations on behavior are compatible with those of its employees.
- 38) **Guidelines on Reputational Risk Management.** On 16 April 2021, BSP issued Circular No. 1113 (**Circular 1113**) requiring domestic systematically important banks (**D-SIBs**) to submit separately their Internal Capital Adequacy Assessment Process (**ICAAP**) document and recovery plan. Circular 1113 also introduces the concept of intensive supervisory approach as part of the framework for dealing with D-SIBs which consists of three parts, as follows: (1) assessment methodology; (2) higher loss absorbency and interaction with other elements of Basel III framework; and (3) intensive supervisory approach which includes concrete and reasonable recovery plans, consistency and coherence of ICAAP, and guidelines and action plans to be taken to restore D-SIBs' financial condition to viable level in cases of significant deterioration in certain scenarios.
- 39) **Amendments to Derivatives Regulations of Banks, Quasi-Banks and Trust Corporations.** BSP Circular No. 1119 dated 7 June 2021 (**Circular 1119**) provides for the list of derivative activities which banks, quasi-banks, and trust corporations may engage in without need of prior approval from the BSP and those activities requiring prior notification only. Under the same issuance, a bank, quasi-bank or a trust corporation, as the case may be, are required to apply for prior BSP approval of additional derivatives authority to engage in all other financial derivatives which are not generally authorized and those which are not part of activities requiring notification only.
- 40) **Amendments to the Regulations on Securities Custodianship and Securities Registry Operations.** According to BSP Circular No. 1121 issued on 8 June 2021, the authority of banks, quasi-banks and other non-bank financial institutions to conduct securities custodianship and securities registry operations is classified as Type C license. To qualify, the securities custodian/registry must be a universal or a commercial bank, an investment house with quasi-banking authority, or a non-bank financial institution (NBFI) under BSP supervision with a trust authority, or a stand-alone trust corporation. Further, the BSP required that the securities custodianship operations be conducted in a unit that is separate from the securities underwriting, dealing, or brokering operations of the BSFI.
- 41) **Open Finance Framework.** On 17 June 2021, the BSP adopted the Open Finance Framework as provided under BSP Circular No. 1122. Under the Open Finance Framework, the BSP shall recognize an Open Finance Oversight Committee (**OFOC**) which shall exercise governance over the activities and participants of the Open Finance Ecosystem. In turn, the OFOC shall be subject to the regulation and supervision of the BSP. BSFIs with a composite rating of at least "3" under the Supervisory Assessment Framework or its equivalent are automatically eligible to become participants in the Open Finance System. Meanwhile, those which do not meet the minimum rating must secure BSP approval in order to participate therein.
- 42) **Revised Guidelines on the Imposition of Monetary Penalties on BSFIs, and/or their Directors/Trustees, Officers and/or Employees for Violations with Sanctions Falling under Section 37 of R.A. No. 7653 (The New Central Bank Act), as Amended.** To supplement BSP Circular No. 1012, the BSP issued Circular No.

1125 dated 10 August 2021, which provided for a maximum monetary penalty of P1 Million for each transactional violation or P100 Thousand per calendar day for violations of a continuing nature, imposed on both banks and non-bank financial institutions, as well as their directors, officers and/or employees. In case profit is gained or loss is avoided as a result of the violation, the BSP may also impose a fine of no more than three (3) times the profit gained or loss avoided. Payments for transactions, including penalties and other charges, other than those required to be paid through the banks' demand deposit account, shall be made in accordance with the manner of payment provided in the billing notice, or through any such acceptable means of payment as may be provided in pertinent advisories issued by the BSP.

- 43) **Adoption of the Principles for Financial Market Infrastructures.** Following the adoption of the Principles for Financial Market Infrastructures (**PFMI**) pursuant to BSP Circular No. 1089 dated 7 July 2020, the BSP amended the Manual of Regulations for Payment Systems through BSP Circular No. 1126 by imposing a mandatory adoption of the PFMI standard by designated payment systems, including the operator, issuer, service provider, or any person involved in the payment system other than the end-user. The PFMI is a set of international standards designed to strengthen FMs and make them more resilient to financial crises, and participant defaults.
- 44) **Governance Policy for Operators of Payment System.** On 17 September 2021, the BSP also approved through Circular No. 1127 the governance guidelines for operators of a payment system ("OPS") including the BSP as operator of the real time gross settlement system, BSFIs including banks and non-bank financial institutions, as well as non-BSFIs such as cooperatives regulated by the Cooperative Development Authority. The said guidelines provided for the powers, duties and responsibilities, and composition of the board of directors as well as the qualifications and disqualifications of the directors and officers of such OPS.
- 45) **Environmental and Social Risk Management Framework.** On October 26, 2021, in order to integrate the environmental and social risks in the enterprise-wide risk management frameworks, the BSP issued Circular No. 1128 amending the duties and responsibilities of the board of directors and senior management, as laid down under Section 153 of the MORB on the Sustainable Finance Framework. Under the framework, the board of directors shall set out the environmental and social objectives and targets while the senior management is primarily responsible for the overall implementation of the board-approved credit strategies and policies in relation to the adoption of sustainability principles.
- 46) **Amendments to Corporate Governance Guidelines for BSP-Supervised Financial Institutions.** With the issuance of BSP Circular No. 1129 on 12 November 2021, the Corporate Governance Guidelines for BSFIs was amended. Among the significant amendments are: (i) removing the condition that a majority of the directors must be residents of the Philippines, consistent with the Revised Corporation Code; (ii) expressly exempting directors of publicly listed companies from the required seminar on corporate governance; (iii) making a distinction on the maximum cumulative term of directors of cooperative banks which shall be eight (8) years; and (iv) allowing interlocking directorships and officerships, as a general rule, provided that the positions do not pose conflict of interests.
- 47) **Amendments to the Regulations on Confirmation of the Election/Appointment of Directors/Trustees/Officers.** On 11 February 2022, the BSP clarified the coverage of the BSP confirmation of appointment of officers of BSFIs, either by the Monetary Board or the Financial Supervision Sector (FSS) Committee. Under amendment introduced by BSP Circular No. 1136, only the following are subject to confirmation by the corresponding confirming authority:
  - a) By the Monetary Board: (a) Directors and CEO/President or its equivalent rank of universal and commercial banks including their subsidiary banks, quasi-banks, trust corporations and non-bank financial institutions with trust authority, and all other stand-alone banks, quasi-banks and NBFIs with trust authority, and trust corporations with total assets of at least P10 Billion; (b) Trustees and CEO/President or its equivalent rank of non-stock savings and loan association (**NSSLA**) with total assets of at least P10 Billion; (c) Heads of internal audit risk management and compliance functions, regardless of rank, of NSSLAs
  - b) By the FSS: Directors and Chief Executive Officer/President or its equivalent rank of stand-alone banks, quasi-banks and NBFIs with trust authority, and trust corporations with total assets of less than P10 Billion; (b) Heads of comptrollership/finance, lending, treasury, branch banking and information

technology directly reporting to the CEO/President or its equivalent rank or to the foreign bank office and with the rank of Senior Vice President and above of universal and commercial banks; (c) trust offer, regardless of rank, of banks, quasi-banks and NBFIs with trust authority; (d) Trustees and CEO/President or its equivalent rank of non-stock savings and loan association (NSSLA) with total assets of less than ₱10 billion; (e) Heads of internal audit risk management and compliance functions, regardless of rank, of NSSLAs.

- 48) **Amendments to Regulations on Outsourcing and IT Risk Management.** BSP Circular No. 1137 issued on 18 February 2022 distinguishes outsourcing arrangements which are material and non-material. For material outsourcing arrangement, only banks with a SAFr composite rating of at least “3” shall be allowed to outsource designated activities without prior BSP approval, subject to notification requirements. Otherwise, Banks with lower rating must secure approval from the appropriate supervising department prior to implementation of the material outsourcing arrangement. Moreover, the said issuance requires the observance of the guidelines and requirements of outsourcing to third-party providers when the bank itself acts the service provider, or participates in intra-group outsourcing or engages in offshore outsourcing.
- 49) **Regulatory Reporting Standards for Operators of Payment System (OPS).** To further regulate the operators of payment systems (OPS), the BSP issued Circular No. 1138 dated 1 March 2022 which sets forth reporting standards by requiring the OPS to have in place a reporting system that has at least the following functionalities: (i) generates accurate, complete and reliable information; (ii) aggregates all material data across various business lines, entities, services, instruments and other groupings that are relevant to regulatory reporting; and (iii) produces in a timely manner, regular, on-demand and ad hoc reports. Circular 1138 also mandates the OPS to adopt a policy requiring data and report retention of no less than five years.
- 50) **Amendments to Regulations on Information Technology Risk Management.** In order to strengthen cybersecurity posture and minimize losses arising from fraud and cybercriminal activities, the BSP issued Circular No. 1140 (**Circular 1140**) dated 24 March 2022 requiring BSP-Supervised Financial Institutions (BFSI) to implement automated and real-time fraud monitoring and detection systems to identify and block suspicious or fraudulent online transactions. Circular 1140 also requires BSFIs to promote customer awareness as a key defense against fraud, identity theft and security breach by paying special attention to the provision of easy to understand and prominent advice to customers on security precautions for e-services and by ensuring that clients have undertaken customer education course/program on the safe and secure use of electronic payment and financial services. To ensure adherence to the regulation, BSP may deploy enforcement actions and impose corrective actions and/or sanctions. The BSFIs are also required to show their plan of actions with specific timelines and comply with the foregoing standards until 31 December 2022.
- 51) **Amendments to the Guidelines on the Computation of Minimum Required Capital and Risk- Based Capital Adequacy Ratio.** On 29 March 2022, the BSP issued Circular No. 1142 (**Circular 1142**) which amended the guidelines in computing the minimum required capital and the risk-based capital adequacy ratio. In determining capital, deposit for stock subscription are included in, and treasury stock as well as the total outstanding unsecured credit accommodations to DOSRI granted by the bank proper are deducted from the capital. Pursuant to Circular No. 1142, the total outstanding unsecured credit accommodations to DOSRI, net of allowance for credit losses, are considered in calculating the risk-based capital adequacy ratio. With respect to risk-weighted assets, the risk-weighted amount shall be the product of the net carrying amount of the asset and the risk weight associated with such asset. Moreover, for purposes of the issuance of a Qualification Certificate as Administrator to an entity, compliance with minimum net worth of ₱100 million shall take into account the total outstanding unsecured credit accommodations extended by the Administrator to DOSRI.
- 52) **Rules of Procedure for the Consumer Assistance Mechanism.** On 24 March 2023, the BSP issued Circular No. 1169 on the “Rules of Procedure for the Consumer Assistance Mechanism, Mediation and Adjudication of Cases in the BSP”, pursuant to the FPSCPA. These Rules apply suppletorily to the Rules of Court as may be determined by the Adjudicator and govern the consumer assistance mechanism as well as mediation and adjudication of financial consumer complaints in the BSP.
- 53) **Amendments to the Regulations on Credit Exposure Limits to a Single Borrower and Definition of Capital.** On 5 January 2023, the BSP issued Circular No. 1164 which provides for the definition of credit risk transfer and which clarifies that loans and other credit accommodations or portion thereof covered by an



effective credit risk transfer arrangement in the form of a guarantee or credit derivative that complies with the minimum operational requirements provided under the MORB shall be excluded from the total credit commitment of the bank to a borrower in reckoning compliance with the single borrower limit (SBL). Meanwhile, the portion of the loans and other credit accommodations that is not covered by an effective credit risk transfer arrangement, if any, shall still form part of the credit commitment of the bank to the borrower in reckoning compliance with the SBL.

- 54) **Regulations on Financial Consumer Protection to Implement Republic Act No. 11765, otherwise known as the "Financial Products and Services Consumer Protection Act".** On 28 November 2022, the BSP issued Circular No. 1160 amending the MORB to provide guidelines on Financial Consumer Protection Framework to implement the FPSCPA. The Framework applies to all financial products or services created, developed, offered or marketed by a BSP. The circular provides for measures to be undertaken by BSIs in order to meet the standards of disclosure and transparency, protection of client information, fair treatment, effective recourse; and protection of consumer assets against fraud and misuse.
- 55) **Guidelines on Recovery Plan of Banks.** On 18 October 2022, the BSP issued Circular No. 1158, on the "Guidelines on Recovery Plan of Banks", wherein it requires Philippine banks to adopt a recovery plan which will provide, among others, for early warning indicators and trigger levels (which must be set above the minimum regulatory requirements but below or at more severe levels than the triggers applicable in activating the capital and liquidity contingency plans) for activation of the recovery plan, reporting requirements to the BSP, restoration points, recovery options, preparatory measures and implementation plan, testing and simulation exercises and updating of such recovery plan. The circular recognizes that with respect to foreign bank subsidiaries and branches, such foreign bank branches and subsidiaries may play a role in the recovery options in the group recovery plans or be impacted by their implementation and thus should consider the possible interactions and impacts of the group-wide recovery plans. The recovery plan shall be subject to annual BSP review.
- 56) **Regulatory Sandbox Framework.** In 2022, BSP issued BSP Circular No. 1153 on the Regulatory Sandbox Framework which applies to all BSP-supervised financial institutions, third-party service providers of BSFIs, other BSP-registered institutions, and new players that intend to offer or use an emerging or new technology to deliver financial products/services pertaining to activities that could fall under the regulatory purview of the BSP. Applicants should meet certain eligibility standards to be able to participate in the regulatory sandbox. Each regulatory sandbox shall undergo a four-stage process: Application, Evaluation, Testing, and Exit Stage. Participants shall submit (i) interim and (ii) final reports to the BSP to facilitate monitoring of the progress of the regulatory sandbox and the attendant risks, and assessment of the success of the experimentation. In the test design phase, the BSP and the participant shall agree on the details of the reports to be submitted such as the content, frequency, and schedule of reporting, among others. Participant/s whose sandbox activities are assessed as successful and whose products or services are deemed fit for public consumption shall be issued an authority to operate. The participant shall formally submit to the BSP an application to operate and offer for public use and consumption the proposed product or service that was subjected to the sandbox activity, including any proposed new regulations or changes to existing regulations.
- 57) **Guidelines on the Integration of Sustainability Principles in Investment Activities of Banks.** On 23 August 2022, the BSP issued Circular No. 1149 which provided for guidelines on prudent conduct of investment activities and the minimum practices that a bank should establish for the management and control of risks associated with its investments. The guidelines cover all of a bank's investments in the trading and banking books, excluding (a) investments that grant control over an enterprise and are accounted for using the equity method, (b) transactions in derivatives involving stand-alone contracts, and (c) receivables arising from repurchase agreements. Under the circular, a bank is mandated to institute a risk management system to manage the risks arising from its investment activities. This system includes having (1) board and senior management oversight; (2) policies, procedures, and limits that provide a framework for managing investment activities; (3) risk measurement, monitoring and management information systems; and (4) internal controls and audit.
- 58) **Amendments to the Ceiling on Interest or Finance Charges for Credit Card Receivables.** On 19 January 2023, the BSP issued Circular No. 1165 which provides that banks may now impose an interest or finance

charge which shall not exceed an annual interest rate of 36% on all credit card transactions. This issuance supersedes BSP issued Circular No. 1098 issued on 24 September 2020, imposing a twenty-four (24%) interest per year cap on all credit card transactions.

- 59) **Conduct of Customer Due Diligence.** On 30 March 2023, the BSP issued Circular No. 1170 which provides for amendments to existing rules on the conduct of customer due diligence by banks and non-banks. This includes “Know Your Customer” or e-KYC guidelines on the use of digital IDs and other minimum information or documents required for customer identification. BSP defines “e-KYC” as the use of electronic or digital methods in customer identification and verification process. In conducting customer due diligence, a risk-based approach shall be undertaken depending on the type of customer, business relationship, nature of the product, or transaction/activity.
- 60) **Maharlika Investment Fund Act of 2023.** On 18 July 2023, RA No. 11954 was enacted which provides that for the first and second fiscal years upon effectivity of the law, 100% of the BSP’s total declared dividends will be remitted to the National Government for the capitalisation of the Maharlika Investment Corporation (MIC), in the amount not exceeding ₱50,000,000,000.00 for the initial subscription of the National Government to the capitalisation of the MIC. Thereafter, the dividends of the BSP shall be remitted to the National Government to fund the increase in the capitalisation of the BSP.
- 61) **Guidelines on Disclosure to the Public.** On 21 December 2023, the BSP issued Circular No. 1186, Series of 2023 amending Section 175 of the MORB on public disclosures. Under this issuance, domestic banks have the option to publish their quarterly balance sheets and consolidated balance sheets in printed or online versions of newspapers of general circulation or upload them on their website and share for a period of at least one year. In addition, the banks may also display a tabletop standee with QR codes in a conspicuous place at their head offices, all their branches, and other offices, or through digital/electronic means. Each bank’s board of directors is given the duty to ensure that information shared with the public is supported by an effective internal control structure, has undergone review and approval, and is compliant with the process and quality of reporting required under Section 171 of the MORB.
- 62) **Amendments to foreign exchange regulations covering foreign investments.** On 11 April 2024, the Monetary Board approved amendments to the Manual of Regulations on Foreign Exchange Transactions (**FX Manual**) to facilitate access to FX resources and streamline procedures. The amendments under BSP Circular No. 1192 includes, among others: (a) the clarification that applications and registration of foreign/foreign currency loans/borrowings, inward investments and other FX transactions filed with the BSP shall be free of charge; (b) the grant of authority to authorised agent banks and authorised agent bank forex corporations (AABs) to sell FX to non-resident tourists and balikbayan to the extent of the amount of FX shown to have been sold for Pesos by the non-residents to AABs; and (c) allowing foreign investments registerable with registering AABs (e.g., non-resident investments in government securities, securities listed at the Philippine Stock Exchange) to be registered upon reporting by the registering authorised agent bank to the BSP, subject to compliance with the applicable guidelines under FX Manual; (d) dispensing with the issuance of the Bangko Sentral Registration Document (“BSRD”) for the aforesaid foreign investments registered with the BSP through the registering AABs; and (e) streamlining the reporting forms/procedures pertaining to these foreign investments.
- 63) **Consumer Redress Mechanism Standards for Account-to-Account Electronic Fund Transfers under the National Retail Payment System Framework.** On 1 June 2024, the BSP issued Circular No. 1195, establishing the Consumer Redress Mechanism Standards for account-to-account electronic fund transfers (**EFTs**) under the National Retail Payment System (**NRPS**) Framework. This Circular mandates all BSP supervised institutions offering EFTs to provide timely recourse mechanisms for consumer issues, ensuring immediate credit within 2-3 seconds for instant EFTs and refunds within one hour for rejected transactions. It covers all domestic EFTs, including Person-to-Person (**P2P**), Person-to-Merchant (**P2M**), and Person-to-Biller (**P2B**) payments but excludes product/service delivery disputes. The Circular details the requirements for EFT notifications, return of funds, collection, and return of EFT fees, and communication during service disruptions. Compliance is required by 31 March 2025, pursuant to BSP Memorandum No. M-2024-045, aiming to enhance trust in digital payments.

- 64) **Amendments to foreign exchange regulations covering reporting guidelines and penalty provisions.** On 17 July 2024, the BSP issued Circular No. 1197, introducing stricter penalties and new reporting guidelines for FX transactions. Banks can now face fines up to ₱1 million per transactional violation and ₱100,000 per day for ongoing violations. The guidelines define non-compliant reports as erroneous, delayed, or unsubmitted, with fines based on the classification of reports. The Circular outlines the notification process for violations and appeals. These measures aim to ensure timely reporting, accountability, and protect the value of the Peso. Compliance with Circular No. 1197 is required by 31 December 2024.
- 65) **Regulatory Framework for Merchant Payment Acceptance Activities.** On 19 July 2024, the BSP issued Circular No. 1198, Series of 2024 which set the minimum standards that OPS must follow if they want to engage in the business of accepting and processing payment transactions on behalf of their partner sellers. For digital payments to thrive, minimum standards and good practices must be established to: (i) safeguard the funds received from customers of merchants; and (ii) protect the rights and interests of end-users (i.e., merchants) that deal with OPS that engage in merchant payment acceptance activities (**MPAA**). Under this circular, an authority from the BSP must be obtained prior to engaging in merchant acquisition in the Philippines; An OPS engaged in or intending to engage in MPAA other than merchant acquisition shall register with the BSP.
- 66) **Divestment of Equity Investments.** On 8 August 2024, the BSP issued Circular No. 119 (2024) which provides for the guidelines on the divestment of equity investments by banks which are not allowed under applicable laws or which do not comply with applicable regulations. Under this Circular, a bank which has been directed to divest specific equity investments which do not comply with applicable regulations are required to submit a divestment plan to the appropriate supervising unit or department of the BSP and regularly provide status of the implementation of the plan.
- 67) **Creation of Rules for Money Service Businesses under the New Manual of Regulations for Non-bank Financial Institutions-M.** On 23 December 2024, the BSP issued Circular No. 1206 (2024), approved the creation of the consolidated rules for money service businesses which shall be lodged under M-Regulations of the Manual of Regulations for Non-bank Financial Institutions (**MORNBFI**). Prior to the consolidation of the foregoing rules, the regulatory provisions for money service businesses are mostly found in Sections 90I-N and 902-N of the MORNBFI, together with other pertinent provisions of the N-Regulations. The integration of all these provisions in just one book, the M-Regulations, will provide supervised money service businesses and stakeholders a compendium of existing rules and regulations. This will make referencing easier for better clarity of standards and requirements applicable to money service businesses.

- 68) **Amendments to foreign exchange regulations covering foreign exchange derivatives involving the Philippine Peso and other transactions.** On 11 April 2025, the BSP issued Circular No. 1212 to further amend the FX Manual to include, among others, (a) clarifications on the requirements for the sale of FX, including the rules on the manner of submission thereof to the BSP or to AABs; (b) registration of inward investments shall be filed through the BSP's online system and shall be free of charge; and (c) issuance of rules on FX derivatives transactions of AABs with customers or for their own account, including guidelines to determine validity of cancellations, preterminations, roll-overs, or non-delivery of all FX derivatives contracts of customers, and reporting requirements.

## SECTION 15. BANKING REGULATION AND SUPERVISION

*The following description is a summary of certain sector specific laws and regulations in the Philippines, which are applicable to the Bank. The information detailed in this chapter has been obtained from publications available in the public domain. The regulations set out below may not be exhaustive, and are only intended to provide general information to the investors and are neither designed nor intended to substitute for professional legal advice or a detailed review of the relevant laws and regulations.*

*The information detailed in this chapter has not been prepared or independently verified by the Issuer and the Joint Lead Arrangers and the Selling Agents, or any of their respective affiliates or advisers. None of the Issuer or the Joint Lead Arrangers and the Selling Agents or any of their respective affiliates or advisers makes any representation as to the accuracy or completeness of this information.*

### 15.1 INTRODUCTION

Republic Act No. 7653 or the New Central Bank Act of 1993 (the **New Central Bank Act**) as amended by RA No. 11211, and the General Banking Law vest the Monetary Board of the BSP with the power to regulate and supervise financial intermediaries in the Philippines. Financial intermediaries include banks or banking institutions such as universal banks, commercial banks, thrift banks (composed of savings and mortgage banks, stock savings and loan associations, and private development banks), rural banks, co-operative banks as well as branches and agencies of foreign banks, and digital banks, in the Philippines. Entities performing quasi-banking functions, trust companies, building and loan associations, non-stock savings and loan associations and other non-deposit accepting entities such as operators of payment systems, virtual asset service providers and entities engaged in money service business operations, while not considered banking institutions, are also subject to regulation by the Monetary Board of the BSP.

The supervisory power of the BSP under the New Central Bank Act extends to the subsidiaries and affiliates of banks and quasi-banking institutions engaged in allied activities. A subsidiary is defined as a corporation with more than 50% of its voting stock owned by a bank or quasi-bank. An affiliate is defined as a corporation whose voting stock, to the extent of 50% or less is owned by a bank or quasi-bank or which is related or linked or such other factors as determined by the Monetary Board. In this regard, an affiliate is defined under the MORB as an entity linked directly or indirectly to a bank by means of: (a) ownership, control (as defined under the relevant portion of the MORB), or power to vote, of at least 20% of the outstanding voting stock of the entity, or vice-versa; (b) interlocking directorship or officership, where the concerned director or officer owns, controls, or has the power to vote of at least 20% of the outstanding voting stock of the entity; (c) common stockholders owning at least 10% of the outstanding voting stock of the bank and at least 20% of the outstanding voting stock of the entity; (d) management contract or any arrangement granting power to the bank to direct or cause the direction of management and policies of the entity; and (e) permanent proxy or voting trusts in favour of the bank constituting at least 20% of the outstanding voting stock of the entity, or vice-versa.

The power of supervision of the BSP under the General Banking Law includes the issuance of rules of conduct or standards of operation for uniform application, conduct examination to determine compliance with laws and regulations, to oversee compliance with such rules and regulations and inquire into the solvency and liquidity of the covered entities. Section 7 of the General Banking Law provides that the BSP in examining a bank shall have the authority to examine an enterprise which is owned or majority-owned or controlled by a bank. Section 28 of the New Central Bank Act, as amended, provides that there shall be an interval of at least twelve (12) months between annual examinations. A vote of at least five members of the Monetary Board may authorize a special examination if the circumstances warrant.

As a general rule, no restraining order or injunction may be issued by a court to enjoin the BSP from exercising its powers to examine any institution subject to its supervision. The BSP may compel any officer, owner, agent, manager or officer-in-charge of an institution subject to its supervision or examination to present books, documents, papers or records necessary in its judgment to ascertain the facts relative to the true condition of the

institution as well as the books and records of persons and entities relative to or in connection with the operations, activities or transactions of the institution under examination, to the extent permitted by law. In addition to the general laws such as the General Banking Law and Republic Act No. 9160 or the Anti-Money Laundering Act of 2001, as amended, among others, banks must likewise comply with letters, circulars and memoranda issued by the BSP some of which are contained in the MORB.

The MORB is the principal source of rules and regulations to be complied with and observed by banks in the Philippines. The MORB contains regulations that include those relating to the organisation, management and administration, deposit and borrowing operations, loans, investments and special financing programme, and trust and other fiduciary functions of the relevant bank. Supplementing the MORB are rules and regulations promulgated in various circulars, memoranda, letters and other directives issued by the Monetary Board.

The MORB and other regulations are principally implemented by the FSS of the BSP. The FSS is responsible for ensuring the observance of applicable laws and rules and regulations by banking institutions operating in the Philippines (including Government credit institutions, their subsidiaries and affiliates, non-bank financial intermediaries, and subsidiaries and affiliates of non-bank financial intermediaries performing quasi-banking functions, non-bank financial intermediaries performing trust and other fiduciary activities under the General Banking Law, non-stock and savings loans associations under Republic Act No. 3779 or the Savings and Loan Association Act, and pawnshops under Presidential Decree No. 114 or the Pawnshop Regulation Act).

## **15.2 BAYANIHAN TO HEAL AS ONE ACT, BAYANIHAN TO RECOVER AS ONE ACT, AND COVID-19 RELATED ISSUANCES OF THE BSP**

On 24 March 2020, Congress passed Republic Act No. 11469 or the Bayanihan to Heal As One Act, which provides that all BSP-Supervised Financial Institutions (BSFIs) are directed to implement a minimum of a 30-day grace period for the payment of all loans, including but not limited to salary, personal, housing, and motor vehicle loans, as well as credit card payments, falling due within the period of the Enhanced Community Quarantine (ECQ) without incurring interests, penalties, fees, or other chargers. Persons with multiple loans shall likewise be given the minimum 30-day grace period for every loan.

Pursuant to the said law, the BSP issued Memorandum No. M-2020-017 which contains the Implementing Rules and Regulations of Republic Act No. 11469. It provides, among others, that BSFIs shall not charge or apply interest on interest, fees and charges during the 30-day grace period to future payments/amortisations of the borrowers. They are likewise prohibited from requiring their clients to waive the application of the provisions of Republic Act No. 11469. No waiver previously executed by borrowers covering payments falling due during the ECQ period shall be valid.

Further, the accrued interest for the 30-day grace period may be paid by the borrower on staggered basis over the remaining life of the loan. Nonetheless, this shall not preclude the borrower from paying the accrued interest in full on the new due date. The initial 30-day grace period shall automatically be extended if the ECQ period is extended by the President of the Republic of the Philippines.

The grace period provided under the Bayanihan Act ceased to be effective on 1 June 2020, in accordance with BSP Memorandum No. M-2020-45. On 24 June 2020, Bayanihan to Heal As One Act expired.

On 11 September 2020, Republic Act No. 11494, otherwise known as the Bayanihan to Recover as One Act, was signed into law and directed banks and other covered institutions to implement a one-time 60-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before 31 December 2020, including, but not limited to, salary, personal, housing, commercial, and motor vehicle loans, amortisations, financial lease payments and premium payments, as well as credit card payments, without incurring interest on interest, penalties, fees, or other charges and thereby extending the maturity of the said loans. The said law also provides that all loans may be settled on staggered basis without interest on interest, penalties

and other charges until 31 December 2020 or as may be agreed upon by the parties and that parties may mutually agree on a grace period longer than 60 days.

Further, pursuant to the Bayanihan to Recover as One Act, banks and other non-bank financial institutions that agree to further loan term extensions or restructuring shall be entitled to regulatory relief, as may be determined by the BSP, which includes, but is not limited to, (i) staggered booking of allowances for credit losses, (ii) exemption from loan-loss provisioning, (iii) exemption from the limits on real estate loans, when applicable, (iv) exemption from related party transaction restrictions, and (v) non-inclusion in the bank's reporting on non-performing loans. The loan term extensions or restructuring under the Bayanihan to Recover as One Act shall be exempt from documentary stamp taxes.

However, the abovementioned provisions on the Bayanihan to Recover as One Act shall not apply to interbank loans and bank borrowings.

Bayanihan to Recover as One Act expired on 30 June 2021.

### **15.3 BSP CIRCULARS AND MEMORANDA**

On 14 March 2020, the BSP issued BSP Memorandum No. M-2020-008. Recognising the significant impact of the COVID-19 pandemic on the operations of BSFIs, the BSP offered a regulatory relief package which all BSFIs were eligible to avail of within one year from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922. The period of eligibility could be extended depending on the developments of the COVID-19 pandemic. The relief package includes exclusion from the past due loan ratio of loans to affected borrowers for a year and the staggered booking of provision for probable losses for five years for all types of credits extended to individuals and businesses directly affected by the COVID-19 pandemic as of 8 March 2020, subject to the prior approval of the BSP.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020, as amended by BSP Memorandum Circular No. M-2020-049 dated 9 June 2020 and Memorandum No. M-2020-057 dated 21 July 2020. BSP Memorandum No. M-2020-049 provides for the relaxation in the regulations governing the submission of reports and other documents to the BSP-Financial Supervision Sector (**FSS**). Thus, the submission of required reports to the BSP-FSS that fall due within the months of March to June 2020 is suspended until further notice, except for the submission of the FRP for Banks, the Consolidated Foreign Exchange (**FX**) Position Report, event-driven report requirements and reserve requirement-related reports. Memorandum No. M-2020-057, on the other hand, increased the single borrower's limit from 25% to 30% until 19 March 2021.

BSP Memorandum No. M-2020-008 was further amended by Memorandum No. M-2020-032 issued on 27 April 2020. Memorandum No. M-2020-032 provides that the exclusion from the past due and non-performing classification shall be allowed from 8 March 2020, the date of declaration of the President of the state of public health emergency under Presidential Proclamation No. 922, until 31 December 2021. For this purpose, the BSP documentary requirements for restructuring of loans may be waived, provided that the BSFI will adopt appropriate and prudent operational control measures.

On 19 March 2020, in a bid to spur the economy amid the slowdown caused by COVID-19, the BSP announced it would be pulling down the interest rate on the BSP's overnight reverse repurchase (**RRP**) facility by 50 basis points to 3.25%. Overnight deposit and lending rates were likewise trimmed to 2.75% and 3.75%, respectively, effective 20 March 2020.

On 27 March 2020, the BSP issued Circular No. 1080, which granted some operational relief measures to BSP stakeholders for the duration of the community quarantine imposed to contain the spread of COVID-19 (including the general, modified, and enhanced versions thereof). The Circular allowed for, among others, the submission of documentary requirements for the sale of foreign exchange by authorised agent banks through electronic means;

documents with e-signatures/digital signatures, soft copies of duly accomplished forms; and grace periods for the registration of unregistered foreign investments.

On 3 August 2020, the BSP issued Memorandum No. M-2020-061 which provides for the supervisory expectations on the measurement of ECL and the treatment of regulatory relief measures granted amid the COVID-19 pandemic. The supervisory expectations provide, among others, that BSFIs that will avail of the regulatory relief measures to exclude eligible loans from past due and non-performing classifications and to stagger the booking of allowance for credit losses shall continue to report actual past due and non-performing loans and allowance for credit losses in the FRP and the CAR reports. This is to facilitate the generation of industry statistics and provide the BSP with information on the true health of the banking system.

BSP Memorandum No. M-2020-062 dated 5 August 2020 directs BSFIs to ensure continuous availability of financial services to the general public as well as to reinforce their operational capabilities to support the anticipated increase in account opening and basic financial and payment transactions through online financial platforms (i.e. internet and mobile banking). BSFIs should likewise ensure that basic cash services are always available through timely and adequate provisioning of cash in the ATM terminals and to closely monitor other operational issues that may have significant business impact.

On 24 September 2020, the BSP issued Circular No. 1098 which provides for the ceiling on interest or finance charges for credit card receivables. This circular shall take effect starting 3 November 2020 after publication. This circular states that banks and credit card issuers shall impose an interest or a finance charge on all credit card transactions not exceeding an annual interest rate of 24%, except credit card instalment loans which shall be subject to monthly add-on rate not exceeding 1%. For credit card cash advances, aside from the foregoing applicable maximum interest rate caps, no other charge or fee shall be imposed or collected apart from the processing fee in the maximum amount of ₱200 per transaction. Further, this circular also provides that the rate of interest and other charges on any loan or forbearance of any money, goods or credits regardless of maturity and whether secured or unsecured shall not be subject to any regulatory ceiling, except for the interest or finance charges imposed on credit card receivables, including cash advances and instalment purchases and the maximum processing fee for credit card cash advances.

#### **15.4 REGULATION RELATING TO CAPITAL STRUCTURE**

Pursuant to the General Banking Law, no entity may operate as a bank without the permit of the BSP through the Monetary Board. The Philippine SEC will not register the incorporation documents of any bank or any amendments thereto without a Certificate of Authority issued by the Monetary Board.

A bank can only issue par value stocks and it must comply with the minimum capital requirements prescribed by the Monetary Board. A bank cannot purchase or acquire its own capital stock or accept the same as security for a loan, except when authorised by the Monetary Board. Any stock so purchased or acquired must be sold within six months from the time of its purchase or acquisition.

On 20 October 2014, the Monetary Board decided to increase the minimum capital requirement for all bank categories including universal, commercial, thrift, rural and cooperative banks. This is in line with the BSP's efforts of further strengthening the banking system. Under this regulation, the minimum capital for universal and commercial banks will be tiered based on network size as indicated by the number of branches. Existing banks that will not immediately meet the new minimum capital requirement may avail of a five-year transition period to fully comply. Such banks will be required to submit an acceptable capital build-up programme. Banks that fail to comply with the minimum capital requirements or fail to propose an acceptable capital build-up programme face curtailment of future expansion plans.

In accordance with BSP Circular No. 854, universal banks are required to have capital accounts of at least ₱3 billion for head office only, ₱6 billion for head office with up to 10 branches, ₱15 billion for head office with 11 to 100 branches, and ₱20 billion for head office with more than 100 branches. Commercial banks are required to



have capital accounts of at least ₱2 billion for head office only, ₱4 billion for head office with up to 10 branches, ₱10 billion for head office with 11 to 100 branches, and ₱15 billion for head office with more than 100 branches. Thrift banks with head office in Metro Manila are required to have capital accounts of at least ₱500 million for head office only, ₱750 million for head office with up to 10 branches, ₱1 billion for head office with 11 to 100 branches, and ₱2 billion for head office with more than 100 branches. In August 2022, the BSP issued Circular No. 1151 wherein the BSP adjusted the minimum capitalization for rural banks. Under these new guidelines, rural banks with head office only (without regard to the location of the head office) are required to have capital accounts of at least ₱50 million, ₱50 million for head office with up to 4 branches, ₱120 million for head office with 5 to 9 branches, and ₱200 million for head office with more than 9 branches. Further, in April 2023, the BSP issued Circular No. 1173 wherein the BSP modified the minimum capitalization of conventional banks with Islamic banking units. This BSP Circular provides that: (a) the minimum capitalization requirements for a universal bank shall apply to an Islamic Bank. A conventional bank that is a commercial bank or a subsidiary of a universal or commercial bank, which complies with the minimum capital requirements applicable to its respective banking category, may be allowed to operate an Islamic banking unit within a reasonable transitory period not exceeding five (5) years reckoned from the date of BSP approval; provided, that, after the transitory period, such conventional bank shall have the minimum capitalization requirement applicable to an Islamic Bank. These minimum levels of capitalisation may be changed by the Monetary Board from time to time. As of 31 December 2024, the Bank had sufficient capital to meet the new minimum capital requirements.

For purposes of these requirements, the BSP issued BSP Circular No. 1027 on 28 December 2018 which states that the term capital shall be synonymous to unimpaired capital and surplus, combined capital accounts and net worth and shall refer to the total of the unimpaired paid-in capital, surplus and undivided profits, less:

- treasury stock;
- unbooked allowance for probable losses (including allowance for credit losses and impairment losses) and other capital adjustments as may be required by the BSP;
- total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI granted by the bank;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates;
- total outstanding unsecured loans, other credit accommodations and guarantees granted to related parties as defined in item “n”, Section 131 of the MORB of the MORB, that are not at an arm’s length terms as determined by the appropriate supervising department of the BSP;
- deferred tax assets that rely on future profitability of the bank to be realised net of any (a) allowance for impairment and (b) associated deferred tax liability if the conditions cited in PAS 12 on income taxes are met; provided, that, if the resulting figure is a net deferred tax liability, such excess cannot be added to net worth;
- reciprocal investment in equity of other banks or enterprises, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank, the deduction shall be the (a) investment of the bank or (b) the reciprocal investment of the other bank or enterprises, whichever is lower; and
- in the case of rural banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation programme.

According to BSP Circular No. 1027 dated 28 December 2018, deposits for stock subscription recognised as equity pursuant to Section X128 of the MORB shall be added to capital.

On 15 July 2014, RA 10641 further liberalised the industry by providing that the Monetary Board may authorise foreign banks to acquire up to 100% (previously 60%) of the voting stock of one domestic bank. Under RA 10641, established, reputable and financially sound foreign banks may be authorised by the Monetary Board to operate in the Philippine banking system through any one of the following modes of entry: (a) by acquiring, purchasing or

owning up to 100% of the voting stock of an existing bank; (b) by investing in up to 100% of the voting stock of a new banking subsidiary incorporated under the laws of the Philippines; or (c) by establishing branches with full banking authority. The foreign bank applicant must also be widely-owned and publicly-listed in its country of origin, unless the foreign bank applicant is owned and controlled by the government of its country of origin. A foreign bank branch authorised to do banking business in the Philippines under RA 10641 may open up to five sub-branches as may be approved by the Monetary Board. Locally incorporated subsidiaries of foreign banks authorised to do banking business in the Philippines under RA 10641 shall have the same branching privileges as domestic banks of the same category. Privileges shall include the eligibility to operate under a universal banking authority subject to compliance with existing rules and regulations. Notwithstanding the entry of foreign banks, the BSP is mandated to adopt necessary measures to ensure that at all times the control of 60% of the resources or assets of the entire banking system is held by domestic banks, which are majority-owned by Filipinos.

Under RA 10641, the Monetary Board was authorised to issue such rules and regulations as may be needed to implement the provisions of RA 10641. On 6 November 2014, the Monetary Board issued Resolution No. 1794 providing for the implementing rules and regulations of RA 10641 and on 21 November 2014, the BSP issued Circular No. 858, amending the relevant provisions of the MORB, accordingly. On 15 February 2016, BSP issued Circular No. 902, Series of 2016 to implement the phased lifting of the moratorium on the grant of new banking licence or establishment of new domestic banks pursuant to its policy to promote a competitive banking environment.

The stockholders of individuals related to each other within the fourth degree of consanguinity or affinity, whether legitimate, illegitimate or common-law, shall be considered family groups or related interests and must be fully disclosed in all transactions by such an individual with the bank. Moreover, two or more corporations owned or controlled by the same family group or same group of persons shall be considered related interests, which must be fully disclosed in all transactions with the bank.

A bank cannot declare dividends greater than its accumulated net profits on hand deducting therefrom its losses and bad debts. A bank cannot also declare dividends, unless at the time of declaration, it has complied with the following:

- Clearing account with BSP is not overdrawn;
- Liquidity floor for government funds for five or more consecutive days;
- Minimum capitalisation requirement and risk-based capital ratios as provided under applicable and existing capital adequacy framework;
- Capital conservation buffer requirement as defined in Appendix 59, Part III of the MORB;
- HLA requirement, phased-in starting 1 January 2017 with full implementation by 1 January 2019, in accordance with D-SIB Framework as provided under Section 128 of the MORB; or Has not committed any unsafe or unsound banking practice as defined under existing regulations and/or major acts or omissions as determined by BSP to be grounds for suspension of dividend distribution, unless this has been addressed by the bank as confirmed by the Monetary Board or the Deputy Governor, Supervision and Examination Sector of the BSP.

Banks are required to ensure compliance with the minimum capital requirements and risk-based capital ratios even after the dividend distribution.

## **15.5 REGULATIONS WITH RESPECT TO BRANCHES**

Section 20 of the General Banking Law provides that universal and commercial banks may open branches within or outside the Philippines upon prior approval of the BSP. The same provision allows banks, with prior approval from the Monetary Board, to use any or all of their branches as outlets for the presentation and/or sale of financial products of their allied undertakings or investment house units. In line with this, BSP Circular No. 854 Series of 2014 provides various minimum capitalisation requirements for branches of banks, depending on the number of

branches (e.g., ranging from a minimum of ₱6 billion for up to 10 branches of universal banks to a maximum of ₱20 billion for more than 100 branches of universal banks).

Subject to compliance with the requirements provided in BSP Circular No. 624, issued on 13 October 2008, which provides for BSP's branching policy and guidelines, the Bank may apply to the BSP for the establishment of branches outside its principal or head office.

Generally, only universal/commercial and thrift banks may establish branches on a nationwide basis. Pursuant to BSP Circular No. 759, issued on 30 May 2012, which liberalised its policy on the establishment of branches by removing the limit set on the number of branches allowed to be applied for by a bank, once approved, a branch should be opened within three years from the date of approval. It permitted a bank to establish as many branches as its qualifying capital can support in accordance with existing rules.

Pursuant to BSP Circular No. 505, issued on 22 December 2005, banks are allowed to establish branches in the Philippines, except in the cities of Makati, Mandaluyong, Manila, Paranaque, Pasay, Pasig and Quezon and the municipality of San Juan, Metro Manila. However, this branching restriction was liberalised pursuant to BSP Circular No. 728, issued on 23 June 2011. Phase 1 of the liberalisation allowed private domestically incorporated universal and commercial banks and thrift banks with limited branch networks in the eight cities or "restricted areas" in Metro Manila until 30 June 2014 to apply for and establish branches in said restricted areas. In Phase 2, branching in the "restricted" areas was opened to all banks except rural banks and cooperative banks.

In BSP Circular No. 987, Series of 2017, the BSP approved the guidelines on the establishment of branch-lite units amending relevant provisions of the MORB. A branch-lite unit refers to any permanent office or place of business of a bank, other than its head office or a branch which performs limited banking activities and records its transactions in the books of the head office or the branch to which it is annexed.

At present, pursuant to BSP Circular No. 932 (2016), all banks, including rural and cooperative banks, as a general rule are allowed to establish branches anywhere in the Philippines, including in cities previously considered restricted areas.

Branches of microfinance-oriented banks and microfinance-oriented branches of regular banks' branches that will cater primarily to the credit needs of Barangay Micro Business Enterprises duly registered under the Barangay micro business enterprises Act of 2002 may be established anywhere upon the fulfilment of certain conditions.

## **15.6 REGULATIONS WITH RESPECT TO MANAGEMENT OF BANKS**

The board of directors of a bank must have at least five (5) and a maximum of fifteen (15) members. According to Republic Act No. 11232 or the Revised Corporation Code (**Revised Corporation Code**), the board of banks and quasi-banks must have independent directors comprising at least 20% of such board. The Revised Corporation Code also requires a compliance officer. Material contracts of a corporation vested with public interest with (1) one or more of its directors, trustees, officers or their spouses and relatives within the fourth civil degree of consanguinity or affinity must also be approved by at least two-thirds (2/3) of the members of the board, with at least majority of the independent directors approving the same, in addition to common requirements for similar contracts for other companies pursuant to Section 31 of the Revised Corporation Code.

Under the MORB, at least one-third (1/3) but not less than two (2) members of the board of directors of universal and commercial banks shall be independent directors. Further, SEC Memorandum Circular No. 24, Series of 2019, on the Code of Corporate Governance for Publicly-Listed Companies requires the board of directors of publicly-listed companies, such as the Bank, to have a Board composed of a majority of non-executive directors and at least two independent directors, or such number as to constitute at least one-third (1/3) of the members of the Board, whichever is higher. In case of merged or consolidated banks, the number of directors shall not exceed twenty-one (21). An independent director is a person who independent of management and the controlling shareholder and is free from any business or other relationship which could, or could reasonably be perceived to,

materially interfere with his exercise of independent judgment in carrying out his responsibilities as a director. Foreigners are allowed to have board seats to the extent of the foreign participation in the equity of the bank.

The Monetary Board shall issue regulations that provide for the qualifications and disqualifications to become a director or officer of a bank. After due notice to the board of directors of a bank, the Monetary Board may disqualify, suspend or remove any bank director or officer who commits or omits act which renders him unfit for the position.

The Monetary Board may regulate the payment by the bank of compensation, allowances, bonus, fees, stock options and fringe benefits to the bank officers and directors only in exceptional cases such as when a bank is under conservatorship, or is found by the Monetary Board to be conducting business in an unsafe or unsound manner or when the Monetary Board deems it to be in unsatisfactory condition.

Except in cases allowed under the Rural Bank Act, no appointive or elective public official, whether full time or part time, may serve as officer of any private bank, except if the service is incidental to financial assistance provided by government or government owned and controlled corporation or when allowed by law.

On 22 August 2017, the BSP issued BSP Circular No. 971, prescribing the Guidelines on Risk Governance for BSFIs, and requiring the appointment of a Chief Risk Officer (**CRO**) in universal and commercial banks to head the risk management function. In addition to overseeing the risk management function, the CRO shall also support the board of directors in the development of the risk appetite of the BSFI and for translating the risk appetite into a risk limits structure. The appointment, dismissal and other changes to the CRO requires the prior approval of the board of directors. Pursuant to the Circular, prospective directors have the burden of proving that they possess all the minimum qualifications and none of the disqualifications listed in the MORB and must submit proof to the BSP of their qualification. An elected director must be fit and proper for the position, taking into consideration his integrity/probity, physical/mental fitness, educational/financial literacy/training and other competencies relevant to the job. Each director must also have attended a seminar on corporate governance, subject to certain exemptions. Members of the board of directors may not be appointed as corporate secretary or chief compliance officer of the institution.

On the same date, the BSP also issued BSP Circular No. 972, prescribing the Enhanced Guidelines in Strengthening Compliance Frameworks for BSFIs, and requiring the appointment of a Chief Compliance Officer (**CCO**). The CCO is tasked to oversee the identification and management of the BSFI's compliance risk and shall supervise the compliance function staff. Additionally, the board of directors should ensure that a compliance programme is defined for the BSFI and that compliance issues are resolved expeditiously. For this purpose, a board-level committee, chaired by a non-executive director, shall oversee the compliance programme.

On 4 January 2018, BSP Circular No. 989 was issued providing the Guidelines on the Conduct of Stress Testing Exercises. Stress testing is a tool to evaluate the potential effects of specified changes in risk factors. The Board of Directors must consider the results in capital and liquidity planning and setting risk appetite, among others. Banks have a period of two years from effectivity date to gradually change their stress testing practices until it is in compliance with the circular's requirements.

BSP Circular No. 1076, Series of 2020 also provides a list of those prohibited to become officers of a bank, including any appointive or elective official, whether full time or part time, except in cases where such service is incidental to the financial assistance provided by the government or government-owned or controlled corporations, or in cases allowed under existing laws.

On 23 August 2022, the BSP issued Circular No. 1149 which provided for guidelines on prudent conduct of investment activities and the minimum practices that a bank should establish for the management and control of risks associated with its investments. The guidelines cover all of a bank's investments in the trading and banking

books, excluding (a) investments that grant control over an enterprise and are accounted for using the equity method, (b) transactions in derivatives involving standalone contracts, and (c) receivables arising from repurchase agreements. Under the circular, a bank is mandated to institute a risk management system to manage the risks arising from its investment activities. This system includes having (1) board and senior management oversight; (2) policies, procedures, and limits that provide a framework for managing investment activities; (3) risk measurement, monitoring and management information systems; and (4) internal controls and audit.

On 28 November 2022, the BSP issued Circular No. 1160, series of 2022 which provides for a framework for Bangko Sentral-Supervised Institutions (BSIs) to manage risks and potential harms to Financial Consumers and institutionalize consumer protection. This framework applies to all financial products created, developed, offered, or marketed by a BSI. Thus, BSIs must comply with the framework by (1) having a consumer protection risk management system (2) establishing board and senior management oversight; (3) maintaining consumer protection standards of conduct; and (4) providing appropriate design and delivery of financial products and services.

## **15.7 REGULATIONS WITH RESPECT TO BANK OPERATIONS**

A universal bank, such as the Bank, may open branches or offices within or outside the Philippines subject to the prior approval by the BSP. A bank and its branches and offices shall be treated as one unit. A bank, with prior approval of BSP, may likewise use any of its branches as outlets for presentation and/sale of financial products of its allied undertakings or investment house units.

The Monetary Board shall prescribe the minimum ratio which the net worth of a bank must bear to its total risk assets which may include contingent accounts. In connection thereto, the Monetary Board may require that the ratio be determined on the basis of the net worth and risk assets of a bank and its subsidiaries, financial or otherwise, and prescribe the composition and the manner of determining the net worth and total risk assets of banks and their subsidiaries. To ensure compliance with the set minimum ratio, the Monetary Board may limit or prohibit the distribution of net profits by such bank and require that such net profit be used to increase the capital accounts of the bank until the minimum requirement has been met. It may also restrict or prohibit acquisition of major assets and the making of new investments by the bank.

A universal bank has the authority to exercise and perform i) activities allowed for commercial banks; ii) powers of an investment house; iii) to invest in non-allied enterprise.

On 7 February 2019, the BSP issued Circular No. 1031, setting forth additional guidelines for the classification of licenses/authorities based on the types of licenses issued for permissible activities; and providing for corresponding amendments to the licensing requirements of the BSP. The Circular provides that a Type C license is required for the issuance of bonds and commercial paper.

On 22 February 2019, the BSP issued Circular No. 1033, which governs EPFS offered by BSFIs. EPFS are classified as basic EPFS, which are limited to services allowing only receipt of funds or access to information, and advanced EPFS, which enable customers to send funds and initiate other financial transactions. BSFIs intending to offer advanced EPFS must obtain a Type A/B license, while those intending to offer only basic EPFS must obtain a Type C license. Once granted a license, a BSFI must comply with the regulations set forth in the Circular.

On 25 July 2019, the BSP issued Circular No. 1042 on the Guidelines on Investment Activities of BSFIs. These cover all of a BSFI's investments in the trading and banking books. It provides the fundamental elements of a BSFI's risk management framework as well as the supervisory expectations on the management of major risks that are inherent in investment activities.

On 7 February 2023, the BSP issued Circular No. 1166, which made changes to the rules on the issuance of e-money and operations of e-money issuers in the Philippines (including rules on liquidity, capitalization, load limit,

and guidelines on reporting and sanctions). The new guidelines set forth in this BSP Circular covers BSFIs that issue E-money and engage in E-money business in the Philippines. E-money issued under closed-loop electronic wallet systems is not covered by the guidelines.

## 15.8 CAPITAL ADEQUACY REQUIREMENTS

The Philippines adopted capital requirements based on the Basel Capital Accord in July 2001.

On 1 July 2007, the BSP issued Circular No. 538, which is the implementing guideline of the revised International Convergence of Capital Measurement and Capital Standards known as Basel II.

In December 2010, a new update to the Basel Accords, known as Basel III, was issued by the BCBS containing new standards that modify the structure of regulatory capital. The Basel III regulations include tighter definitions of Tier 1 capital and Tier 2 capital, the introduction of a leverage ratio, changes in the risk weighting of counterparty credit risk, a framework for counter-cyclical capital buffers, and short and medium-term quantitative liquidity ratios. To align with the international standards, the BSP adopted part of the Basel Committee's eligibility criteria to determine eligibility of capital instruments to be issued by Philippine banks and quasi-banks as Hybrid Tier 1 capital and Tier 2 with the issuance of BSP Circular No. 709 effective 1 January 2011 as amended by BSP Circular No. 716.

In January 2012, the BSP announced that the country's universal and commercial banks, including their subsidiary banks and quasi-banks, will be required to adopt in full the capital adequacy standards under Basel III with effect from 1 January 2014. It aims to replace Basel II, to further strengthen the local bank's loss absorption capacity and encourage banks to rely more on core capital instruments like Common Equity Tier 1 and Tier 1 issues.

This thus allowed local banks one full year for a parallel run of the old and new guidelines prior to the effectiveness of the new standards in 2014, marking an accelerated implementation compared to the Basel Committee's staggered timeline that stretches from January 2013 to January 2017. On 15 January 2013, the BSP issued the implementing guidelines for the adoption on 1 January 2014 of the revised capital standards under the Basel III Accord for universal and commercial banks.

The guidelines set new regulatory ratios for banks to meet specific minimum thresholds for CET1 capital and Tier 1 capital in addition to the CAR. The BSP maintained the minimum CAR at 10% and set a minimum CET1 ratio of 6% and a minimum Tier 1 ratio of 7.5%. The new guidelines also introduced a capital conservation buffer of 2.5% which shall be made up of CET1 capital.

In addition, banks which issued capital instruments from 2011 will be allowed to count these instruments as Basel III-eligible until end-2015. However, capital instruments that are not eligible in any of the three components of capital were derecognised from the determination of the regulatory capital on 1 January 2014.

On 29 October 2014, the BSP issued Circular No. 856, or the "Implementing Guidelines on the Framework for Dealing with Domestic Systemically Important Banks under Basel III". Under the circular, the BSP adopts policy measures for Domestic Systemically Important Banks (**D-SIBs**), which are essentially aligned with documents issued by the BCBS on G-SIBs and D-SIBs. The Monetary Board approved the guidelines for the implementation of higher capital requirements on D-SIBs by the BSP under Basel III. Banks deemed as D-SIBs by the BSP will be imposed capital surcharge to enhance their loss absorbency and thus mitigate any adverse side effects both to the banking system and to the economy should any of the D-SIBs fail. The assessment started in 2014 with the BSP informing banks confidentially of their D-SIB status in 2015. To determine the banks' systemic importance, the BSP will assess and assign weights using the indicator-based measurement approach based on the following: size, interconnectedness, substitutability, and complexity. Depending on how they score against these indicators and the buckets to which the scores correspond, the D-SIBs will have varying levels of additional loss absorbency requirements ranging from 1.5% to 2.5%. Aside from the added capital pressure, D-SIBs may be put at an undue disadvantage compared to G-SIBs (**Global Systemically Important Banks**) given that this framework was

patterned for regional/global banks and thus may not be appropriate for local banks. The phased-in compliance started on 1 January 2017 and became fully effective on 1 January 2019. On 27 September 2019, the BSP issued Circular No. 1051, entitled Amendments to BSP Circular No. 1051 (**BSP Circular No. 1051**), which amended the framework for dealing with D-SIBs provided under BSP Circular No. 856.

Under BSP Circular No. 1051, the minimum HLA requirement for the lower bucket shall be 1.5% of risk-weighted assets at all times. For the higher populated bucket, the HLA requirement shall range from above 1.5% to 2% of risk-weighted assets. An empty top bucket with HLA requirement of 2.5% of risk-weighted assets shall also be maintained. The differentiated HLA requirement for D-SIBs slotted under the higher-populated bucket is to be based on the ranking of a bank's overall systemic importance through the use of the indicator-based measurement approach. An equation is provided in BSP Circular No. 1051 for computing the additional loss absorbency requirement for D-SIBs slotted under the higher-populated bucket.

Bucket	Score Range	Minimum additional HLA requirement (CET1 capital as a percentage of risk-weighted assets)
3 (empty)	B-C	2.5%
2	A-B	>1.5%. to 2.0%.
1	Cut-off point – A	1.5%.

The HLA requirement shall also be on top of the combined requirement for CCB and CCyB, as determined under BSP Circular No. 1051. Restrictions on distributions are provided under BSP Circular No. 1051, depending on the CCyB rate of the bank. However, payments which do not result in the depletion of CET1 capital are not considered capital distributions. The total CET1 capital requirement for D-SIBs will be as follows:

**A. CCyB rate is at 0%:**

Bucket	Minimum CET1 Requirement (a)	CCB (b)	CCyB (c)	D-SIB HLA Requirement (d)	Total Additional CET1 Requirement (b+c+d)	Total Required CET1 (a+b+c+d)
3 (empty)	6.0%	2.5%	0%	2.5%	5%	11.0%
2*	6.0%	2.5%	0%	2%	4.5%	10.5%
1	6.0%	2.5%	0%	1.5%	4.0%	10.0%

\*Assuming an HLA requirement of 2%

**B. CCyB rate is at 2.5%:**

Bucket	Minimum CET1 Requirement (a)	CCB (b)	CCyB (c)	D-SIB HLA Requirement (d)	Total Additional CET1 Requirement (b+c+d)	Total Required CET1 (a+b+c+d)
3 (empty)	6.0%	2.5%	2.5%	2.5%	7.5%	13.5%
2*	6.0%	2.5%	2.5%	2.0%	7.0%	13.0%
1	6.0%	2.5%	2.5%	1.5%	6.5%	12.5%

\*Assuming an HLA requirement of 2%

Transitional arrangements for the HLA requirement will be implemented. In the case of banks included in the first list of D-SIBs (to be released in June 2015 based on December 2014 data), compliance with the HLA requirement was phased-in starting 1 January 2017, with full compliance on 1 January 2019. Under BSP Circular No. 856, further lists of D-SIBs will be issued until 31 December 2021. After the phase-in period, banks identified as D-

SIBs will have eighteen (18) months to comply with the required HLA. However, the BSP has decided in 2022 not to issue the list of D-SIBs to minimize potential misrepresentation of the list as an endorsement of selected banks.

<b>Data Cut-Off</b>	<b>Release of D-SIBs List</b>	<b>Compliance Period</b>
December 2014	June 2015	Phased in: 1 January 2017 – 1 January 2019
December 2015	June 2016	Phased in: 1 January 2018 – 1 January 2019
December 2016	June 2017	1 January 2019 – 31 December 2019
December 2017	June 2018	1 January 2020 – 31 December 2020
December 2018	June 2019	1 January 2021 – 31 December 2021

BSP Circular No. 1051 likewise imposes capital distribution constraints should a D-SIB's capital fall within a specified range (subject to phased-in implementation and other provisions of the circular):

**A. CCyB rate is at 0%**

<b>Restrictions on Distributions</b>	<b>Level of CET1 Capital</b>	
	<b>Bucket 1</b>	<b>Bucket 2*</b>
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with)	<=9.25%	<=9.50%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>9.25%. - 10.0%	>9.50%. – 10.5%

\*Assuming an HLA requirement of 2%

**B. CCyB rate is at 2.5%**

<b>Restrictions on Distributions</b>	<b>Level of CET1 Capital</b>	
	<b>Bucket 1</b>	<b>Bucket 2*</b>
No distribution (until the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with)	<=11.75%	<=12.00%
50% of earnings may be distributed (if the minimum CET1, the combined requirement for CCB and CCyB, and more than 50% of the D-SIB HLA requirements are met; and conditions (a) and (c) below are complied with.	>11.75%. – 12.50%	>12.00%. – 13.00%

\*Assuming an HLA requirement of 2%.

A D-SIB will not be subject to any restriction on distribution if the following conditions are met:

- 1) Positive retained earnings as of the preceding quarter and compliance with the regulatory requirements for the declaration of dividends;
- 2) Compliance with total required CET1 and D-SIBS HLA requirement (under the circular) before distribution; and
- 3) Compliance with minimum capital ratios after distribution.

D-SIBs will also be subjected to greater supervisory requirements such as additional disclosures and reports in its ICAAP).



These requirements may lead to the Bank having to hold even higher minimum levels of capital compared with the levels above, should it be designated as a D-SIB by the BSP.

In May 2015, the BSP approved the guidelines for the implementation of Basel III leverage ratio (computed as banks' Tier 1 capital divided by its total on-book and off-book exposure). On 9 June 2015, the BSP issued Circular No. 881 on the implementing guidelines and accordingly, amending the relevant provisions of the guidelines. Under the guidelines, universal and commercial banks are required to maintain a minimum leverage ratio of 5%, which is more stringent than the 3% minimum leverage ratio under Basel III. The guidelines also provide for a monitoring period up to end-2016 during which banks are required to submit periodic reports; however, sanctions will not be imposed on banks whose leverage ratios fall below the required 5% minimum during the period.

On 26 January 2017, the BSP issued Circular No. 943 which approved the one-year extension of the Basel III Leverage Ratio monitoring period from 31 December 2016 to 31 December 2017, and set new deadlines for the submission of the reporting and disclosure requirements. During the monitoring period, the BSP will continue to assess the calibration and treatment of the components of the leverage ratio. The leverage ratio serves as a backstop measure to the risk-based capital requirements. While this has no material impact given that Philippine banks' ratios are above the required minimum, the leverage ratio along with other pending components of Basel III point to increasing regulatory burden on banks. On 22 January 2018, the BSP issued BSP Circular No. 990 which approved the extension of the Basel III Leverage Ratio monitoring period from 31 December 2017 to 30 June 2018, and set new deadlines for the submission of the reporting and disclosure requirements. The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on 1 July 2018.

Further, local banks face new liquidity requirements, namely, the LCR and the NSFR, under Basel III. The LCR requires banks to hold sufficient level of High Quality Liquid Assets (**HQLAs**) to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs. In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. The Monetary Board also expects to release an exposure draft of NSFR requirements within 2016. Based on news reports, the BSP targets the release of the NSFR rules this year, although no such rules have yet been released as of the date of this Offering Circular. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

On 12 February 2016, the Monetary Board approved the guidelines on the submission of a recovery plan by D-SIBs which shall form part of the D-SIBs' ICAAP submitted to the BSP every 31st of March of each year. The recovery plan identifies the course of action that a D-SIB should undertake to restore its viability in cases of significant deterioration of its financial condition in different scenarios. At the latest, the recovery plan shall be activated when the D-SIB breaches the total required CET1 capital, the HLA capital requirement and/or the minimum liquidity ratios as may be prescribed by the BSP. As a pre-emptive measure, the recovery plan should use early warning indicators with specific levels (i.e., quantitative indicators supplemented by qualitative indicators) that will activate the recovery plan even before the above-said breaches happen. This preparatory mechanism, including the operational procedures, monitoring, escalation and approval process should be clearly defined in the recovery plan. The ICAAP document which includes the first recovery plan was submitted on 30 June 2016 and will be re-submitted on the 31st of March of each year.

In addition, Basel III capital rules for banks include setting up a CCyB wherein banks build up the required level of capital during boom times and draw down on the buffer in the event of an adverse turn in the cycle or during periods of stress, thus helping to absorb losses. The CCyB will require banks to hold additional common equity

or other fully loss absorbing capital in amounts ranging from 0% to 2.5% of the risk-weighted assets. The credit-to-GDP gap, defined as the difference between the credit-to-GDP ratio and its long-term trend, has been chosen as the guide or EWI (early warning indicator) for activating the CCyB. However, some economists have raised the issue that the credit-to-GDP gap is not the best EWI for banking crises or system vulnerabilities, especially for emerging markets (including the Philippines). Under the BIS, the countercyclical capital buffer will be phased in beginning on 1 January 2016 and will become fully effective on 1 January 2019.

On 29 November 2018, the Monetary Board approved the Philippine adoption of the CCyB intended for universal and commercial banks as well as their subsidiary banks and quasi-banks. The CCyB will be complied with by the banks using their CET1 capital. During periods of stress, the Monetary Board can lower the CCyB requirement, effectively providing the affected banks with more risk capital to deploy. During periods of continuing expansion, the CCyB may be raised which has the effect of setting aside capital which can be used if difficult times ensue. The CCyB is set initially at a buffer of 0%, which is line with global practice. The buffer, however, will be continuously reviewed by the BSP. Banks will be given a lead time of 12 months in the event that the CCyB buffer is raised. However, when the buffer is reduced, it takes effect immediately.

On 4 May 2020, the BSP issued BSP Memorandum Circular No. M-2020-039, which allows universal and commercial banks, and their subsidiary banks and quasi-banks, which have built up their CCB and LCR buffer, to utilise the same during this state of health emergency, subject to the following:

- 1) the bank or quasi-bank which draws down its 2.5% minimum CCB will not be considered in breach of the Basel III risk-based capital adequacy framework but will be restricted from making distributions in the form of dividends (in the case of banks incorporated and established under Philippine laws), profit remittance (in the case of a foreign bank branch), share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff; and
- 2) the bank or quasi-bank may draw on its stock of liquid assets to meet liquidity demands to respond to the current circumstances, even if this may cause its LCR to fall below the 100% minimum requirement. In the event the bank or quasi bank has recorded a shortfall in the stock of its HLA for three banking days within any two-week rolling calendar period, thereby causing the LCR to fall below the 100%, such bank or quasi bank must notify the BSP of such a breach on the banking day immediately following the occurrence of the third liquidity shortfall.

Banks and quasi-banks will be given a reasonable time period to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic. Meanwhile, non-compliance with the minimum CAR and NSFR requirements as a result of the COVID-19 pandemic will be handled on a case-by-case basis by the BSP.

## **15.9 RESERVE REQUIREMENTS**

On the other hand, under the New Central Bank Act, the BSP requires banks to maintain cash reserves and liquid assets in proportion to deposits in prescribed ratios. If a bank fails to meet this reserve during a particular week on an average basis, it must pay a penalty to BSP on the amount of any deficiency.

Under BSP Circular 732 issued on 3 August 2011, as further amended by BSP Circular 753 issued on 29 March 2012, BSP Circular 830 issued on 3 April 2014, BSP Circular 832 issued on 27 May 2014, BSP Circular 997 issued on 15 February 2018, BSP Circular 1004 issued on 24 May 2018, BSP Circular 1041 issued on 29 May 2019, BSP Circular 1054 issued 11 October 2019 and BSP Circular 1063 issued on 3 December 2019, universal and commercial banks are required to maintain regular reserves of: (a) 14% against demand deposits, savings deposit, time deposit and deposit substitutes, Peso deposits lodged under due to foreign banks, Peso deposits lodged under due to head office/branches/agencies abroad (Philippine branch of a foreign bank); (b) 14% against negotiable order of withdrawal accounts; (c) 0% against deposit substitutes evidenced by repurchase agreements; (d) 4% against long-term negotiable certificates of time deposits; and (e) 3% against bonds. On 31 March 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 3 April 2020 (and reiterated in

Circular No. 1092 for reserve week 31 July 2020) for universal and commercial banks, to (a) 12% against demand deposits, “NOW” accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, Peso deposits lodged under due to foreign banks and Peso deposits lodged under due to head office/branches/agencies abroad of banks (Philippine branch of a foreign bank); (b) 0% against deposit substitutes evidenced by repurchase agreements; (c) 4% against long-term negotiable certificates of time deposits; (d) 3% against bonds; and (e) 0% against basic deposit accounts as defined under Section X222 of the MORB and for interbank call loan transactions (**IBCL**). Since 31 July 2020, the BSP has regularly adjusted the reserve requirements as part of the liquidity management of the BSP. Under BSP Circular No. 1211 issued by the BSP on 11 March 2025, the BSP further reduced the reserve against deposit and deposit substitute liabilities in local currency of banks effective reserve week starting 28 March 2025 to 5% for universal and commercial banks and 2.5% for digital banks with respect to demand deposits, “NOW” accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks. The reserve against deposit and deposit substitute liabilities in local currency of banks with respect to thrift, rural and cooperative banks currently remains at zero per cent.

On 10 October 2017, the BSP issued Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 23 March 2020, the Monetary Board authorised BSP Governor Benjamin E. Diokno to reduce the reserve requirement ratios of BSP-supervised financial institutions by up to a maximum of four-hundred (400) basis points for 2020. The Monetary Board also authorised the BSP Governor to determine the timing, extent, and coverage of the reduction in the reserve requirement. The authority was granted, following the announcement of the Enhanced Community Quarantine (**ECQ**), to buttress the negative impact of the COVID-19 pandemic on the Philippine economy. On 24 March 2020, pursuant to the authority, BSP Governor Diokno announced that the BSP was reducing the reserve requirement ratio by two-hundred (200) basis points for universal/commercial banks with effect from 30 March 2020. Potential cuts on the reserve requirements for other banks and non-bank financial institutions would also be explored.

On 31 March 2020, BSP Circular No. 1082 was issued, which lowered the rates of required reserves against deposit and deposit substitute liabilities in local currency of banks, with effect from reserve week of 3 April 2020 for universal and commercial banks, to 12% against demand deposits, “NOW” accounts, savings deposits (excluding basic deposit accounts), time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs, deposit substitutes, peso deposits lodged under due to foreign banks and Peso deposits lodged under due to Head Office/Branches/Agencies Abroad of banks.

On 22 April 2020, as part of the Government’s financial assistance programme and in light of the effects of the COVID-19 pandemic on micro, small and medium-sized enterprises (**MSMEs**), the BSP issued Circular No. 1083, which provides that loans that are granted to MSMEs shall be allowed as alternative compliance with the required reserves against deposit and deposit substitute liabilities, subject to the following conditions: (1) that the MSME loan was granted after 15 March 2020; and (2) that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose. Qualified MSME loans are to be valued at amortised cost, gross of allowance for credit losses. The use of MSME loans as allowable alternative compliance with the reserve requirement is available to banks from 24 April 2020 to 30 December 2021.

On 8 October 2020, the BSP issued Circular No. 1100 which is to take effect within 15 calendar days following publication. Circular No. 1100 amends Circular No. 1087 and Circular No. 1083, which provides the following allowable alternative modes of compliance with the required reserves against deposit and deposit substitute liabilities:

- 1) Peso-denominated loans that are granted to MSMEs, excluding banks and **NBQB**, subject to the following conditions:
- a) that the MSME loan was granted after 15 March 2020; provided, that if such MSME loan becomes past due or nonperforming, it is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such MSME loan has been subsequently renewed/restructured by the bank/NBQB in accordance with existing regulations. Notwithstanding this provision, a bank/NBQB may continue to utilize said past due or non-performing MSME loan as alternative compliance with the reserve requirements for an additional 30 calendar days from the date the loan becomes past due or non-performing, whichever comes earlier;
  - b) that the MSME loan that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements; provided, that the bank demonstrates an increase in its MSME loan portfolio during the month preceding the reserve day. For purposes of determining the increase in the bank's MSME loan portfolio, the bank shall exclude accrued interest and accumulated charges which have been capitalised or made part of the principal restructured MSME loans; and
  - c) that the MSME loan is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

The use of MSME loans as allowable alternative compliance with the reserve requirement shall be available to banks from 24 April 2020 to 30 December 2022; and extending to 30 June 2023, pursuant to BSP Circular No. 1155 issued on 21 September 2022; and

- 2) Peso-denominated loans that are granted to large enterprises, excluding banks and NBQBs, subject to the following conditions:
- a) that the loan to the large enterprise was granted, renewed or restructured after 15 March 2020, provided, that a loan to a large enterprise that becomes past due or non-performing is no longer eligible as an alternative mode of compliance with the reserve requirements, except if such loan to a large enterprise has been subsequently renewed/restructured by the bank/NBQB in accordance with existing regulations. Notwithstanding this provision, a bank/NBQB may continue to utilize said past due or non-performing loan to a large enterprise as alternative compliance with the reserve requirements for an additional 30 calendar days from the date the loan becomes past due or non-performing, whichever comes earlier;
  - b) that the loan to the large enterprise that was granted on or before 15 March 2020 but has been renewed or restructured after 15 March 2020 may be used as alternative compliance with the reserve requirements; provided, that the bank demonstrates an increase in its loan portfolio to large enterprises during the month preceding the reserve day. For purposes of determining the increase in the bank's loan portfolio to large enterprises, the bank shall exclude accrued interest and accumulated charges which have been capitalised or made part of the principal restructured MSME loans; and
  - c) that the loan to the large enterprise is not hypothecated or encumbered in any way, or rediscounted with the BSP, or earmarked for any other purpose.

A large enterprise shall refer to a sole proprietorship, partnership, corporation or cooperative that meets all of the following criteria: (a) it does not belong to a conglomerate structure; (b) it has an asset size (less land) of more than ₱100 million and an employment size of two-hundred (200) employees or more; and (c) it is a critically-impacted business enterprise that has been directly and adversely impacted by the COVID-19 pandemic such that: (x) its liabilities has become more than its assets; or (y) it has experienced at least a 50% decline in gross receipts for at least one calendar quarter; and, in either instance, is generally unable to pay or perform its obligations as they fall due in the ordinary course of business, as a result of COVID-19 pandemic, or as determined by the appropriate regulatory agency or agencies, as applicable. A significant decline in gross receipts shall refer to at least a 25% decline in gross receipts for one calendar quarter. A critically-impacted business shall include the

transport industry, tourism industry and export-import industry but shall exclude banks and other financial institutions under the supervision of the BSP.

The use of loans to large enterprises as allowable alternative compliance with the reserve requirement shall be available to banks from 29 May 2020 to 30 December 2022 and extending to 30 June 2023, pursuant to BSP Circular No. 1155 issued on 21 September 2022.

Pursuant to BSP Memorandum Circular No. 1176 dated 29 June 2023, in the case of thrift banks, rural banks, and cooperative banks, the outstanding MSME loans and loans to large enterprises of these banks that are utilized as alternative compliance with the reserve requirement as of 30 June 2023 shall remain eligible for such purpose until said loans are fully paid but not later than 31 December 2025; provided, however, that such MSME loans and loans to large enterprises which subsequently become past due or non-performing, or are extended, renewed, or restructured, shall no longer be eligible as alternative compliance with the reserve requirement. The outstanding balance of MSME loans and loans to large enterprises that are utilized by these banks as compliance with the required reserves as of 30 June 2023 shall not be increased but may be reduced and once reduced, said loans shall not be increased thereafter.

New MSME loans and loans to large enterprises granted after 30 June 2023 by banks shall not be eligible as alternative compliance with the reserve requirement.

On 23 June 2023, the BSP issued BSP Memorandum Circular No. 1175, reducing the reserve requirements against deposit and deposit substitute liabilities (i.e. demand deposits, NOW accounts, savings deposits, time deposits, negotiable CTDs, long-term non-negotiable tax exempt CTDs and deposit substitutes) in local currency of banks, with effect from 30 June 2023 as follows (a) for universal banks from 12% to 9.5%; (b) for thrift banks from 3% to 2%; and (c) for rural and cooperative banks from 2% to 1%. It also provides the reserve requirements against deposit and deposit substitutes in local currency for digital banks which was set at 6%

## **15.10 LIQUIDITY REQUIREMENTS**

Local banks face new liquidity requirements, namely, the LCR and the NSFR, under Basel III. The LCR requires banks to hold sufficient level of High Quality Liquid Assets (**HQLAs**) to enable them to withstand a 30 day-liquidity stress scenario. Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. While both ratios are intended to strengthen banks' ability to absorb shocks and minimise negative spillovers to the real economy, compliance with these ratios may also further increase competition among banks for deposits as well as HQLAs. In March 2016, the Monetary Board approved the LCR framework with an observation period from 1 July 2016 until the end of 2017, during which banks are required to commence reporting their LCR to the BSP. On 1 January 2018, the LCR threshold that banks will be required to meet will be 90%, which will be increased to 100% commencing on 1 January 2019. On 8 February 2018, the BSP issued BSP Circular No. 996 which amended the LCR framework and extended its coverage to subsidiaries of universal and commercial banks and quasi-banks on both solo (head office and branches/other offices) and consolidated (Bank and subsidiary financial allied undertakings) bases. On 15 March 2019, BSP issued BSP Circular No. 1035 (BSP Circular No. 1035), which introduced certain amendments to the Basel III LCR Framework and Minimum Liquidity Ratio Framework, including the (i) extension of the observation period of the minimum Basel III LCR requirement to 31 December 2019 for subsidiary banks and quasi-banks of universal and commercial banks, (ii) adoption of the 70% LCR floor for subsidiary banks and quasi-banks during the observation period, and (iii) amendment of the formula for minimum liquidity ratio. The subsidiary banks and quasi-banks of universal and commercial banks are required to comply with the minimum LCR of 100% starting 1 January 2020.

Meanwhile, the NSFR requires that banks' assets and activities are structurally funded with long-term and more stable funding sources. On 6 June 2018, the BSP issued BSP Circular No. 1007 which sets out the guidelines on the adoption of the Basel III Framework on Liquidity Standards - NSFR. The guidelines require that covered entities maintain an NSFR of at least 100% at all times. The framework applies to all universal and commercial

banks, their subsidiary banks, and quasi-banks. The Circular provides for an observation period until 31 December 2018, during which NSFR Reports must be submitted and should a covered entity be unable to meet the minimum NSFR for a period of two consecutive weeks, it must immediately adopt a board-approved stable funding build-up plan. On 15 March 2019, the Monetary Board issued Circular No. 1034 approving the extension of the observation period for the NSFR of the subsidiary banks and quasi banks of universal and commercial banks until 31 December 2019, moving the effectivity dates of said ratios to 1 January 2020. During the extended observation period, subsidiary banks and quasi-banks of universal and commercial banks are required to comply with a 70% LCR and NSFR, which shall increase to 100% on 1 January 2020. Both the LCR threshold and the NSFR threshold are now at 100%, following the full implementation of the provisions of BSP Circular Nos. 1035 and 1034, respectively.

The Monetary Board also approved enhancements to the LCR and minimum liquidity ratio guidelines, including netting of cash inflows and outflows to and from the same derivative counterparty for the LCR framework, and counting interbank placements as eligible liquid assets and adjusting qualifying liabilities through conversion factors to retail current and regular savings deposits worth ₱500,000 and below and certain liability accounts. The internationally agreed start date for the phase-in of liquidity requirements is 1 January 2015.

Both the LCR threshold and the NSFR threshold are now at 100%, following the full implementation of the provisions of Circulars 1035 and 1034, respectively. On 13 February 2020, the BSP issued Memorandum No. M-2020-003, entitled Guidelines on the Electronic Submission of the BASEL III NSFR Report and Liquidity Coverage Ratio Report. It states that all subsidiary banks and quasi-banks must observe the guidelines for purposes of the NSFR and LCR reports beginning reporting period ended 31 January 2020, in line with BSP Circular Nos. 1035 and 1034.

On 4 May 2020, the BSP issued Memorandum Circular No. M-2020-039, allowing universal and commercial banks, along with their subsidiary banks and quasi-banks, to utilize their built-up CCB and LCR buffer during the health emergency, subject to the following conditions:

- 1) A bank or quasi-bank drawing down its 2.5% minimum CCB will not be considered in breach of the Basel III risk-based capital adequacy framework but will face restrictions on making distributions such as dividends (for banks incorporated and established under Philippine laws), profit remittance (for foreign bank branches), share buybacks, discretionary payments on other Tier 1 capital instruments, or discretionary bonus payments to staff.
- 2) A bank or quasi-bank may use its stock of liquid assets to meet liquidity demands in response to the current circumstances, even if this causes its LCR to fall below the 100% minimum requirement. If a bank or quasi-bank records a shortfall in its stock of HLA for three banking days within any two-week rolling calendar period, leading to an LCR below 100%, it must notify the BSP on the banking day immediately following the occurrence of the third liquidity shortfall.

Banks and quasi-banks have been given a reasonable period to restore their Basel III capital conservation and liquidity buffers after the COVID-19 pandemic. Non-compliance with the minimum CAR and NSFR requirements due to the pandemic will be assessed by the BSP on a case-by-case basis.

## **15.11 CREDIT RISK MANAGEMENT**

In October 2014, the BSP issued Circular No. 855 providing for new guidelines on sound credit risk management practices. BSP Circular No. 855 mandates banks to establish appropriate credit risk strategy and policies, processes and procedures including cash flow-based credit evaluation process, and tighter provisioning guidelines. These are seen to increase costs as banks may have to upgrade their risk management systems and provisioning requirements.

As a general rule, loan and other credit accommodation against real estate shall not exceed 60% of the appraised value of the real estate security plus 60% of the appraised value of the insured improvements, and such loans may

be made to the owner of the real estate or to his assignees, except for the following which shall be allowed a maximum value of 70% of the appraised value of the insured improvements: (a) residential loans not exceeding ₱3.5 million to finance the acquisition or improvement of residential units; and (b) housing loans extended by or guaranteed under the Government's "National Shelter Programme", such as the Expanded Housing Loans Programme of the Home Development Mutual Fund and the mortgage and guaranty and credit insurance programme of the Home Insurance and Guaranty Corporation. Prior to lending on an unsecured basis, a bank must investigate the borrower's financial position and ability to service the debt and must obtain certain documentation from the borrower, such as financial statements and tax returns. Any unsecured lending should be only for a time period essential for completion of the operations to be financed. Likewise, loans against chattels and intangible properties shall not exceed 75% of the appraised value of the security and such loans may be made to the titleholder of the unencumbered chattels and intangible properties or his assignee.

BSP Circular No. 855 set the collateral value (CV) for a loan backed up by real estate to only 60% of its appraised value. Banks will still be allowed to lend more than 60% of the CV; however, the portion above 60% will be considered unsecured, thus requiring banks to set up loan loss provisions accordingly. The CV ruling should not be mistaken for the loanable value, which is the loan amount extended by banks to its borrowers. The current industry practice is a loan-to-value ratio of 70%-80%, which some banks may continue to grant provided that they have strict and consistent lending standards, adequate capital buffer and provisions. This new ruling, along with other BSP regulations intended to avert a property bubble, could result in an overall slowdown in lending to the real estate sector as banks adjust to these rulings.

To better monitor the banking industry's exposure to the property sector, the BSP in September 2012 approved the guidelines that effectively widened the scope of banks' real estate exposures to include mortgages and loans extended to the following: individuals to finance the acquisition/construction of residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost housing. Securities investments issued for purposes of financing real estate activities are also included under the new guidelines. Banks were required to submit the expanded report starting end-December 2012.

Further on 27 June 2014, the BSP issued Circular No. 839 requiring banks to undergo REST while setting prudential limits for banks' real estate exposures to ensure that they have adequate capital to absorb potential losses to the property sector. UKBs as well as thrift banks must meet a CAR of 10% of qualifying capital after adjusting for the stress test results. Further, UKBs and their thrift bank subsidiaries are required to maintain a level of CET1 capital that is at least 6% of qualifying capital after factoring in the stress scenario. In addition, banks are mandated to submit quarterly reports of their real estate exposures, in line with the new REST capital requirements.

On 10 October 2017, the BSP issued BSP Circular No. 976 which approved amendments to the expanded report on the real estate exposure of banks, and required the submission of a report on project finance exposures to enable the BSP to gather more granular information regarding these exposures. It also clarified the definition of loans to finance infrastructure projects for public use that are currently exempt from the 20% limit on real estate loans.

On 20 August 2020, the BSP issued Circular No. 1093, expanding the real estate loan limit for UKBs from 20% to 25%. The REST Limit has also been amended to apply to the following real estate exposures: commercial real estate loans; investment in debt securities issued by land developers/construction companies and other corporate borrowers, such as real estate brokers, real estate lessors, property management companies, for purposes of financing real estate activities; and investments in equity securities issued by land developers/ construction companies and other corporate borrowers, such as real estate brokers, real estate lessors and property management companies, for purposes of financing real estate activities. Notably, under this circular, the manner of computing the REST Limit was revised to remove residential real estate for own occupancy as well as land developers and construction companies for the development of socialised and low-cost housing which was included in previous regulations of the BSP. The real estate exposures shall not include loans and investments in debt and equity securities the proceeds of which are used to finance infrastructure projects for public use.

On 4 January 2021, the BSP issued Memorandum No. M-2021-002 granting regulatory relief to foreign bank branches with respect to their compliance with the SBL. Existing foreign bank branches established in the Philippines prior to RA 10641 that breach the SBL shall not be subject to sanctions until 31 December 2021, provided certain conditions are met.

On 23 August 2022, the BSP issued Circular No. 1149 which provided for guidelines on prudent conduct of investment activities and the minimum practices that a bank should establish for the management and control of risks associated with its investments. The guidelines cover all of a bank's investments in the trading and banking books, excluding (a) investments that grant control over an enterprise and are accounted for using the equity method, (b) transactions in derivatives involving standalone contracts, and (c) receivables arising from repurchase agreements. Under the circular, a bank is mandated to institute a risk management system to manage the risks arising from its investment activities. This system includes having (1) board and senior management oversight; (2) policies, procedures, and limits that provide a framework for managing investment activities; (3) risk measurement, monitoring and management information systems; and (4) internal controls and audit.

## **15.12 LIMITATIONS ON OPERATIONS**

### **15.12.1 Single Borrower's Limit**

Except as prescribed by Monetary Board for reasons of national interest, the total amount of loan, credit accommodations and guarantees (determined on the total credit commitment) that may be extended by a bank to any person or entity shall at no time exceed 20% of the net worth of the bank (or 30% of the net worth of the bank in the event that certain types and levels of security are provided). This ceiling may be adjusted by the Monetary Board from time to time. As of 31 December 2011, the ceiling applicable to the Bank was 25% (or 35% of the net worth of the bank in the event that certain types and levels of security are provided). The ceiling may be increased by the following percentages: (a) an additional 10% of the net worth of the bank as long as the additional liabilities are secured by shipping documents, trust or warehouse receipts or other similar documents which cover marketable, non-perishable goods which must be fully covered by insurance, (b) an additional 25% of the net worth of the bank provided that: (i) the additional loans, credit accommodations and guarantees are used to finance the infrastructure and/or development projects under the Public-Private Partnership Programme of the government duly certified by the Secretary of Socio-Economic Planning; (ii) these additional liabilities should not exceed 25% of the net worth of the bank; and (iii) the additional 25% shall only be allowed for a period of six years from 6 December 2010; and (c) an additional 15% of the net worth of the bank provided that the additional loans, credit accommodations and guarantees are used to finance oil importation of oil companies which are not subsidiaries or affiliates of the lending bank which is also engaged in energy and power generation. To encourage BSFIs to engage in agricultural value chain financing, the total amount of loans, credit accommodations and guarantees may also be increased by an additional 25% granted to entities, which act as value chain aggregators of the lending banks' clients, and/or economically-linked entities that are also actors/players in the value chain, which shall only be for a period of three years from 14 March 2016, subject to review after said period.

The limitations shall not apply to (a) loans and other credit accommodations secured by obligations of the BSP or of the Government; (b) loans and other credit accommodations fully guaranteed by the Government as to the payment of principal and interest; (c) loans and other credit accommodations secured by U.S. Treasury Notes and other securities issued by central governments and central banks of foreign countries with the highest credit quality given by any two internationally accepted rating agencies; (d) loans and other credit accommodations to the extent covered by the hold-out on or assignment of, deposits maintained in the lending bank and held in the Philippines; (e) loans, credit accommodations and acceptances under letters of credit to the extent covered by margin deposits; and (f) other loans or credit accommodations which the Monetary Board may from time to time specify as non-risk items. On 5 July 2017, the BSP issued BSP Circular No. 965, approving the guidelines on the exclusion from the SBL of banks and quasi-banks' short-term exposures to clearing and settlement banks arising from payment transactions.



On 30 April 2018, the BSP issued BSP Circular No. 1001 which provided for a separate individual limit of 25% of the net worth of the lending bank for loans, credit accommodations and guarantees granted by a bank to an entity for the purpose of project finance. The applicability of the separate individual limit shall be subject to the following conditions: (a) the unsecured portion shall not exceed 12.5% of the net worth of the lending bank when the project is already operational; (b) such project finance loans are for the purpose of undertaking initiatives that are in line with the priority programmes and projects of the government; (c) the lending bank shall ensure that the standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of a borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project document; (d) the lending bank shall consider its total project finance exposures in complying with the guidelines in managing large exposures and credit risk concentrations; (e) the subsidiary or affiliate is not a related interest of any of the director, officer, and/or stockholder of the lending bank; and (f) the total outstanding loans, other credit accommodations and guarantees to all subsidiaries and affiliates shall be subject to the aggregate limits for related party transactions.

In an effort to mitigate the adverse effects of the COVID-19 pandemic on the operations of BSFIs, the BSP issued BSP Memorandum No. M-2020-011 dated 19 March 2020 and Memorandum No. M-2020-057 dated 21 July 2020, which granted additional operational relief to BSFIs. The relief measures include an increase in this single borrower's limit from 25% to 30% until 31 March 2021.

On 22 July 2020, the BSP issued BSP Memorandum Circular No. 1091, excluding debt securities held by market makers from the SBL. The circular also said that the debt securities will be excluded from the SBL for a period of time, such as ninety (90) days from date of acquisition if this happened on 1 August 2020 until 31 July 2021 or not exceeding sixty (60) days if acquired 1 August 2021 and onwards.

On 5 January 2023, the BSP issued Circular No. 1164 which provides for the definition of credit risk transfer and which clarifies that loans and other credit accommodations or portion thereof covered by an effective credit risk transfer arrangement in the form of a guarantee or credit derivative that complies with the minimum operational requirements provided under the MORB shall be excluded from the total credit commitment of the bank to a borrower in reckoning compliance with the single borrower limit ("SBL"). Meanwhile, the portion of the loans and other credit accommodations that is not covered by an effective credit risk transfer arrangement, if any, shall still form part of the credit commitment of the bank to the borrower in reckoning compliance with the SBL.

#### **15.12.2 Limitation on DOSRI Transactions**

No director or officer of any bank shall directly or indirectly, for himself or as the representative or agent of others, borrow from such bank nor shall he become a guarantor, endorser or surety for loans from such bank to others, or in the manner be an obligor or incur any contractual liability to the bank except with the written approval of the majority of all the directors of the bank, excluding the director concerned.

After due notice to the Board of Directors of the bank, the office of any officer or director who violates the DOSRI limitation may be declared vacant and such erring officer or director shall be subject to the penal provisions of the New Central Bank Act. The DOSRI account shall be limited to an amount equivalent to their respective unencumbered deposits and book value of their paid-in capital contribution in the bank. The limitation excludes loans, credit accommodations and guarantees secured by assets which the Monetary Board considers as non-risk.

On 2 June 2016, the Monetary Board approved the revisions to prudential policy on loans, other credit accommodations, and guarantees granted to DOSRIs. The Monetary Board approved the exclusion of loans, other credit accommodation and guarantees granted by a bank to its DOSRI for the purpose of project finance from the 30% unsecured individual ceiling during the project gestation phase, provided, that the bank shall ensure that standard prudential controls in project finance loans designed to safeguard creditors' interests are in place, which may include pledge of the borrower's shares, assignment of the borrower's assets, assignment of all revenues and cash waterfall accounts, and assignment of project documents. On 23 June 2016, the BSP issued Circular No. 914, Series of 2016 amending the prudential policy on loans, other credit accommodations, and guarantees granted to

DOSRI, subsidiaries and affiliates. Circular No. 914 has raised the ceilings on the exposures of subsidiaries and affiliates of banks to priority programmes particularly infrastructure projects under the Philippine Development Plan/Public Investment Program (**PDP/PIP**) needed to support economic growth. The exposures to subsidiaries and affiliates in PDP/PIP projects will now be subject to higher individual and unsecured limits of 25% instead of 10% and 12.5% instead of 5% of the net worth of the lending bank, respectively, subject to conditions. Further, the circular also provides for a refined definition of “related interest” and “affiliates” to maintain the prudential requirements and pre-empt potential abuse in a borrowing transaction between the related entities. The circular also amends the capital treatment of exposures to affiliates by weighing the risk of both the secured and unsecured loans granted to the latter.

## **15.13 BANKING REGULATION AND SUPERVISION**

### **15.13.1 Limitation on Investments**

The total investment of a universal bank in equities of allied and non-allied enterprises shall not exceed 50% of its net worth. Moreover, the equity investment in any one enterprise whether allied or non-allied, shall not exceed 25% of the net worth of the universal bank. Net worth for this purpose is defined as the total unimpaired paid-in capital including paid-in surplus, retained earnings and undivided profit, net of valuation reserves and other adjustments as may be required by BSP. The Monetary Board must approve such acquisition of equities.

A universal bank can own up to 100% of the equity in a thrift bank, a rural bank or a financial or non-financial allied enterprise. A publicly listed universal bank, such as the Bank, may own up to 100% of the voting stock of only one other universal or commercial bank. However, with respect to non-allied enterprise, the equity investment in such enterprise by a universal bank shall not exceed 35% of the total equity in the enterprise nor shall it exceed 35% of the voting stock in that enterprise.

A bank’s total investment in real estate and improvements including bank equipment shall not exceed 50% of the combined capital accounts. Further, the bank’s investment in another corporation engaged primarily in real estate shall be considered as part of the bank’s total investment in real estate, unless otherwise provided by the Monetary Board.

The limitation stated above shall not apply with respect to real estate acquired by way of satisfaction of claims. However, all these properties must be disposed by the bank within a period of five (5) years or as may be prescribed by the Monetary Board.

On November 26, 2019, the BSP issued Memorandum No. M-2019-028, requiring all BSP-supervised financial institutions to take the enumerated preventive measures against illegal investment schemes, including “Ponzi Scheme(s).”

On February 4, 2021, the BSP issued Circular No. 1109, reducing the minimum size of each investment management account and expanding the securities eligible as investment outlet for commingled funds under investment management. On 23 August 2022, the BSP issued Circular No. 1149 which provides the guidelines on the integration of sustainability principles in investment activities of banks. This Circular requires banks to consider environmental and social risks in defining credit risk appetite and ensure that such investment does not contribute to sectors considered to have harmful effects to the environment or society. The Circular covers all of a bank’s investments in the trading and banking books but do not apply to bank’s (a) investments that grant control over an enterprise and are accounted for using the equity method; (b) transactions in derivatives involving stand-alone contracts; and (c) receivables arising from repurchase agreements.

On 8 August 2024, the BSP issued Circular No. 119 (2024) which provides for the guidelines on the divestment of equity investments by banks which are not allowed under applicable laws or which do not comply with applicable regulations. Under this Circular, a bank which has been directed to divest specific equity investments

which do not comply with applicable regulations are required to submit a divestment plan to the appropriate supervising unit or department of the BSP and regularly provide status of the implementation of the plan.

### **15.13.2 Prohibition to Act as Insurer**

A bank is prohibited from directly engaging in insurance business as the insurer.

#### **15.13.2.1 Permitted Services**

In addition to the operations incidental to its banking functions, a bank may perform the following services:

- Receive in custody funds, documents and valuable objects;
- Act as financial agent and buy and sell, by order of and for the account of their customers, shares evidences of indebtedness and all types of securities;
- Upon prior approval of the Monetary Board, act as the managing agent, adviser, consultant or administrator of investment management/advisory/consultancy accounts; and
- Rent out safety deposit boxes.

BSP Circular No. 1003, issued on 16 May 2018, outlined the Guidelines on the Establishment and Operations of Bank and Non-Bank Credit Card Issuers to implement Republic Act No. 10870, also known as the Philippine Credit Card Industry Regulations Law.

The Framework for Basic Deposit Accounts, found in BSP Circular No. 992 dated 1 February 2018, was issued, with a view towards promoting account ownership among the unbanked by imposing no minimum maintaining balance and an opening amount of not more than ₱100.00. It also supports the National Retail Payments System, which aims to promote resort to digital payments in the country. On 5 October 2018, BSP issued Memorandum No. M2018-27, prescribing the guidelines on the electronic submission of the updated reports arising from Circular No. 992.

BSP Circular No. 1049, Series of 2019, which implements RA No. 11127 on **(The National Payment Systems Act)**, allows banks to function as an OPS. Banks can register as an OPS by notifying the BSP of their OPS activities.

An OPS is a person that performs any of the following functions:

- Maintains the platform that enables payments or fund transfers, regardless of whether the source and destination accounts are maintained with the same or different institutions;
- Operates the system or network that enables payments or fund transfers to be made through the use of a payment instrument;
- Provides a system that processes payments on behalf of any person or the government; and
- Such other activities similar to the foregoing.

On 19 July 2024, the BSP issued Circular No. 1198 on the Regulatory Framework for Merchant Payment Acceptance Activities. Under this Circular, entities, including banks, are required to secure an authority from the BSP prior to engaging in merchant acquisition in the Philippines or providing the service of accepting and processing payment transactions on behalf of a merchant under an agreement, resulting in a transfer of funds to the merchant. Based on this Circular, banks with concurrent OPS license that are engaged in or intending to engage in merchant payment acceptance activities are expected to adhere to the more stringent requirements between the guidelines under BSP Circular 1198 and the applicable provisions of the MORB.

### **15.14 ANTI-MONEY LAUNDERING ACT OF 2001**

Republic Act No. 9160 or the Anti-Money Laundering Act of 2001 (AMLA), as amended, requires covered institutions such as banks including its subsidiaries and affiliates, to provide for customer identification, record keeping and reporting of covered and suspicious transactions.

On 15 February 2013, Republic Act No. 10365, which took effect on 7 March 2013, expanded the AMLA covered institutions and crimes. Additions to the enumeration of covered persons include jewellery selling agents for transactions in excess of ₱1 million; company service providers, or those who form companies for third parties, hold positions as directors or corporate secretaries for third parties, provide business addresses or engage in correspondence or act as nominee shareholder for others. Likewise, the following persons were added to the list: persons (a) who manage their client's money, security or other assets, or (b) who manage bank or securities accounts, or (c) who organise funds for the creation, operation or management of companies, or (d) who create, operate or manage entities or relationships, or (e) buy and sell business entities. The 2016 Revised Implementing Rules and Regulations of the AMLA was approved by the Anti-Money Laundering Council (AMLC) on 21 December 2016. On 15 March 2017, the BSP issued BSP Circular No. 950 to amend the MORB in order to effectively implement the provisions of the AMLA, as amended, and the revised implementing rules and regulations of the AMLA, as amended. In July 2017, RA No. 10927 further expanded the coverage of AMLA to include casinos for a single casino cash transaction involving an amount in excess of ₱5 million or its equivalent in any other currency. RA No. 11521 further expanded the coverage of AMLA to include real estate developers and brokers, involving an amount in excess of ₱7.5 million or its equivalent in any other currency and offshore gaming operation, as well as their service providers, supervised, accredited or regulated by the Philippine Amusement and Gaming Corporation (PAGCOR) or any government agency.

Covered transactions are single transactions in cash or other equivalent monetary instrument involving a total amount in excess of ₱500,000.00 within one banking day.

Suspicious transactions are transactions with covered institutions such as a bank, regardless of the amount involved, where any of the following circumstances exists:

- There is no underlying legal or trade obligation, purpose or economic justification;
- The customer or client is not properly identified;
- The amount involved is not commensurate with the business or financial capacity of the client;
- The transaction is structured to avoid being the subject of reporting requirements under the AMLA;
- There is a deviation from the client's profile or past transaction;
- The transaction is related to an unlawful activity or offence under the AMLA;
- Similar or analogous transactions to the above.

Failure by any responsible official or employee of a bank to maintain and safely store all records of all transactions of the bank, including closed accounts, for five years from date of transaction/closure of account shall be subject to a penalty of six (6) months to one year imprisonment and/or fine of ₱500,000.00.

Malicious reporting of completely unwarranted or false information relative to money laundering transaction against any person is punishable by six months to four years imprisonment and a fine of not less than ₱100,000.00 and not more than ₱500,000.00.

In compliance with the law, banks, their officers and employees are prohibited from communicating directly or indirectly to any person or entity, the media, the fact that a covered or suspicious transaction has been reported or is about to be reported, the contents of the report, or any information relating to such report. Neither may such report be published or aired in any manner or form by the mass media, electronic mail, or other similar devices. A violation of this rule is deemed a criminal act.

Money laundering is committed by any person who, knowing that any monetary instrument or property represents, involves, or relates to the proceeds of any unlawful activity:

- 1) transacts said monetary instrument or property;
- 2) converts, transfers, disposes of, moves, acquires, possesses or uses said monetary instrument or property;

- 3) conceals or disguises the true nature, source, location, disposition, movement or ownership of or rights with respect to said monetary instrument or property;
- 4) attempts or conspires to commit money laundering offenses referred to in paragraphs (a), (b) or (c);
- 5) aids, abets, assists in or counsels the commission of the money laundering offenses referred to in paragraphs (1), (2) or (3) above; and
- 6) performs or fails to perform any act as a result of which the person facilitates the offense of money laundering referred to in paragraphs (1), (2) or (3) above.

Money laundering is also committed by any covered person who, knowing that a covered or suspicious transaction is required under this Act to be reported to the Anti-Money Laundering Council, fails to do so.

Under AMLA, banks, as covered persons, are required to report to the AMLC all covered transactions and suspicious transactions within a period of five working days from occurrence thereof, unless the AMLC prescribes a different period not exceeding 15 working days. The Court of Appeals of the Philippines (**Court of Appeals**), upon verified ex-parte application by the AMLC and after determination that probable cause exists that any monetary instrument or property is in any way related to an unlawful activity as defined in the AMLA, has the authority to issue a freeze order which shall be effective immediately, and which shall not exceed six months depending upon the circumstances of the case. However, if no case is filed against a person whose account has been frozen within the period determined by the Court of Appeals (but not exceeding six (6) months), the freeze order shall be deemed automatically lifted, provided, that a freeze order is without prejudice to an asset preservation order which the relevant trial court may issue upon the same assets. Further, a freeze order or asset preservation order shall be limited only to the amount of cash or monetary instrument or value of property which the court finds probable cause to consider such property as proceeds of the predicate crime.

BSP Circular No. 495 issued on 20 September 2005, as amended by BSP Circular 527 issued on 28 April 2006, required all universal and commercial banks to adopt an electronic money laundering transaction monitoring system by 14 October 2007. The said system should, at the minimum, be able to detect and raise to the bank's attention, transactions and/or accounts that qualify either as "covered transactions" or "suspicious transactions" as defined under AMLA.

BSP Memorandum No. M2012-017 issued on 4 April 2012, as affirmed by BSP Circular No. 950 issued on 15 March 2017 likewise requires all covered banking institutions to comply with the anti-money laundering risk rating system (ARRS), a supervisory system that aims to ensure that mechanisms to prevent money laundering and terrorist funding are in place and effectively implemented in banking institutions. Under the ARRS, each institution is rated based on the following factors: (a) efficient board of directors and senior management oversight; (b) sound anti-money laundering policies and procedures embodied in a money laundering and terrorist financing prevention programme duly approved by the board of directors; (c) robust internal controls and audit; and (d) effective implementation. BSP Circular No. 950, further provides for specific requirements on having a risk-based approach to customer identification by covered institutions, an ongoing monitoring of customers, accounts, and transactions, and a policy of non-discrimination against certain types of customers.

Institutions that are subject to AMLA are also required to establish and record the identities of their clients based on official documents. In addition, all records of transactions are required to be maintained and stored for a minimum of five years from the date of a transaction, unless a case has been filed involving the account, then the records must be retained and safely kept beyond the five year period until it is officially confirmed by the AMLC Secretariat that the case has been resolved, decided or terminated with finality. Records of closed accounts must also be kept for five (5) years after their closure.

On 20 April 2018, the AMLC issued AMLC Letter No. AMLET-18-03, providing for Operational Guidelines in the Conduct of the 2018 Third Round Mutual Evaluation of the Philippines (the **Guidelines**). The Guidelines aim to (a) create an inter-agency Mutual Evaluation Working Group and sub-working groups; (b) enumerate the

functions and obligations of the member-agencies with respect to the Mutual Evaluation process; (c) outline the Mutual Evaluation process and provide guidance as to the different components of the process; (d) provide timelines for the Mutual Evaluation process and Mutual Evaluation-related activities; (e) enumerate effects of a “non-compliant” or “poor” Mutual Evaluation; and (f) lay down the framework towards the adoption of a national anti-money laundering/counter-financing of terrorism (AML/CFT) Strategy. The Guidelines are addressed to all participating government agencies and other entities.

The Mutual Evaluation is a government-wide concern as what will be assessed is the compliance of the Philippines with the Financial Action Task Force Forty Recommendations and the effectiveness of its AML/CFT regime. The entire Mutual Evaluation process spans two (2) years, and will require the support and active participation of various government agencies, including supervisory authorities, law enforcement agencies, and public and private stakeholders. The Philippines will be evaluated by a pool of experts from Financial Intelligence Units from other member-jurisdictions of the Asia-Pacific Group on Money Laundering (APG), pursuant to the APG’s membership rules.

On 22 November 2018, the AMLC approved the 2018 Implementing Rules and Regulations of the AMLA prescribing, among others, the guidelines on identifying and recording beneficial ownership. In relation thereto, on 14 January 2019, BSP issued Circular Letter No. CL-2019-002, addressed to all BSFIs of the guidelines issued by the AMLC on digitisation of customer records and identification of beneficial owners.

Moreover, the Implementing Rules and Regulations of the Anti-Money Laundering Act of 2001 requires compliance officers which will oversee the Anti-Money Laundering Programme. This is also reflected in the amendments to the Revised Corporation Code mandating banks to elect a compliance officer.

On 29 January 2020, the AMLC issued AMLC Regulatory Issuance (ARI) A, B and C No. 1 (2020), which amends certain provisions of the 2018 implementing Rules and Regulations of Republic Act No. 9160, as amended.

The ARI added provisions on immediate family members and close associates of politically-exposed persons and expanded the definition of a customer or client to include juridical persons. Such resolution also provided that the suspicious transaction report shall cover all transactions, whether completed or attempted, and shall be promptly filed within the next working day from the occurrence thereof.

On 23 November 2020, the BSP issued Memorandum No. M-2020-084, which introduced the money laundering/terrorist/proliferation financing risk assessment system (MRAS) for BSP-supervised financial institutions. The MRAS employs a four-point rating scale to categorize the net risk of money laundering, terrorist financing, and proliferation financing, ranging from low, moderate, above average, to high. The MRAS replaces the previous ARRS that was used for BSP-supervised financial institutions. On 29 April 2024, the BSP issued Circular No. 1193 which amended the relevant regulations of the BSP on money laundering/terrorist/proliferation financing reporting and notification requirements. The Circular was issued to enable the BSP to have timely and accurate information on significant risk events arising from money laundering/terrorist/proliferation financing-related activities and or transactions, as part of its risk-based anti-money laundering and countering the terrorism and proliferation financing supervision.

On 29 January 2021, the AMLA was further amended to include violations under the SRC and Strategic Trade Management Act. It also includes tax deficiencies in excess of ₱25,000,000. The AMLC is also empowered to issue ex parte freeze orders in cases of violations involving terrorist financing.

On 30 March 2023, the BSP issued Circular No. 1170 which provided amendments on the regulations relating to the banks’ conduct of customer due diligence. Under this Circular, banks are required to use a risk-based approach in conducting customer due diligence. It provides regulations on electronic Know-Your-Customer (e-KYC) using digital identity (ID) system.

On 4 July 2023, the Office of the President issued Memorandum Circular No. 33, adopting the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027. This strategy outlines seven strategic objectives designed to address the risks and deficiencies in the Philippines'

AML/CFT systems. Each objective includes action plan items to be completed by relevant government agencies. The strategy aims to respond to findings from the Asia Pacific Group on Money Laundering and the FATF, which placed the Philippines on the Grey List, or "Jurisdictions Under Increased Monitoring," after a twelve-month observation period due to the country's failure to make tangible progress on key FATF recommendations. By reorganizing the National AML/CTF Coordinating Committee and implementing the National Anti-Money Laundering/Counter-Terrorism Financing/Counter-Proliferation Financing Strategy 2023-2027, the Philippine government aims to enhance the effectiveness of its AML, CTF, and CPF measures and facilitate the country's removal from the FATF Grey List.

On 21 February 2025, the AMLC announced the removal of the Philippines from the FATF's Grey List. According to the AMLC, the Philippines' exit from the FATF greylist is expected to facilitate faster and lower-cost cross-border transactions, reduce compliance barriers, and enhance financial transparency. These will support business, strengthen the country's position as an attractive destination for foreign direct investment, and benefit Filipinos, particularly overseas Filipino workers.

### 15.15 REVISED CORPORATION CODE

The Revised Corporation Code was signed into law on 20 February 2019 and became effective on 8 March 2019. Among the salient features of the Revised Corporation Code are:

- Corporations are granted perpetual existence, unless the articles of incorporation provide otherwise. Perpetual existence shall also benefit corporations whose certificates of incorporation were issued before the effectivity of the Code, unless a corporation, upon a vote of majority of the stockholders of the outstanding capital stock notifies the Securities and Exchange Commission (**Commission**) that it elects to retain its specific corporate term under its current Articles of Incorporation.
- A corporation vested with public interest must submit to its shareholders and to the Commission an annual report of the total compensation of each of its directors or trustees, and a director or trustee appraisal or performance report and the standards or criteria used to assess each director, or trustee.
- Banks, quasi-banks, pawnshops, non-stock savings and loan associations (**NSSLA**), and corporations engaged in money service business, preneed trust and insurance companies, and other financial required, must have at least 20% independent directors in the Board, in accordance with the Securities and Regulation Code. This requirement also applies to other corporations engaged in businesses imbued with public interest, as may be determined by the Commission.
- The Code allows the creation of a "One Person Corporation". However, it expressly prohibits banks and quasi-banks, preneed, trust, insurance, public and publicly-listed companies, among others, from being incorporated as such. This restriction also applies with respect incorporations as Close Corporation.
- Material contracts between the Corporation and its own directors, trustees, officers, or their spouses and relatives within the fourth civil degree of consanguinity or affinity must be approved by at least two-thirds (2/3) of the entire membership of the Board, with at least a majority of the independent directors voting to approve the same.
- The right of stockholders to vote in the election of directors or trustees, or in shareholders meetings, may now be done through remote communication or in absentia if authorised by the corporate by-laws. However, as to corporations vested with public interest, these votes are deemed available, even if not expressly stated in the corporate by-laws. The shareholders who participate through remote communication or in absentia are deemed present for purposes of quorum. When attendance, participation and voting are allowed by remote communication or in absentia, the notice of meetings to the stockholders must state the requirements and procedures to be followed when a stockholder or member elects either option.

- As to amendments made to the by-laws of any bank, banking institution, building and loan association, trust company, insurance company, public utility, and other corporations governed by special laws, the Code requires that a prior certificate of the appropriate government agency to the effect that such bylaws or amendments are in accordance with law, must be submitted.
- A favourable recommendation by the appropriate government agency is likewise required for banks or banking institutions, building and loan associations, trust companies, insurance companies, public utilities, and other corporations governed by special laws, before the Commission approves any merger or consolidation; or any voluntary dissolution.
- In case of transfer of shares of listed companies, the Commission may require that these corporations whose securities are traded in trading markets and which can reasonably demonstrate their capability to do so, to issue their securities or shares of stock in uncertificated or scripless form in accordance with the Rules of the Commission.

The Revised Corporation Code refers to the Philippine Competition Act in case of covered transactions under said law involving the sale, lease, exchange, mortgage, pledge, or disposition of properties or assets; increase or decrease in the capital stock, incurring creating or increasing bonded indebtedness; or mergers or consolidations covered by the Philippine Competition Act thresholds.

#### 15.16 THE PHILIPPINE COMPETITION ACT

RA No. 10667, or the Philippine Competition Act (**PCA**) was signed into law on 21 July 2015 and took effect on 8 August 2015. This is the first anti-trust statute in the Philippines and it provides the competition framework in the Philippines. The PCA was enacted to enhance economic efficiency and promote free and fair competition in trade, industry and all commercial economic activities. To implement its objectives, the PCA provides for the creation of a PCC, an independent quasi-judicial agency with five commissioners. Among its powers are to: conduct investigations, issue subpoenas, conduct administrative proceedings, and impose administrative fines and penalties. To conduct a search and seizure, however, the PCC must still apply for a warrant with the relevant court.

The PCA prohibits and imposes sanctions on: (a) anti-competitive agreements between or among competitors, (b) mergers and acquisitions which have the object or effect of substantially preventing, restricting or lessening competition, and (c) practices which are regarded as abuse of dominant position, by engaging in conduct that would substantially prevent, restrict or lessen competition, such as selling goods or services below cost to drive out competition, imposing barriers to entry or prevent competitors from growing, and setting prices or terms that discriminate unreasonably between customers or sellers or the same goods, subject to certain exceptions.

On 3 June 2016, the PCC issued the implementing rules and regulations of the PCA (**IRR**). Under the IRR, as a general rule, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of the acquiring or the acquired entities exceed ₱1 billion; and (b) the value of the transaction exceeds ₱1 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets that will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱1 billion, or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱1 billion.

On 10 March 2018, the PCC issued Memorandum Circular No. 1-001 (MC No. 18-001) to amend Section 3, Rule 4 of the IRR to increase the initial thresholds. Under MC No. 18-001, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5 billion; and (b) the value of the transaction exceeds ₱2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2 billion; or (b) the gross



revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2 billion. As provided in MC No. 18-001, the thresholds shall be automatically adjusted commencing on 1 March 2019 and on 1st March of every succeeding year, using as index the Philippine Statistics Authority's official estimate of the nominal gross domestic product growth of the previous calendar year rounded up to the nearest hundred million. The revised thresholds, however, shall not apply to mergers or acquisitions pending review by the PCC; notifiable transactions consummated before the effectivity of the memorandum circular; and transactions already subject of a decision by the PCC.

PCC Advisory 2019-001 further adjusted the thresholds such that effective 1 March 2019, parties to a merger or acquisition are required to provide notification when: (a) the aggregate annual gross revenues in, into or from the Philippines, or value of the assets in the Philippines of the ultimate parent entity of at least one of the acquiring or acquired entities, including that of all entities that the ultimate parent entity controls, directly or indirectly, exceed ₱5.6 billion; and (b) the value of the transaction exceeds ₱2.2 billion, as determined in the IRR; while parties to a joint venture transaction shall be subject to the notification requirement if either (a) the aggregate value of the assets will be combined in the Philippines or contributed into the proposed joint venture exceeds ₱2.2 billion; or (b) the gross revenues generated in the Philippines by assets to be combined in the Philippines or contributed into the proposed joint venture exceed ₱2.2 billion.

The threshold amounts were last modified by the PCC in a press release issued by the PCC on 15 April 2025. Effective 1 March 2025, mergers and acquisitions that exceed the size of the party and size of the transaction thresholds set at ₱8.5 billion and ₱3.5 billion, respectively, are subject to the PCC notification.

Violations of the PCA and the IRR have severe consequences. Under the PCA and the IRR, a transaction that meets the thresholds and does not comply with the notification requirements and waiting periods shall be considered void and will subject the parties to an administrative fine of 1% to 5% of the value of the transaction. Criminal penalties for entities that enter into anti-competitive agreements, as defined, include: (a) a fine of not less than ₱50 million but not more than ₱250 million; and (b) imprisonment for two to seven years for directors and management personnel who knowingly and willfully participate in such criminal offenses. Administrative fines of ₱100 million to ₱250 million may be imposed on entities found violating prohibitions against anti-competitive agreements and abuse of dominant position. Treble damages may be imposed by the PCC or the courts, as the case may be, where the violation involves the trade or movement of basic necessities and prime commodities.

On 15 September 2017, the PCC published the 2017 Rules of Procedure (**Rules of Procedure**) which apply to investigations, hearings, and proceedings of the PCC, except to matters involving mergers and acquisitions unless otherwise provided. It prescribes procedures for fact-finding or preliminary inquiry and full administrative investigations by the PCC. The Rules of Procedure also include non-adversarial remedies such as the issuance of binding rulings, show cause orders, and consent orders.

On 23 November 2017, the PCC published the 2017 Rules on Merger Procedures (the **Merger Rules**) which provides the procedure for the review or investigation of mergers and acquisition pursuant to the IRR. The Merger Rules provides, among others, that parties to a merger that meets the thresholds in Section 3 of Rule 4 of the IRR are required to notify the PCC within thirty (30) days from the signing of definitive agreements relating to the notifiable merger.

On 28 May 2019, the PCC approved the Expedited Merger Rules which apply when: (1) there are no actual or potential horizontal or vertical (including complementary) relationship in the Philippines between the acquiring entity and the acquired entity and the entities it controls; (2) the merger is a global transaction where the acquiring and acquired entities identified in the definitive agreement are foreign entities (**Foreign Parents**), and their subsidiaries in the Philippines act merely as manufacturers or assemblers of products with at least 95% of such products exported to the foreign parents, subsidiaries, affiliates or third parties located outside the Philippines: Provided, That the remaining 5% product sales in a market in the Philippines is minimal in relation to the entirety

of such Philippine product market; (3) the candidate relevant geographic market of the merger is global and the acquiring and acquired entities have negligible or limited presence in the Philippines; and (4) joint ventures, whether incorporated or not, formed purely for the construction and development of a residential and/or commercial real estate development project.

On 19 January 2021, the PCC issued Memorandum Circular No. 21-001 adjusting the schedule of fines for violations of the 2017 Rules of Procedure and the Rules of Merger Procedure. Administrative fines may amount to up to ₱275.0 million. Commitment of acts such as, failure to comply with a ruling, order, or decision of the PCCC or the disclosure, publication, transfer, copying or dissemination of confidential information may amount to a fine of ₱55,000 up to ₱2.2 million.

### **15.17 DATA PRIVACY ACT**

RA No. 10173, otherwise known as the Data Privacy Act of 2012 (**Data Privacy Act**), was signed into law on 15 August 2012, to govern the processing of all types of personal information (i.e., personal, sensitive, and privileged information) in the hands of the government or private natural or juridical person through the use of Information and Communications System (**ICT**), which refers to a system for generating, sending, receiving, storing or otherwise processing electronic data messages or electronic documents and includes the computer system or other similar device by or which data is recorded, transmitted or stored and any procedure related to the recording, transmission or storage of electronic data, electronic message, or electronic document. While the law expressly provides that it does not apply to certain types of information, including those necessary for banks and other financial institutions under the jurisdiction of BSP to comply with the AMLA and other applicable laws, the said law applies to all other personal information obtained by banks for other purposes.

It mandated the creation of a National Privacy Commission, which shall administer and implement the provisions of the Data Privacy Act and ensure compliance of the Philippines with international standards set for data protection. The Philippines recognises the need to protect the fundamental human right of privacy and of communication, while ensuring free flow of information to promote innovation and growth. It also identifies the vital role of information and communications technology in nation building and its inherent obligation to ensure that personal information in ICT in the government and in the private sector are secured and protected.

The Data Privacy Act seeks to protect the confidentiality of “personal information”, which is defined as “any information, whether recorded in material form or not, from which the identity of an individual is apparent or can be reasonably and directly ascertained by the entity holding the information, or when put together with other information would directly and certainly identify an individual.” The law provides for certain rights of a data subject or an individual whose personal information is being processed. The law imposes certain obligations on “personal information controllers” and “personal information processors”. It also provides for penal and monetary sanctions for violations of its provisions.

### **15.18 FINANCIAL PRODUCTS AND SERVICES CONSUMER PROTECTION ACT**

RA No. 11765, otherwise known as the Financial Products and Services Consumer Protection Act (**FPSCPA**) was signed into law on 6 May 2022. The FPSCPA expanded the powers of financial regulators such as the BSP and imposes duties on financial service providers such as banks. Violation of the Act will result in the imposition of enforcement actions from the BSP, penalties and/or administrative sanctions. On 28 November 2022, the Monetary Board issued Circular No. 1160, Series of 2022, which provides for the implementing guidelines of FPSCPA. According to the Circular, banks must meet the following standards in dealing with financial consumers: (1) Disclosure and Transparency; (2) Protection of Client Information; (3) Fair Treatment; (4) Effective Recourse; and (5) Protection of Consumer Assets against Fraud and Misuse.

Under the FPSCPA and the Circular, financial service providers, such as banks, are tasked to continuously evaluate their financial products or services to ensure that they are appropriately targeted to the needs, understanding and capacity of both their markets and their clients, which shall include, among others, the conduct of affordability

and suitability assessments, the adoption of a clear cooling-off policy, and the provision of pre-payment of loans and other credit accommodations to its borrowers.

Pursuant to the FPSCPA, the BSP may, in addition to the enforcement actions under the MORB, restrict the ability of banks to collect excessive or unreasonable interests, fees or charges, including other interests, fees and charges that are covered under Republic Act No. 10870, otherwise known as the "Philippine Credit Card Industry Regulation Law", and order requiring accounting and disgorgement of profits obtained, or losses avoided, as a result of a violation of the FCPA, its IRR and other existing laws, rules, and regulations under its jurisdiction, including reasonable interest.

### **15.19 ELECTRONIC BANKING OPERATIONS**

The BSP has prescribed prudential guidelines in the conduct of electronic banking, which refers to systems that enable bank customers to avail themselves of a bank's products and services through a personal computer (using direct modem dial-in, internet access, or both) or a telephone. Applicant banks must prove that they have in place a risk management process that is adequate to assess, control, and monitor any risks arising from the proposed electronic banking activities.

Under BSP Circular No. 542, dated 1 September 2006, the BSP released the new guidelines on the protection of electronic banking customers. These guidelines set specific requirements in the following areas: (a) oversight by a bank's board of directors, and other concerned officers over its electronic banking activities; (b) the development of a risk management policy and internal controls over its electronic banking activities; (c) the implementation of a consumer awareness programme for the customers of banks; (d) development of policy on disclosures and transparencies, and the availability of electronic banking service; and (e) the development of complaint resolution procedure for unauthorised transactions in electronic banking. Private domestic banks with a BSP-approved electronic banking facility may accept payment of fees and other charges of a similar nature for the account of the departments, bureaus, offices and agencies of the government as well as all government-owned and controlled corporations. The funds accepted shall be treated as deposit liabilities subject to existing regulations on government deposits and shall not exceed the minimum working balance of such government entities.

BSP Circular No. 808, dated 22 August 2013, required BSP-supervised institutions to migrate their entire payment network to the more secure Europay, MasterCard and Visa (EMV) chip-enabled cards. In 2014, BSP Circular No. 859 set out the EMV Implementation Guidelines which shall govern the implementation for debit cards in any card-accepting devices/terminals. The deadline set for compliance with the migration to the EMV was initially set for 1 January 2017. However, pursuant to BSP Memorandum No. M-2017-019 issued on 9 June 2017, BSFIs are required to fully comply with the EMV requirement by 30 June 2018. Failure to do so is considered a serious offense and will subject these institutions to monetary sanctions provided under relevant provision of the MORB.

On 22 February 2019, the BSP issued BSP Circular No. 1033 introducing certain amendments to the regulations on electronic banking services and other electronic operations, particularly electronic payment and financial services (EPFS). EPFS are products and services that enable customers to receive payments or initiate financial transactions and other related services through an electronic device. BSP Circular No. 1033 requires the prior approval of the BSP to offer EPFS and certain reportorial requirements must be submitted to the BSP.

On 26 November 2020, the Monetary Board approved the inclusion of digital banks as a distinct classification of banks. Digital banks offer financial products and services that are processed end-to-end through a digital platform and/or electronic channels without any physical branch or sub-branch or branch-lite unit offering financial products and services. On 2 December 2020, the BSP issued BSP Circular No. 1105 which provides the guidelines on establishment of digital banks. While digital banks have no physical branch or sub-branch or branch-lite unit, digital banks are required to maintain a principal or head office in the Philippines to serve as the main point of contact for stakeholders, including the BSP and other regulators. Pursuant to the accelerated digitalization in the financial industry, the BSP issued Memorandum No. M-2022-016 on 22 March 2022, which provides the controls

and processes supporting the operation, connectivity, and endpoint security of API and the good practices for API management.

On 7 February 2023, the BSP issued Circular No. 1166 which amended the regulations on electronic money (**E-Money**) and operations of E-Money issuers (**EMIs**) in the Philippines. The Circular clarified that the E-Money issued under closed-loop electronic wallet systems is not covered by the regulations and provides additional guidelines which shall govern the issuance and operations of E-Money, including the regulations on minimum systems and controls required from EMIs, consumer protection regulations, minimum disclosure requirements, liquidity requirements and capital requirements, among others.

## **15.20 RELATED PARTY TRANSACTIONS**

BSP Circular No. 895, dated 14 December 2015, announced the approval of guidelines strengthening oversight and control standards for managing related party transactions of banks and their non-bank financial subsidiaries and affiliates. The guidelines highlight that while transactions between and among the entities within the same group create financial, commercial, and economic benefits, higher standards should be applied to protect the interests of all stakeholders. It is emphasised that related party transactions are generally allowed for as long as these are done on an arm's length basis referring to the process involved in handling the transaction as well as the economic terms of the transaction.

Under the guidelines, the board, as an oversight body, shall have overall responsibility in ensuring that transactions with related parties are handled in a sound and prudent manner, with integrity and in compliance with applicable laws and regulations. The board is expected to approve an overarching policy on the handling of related party transactions that should cover the scope of its related party transactions policy, guidelines in ensuring arm's length terms, management of conflicts of interest, materiality thresholds and limits, whistle blowing mechanisms, and restitution of losses and other remedies for irregular related party transactions. Further, banks that are part of conglomerates are required to create a related party transactions committee responsible for the continuing identification and review of existing relations between and among businesses and counterparties, and for ensuring that related party transactions are processed in the regular course of business, and are priced fairly. The guidelines now explicitly require that the annual reports adequately disclose relevant information on the governance of related party transactions and specific details of exposures to related parties.

BSP Circular No. 969, dated 22 August 2017, further codified the BSP's thrust to strengthen oversight over related party transactions by enhancing corporate governance guidelines which includes improvement of the duties and responsibilities of the related party transactions committee of BSP supervised financial institutions.

On 25 April 2019, the Philippine SEC issued Memorandum Circular No. 10, series of 2019 (**Rules on Material Related Party Transactions for Publicly Listed Companies**), mandating additional disclosure/reportorial requirements for material related party transactions (**MRPTs**) amounting to 10% or higher of a publicly listed company's total assets. The circular requires all publicly listed companies to submit to the Philippine SEC a policy on MRPTs. Advisement Reports on MRPTs shall also be filed with the Philippine SEC in accordance with the circular within three calendar days after the execution of a covered transaction. Finally, a summary of MRPTs entered into by the company during the reporting year shall be disclosed in the company's Integrated Annual Corporate Governance Report (**I-ACGR**) submitted annually every 30 May.

## **15.21 NATIONAL PAYMENT SYSTEMS ACT**

On 30 October 2018, Congress enacted Republic Act No. 11127, or "An Act Providing for the Regulation and Supervision of Payment Systems" (**R.A. No. 11127**). R.A. No. 11127 seeks to regulate payment systems, recognising that they are crucial parts of the financial infrastructure of the country. The law defines payment systems as the set of payment instructions, processes, procedures and participants that ensures the circulation of money or movement of funds. Meanwhile, the same law defines operators as persons who provide clearing or

settlement services in a payment system, or define, prescribe, design, control or maintain the operational framework of the payment system.

Under R.A. No. 11127, all operators of payment systems must register with the BSP. Furthermore, the Philippine SEC can no longer register the charter documents of any operator of a designated payment system, or any amendment thereto, or otherwise issue to an operator a license to do business in the Philippines, unless accompanied by a certificate of authority from the Monetary Board under its seal. The law also grants the BSP the power to designate a new payment system if it determines that an existing payment system is posing or has the potential to pose a systemic risk or the designation is necessary to protect the public interest.

On 9 September 2019, the BSP issued BSP Circular No. 1049 which implements the provisions of R.A. No. 11127. It provides that banks which act as payment systems operators must register with the BSP through notification but do not have to separately file an application or pay registration fees. The BSP will then issue the registering bank a Provisional Certificate of Registration. Thereafter, the BSP will issue the bank a Certificate of Registration, if warranted, and provided the documents submitted by the bank meet all regulatory requirements. BSP Circular No. 1068 issued on 26 December 2019 extended the deadline for the registration of existing payment systems operations from 1 October 2019, as originally provided in Circular No. 1049, to 1 April 2020.

The BSP implemented the Payment System Oversight Framework (**PSOF**) on 7 July 2020 through the issuance of BSP Circular No. 1089, which addresses the need for comprehensive regulation over payment systems and other financial market infrastructures through cooperative oversight and periodic assessment. The PSOF follows a risk-based oversight approach mainly through the designation of payment systems. In the event that the operator of a DPS fails to satisfy regulatory expectations, resulting in a threat to the safety, efficiency, and reliability of the system, the PSOF empowers the BSP to appoint a manager to administer the operation of the DPS. On 14 September 2021, the BSP mandated the adoption of the Principles for Financial Market Infrastructures (**PFMI**) pursuant to the PSOF. The PFMI is a set of international standards designed to strengthen financial market infrastructures and make them more resilient to financial crises and participant defaults.

In line with the phased-in implementation of RA No. 11127, the BSP issued BSP Circular No. 1127 on the Governance Policy for Operators of Payment System on September 17, 2021, which is patterned after its other existing corporate governance standards. It prescribes the regulatory expectations on governance arrangements and standards of OPS as well as the criteria for qualification of its directors and officers.

On 1 March 2022, the BSP issued Circular No. 1138 which establishes the regulatory reporting standards for OPS. The circular requires an OPS to establish a reporting system that will aggregate all pertinent data and produce the reports required by the BSP under both business-as-usual and stressed conditions (i.e., emergency conditions for OPS such as a crisis, national or public health emergencies, weather-related events, or sudden closures of markets and/or clearing agencies the transactions therein are processed through an OPS for eventual settlement) in a timely manner. The circular specifies sanctions that may be imposed on an OPS for non-compliance with reporting requirements. It prescribes non-monetary penalties such as the disqualification or suspension of the Chief Executive Officer for at least one (1) month to one (1) year in case of unsubmitted reports. The top official and members of the board may be disqualified from the industry for further offenses and the Monetary Board will have the power to designate a manager to take over the operations.

## **15.22 THE ANTI-FINANCIAL ACCOUNT SCAMMING ACT**

RA No. 12010, or the Anti-Financial Account Scamming Act (**AFASA**), was signed into law on 20 July 2024 to combat financial cybercrimes, safeguard the interests of financial consumers, and uphold the integrity of the financial system.

The AFASA authorizes the BSP to investigate violations of the law, apply for cybercrime warrants, and collaborate with law enforcement agencies in the investigation of cases covered by the law. It provides the BSP limited authority to examine and investigate bank accounts, e-wallets, and other financial accounts that are involved in

the prohibited acts under the law, which includes engaging in money muling activities and social engineering schemes.

Under the AFASA, money muling activities are prohibited, which includes the following acts for the purpose of obtaining, receiving, depositing, transferring, or withdrawing proceeds that are known to be derived from crimes, offenses, or social engineering schemes:

- 1) Using, borrowing or allowing the use of a Financial Account;
- 2) Opening a financial account under a fictitious name or using the identity or identification documents of another;
- 3) Buying or renting a Financial Account;
- 4) Selling or lending a Financial Account; or
- 5) Recruiting, enlisting, contracting, hiring, utilizing or inducing any person to perform the acts mentioned in items 1 to 4 of this subsection.

Meanwhile, social engineering schemes is committed by a person who obtains sensitive identifying information of another person, through deception or fraud, resulting in unauthorized access and control over the person's Financial Account, by performing any of the following acts:

- 1) Misrepresenting oneself as acting on behalf of an Institution, or making false representations to solicit another person's sensitive identifying information;
- 2) Using electronic communications to obtain another person's sensitive identifying information.

The aforementioned acts shall be considered as economic sabotage when committed under any of the following circumstances:

- 1) By a group of three (3) or more persons conspiring or confederating with one another;
- 2) Against three (3) or more persons individually or as a group;
- 3) Using a mass mailer; or
- 4) Through human trafficking.

Under the AFASA, financial institutions have the obligation to employ adequate risk and fraud management systems to ensure that their clients' financial accounts are protected and temporarily hold funds subject of a disputed transaction within a period prescribed by the BSP, which shall not exceed thirty (30) days, unless otherwise extended by a court of competent jurisdiction.

### **15.23 TAXATION FOR BANKS**

Banks are subject to regular corporate income tax, based on their taxable income at a tax rate of 25%.

Taxable net income refers to items of income specified under Section 32 (A) of the Tax Code (the **National Internal Revenue Code of 1997**, as amended by Republic Act No. 10963) less the items of allowable deductions under Section 34 of the Tax Code or those allowed under special laws.

A Minimum Corporate Income Tax (**MCIT**) equivalent to 2% of the gross income of a bank is payable beginning on the fourth year of operations of the bank only if the MCIT is greater than the regular corporate income tax. Any excess MCIT paid over the regular corporate income tax can be carried forward as tax credit for the three immediately succeeding years. For purposes of MCIT, the bank's gross income means: (a) gross receipts less sales returns, allowances, discounts and cost of services, including interest expense; and (b) income derived from other businesses except income exempt from income tax and income subject to final tax.

Since banks are in the regular business of lending, interest income derived by banks which is generally considered passive income by non-banks, is considered ordinary income of banks subject to 25% corporate income tax. Banks

may also claim interest expense as tax deduction if such expense complies with the requirements laid down in the Tax Code and Revenue Regulations No. 13-00. The amount of interest expense which banks may claim as tax deduction shall be reduced by an amount equal to 33% of the banks' interest income that is subject to final tax.

While net operating loss carry-over (**NOLCO**) can be claimed as deduction against taxable income within three years after NOLCO is incurred, the Tax Code does not allow banks to deduct interest expense or bad debts arising from transactions with the following:

- 1) An individual who directly or indirectly owns more than 50% in value of the outstanding capital stock of the bank;
- 2) A corporation, more than 50% in value of the outstanding capital stock of which is owned directly or indirectly, by or for the same individual in sub-paragraph (1), either as a personal holding company or a foreign personal holding company.

Pursuant to Revenue Regulations No. 05-99 (as amended by Revenue Regulations No. 25-02), in order for banks to claim bad debts as tax deductions, they must secure a certification from the BSP that the accounts are worthless and can be written off, subject to the final determination by the BIR that bad debts being claimed by the banks are worthless and uncollectible. However, on 29 October 2014, the BSP issued Circular No. 855 which provides that notice of write-off of problem credits shall be submitted in the prescribed form to the BSP through the appropriate Central Point of Contact within thirty (30) business after every write-off with a sworn statement signed by the President of the financial institution or officer of equivalent rank that write-off did not include transactions with DOSRI and was undertaken in accordance with board-approved internal credit policy. Based on the said circular, a notice to the BSP would suffice, and that BSP approval with respect to a write-off of a bad debt not related to a DOSRI transaction, is no longer required.

The banks' passive income such as interest income earned from bank deposits is subject to final withholding tax.

Banks are subject to percentage tax or Gross Receipt Tax (**GRT**), which is a tax levied on the gross receipts of banks and non-bank financial intermediaries. On 13 June 2016, the BIR issued Revenue Memorandum Circular No. 62-2016 (RMC 62-2016) seeking to clarify the tax treatment of the gross receipts tax (**GRT**), which is passed on by banks through contractual stipulations to their clients. RMC 62-2016 provides that if under a contract the GRT is passed on to the client, such passed-on GRT should be treated as gross income and should itself be subject to a GRT of either 5% or 7% depending on the provision of the Tax Code covering the type of income or activity.

Real and Other Properties Acquired (**ROPA**) of banks are considered as ordinary assets. The income derived from their sale is subject to the regular corporate income tax. Moreover, the transaction is subject to a 6% creditable withholding tax based on the highest among the zonal value, market value in the tax declaration or selling price, which shall be withheld by the buyer and can be used as a credit against the bank's taxable income in the year that the gain is realised.

The Tax Code provides for a final tax at fixed rates for the amount of interest, yield or benefit derived from deposit substitutes which shall be withheld and remitted by the payor of the said interest, yield or benefit. This rule does not apply to gains derived from trading, retirement or redemption of the debt instrument which is subject to regular income tax rates, except for bonds, debentures or other certificate of indebtedness with maturity of more than five years.

To be considered as a deposit substitute, the debt instrument must have been issued or endorsed to 20 or more individuals at any one time at the time of the original issuance in the primary market or at the issuance of each tranche in the case of instruments sold or issued in tranches.

IBCLs with a maturity period of not more than five (5) days and used to cover deficiency in reserves against deposit liabilities are not considered deposit substitutes and are not subject to documentary stamp tax (**DST**) except if they have a maturity of more than seven (7) days.

FCDU transactions with non-residents of the Philippines, OBUs, FCDUs of local banks and branches of foreign banks (i.e., offshore income) are tax-exempt, while interest income from foreign currency loans granted by FCDUs of depository banks to residents other than OBUs or other depository banks under the expanded system is subject to 10% final tax. All other income of FCDUs is taxable at regular corporate income tax of 25%.

Certain tax preferential tax rates and exemptions available to banks and their transactions under existing laws may be affected by existing bills. On 29 April 2025, the enrolled copies of the CMEPA, which consolidated Senate Bill No. 2865 and House Bill No. 9277, were sent to the Office of the President for his signature. Should the President fail to act on the enrolled bill, and does not veto the same, the enrolled bill automatically passes into law after thirty (30) days from receipt thereof by the Office of the President. The proposed amendments under the CMEPA include the removal of the preferential tax rates and exemptions on long-term deposits and investments in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments; as well as the removal of exemption from income tax of income of nonresidents of the Philippines from transactions with depository banks under the expanded system.

Meanwhile, pending in the Senate is the Passive Income and Financial Intermediary Taxation Act (**PIFITA**), which is the fourth package of the CTRP (based on House Bill No. 4339 from the House of Representatives). The PIFITA, in its current form, proposes (i) the removal of the preferential tax treatment of the expanded foreign currency deposit system, (ii) a single final withholding tax rate of 20% on interest income regardless of currency, maturity, issuer and other differentiating factors, and (iii) a single gross receipt tax of 5 per cent. on banks, quasi-banks, and certain non-bank financial intermediaries across all types of income (lending and non-lending), except dividends, equity shares and net income of subsidiaries, (which will remain exempt).



## SECTION 16. PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the Bonds. It is based on the laws, regulations, and administrative rulings in force as of the date of this Offering Circular and is subject to any changes in law or regulation occurring after such date, which changes can be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own, or dispose of the Bonds.

**Prospective purchasers should consult their tax advisors as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding, and disposing of the Bonds.**

As used in this section, the term “resident alien” refers to an individual whose residence is within the Philippines but who is not a citizen of the Philippines; a “non-resident alien” is an individual whose residence is not within the Philippines and who is not a citizen of the Philippines; a non-resident alien who is actually within the Philippines for an aggregate period of more than 180 days during any calendar year is considered a “non-resident alien doing business in the Philippines”; otherwise, such non-resident alien who is actually within the Philippines for an aggregate period of 180 days or less during any calendar year is considered a “non-resident alien not doing business in the Philippines.”

A “resident foreign corporation” is a foreign corporation engaged in trade or business within the Philippines; and a “non-resident foreign corporation” is a foreign corporation not engaged in trade or business within the Philippines. The term “foreign” when applied to a corporation means a corporation which is not domestic while the term “domestic” when applied to a corporation means a corporation created or organized in the Philippines or under its laws.

The term “non-resident holder” means a holder of shares of stock:

- 1) who is an individual and is neither a citizen nor a resident of the Philippines, or an entity which is a non-resident foreign corporation; and
- 2) should an income tax treaty be applicable, whose ownership of shares of stock is not effectively connected with a fixed base or a permanent establishment in the Philippines.

### 16.1 PHILIPPINE TAXATION

The following is a general description of certain Philippine tax aspects of the Bonds. It is based on the present provisions of the Tax Code (the **National Internal Revenue Code of 1997**, as amended by the Republic Act No. 10963 and 11534), the regulations promulgated thereunder and judicial and ruling authorities in force as of the date of this Offering Circular, all of which are subject to changes occurring after such date, which changes could be made on a retroactive basis. It does not purport to be a comprehensive description of all of the tax considerations that may be relevant to a decision to purchase, own or dispose of the Bonds. Each prospective Bondholder should consult with his own tax advisers as to the laws of other applicable jurisdictions and the specific tax consequences of acquiring, holding and disposing of the Bonds.

The tax in the Philippines on the issuance of and transactions concerning debt instruments may vary depending upon several factors, including whether such instruments are issued by a depository bank under the expanded FCDU or as a regular banking unit.

On 1 January 2018, the TRAIN Law took effect, amending the provisions of the Tax Code, including provisions on documentary stamp tax, tax on interest income and other distributions, estate tax, and donor’s tax.

On 11 April 2021, Republic Act No. 11534, otherwise known as the Corporate Recovery and Tax Incentives for Enterprises Act (**CREATE**) took effect amending fiscal incentives and providing for a uniform tax rate of 15% imposed on capital gains from sale of shares of stock not traded in the stock exchange, on all types of taxpayers.

Other salient provisions of the CREATE Act include:

- reduction in corporate income tax from the current 30% to 20% for MSMEs and to 25% for other corporate taxpayers by July 1, 2020;
- reduction in the minimum corporate income tax rate to 1% effective July 1, 2020 until June 30, 2023; after 30 June 2023, the rate of MCIT shall be 2% of the gross income as of the end of the taxable year;
- effective July 1, 2020, a period of four to seven years during which export enterprises may enjoy the 5% special corporate income based on the gross income earned in lieu of all national and local taxes;
- extension of the applicability of the net operating loss carryover for losses incurred during the first three years from the start of commercial operation by registered projects or activities, from the current three to five consecutive taxable years immediately following the year of such loss;
- net capital gains derived by resident foreign corporations on the sale of shares of stock of domestic corporations not traded on the Philippine stock exchange will be subject to a final tax of 15%, increased from the current rate of 5% on the first ₱100,000 (approximately U.S.\$2,000) and 10% on the excess thereof;
- Regional Operating Headquarters will be subject to regular corporate income tax rates effective January 1, 2022, increased from the current 10% rate on taxable income;
- Qualified Registered Business Enterprises (**RBE**) will be granted an income tax holiday for four to seven years, depending on the assigned RBE category level. After the income tax holiday period, a special corporate income tax rate of 5% beginning July 1, 2020 will be imposed on gross income earned in lieu of all national and local taxes. The duration of the special corporate income tax is five to ten years depending on the assigned RBE tier level; and
- in lieu of the special corporate income tax, enhanced deductions may be granted for a period of five to ten years depending on the assigned RBE category level.

On 22 January 2024, Republic Act No. 11976, otherwise known as the Ease of Paying Taxes Act (**EOPT**) took effect. The EOPT amended various provisions of the Tax Code relating to the filing and payment of taxes and other provisions intended to protect the taxpayer's rights, modernize tax administration, and adopt best practices.

On 8 November 2024, RA No. 12066 or the CREATE MORE was passed, amending the CREATE Act. The CREATE MORE establishes a simplified VAT refund system to reduce delays in tax processes. Moreover, the CREATE MORE streamlines processes for projects that are eligible for incentives, by raising the investment capital threshold for approval by investment promotion agencies. Finally, the CREATE MORE also extends the maximum duration of availment of tax incentives from 17 years to 27 years.

On 29 April 2025, the enrolled copies of the CMEPA, which consolidated Senate Bill No. 2865 and House Bill No. 9277 or the CMEPA, were sent to the Office of the President for the signature of the President. Should the President fail to act on the enrolled bill, and does not veto the same, the enrolled bill automatically passes into law after thirty (30) days from receipt thereof by the Office of the President. of the enrolled bill. Once enacted, the provisions of the CMEPA indicate that it shall take effect by 1 January 2025 following its complete publication in the Official Gazette or in at least one newspaper of general circulation. The CMEPA bill in Senate Bill No. 2865 and House Bill No. 9277, which appears to have overtaken the earlier proposed PIFITA, proposes, among others, (i) the removal of the preferential tax treatment of the expanded foreign currency deposit system, (ii) the removal of tax exemption for long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments, (iii) the reduction of the stock transaction tax, which applies to sale of shares through a local or foreign stock exchange, from six-tenths of one per cent (6/10 of 1%) to one-tenths of one per cent (1/10 of 1%) of the gross selling price or gross value in money of the shares of stock sold, exchanged, or otherwise disposed, (iv) the reduction of the documentary stamp tax on original issuance of shares from ₱2.00 for every ₱200.00 based on par value of shares issued, to seventy-five per cent (75%) of one per cent (1%) of the par value of such shares of stock or the actual consideration, if there is no

par value, (v) the removal from exclusions from gross income of gains from the sale of bonds, debentures or other certificate of indebtedness with a maturity of more than five (5) years, and (vi) standardization of the final withholding tax rate on certain passive income to 20 per cent (20%), except for non-resident aliens not engaged in trade or business and non-resident foreign corporations, both of whom shall still be subject to a final withholding tax rate of 25 per cent (25%). While similar to the PIFITA, the CMEPA introduces other specific revisions to the National Internal Revenue Code of 1997, as amended. As the enrolled bill has not been released, we are unable to confirm the final proposed amendments under the CMEPA.

While the tax reform program ensures fiscal sustainability, the dampening impact of higher taxes on consumer demand and affected industries (in terms of added costs), could slow down the country's growth pace and affect the business of the Bank. Further, the new regulations may directly affect the business and results of operations of the banks.

## **16.2 CORPORATE INCOME TAX**

Under the CREATE Act, a domestic corporation is subject to a tax of 25% of its taxable income from all sources within and outside the Philippines effective 1 July, 2020, provided that domestic corporations with net taxable income not exceeding ₱5,000,000.00 and with total assets not exceeding ₱100,000,000.00 (excluding land on which the particular business entity's office, plant, and equipment are situated during the taxable year for which the tax is imposed) (referred to as micro, small, and medium enterprises, or MSMEs), shall be taxed at 20%. Taxable net income refers to items of income specified under Section 32 (A) of the Philippine Tax Code, less itemized deductions under Section 34 of the Tax Code or those allowed under special laws, or the optional standard deduction equivalent to an amount not exceeding 40% of the corporation's gross income. However, under the proposed CMEPA, the preferential 15% final tax rate will be removed. Instead, a uniform final withholding tax rate of 20% will apply to all forms of passive income.

Passive income of a domestic corporations are taxed as follows: (a) gross interest income from Philippine currency bank deposits and yield from deposit substitutes, trust funds and similar arrangements as well as royalties from sources within the Philippines which are generally taxed at the lower final withholding tax rate of 20% of the gross amount of such income; and (b) interest income from a depository bank under the expanded foreign currency deposit system which is subject to a final tax at the rate of 15% of such income.

As clarified by the Philippine Financial Reporting Standards Council in its Philippine Interpretations Committee Q&A No. 2020-07, the CREATE Act was not considered substantively enacted as of 31 December 2020, even though some of the provisions have retroactive effect to 1 July 2020. The passage of the CREATE Act into law on 26 March 2021 is considered as a non-adjusting subsequent event. Accordingly, current and deferred taxes as of and for the year ended 31 December 2020 continued to be computed and measured using the applicable income tax rates as of 31 December 2020 (i.e., 30% regular corporate income tax / 2% MCIT) for financial reporting purposes.

Beginning 1 July 2020 and until 30 June 2023, a minimum corporate income tax of 1% of the gross income as of the end of the taxable year was imposed on domestic corporations beginning on the fourth taxable year immediately following the year in which such corporation commenced its business operations, when the minimum corporate income tax is greater than the ordinary corporate income tax, provided that after 30 June 2023, the rate of minimum corporate income tax shall be 2% of the gross income as of the end of the taxable year. Any excess of the minimum corporate income tax, however, over the ordinary corporate income tax shall be carried forward and credited against the latter for the three immediately succeeding taxable years. Likewise, subject to certain conditions, the minimum corporate income tax may be suspended with respect to a corporation which suffers losses (1) on account of a prolonged labor dispute, or (2) because of force majeure, or (3) because of legitimate business reverses.

## **16.3 TAXATION OF INTEREST INCOME**

### **16.3.1 Interest Income on Short-Term Bonds**

Interest income on short-term bonds, with maturities of less than five (5) years, is subject to a final withholding tax (FWT) at rates of between 10% and 25% depending on the tax status of the relevant Bondholder under relevant law, regulation or tax treaty. Interest income derived by Philippine citizens and alien resident individuals from the Bonds is subject to income tax, which is withheld at source, at the rate of twenty per cent (20%) based on the gross amount of interest. Generally, interest on the Bonds received by non-resident aliens engaged in trade or business in the Philippines is subject to a twenty per cent (20%) FWT while that received by non-resident aliens not engaged in trade or business is subject to a FWT rate of twenty-five per cent (25%). Interest income received by domestic corporations and resident foreign corporations from the Bonds is subject to a FWT rate of twenty per cent (20%). Interest income received by non-resident foreign corporations from the Bonds is subject to a twenty-five per cent (25%) FWT. However, under the proposed CMEPA, the final withholding tax rate on interest income, will be subject to a uniform rate of 20 per cent (20%), except for non-resident aliens not engaged in trade or business and non-resident foreign corporations, both of whom shall still be subject to a final withholding tax rate of 25 per cent (25%).

### **16.3.2 Interest Income on Long-Term Bonds**

#### **A. For Individuals**

Interest income of resident individuals and non-resident aliens engaged in trade or business in the Philippines on long-term bonds, with maturities of five (5) or more years, are generally exempt from final withholding tax. In order to be exempt, the following characteristics/conditions must be present:

- 1) The investor is an individual citizen (resident or non-resident) or resident alien or non- resident alien engaged in trade or business in the Philippines;
- 2) The long-term bonds should be under the name of the individual;
- 3) The long-term bonds must be in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts and other investments evidenced by certificates in such form prescribed by the BSP;
- 4) The long-term bonds must be issued by banks only and not by other entities or individuals;
- 5) The long-term bonds must have a maturity period of not less than five (5) years;
- 6) The long-term bonds must be in denominations of Ten Thousand Pesos (₱10,000) and other denominations as may be prescribed by the BSP;
- 7) The long-term bonds should not be terminated by the original investor before the fifth (5th) year, otherwise they shall be subjected to the graduated rates of 5%, 12% or 20% on interest income earnings; and
- 8) Except those specifically exempted by law or regulations, any other income such as gains from trading, foreign exchange gain shall not be covered by income tax exemption.

For interest income derived by individuals investing in common or individual trust funds or investment management accounts, the following additional characteristics/conditions must all be present:

- 1) The investment must be actually held/managed by the bank for the named individual at least five (5) years without interruption;
- 2) The underlying investments of the common or individual trust account or investment management accounts must comply with the requirements of Section 22 (FF) of the NIRC of 1997, as amended, as well as the requirements mentioned above;
- 3) The common or individual trust account or investment management account must hold on to such underlying investment in continuous and uninterrupted period for at least five (5) years.

If such long-term bond is pre-terminated before the fifth (5th) year, it shall be subject to a FWT at the rates prescribed to be deducted and withheld from the proceeds based on the length of time that the instrument was held by the taxpayer in accordance with the following schedule:

Holding Period	Rate
Four (4) years to less than five (5) years	5%
Three (3) years to less than four (4) years	12%
Less than three (3) years	20%

For non-resident alien not engaged in trade or business in the Philippines, interest income received from long-term bonds shall be subject to a FWT at the rate of twenty-five per cent (25%) pursuant to Section 25 (B) of the NIRC of 1997, as amended.

However, under the proposed CMEPA, tax exemption for long-term deposit or investment in the form of savings, common or individual trust funds, deposit substitutes, investment management accounts, and other investments will be removed.

## B. For Corporations

Interest income derived by domestic and resident foreign corporations from deposit substitutes is subject to FWT at the rate of twenty per cent (20%) pursuant to Sections 27 (D) (1) and 28 (A) (7) of the NIRC of 1997, as amended.

As used herein: “**deposit substitutes**”, as defined in Section 22 (Y) of the NIRC of 1997, as amended, means an alternative form of obtaining funds from the public other than deposits, through the issuance, endorsement, or acceptance of debt instruments for the borrower's own account, for the purpose of re-lending or purchasing of receivables and other obligations, or financing their own needs or the needs of their agent or dealer.

“**Public**”, is defined as borrowing from twenty (20) or more individual or corporate lenders at any one time.

For non-resident foreign corporations, interest income received from long-term bonds, shall be subject to a FWT at the rate of twenty-five per cent (25%) pursuant to Section 28 (B)(1) of the NIRC of 1997, as amended.

Except for such withholding tax and as otherwise provided, all payments of principal and interest are to be made free and clear of any deductions or withholding for or on account of any present or future taxes or duties imposed by or on behalf of Republic of the Philippines, including, but not limited to, issue, registration or any similar tax or other taxes and duties, including interest and penalties, if any. If such taxes or duties are imposed, the same shall be for the account of the Bank; provided however that, the Bank shall not be liable for the following:

- 1) The withholding tax applicable on interest earned on the Bonds prescribed under the Tax Code, as amended, and its implementing rules and regulations as may be in effect from time to time. An investor who is exempt from the aforesaid withholding tax, or is subject to a preferential withholding tax rate shall be required to submit the following requirements to the Registrar, subject to acceptance by the Bank as being sufficient in form and substance:
  - a) a current and valid BIR-certified true copy of the tax exemption certificate, ruling, or opinion addressed to the relevant applicant or Bondholder, confirming its exemption or preferential rate as required under BIR Revenue Memorandum Circular (RMC) No. 8-2014 including any clarification, supplement or amendment thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the exemption certificate is a true copy of the original; (b) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (c) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting the said certification's validity, or a copy of the law of the country of domicile allowing a deemed paid

tax credit in an amount equivalent to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one (1) year from the date of issuance. Should the submitted tax exemption certificate, ruling or opinion expire during the Offer Period, the Bondholder must submit an updated/revalidated tax exemption certificate;

- b) with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the duly executed and apostilled/consularized BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder's owners or beneficiaries with the proof of receipt by the concerned office of the BIR, as required under Revenue Memorandum Order (**RMO**) No. 14-2021, (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Bank, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Bank that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due, (i) three (3) originals of the duly executed and apostilled/consularized new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Bank deems applicable, and (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; and (c) such other additional documents as may be required by the Bank or pursuant to applicable tax regulations, including, but not limited to, the documentary requirements enumerated in BIR RMO No. 14-2021 in relation to BIR RMC Nos. 77-2021 and 20-2022, which shall be submitted by the Bondholder/Registrar and Paying Agent to the Bank no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto; for the avoidance of doubt, the Bank shall retain sole discretion in determining whether the non-resident Bondholder is entitled to the preferential tax treaty rate based on the documents submitted by the non-resident Bondholder, provided that all the conditions for the availment thereof, other than residency, have been satisfied;
- c) a duly notarized undertaking executed by (1) the Corporate Secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption or preferential rate treatment based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Bank and the Registrar and Paying Agent of (i) any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (ii) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature, and method of operation, which are inconsistent with the basis for its income tax exemption; or (iii) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Bank, the Registrar and Paying Agent, the Lead Arrangers, and the Selling

Agents free and harmless against any claims, actions, suits, and liabilities resulting from the non-withholding or reduced withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such Bondholder shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose; and

- d) such other documentary requirements as may be required by the Bank and the Registrar and Paying Agent or as required under the applicable regulations of the relevant taxing or other authorities, e.g., BIR RMO No. 14-2021, and BIR RMC Nos. 77-2021 and 20-2022, which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Bondholder is not doing business in the Philippines; provided that the Bank shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar and Paying Agent.
- 2) Gross Receipts Tax under Section 121 of the Tax Code;
  - 3) Taxes on the overall income of any securities dealer or Bondholder, whether or not subject to withholding; and
  - 4) Value Added Tax (VAT) under Sections 106 to 108 of the Tax Code, and as amended by Republic Act No. 9337 and Republic Act No. 10963.

The foregoing rates are subject to further reduction by any applicable tax treaties in force between the Philippines and the country of residence of the non-resident owner. Most tax treaties to which the Philippines is a party generally provide for a reduced tax rate of 15% in cases where the interest which arises in the Philippines is paid to a resident of the other contracting state. However, most tax treaties also provide that reduced withholding tax rates shall not apply if the recipient of the interest who is a resident of the other contracting state, carries on business in the Philippines through a permanent establishment and the holding of the relevant interest-bearing instrument is effectively connected with such permanent establishment.

#### **16.4 EARLY REDEMPTION OPTION**

Under the Terms and Conditions, if any payment of principal or interest due under the Bonds becomes subject to additional or increased taxes other than the taxes and rates of such taxes prevailing as of the Issue Date as a result of any change in, or amendment to, the laws, rules or regulations of the Republic of the Philippines or any political subdivision or any authority thereof or therein having power to tax, or any change in the application or official interpretation of such laws, rules or regulations (including but not limited to any decision by a court of competent jurisdiction) which change or amendment becomes effective on or after the Issue Date, and such additional or increased rate of such tax cannot be avoided by the use of reasonable measures available to the Bank, the Bank, subject to the BSP Rules, shall have the option (but not the obligation) to pre-terminate and redeem all, but not in part, the Bonds on any Interest Payment Date before Maturity Date at the Early Redemption Amount.

We suggest that the investor seek its own tax advisors to determine its tax liabilities or exposures given that the Bank does not have gross-up obligations in case of changes in any applicable law, rule or regulation or in the terms and/or interpretation or administration thereof or a new applicable law should be enacted, issued or promulgated, which shall subject payments by the Bank to additional or increased taxes, other than the taxes and rates of such taxes prevailing as of the Issue Date.

## **16.5 TAX-EXEMPT STATUS OR ENTITLEMENT TO PREFERENTIAL TAX RATE**

The tax authorities have prescribed certain procedures for availment of tax treaty relief on interest under Revenue Memorandum Order No. 8-2017. The preferential treaty rates for interest shall be applied and used outright by the withholding agent/income payer upon submission of the Certificate of Residence for Tax Treaty Relief (**CORTT**) Form by the non-resident before interest is credited. The CORTT Form is made up of two parts: Part I states the information of the income recipient/beneficial owner and the certification from the competent tax authority or authorized tax office of country of residence. Part II includes the information of the withholding agent/income payor, details of income payment and the affixture of signatures by both the non-resident income recipient/beneficial owner and the income payor.

The withholding agent/income payor shall submit an original copy of the duly accomplished CORTT Form within thirty (30) days after the remittance of the withholding tax to the BIR. In the case of staggered payment of interest, the withholding agent shall submit an updated Part II of the CORTT Form within 30 days after payment of withholding taxes.

The BIR will no longer issue a ruling for the said CORTT Form submissions but the compliance check and post reporting validation on withholding tax obligations and confirmation of appropriateness of availment of treaty benefits shall be part of BIR's regular audit investigations.

For claims of tax exemption, BIR Revenue Memorandum Circular No. 8-2014 mandates the Bank, as a withholding agent, to require from individuals and entities claiming tax exemption a copy of a valid, current, and subsisting tax exemption certificate or ruling before payment of the related income. The tax exemption certificate or ruling must explicitly recognize the tax exemption, as well as the corresponding exemption from withholding tax. Failure on the part of the taxpayer to present the said tax exemption certificate of ruling shall subject him to the payment of the appropriate withholding taxes due on the transaction.

If the Bank withheld taxes, or withheld the regular rate of tax imposed pursuant to the Philippine Tax Code on interest, the concerned bondholder may file a claim for a refund from the Philippine taxing authorities on the basis of a tax exemption or applicable tax treaty.

## **16.6 VALUE-ADDED TAX**

Gross receipts arising from the sale of the Bonds in the Philippines by dealers in securities shall be subject to a 12.0% value-added tax. The term "gross receipt" means gross selling price less acquisition cost of the Bonds sold.

## **16.7 GROSS RECEIPTS TAX**

Bank and non-bank financial intermediaries performing quasi-banking functions are subject to gross receipts tax on gross receipts derived from sources within the Philippines in accordance with the following schedule:

On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

Maturity period is five years or less	5%
Maturity period is more than five years	1%

Non-bank financial intermediaries not performing quasi-banking functions doing business in the Philippines are likewise subject to gross receipts tax. Gross receipts of such entities derived from sources within the Philippines from interests, commissions and discounts from lending activities are taxed in accordance with the following schedule based on the remaining maturities of the instruments from which such receipts are derived:



Maturity period is five years or less	5%
Maturity period is more than five years	1%

In case the maturity period of the instruments held by banks, non-bank financial intermediaries performing quasi-banking functions and non-bank financial intermediaries not performing quasi-banking functions is shortened through pre-termination, then the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate shall be applied accordingly.

Net trading gains realized within the taxable year on the sale or disposition of the Bonds by banks and nonbank financial intermediaries performing quasi-banking functions shall be taxed at 7%.

## **16.8 DOCUMENTARY STAMP TAXES**

A documentary stamp tax is imposed upon the issuance of debt instruments issued by Philippine companies, such as the Bonds, at the rate of ₱1.50 for each ₱200.00, or fractional part thereof, of the issue price of such debt instruments; provided that, for debt instruments with terms of less than one year, the documentary stamp tax to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days.

The documentary stamp tax is collectible wherever the document is made, signed, issued, accepted, or transferred, when the obligation or right arises from Philippine sources, or the property is situated in the Philippines. Any applicable documentary stamp taxes on the original issue shall be paid by the Bank for its own account.

## **16.9 TAXATION ON GAINS UPON THE SALE OR OTHER DISPOSITION OF THE BONDS**

### **16.9.1 Income Tax**

Any gain realized from the sale, exchange or retirement of bonds will, as a rule, form part of the gross income of the sellers, for purposes of computing the relevant taxable income subject to ordinary income tax rates (at graduated rates from 0% to 35% for individuals and 25% for domestic and resident foreign corporations). On the other hand, gains realized by non-residents from the sale or transfer of debt instruments, such as Bonds, are subject to final withholding tax at the rate of (i) 25%, if the holder is a non-resident alien not engaged in trade or business within the Philippines, or (ii) 25%, if the holder is a non-resident foreign corporation. If the bonds are sold by a seller, who is an individual and who is not a dealer in securities, who has held the bonds for a period of more than twelve (12) months prior to the sale, only 50% of any capital gain will be recognized and included in the sellers' gross taxable income.

However, under the Philippine Tax Code, any gain realized from the sale, exchange or retirement of bonds, debentures and other certificates of indebtedness with an original maturity date of more than five years (as measured from the date of issuance of such bonds, debentures or other certificates of indebtedness) shall not be subject to income tax. Moreover, any gain arising from such sale, regardless of the original maturity date of the bonds, may be exempt from income tax pursuant to various income tax treaties to which the Philippines is a party, and subject to procedures prescribed by the BIR for the availment of tax treaty benefits. However, under the proposed CMEPA, this exemption would be removed. Gains from the sale, exchange, or retirement of bonds, debentures or other certificate of indebtedness with a maturity of more than five (5) years are no longer excluded from gross income.

### **16.9.2 Estate and Donor's Tax**

The transfer by a deceased person, whether a Philippine resident or a non-Philippine resident, to his heirs of the Bonds shall be subject to an estate tax which is levied on the net estate of the deceased at a uniform rate of 6%. A Bondholder shall be subject to donor's tax based on the transfer of the Bonds by way of gift or donation at a uniform rate of 6% on the basis of the total gifts in excess of ₱250,000.00 made during a calendar year for both individuals and corporate holders, whether the donor is a stranger or not.

The estate or donor's taxes payable in the Philippines may be credited with the amount of any estate or donor's taxes imposed by the authority of a foreign country, subject to limitations on the amount to be credited, and the tax status of the donor. The estate tax and the donor's tax, in respect of the Bonds, shall not be collected (a) if the deceased, at the time of death, or the donor, at the time of the donation, was a citizen and resident of a foreign country which, at the time of his death or donation, did not impose a transfer tax of any character in respect of intangible personal property of citizens of the Philippines not residing in that foreign country; or (b) if the laws of the foreign country of which the deceased or donor was a citizen and resident, at the time of his death or donation, allows a similar exemption from transfer or death taxes of every character or description in respect of intangible personal property owned by citizens of the Philippines not residing in the foreign country.

In case the Bonds are transferred for less than an adequate and full consideration in money or money's worth, the amount by which the fair market value of the Bonds exceeded the value of the consideration may be deemed a gift and may be subject to donor's taxes. However, a sale, exchange, or other transfer made in the ordinary course of business (a transaction which is bona fide, at arm's length, and free from any donative intent), will be considered as made for an adequate and full consideration in money or money's worth.

### **16.9.3 Documentary Stamp Tax**

No documentary stamp tax is imposed on the subsequent sale or disposition of the Bonds, trading the Bonds in a secondary market or through an exchange. However, if the transfer constitutes a renewal of the Bonds, documentary stamp tax is payable anew.

### **16.10 TAXATION OUTSIDE THE PHILIPPINES**

The tax treatment of non-resident holders in jurisdictions outside the Philippines may vary depending on the tax laws applicable to such holder by reason of domicile or business activities and such holder's particular situation. This Offering Circular does not discuss the tax considerations on such non-resident holders under laws other than those of the Philippines.

## **SECTION 17. DISTRIBUTION AND SALE**

### **17.1 METHOD OF DISTRIBUTION**

The Bonds are being issued subject to the Terms and Conditions, as well as BSP Circular No. 975 (Series of 2017), BSP Circular No. 1010 (Series of 2018), and BSP Circular No. 1062 (2019) and other related circulars and issuances, as may be amended from time to time.

The Bonds are being issued by the Bank with ING, PCCI Capital, and SCB as Joint Lead Arrangers and the Selling Agents, and to the extent allowed under the Philippine laws and regulations, the Bank, as Selling Agents, Development Bank of the Philippines – Trust Banking Group as Trustee and Philippine Depository & Trust Corp. as Registrar and Paying Agent.

No action has been or will be taken by the Bank, the Joint Lead Arrangers or the Selling Agents in any jurisdiction (other than the Philippines), that would permit a public offering of any of the Bonds, or possession or distribution of this Offering Circular, or any amendment or supplement thereto issued in connection with the offering of the Bonds, in any country or jurisdiction where action for that purpose is required.

The Joint Lead Arrangers and the Selling Agents are required to comply with all laws, regulations and directives as may be applicable in the Philippines, including without limitation any regulations issued by the BSP, in connection with the offering and purchase of the Bonds and any distribution and intermediation activities, whether in the primary or secondary markets, carried out by or on behalf of the Joint Lead Arrangers and the Selling Agents in connection therewith.

Each of the Joint Lead Arrangers and the Selling Agents is a third-party in relation to the Bank, such that, (i) it has no subsidiary/affiliate relationship with the Bank; and (ii) it is not related in any manner to the Bank as would undermine the objective conduct of due diligence on the Bank. The Registrar and Paying Agent and the Trustee are likewise third-parties in relation to the Bank, such that, (i) they have no subsidiary/affiliate relationship with Bank; and (ii) they are not related in any manner to Bank as would undermine its independence.

If a jurisdiction requires that the offering be made by a licensed broker or dealer and the Selling Agents or any affiliate of the Selling Agents is a licensed broker or dealer in that jurisdiction, the offering shall be deemed to be made by that Selling Agent or its affiliate on behalf of the Bank in such jurisdiction.

The Bonds are newly issued securities in scripless or digital form for which there currently is no market. A market maker shall be appointed to provide live bids good for the minimum denomination under the Terms and Conditions, and a cumulative trading commitment per trading day, as required under PDEX Trading Rules, Conventions, and Guidelines. The Joint Lead Arrangers and the Selling Agents are not obligated to make a market for the Bonds. Accordingly, no assurance can be given as to the development or liquidity of any market for the Bonds. In case the bonds will be tokenized, the Bank, PDTC as Registrar, PDEX as Exchange on which the tokenized bonds are listed and traded and the Joint Lead Arrangers and the Selling Agents have agreed to utilize Live Bond Tokenization. See risk factor titled “There is added risk in case the Bonds are issued using PDTC and PDEX’s Live Bond Tokenization.”

The Joint Lead Arrangers and the Selling Agents and their respective affiliates are full service financial institutions engaged in various activities which may include securities trading, commercial and investment banking, financial advice, investment management, principal investment, hedging, financing and brokerage activities. Each of the Joint Lead Arrangers and the Selling Agents may have engaged in, and may in the future engage in, investment banking and other commercial dealings in the ordinary course of business with the Bank or its subsidiaries, jointly controlled entities or associated companies and may be paid fees in connection with such services from time to time. In the ordinary course of their various business activities, the Joint Lead Arrangers and the Selling Agents and their respective affiliates may make or hold (on their own account, on behalf of clients or in their capacity of investment advisers) a broad array of investments and actively trade debt and equity securities (or related

derivative securities) and financial instruments (including bank loans) for their own account and for the accounts of their customers and may at any time hold long and short positions in such securities and instruments and enter into other transactions, including credit derivatives (such as asset swaps, repackaging and credit default swaps) in relation thereto. Such transactions, investments and securities activities may involve securities and instruments of the Bonds or its subsidiaries, jointly controlled entities or associated companies, including Bonds issued under the Bond Program, may be entered into at the same time or proximate to offers and sales of Bonds or at other times in the secondary market and be carried out with counterparties that are also purchasers, holders or sellers of Bonds. Bonds issued under the Bond Program may be purchased by or be allocated to any Joint Lead Arranger, Selling Agent or any of their respective affiliates for asset management and/or proprietary purposes whether or not with a view to later distribution. Such persons do not intend to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so.

**THE BONDS ARE SECURITIES EXEMPT FROM REGISTRATION UNDER SECTION 9.1(E) OF THE SECURITIES REGULATION CODE AND ACCORDINGLY, HAVE NOT BEEN AND WILL NOT BE REGISTERED WITH THE SECURITIES AND EXCHANGE COMMISSION UNDER THE SECURITIES REGULATION CODE OF THE PHILIPPINES AND ITS IMPLEMENTING RULES AND REGULATIONS (THE SRC). ANY FUTURE OFFER OR SALE OF THE BONDS WITHIN THE PHILIPPINES IS SUBJECT TO THE REGISTRATION REQUIREMENTS UNDER THE SRC UNLESS SUCH OFFER OR SALE IS MADE UNDER CIRCUMSTANCES IN WHICH THE BONDS QUALIFY AS EXEMPT SECURITIES OR QUALIFIES AS AN EXEMPT TRANSACTION UNDER THE SRC.**

## **17.2 APPLICATIONS TO PURCHASE THE BONDS DURING THE OFFER PERIOD**

Applicants may purchase the Bonds during the Offer Period by submitting fully and duly accomplished Application to Purchase (ATP) forms, whether originally signed or electronically submitted (through the e-Securities Issue Portal (e-SIP) upon and subject to the e-SIP's approval by the SEC) in quadruplicate, together with all the required attachments and the corresponding payments to the Selling Agent from whom such application was obtained no later than 12:00 noon of the last day of the Offer Period. ATPs received after said date or without the required attachments will be rejected. Only ATPs which are accompanied by payment in the form of cash, manager's checks made out to the order of "Union Bank of the Philippines", debit instructions or such other forms of instructions that are acceptable to the relevant Selling Agent and provided in the ATP, and which cover the entire purchase price shall be accepted.

In addition to duly executed ATP forms, each applicant shall submit the following documents to the Selling Agents:

- 1) Documents to be provided by individuals:
  - a) identification document (**ID**) of the applicant which shall consist of any one of the following valid identification documents bearing a recent photo, and which is not expired: Passport, Driver's License, Professional Regulation Commission ID, National Bureau of Investigation Clearance, Police Clearance, Postal ID, Voter's ID, Barangay Certification, Government Service Insurance System e-Card, Social Security System Card, Senior Citizen Card, Overseas Workers Welfare Administration ID, OFW ID, Seaman's Book, Alien Certification of Registration/Immigrant Certificate of Registration, Government Office and government-owned and controlled corporation ID, e.g., Armed Forces of the Philippines, Home Development Mutual Fund, Certification from the National Council for the Welfare of Disabled Persons, Department of Social Welfare and Development Certification, Integrated Bar of the Philippines ID, company IDs issued by private entities or institutions registered with or supervised or regulated either by the BSP, SEC or the Insurance Commission, or school ID duly signed by the principal or head of the school (for students who are beneficiaries of remittances/fund transfers who are not yet of voting age);
  - b) two duly accomplished signature cards containing the specimen signature of the applicant;
  - c) validly issued tax identification number issued by the BIR; and

- d) such other documents as may be reasonably required by any of the Joint Lead Arrangers and the Selling Agents or the Registrar and Paying Agent in implementation of its internal policies regarding “know your customer” and anti-money laundering
- 2) Documents to be provided by corporate and institutional applicants:
- a) copies of its Articles of Incorporation and By-laws and latest amendments thereof, together with the Certificate of Incorporation issued by the SEC or other organizational documents issued by an equivalent government institution, or by the corporate secretary, or by an equivalent officer(s) of the applicant who is/are authorized signatory(ies);
  - b) an original notarized certificate of the corporate secretary or an equivalent officer of the applicant, setting forth the resolutions of the board of directors, partners or equivalent body: (i) authorizing the purchase of the Bonds indicated in the Application to Purchase, and designating the signatories with their specimen signatures for said purpose;
  - c) ownership structure of the applicant;
  - d) a list of natural persons who are the beneficial owners of the parent company of the applicant;
  - e) two duly accomplished signature cards containing the specimen signatures of the authorized signatories of the applicant, validated by its corporate secretary or an equivalent officer(s) who is/are authorized signatory(ies);
  - f) validly issued tax identification number issued by the BIR;
  - g) identification document(s) of the authorized signatories of the applicant, as specified in item (1)(a);
  - h) identification document(s) of at least two (2) of the directors of the applicant, including its managing director, if any;
  - i) identification document(s) of beneficial owners who own at least ten per cent (10%) of the capital stock of the applicant;
  - j) identification document of the corporate secretary of the applicant or its equivalent officer(s); and
  - k) such other documents as may be reasonably required by any of the Joint Lead Arrangers and the Selling Agents or the Registrar and Paying Agent in the implementation of its internal policies regarding “know your customer” and anti-money laundering

3) Additional documents to be provided by Tax-Exempt Bondholders

At least two sets of the following:

- a) A current and valid BIR-certified true copy of the tax exemption certificate, ruling, or opinion addressed to the relevant applicant or Bondholder confirming its exemption or preferential rate as required under BIR Revenue Memorandum Circular (**RMC**) No. 8-2014 including any clarification, supplement or amendment thereto, and certified by the Corporate Secretary of the Bondholder that: (a) the exemption certificate is a true copy of the original; (b) the original is in the possession of the Corporate Secretary as the duly authorized custodian of the same; and (c) the Corporate Secretary has personal knowledge based on his official functions of any amendment, revocation, expiration, change or any circumstance affecting the said certification’s validity, or a copy of the law of the country of domicile allowing a deemed paid tax credit in an amount equivalent to the 15% spared or waived by the Philippines duly authenticated by the Philippine embassy or, for countries that are members to the Apostille Convention, an apostilled copy of the law of the country of domicile which apostilled or authenticated copy shall be valid for one (1) year from the date of issuance. Should the submitted tax exemption certificate, ruling or opinion expire during the Offer Period, the Bondholder must submit an updated/revalidated tax exemption certificate;
- b) with respect to tax treaty relief, (a) prior to the payment of the initial interest due, (i) three (3) originals of the duly executed and apostilled/consularized BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes filed by the Bondholder or, if the Bondholder is a fiscally transparent entity, each of the Bondholder’s owners or beneficiaries with the proof of receipt by the concerned office of the BIR, as required under Revenue Memorandum Order (**RMO**) No. 14-2021, (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the

country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, (iii) the relevant provision of the tax treaty providing for the claimed tax exemption or preferential tax rate, in a form acceptable to the Bank, and (iv) three (3) originals of the duly notarized, consularized or apostilled (as the case may be), if executed outside of the Philippines, Special Power of Attorney executed by the Bondholder or the Bondholder's owners or beneficiaries, as may be applicable, in favor of the authorized representative (if the Application Form for Treaty Purposes and other documents are accomplished by an authorized representative) and confirmation acceptable to the Bank that the Bondholder or the Bondholder's owners or beneficiaries is/are not doing business in the Philippines to support the applicability of a tax treaty relief; (b) prior to the payment of subsequent interests due, (i) three (3) originals of the duly executed and apostilled/consularized new or updated BIR Form 0901-I (Interest Income) or Application Form for Treaty Purposes, as the Bank deems applicable, and (ii) one (1) original of the apostilled/consularized Tax Residency Certificate duly issued by the respective foreign tax authority of the country of residence of the Bondholder or, if the Bondholder is a fiscally transparent entity, the country of residence of each of the Bondholder's owners or beneficiaries, in the form acceptable for recognition under Philippine laws, if the validity period of the previously issued tax residency certificate has already lapsed; and (c) such other additional documents as may be required by the Bank or pursuant to applicable tax regulations, including, but not limited to, the documentary requirements enumerated in BIR RMO No. 14-2021 in relation to BIR RMC Nos. 77-2021 and 20-2022, which shall be submitted by the Bondholder/Registrar and Paying Agent to the Bank no later than the 1st day of the month when such initial or subsequent interest payment/s shall fall due and, if applicable, including any clarification, supplement or amendment thereto; for the avoidance of doubt, the Bank shall retain sole discretion in determining whether the non-resident Bondholder is entitled to the preferential tax treaty rate based on the documents submitted by the non-resident Bondholder, provided that all the conditions for the availment thereof, other than residency, have been satisfied;

- c) A duly notarized undertaking executed by (1) the Corporate Secretary or any authorized representative of such applicant or Bondholder, who has personal knowledge of the exemption or preferential rate treatment based on his official functions, if the applicant purchases, or the Bondholder holds, the Bonds for its account, or (2) the Trust Officer, if the applicant is a universal bank authorized under Philippine law to perform trust and fiduciary functions and purchase the Bonds pursuant to its management of tax-exempt entities (i.e. Employee Retirement Fund, etc.), declaring and warranting such entities' tax-exempt status or preferential rate entitlement, undertaking to immediately notify the Bank and the Registrar and Paying Agent of (i) any suspension, revocation, amendment or invalidation (in whole or in part) of the tax exemption certificate, ruling or opinion issued by the BIR, executed using the prescribed form under the Registry and Paying Agency Agreement; (ii) if there are any material changes in the factual circumstances of the Bondholder including but not limited to its character, nature, and method of operation, which are inconsistent with the basis for its income tax exemption; or (iii) if there are any change of circumstance, relevant treaty, law or regulation or any supervening event that may or would result in the interest income of the Bonds being ineligible for exemption or preferential rate, with a declaration and warranty of its tax exempt status or entitlement to a preferential tax rate, and agreeing to indemnify and hold the Bank, the Registrar and Paying Agent, the Joint Lead Arrangers, and the Selling Agents free and harmless against any claims, actions, suits and liabilities resulting from the non-withholding or reduced withholding of the required tax, provided, that in case of corporate, partnership or trust account investors, such Bondholder shall also submit an original certification from the corporate secretary or an equivalent officer of the investor, setting forth the resolutions of its board of directors or equivalent body authorizing the execution of the undertaking and designating the signatories, with their specimen signatures, for the said purpose; and
- d) such other documentary requirements as may be required by the Bank and the Registrar and Paying Agent or as required under the applicable regulations of the relevant taxing or other authorities, e.g., BIR RMO No. 14-2021, and BIR RMC Nos. 77-2021 and 20-2022, which for purposes of claiming tax treaty withholding rate benefits, shall include evidence of the applicability of a tax treaty and consularized or apostilled (as the case may be) proof of the Bondholder's legal domicile in the relevant treaty state, and confirmation acceptable to the Bank that the Bondholder is not doing business in the Philippines;

provided that the Bank shall have the exclusive discretion to decide whether the documents submitted are sufficient for purposes of applying the exemption or the reduced rate being claimed by the Bondholder on the interest payments to such Bondholder; provided further that, all sums payable by the Bank to tax-exempt entities shall be paid in full without deductions for taxes, duties, assessments or government charges, subject to the submission by the Bondholder claiming the benefit of any exemption of the required documents and of additional reasonable evidence of such tax-exempt status to the Registrar and Paying Agent.

### **17.3 ALLOCATION AND ISSUE OF THE BONDS**

Applications to purchase the Bonds shall be subject to the availability of the Bonds and acceptance by the Bank. In case the bonds will be tokenized, the acceptance by the Bank of the applications to purchase the Bonds shall also be subject to the limitation on the number of holders of the Bonds imposed by the Philippine Depository & Trust Corp. and its systems on the digital bonds to be issued by the Bank, subject to such adjustments as may be allowed by the Philippine Depository & Trust Corp. from time to time. The Joint Lead Arrangers and the Selling Agents, in consultation with the Bank, may accept, reject, scale down or reallocate any application to purchase the Bonds applied for.

In the event that payment supporting any ATP is returned by the drawee bank for any reason whatsoever, the ATP shall be automatically cancelled and any prior acceptance of the ATP shall be deemed revoked. If any ATP is rejected or accepted in part only, the corresponding portion of the tendered purchase price will be returned without interest by the relevant Selling Agent.

On the Issue Date, the Selling Agents shall, on behalf of the Bank, accept the relevant ATPs. The acceptance of an ATP shall ipso facto convert such ATP into a purchase agreement between the Bank and the relevant Bondholder.

The Registrar shall rely solely on the Sales Report submitted by the Selling Agents in its preparation of the Registry and the issuance of the Registry Confirmation for each Bondholder. Within seven (7) Banking Days from the Issue Date, the Registrar shall distribute the Registry Confirmations directly to the Holders in the mode elected by the Bondholder as indicated in the Sales Report.

### **17.4 TRANSACTIONS IN THE SECONDARY MARKET**

All secondary transfers of the Bonds shall be coursed through or effected using the trading facilities of the Exchange, subject to compliance with the applicable rules of such Exchange and the payment by the Bondholder of applicable fees to the Exchange and the Registrar and Paying Agent. In case the bonds will be tokenized, the secondary trading and transfers of the Bonds shall also be subject to the limitation on the number of Bondholders imposed by the Philippine Depository & Trust Corp. All transfers of the Bonds shall only be effective upon the receipt by the Registrar of a duly accomplished Trade-Related Transfer Form or Non-Trade Related Transfer Form (as applicable) in the forms attached to the Registry and Paying Agency Agreement or other relevant PDEX Trading Participant and other required documentation and the registration and recording by the Registrar of such assignment or transfer in the Registry; provided, that no such registration and recording shall be allowed during the Closed Period.

The date of registration as appearing in the Registry shall be treated as the date of transfer with such transfer and issuance of the Registry Confirmation to be made, in any case only upon, and within five (5) Banking Days from, the presentation of the following documents:

- 1) the relevant Registry Confirmation;
- 2) Tax Exempt/Treaty Documents, if applicable, in accordance with the Terms and Conditions;

- 3) the relevant Trade-Related Transfer Form or Non-Trade Related Transfer Form, as the case may be, duly accomplished by the transferor Bondholder and endorsed by the relevant PDEX Trading Participant, substantially in the form agreed upon between the Bank and the Registrar;
- 4) the Investor Registration Form duly accomplished by the transferee Bondholder and endorsed by the relevant PDEX Trading Participant, in the form agreed upon between the Bank and the Registrar;
- 5) written consent of the transferee Bondholder to be bound by the terms of the Bonds and the Registry Rules, in the form agreed upon between the Bank and the Registrar; and
- 6) such documents as may be reasonably required by the Registrar to be submitted by the transferee Bondholder in support of the transfer or assignment of the Bonds in its favor.

Where the Bonds become listed on PDEX, all trade transactions must be coursed through PDEX in accordance with the PDEX Rules and conventions.

Transfers of the Tranche of the Bonds made in violation of the restrictions on transfer under the Terms and Conditions shall be null and void and shall not be registered by the Registrar.

## **17.5 INTEREST AND PRINCIPAL PAYMENT**

On the relevant Payment Date, the Paying Agent shall, upon receipt of the corresponding funds from the Bank, make available to the Bondholders the amounts net of taxes and fees (if any), by way of direct credits to the bank accounts through the identified Cash Settlement Banks by the Holders as reflected in the Sales Report.

## **17.6 SCHEDULE OF REGISTRY FEES**

The Registrar and Paying Agent shall be entitled to charge the Holders and/or their counterparties such reasonable fees as the Registrar and Paying Agent shall prescribe in connection with the services that the Registrar and Paying Agent shall perform, such as, but not limited to, the opening and maintaining of accounts in favor of the Bondholders, the maintenance of the records of the Bondholder in the Registry, the issuance, cancellation, and replacement, when proper, of the Registry Confirmations, and the transfers of the Bonds from a purchaser or seller/transferor of the Bonds.

### **17.6.1 Transfer Fees in the Secondary Trading**

- 1) Transfer Fee of ₱100.00 to be paid each by the transferring Bondholder and the buyer/transferee prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer. For transfers from a registry account to the depository, the full charge of ₱200.00 per transfer shall be charged to the transferring bondholder.
- 2) Account Opening Fee of ₱100.00 to be paid upfront by a transferee who has no existing account in the Registry
- 3) Such transaction fees as PDTC shall prescribe for effecting electronic settlement instructions received from the PDSClear System if so duly authorized by a bondholder

### **17.6.2 Transfer Fees due to Non-Trade Transactions**

- 1) Transaction Fee of ₱100.00 to be paid each by the transferring bondholder and the requesting party prior to the registration of any transfer of the Bonds in the Registry. Either side may opt to pay the full charge of ₱200.00 per transfer.
- 2) Transaction Fee of ₱500.00 per side plus legal cost, for non-intermediated transfers (e.g. inheritance, donation, pledge).



### **17.6.3 Other Fees Charged to the Bondholder**

These fees pertain to instances when PDTC is requested to undertake the printing of non-standard reports for the Bondholders for which appropriate fees are charged to cover the related overhead costs. The fee may vary depending on the type of report, as follows:

- 1) Fee of ₱200.00 to be paid upon each application for a certification request of holding.
- 2) Fee of ₱50.00 to be paid upon each application for a monthly statement of account (in addition to the quarterly statement of account to be issued by the Registrar to each Bondholder free of charge).
- 3) Fee of ₱50.00 to be paid upon application for the issuance of a replacement Registry Confirmation for reasons such as mutilated, destroyed, stolen or lost.
- 4) The fee for Special Reports varies depending on request.
  - a) Report without back-up file restoration is subject to a fee of ₱100.00 per request, plus ₱20.00 per page.
  - b) Report requiring back-up file restoration is subject to a fee of ₱300.00 per request, plus ₱20.00 per page.

## **THE PARTIES**

### **The Bank**

#### **Union Bank of the Philippines**

UnionBank Plaza  
Meralco Avenue, corner Onyx and Sapphire Streets  
Ortigas Center, Pasig City  
1605 Philippines

### **Joint Lead Arrangers and Bookrunners**

#### **ING Bank N.V., Manila Branch**

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Pacific Tower  
5<sup>th</sup> Avenue cor. 30<sup>th</sup> Street  
Bonifacio Global City, Taguig  
City, Metro Manila,  
Philippines

#### **Philippine Commercial Capital, Inc.**

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Village, Makati City, Metro  
Manila, Philippines

#### **Standard Chartered Bank**

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#### **Legal Counsel to the Bank As to Philippine Law**

#### **Picazo Buyco Tan Fider & Santos Law Offices**

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### **Independent Auditor**

#### **SyCip Gorres Velayo & Co.**

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Makati City 1226 Philippines

### **Registrar and Paying Agent**

#### **Philippine Depository & Trust Corp.**

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8751 Paseo de Roxas,  
Makati City, Metro Manila, Philippines

## **INDEX TO FINANCIAL STATEMENTS**

- 1) Audited Consolidated Financial Statements of the Bank as of and for the years ended 2024, 2023, and 2022