



2023 ANNUAL REPORT

**21/F Tower 2, RCBC Plaza, 6819 Ayala Ave., Makati City
Tel. No. 63 (2) 8894-9000, Fax No. 63 (2) 8845-3457**

CONTENTS

| | |
|--|-----|
| 1. CORPORATE POLICY | 3 |
| 2. FINANCIAL SUMMARY / HIGHLIGHTS | 5 |
| 3. FINANCIAL CONDITION AND RESULTS OF OPERATION | 6 |
| 4. FINANCIAL RESULTS OF MAJOR BUSINESS SEGMENTS | 10 |
| 5. RISK MANAGEMENT FRAMEWORK | 12 |
| 6. CORPORATE GOVERNANCE | 16 |
| 7. CORPORATE INFORMATION | 37 |
| 8. AUDITED FINANCIAL STATEMENTS WITH AUDITOR'S OPINION | 39 |
| 9. CAPITAL STRUCTURE AND CAPITAL ADEQUACY | 109 |
| 10. GENERAL RISK EXPOSURES AND ASSESSMENTS | 114 |
| 11. SPECIFIC RISK DISCLOSURES | 121 |

1. CORPORATE POLICY

a. QB's vision and mission statements

Mission

We are a leading investment house providing the best and most appropriate solutions to the financial problems and requirements of corporate clients and offering a wide variety of safe and high yielding investment alternatives to investors.

We are strongly synergized with the rest of the Yuchengco Group of Companies.

Vision

To be the preferred investment house to deliver the most fitting and useful solutions to the investment banking requirements of corporate clients and offering suitable investment instruments to investors.

b. Introduction of the QB's brand that differentiates it from other QBs

RCBC Capital's branding is aligned with the below branding strategy of our parent bank, RCBC.

The RCBC Brand

The Blue Hexagon is the corporate logo of the Yuchengco Group of Companies, of which RCBC is the financial servicing arm of the conglomerate. It was conceived with synergy in mind. Its six interlocking trapezoidal fields represent the conglomerate's founding businesses: life insurance, non-life insurance, banking and finance, investments, transportation and communication, and manufacturing and construction. The design gives the impression of a dynamo spinning on its hub—dynamic and ever-moving. The hexagon is viewed as a celestial sphere that radiates power, energy, and productivity.

For more than 60 years, RCBC has proudly used the Blue Hexagon to symbolize its union with the YGC conglomerate. However, the Bank recognizes that it needs to be a dynamic brand that will resonate not just with its traditional corporate clients, but with the retail consumers as well. Thus, in 2017, RCBC embarked on a brand refresh.

The new RCBC is anchored on the mission to maintain and further strengthen the Bank's relevance among Filipino depositors amidst the changing banking landscape and shifting dynamics. This is the Bank's way to refresh and reenergize its services to serve its loyal customers who have stood with them for all these years. At the same time, this was also RCBC's way to expand its presence and reach among the younger Filipino depositors.

Having built a solid foundation of service and trust through the years, these became the cornerstones in making the RCBC brand meaningful to consumers in the financial services sector. Bringing to life messages on customer service became central to the Bank's campaign, anchoring it in the reality that client relationships are at the heart of the RCBC brand.

c. Business model of the QB

RCBC Capital Corporation (RCBC Capital or RCAP) offers a full range of investment banking products and services. These services can be grouped into two major segments: corporate finance and advisory. Corporate finance provides a wide array of fundraising alternatives, both debt and equity, that address the diverse financial needs of RCAP's clients. These include Debt Capital Markets, Equity Capital Markets, Project Finance, Syndicated Loans, and Promissory Notes. Advisory engagements include mergers and acquisitions, valuations, joint ventures, tender

offers, share buyback and other corporate transactions. RCAP is accredited by the Philippine Stock Exchange to provide Fairness Opinions.

Being part of the RCBC Group and the Yuchengco Group of Companies (YGC), RCAP strives to take advantage of inter-company and group-wide synergies to reduce costs and to increase revenues. Utmost cooperation and coordination are fostered with affiliates in order to tap the wide network of clients of YGC and the RCBC Group. Information flow is crucial in order to stay ahead of competition. In all of its activities, the Company aligns itself with the plans and strategies of the parent, RCBC, in order to deliver the greatest amount of revenues for the least amount of costs.

2. FINANCIAL SUMMARY / HIGHLIGHTS (₱ except where indicated)

| Required Data | Consolidated ¹ | | Parent Entity (Solo) | |
|------------------------------------|---------------------------|------------------|----------------------|------------------|
| | Current Year | Previous Year | Current Year | Previous Year |
| Profitability | | | | |
| Total Net Interest Income | 112,249,396.00 | 84,818,669.00 | 95,805,491.00 | 71,754,269.00 |
| Total Non-Interest Income | 1,050,505,726.00 | 967,164,454.00 | 284,466,415.00 | 289,376,683.00 |
| Total Non-interest Expenses | 907,009,592.00 | 846,346,567.00 | 144,633,925.00 | 167,074,218.00 |
| Provision for Income Tax | 56,271,944.00 | 56,201,448.00 | 36,164,394.00 | 44,621,627.00 |
| Net Income | 199,473,586.00 | 149,435,108.00 | 199,473,587.00 | 149,435,107.00 |
| Selected Balance Sheet Data | | | | |
| Cash and Cash Equivalents | 1,328,706,555.00 | 859,090,497.00 | 851,015,211.00 | 404,901,221.00 |
| Trading and Investments Sec. | 2,018,233,668.00 | 2,304,886,720.00 | 1,813,024,799.00 | 2,047,325,073.00 |
| Loans and Other Receivables | 136,643,479.00 | 203,556,392.00 | 28,462,430.00 | 88,302,930.00 |
| Investments in Subsidiaries | | | 621,773,044.00 | 627,956,263.00 |
| Other Assets | 388,707,779.00 | 297,385,639.00 | 54,454,442.00 | 65,343,539.00 |
| Total Assets | 3,872,291,481.00 | 3,664,919,248.00 | 3,368,729,925.00 | 3,233,829,026.00 |
| Total Liabilities | 546,149,025.00 | 498,223,701.00 | 42,587,469.00 | 67,133,479.00 |
| Total Equity | 3,326,142,456.00 | 3,166,695,547.00 | 3,326,142,456.00 | 3,166,695,547.00 |
| Selected Ratios | | | | |
| Return on equity | 6.00% | 4.72% | 6.14% | 4.78% |
| Return on assets | 5.15% | 4.08% | 6.04% | 4.34% |
| Capital Adequacy Ratio | | 46.93% | | 63.94% |
| Net Income per share | | | 1.69 | 1.26 |
| Book value per share | | | 28.16 | 26.81 |
| Others | | | | |
| Cash dividends declared | | | - | - |
| No. of employees | | | | |
| Total | | | 28 | 29 |
| Officers | | | 24 | 24 |
| Staff | | | 4 | 5 |

¹ Consolidated amounts of Parent and Subsidiaries

3. FINANCIAL CONDITION AND RESULTS OF OPERATION

- a. Review of QB's operations and result of operations (Solo) for the financial year including details and explanations for any significant change during the year

Results of Operation

The global financial landscape continued to face headwinds due to changing market dynamics, geopolitical tensions and negative credit conditions. Growth prospects in the investment banking industry in particular continued to be hindered by elevated interest rates and persistent negative sentiments in the equities market. Despite these challenges, the Company remained resilient and showed a robust financial performance in 2023 as it saw a 33% increase in net income to P199.5 million versus last year's P149.4 million.

Interest Income was at P96.9 million which is up 30% compared to last year. The Company was able to optimize its funds by investing in quality assets and with relatively high-yielding securities such as the short-term BSP facilities (ODF and RRP).

Despite the persistent negative market conditions, the Company's trading portfolio performed better than the previous period. Realized trading gains more than tripled to P6.6 million compared to P1.6 million last year while unrealized (MTM) losses for the period amounted to just P8.4 million compared to P69.4 million last year.

Other Income was up 12% to P93.4 million as equity earnings from subsidiaries substantially increased by 131% to P50.3 million but was offset by decline of P18.5 million in dividend income due to the redemption of trading securities in 2023.

Professional Fees was P192.8 million for 2023, lower by P80.7 million or 30% from 2022 as the Company was affected by the downturn of the investment banking sector. The Company's main source of revenues faced headwinds during the period as interest rates remained elevated while negative sentiments continued to prevail in the equities market. The total capital raised by the private sector from both the debt and equities capital market (bonds, preferred shares, IPOs, FOO's, SRO's, etc.) amounted to P209.7 billion. This figure represents a significant 49% decrease from the previous year.

Despite these challenges, the Company remained committed to supporting its clients and look forward with much confidence and optimism in 2024. RCAP expects to have a strong deal pipeline and a more balanced distributed product mix, where capital market and project finance transactions are expected to post a significant growth due to the perceived improvement in business condition. The Company will continue to set its sights to finance sustainable and social impactful projects.

Ratios

The Parent Company's performance as of 31 December 2023 resulted to profitability ratios of 6.1% and 6.0% for Return on Assets (ROA) and Return on Equity (ROE), respectively. Meanwhile, the Group ROA and ROE ratios were at 6.0% and 5.2%, respectively.

Financial Condition

Assets

Total Assets as of 31 December 2023 stood at P3.37 billion, an increase of P135.5 million or 4%, from the previous year's P3.23 billion. The increase in the total assets was due mainly from the increase in the Company's cash and cash equivalents from operations and redemption of securities partly offset by a decrease in the investment securities.

Cash and Cash equivalents increased by P446.1 million from P405.0 million to P851.0 million. The increase was mainly from the sale of certain investment securities and cash flow from operations. P817.8 million or 96% of the total cash reserves is invested in the BSP's reversed repurchase (RRP) securities and ODF placements, with a yield of between 6.0% - 6.4%.

Equity Securities stood at P1.16 billion, a decrease by P28.2 million from the previous period due to the following account changes:

- FVTPL Portfolio – decreased by P14.3 million due to the net effect of the purchase and sale and the mark-to-market movements during the period.
- FVOCI Portfolio – decreased by P13.9 million mainly due to lower mark-to-market decrease of the equities portfolio under this account classification.

Debt & Other Securities stood at P647.6 million, a decrease of P206.1 million from P853.7 million the previous period, due to the following net accounts movement:

- Redemption of hold-to-collect securities amounting to P214.7 million from HTC securities holdings,
- Higher MTM gains of FVOCI debt amounting to P6.7 million net of bond redemption during the period, and
- Reversal of ECL provisioning of HTC securities during the period amounting to P1.9 million.

Equity Investments in Subsidiaries stood at P621.8 million, a decrease of P6.2 million from the last period, primarily due to the following net changes:

- Dividend declaration of RCBC Bankard Services Corp. (RCBC Bankard) during the period amounting to P25.7 million,
- Decline in other capital reserves of subsidiaries by P30.8 million, and
- Higher equitized earnings from subsidiaries by P50.3 million.

Fixed & Right of Use Assets (ROU) decreased by P12.8 million mainly from the amortization ROU and depreciation of fixed assets.

Other Assets, which are mainly composed of receivables, deferred taxes and others, stood at P52.8 million which decreased by P58.1 million mainly due to the collections made during the period on the following receivable accounts:

- Fee income and other receivables of P27.1 million, and
- Dividend receivable of P29.9 million, mainly from the collection of RCBC Bankard's dividends.

Liabilities

Total Liabilities decreased by P24.7 million to P42.4 million this period compared to the same period last year due to the net effect of the following account movements:

- Decrease in lease payable from the amortization of lease obligation by P11.7 million,
- Decrease in retirement liability by P10.7 million, and
- Decrease in other accrued liabilities by P2.3 million.

Stockholder's Equity

Stockholder's Equity stood at P3.33 billion as of 31 December 2023 compared to last year's P3.17 billion. This represents an increase of P159.4 million which was due to the following capital account movements:

- Net increase in Retained Earnings of P199.5 million mainly due to income from operations during the period, and
- Net decrease in Net Unrealized Gains and Other Reserves account by P40.0 million.

b. Highlight of major activities during the year that impact operations, if any

For the year 2023, RCAP's business was a mix of equity and debt capital-raising along with project financing.

In the debt capital raising space, RCAP was involved as a Joint Lead Underwriter and Bookrunner in the following offerings: (i) SM Prime Holdings' P33 Billion Fixed Rate Bonds; (ii) Ayala Land Inc.'s P12 Billion Fixed Rate Bonds; and (iii) Filinvest Land Inc.'s P10 Billion Fixed Rate Bonds. RCAP also participated in the following offerings: (i) as Sole Underwriter and Bookrunner in Alsons Consolidated Resources' P1.38 Billion Commercial Papers Offering (June 2023) and P1.50 Billion Commercial Paper Offering (November 2023); (ii) as Joint Issue Manager, Joint Lead Arranger and Joint Bookrunner in Asialink Finance Corporation's P2 Billion Corporate Notes Facility; and Lead Arranger in Wii Pte Ltd.'s US\$1.70 Billion Syndicated Loan Facility.

In terms of equity capital-raising, RCAP participated in the following offerings: (i) as Joint Lead Underwriter in Upson International Corp.'s Initial Public Offering; (ii) as Sole Lead Underwriter and Bookrunner in Megawide Construction Corporation's P1.50 Billion Preferred Shares; (iii) as Joint Lead Underwriter and Bookrunner in Ayala Corporation's P13.13 Billion Preferred Shares; (iv) as Joint Lead Underwriter and Bookrunner in ACEN Corporation's P25 Billion Preferred Shares; and (v) as Joint Lead Underwriter and Bookrunner in San Miguel Corporation's P50 Billion Preferred Shares.

In addition, RCAP was involved as Arranger in Sta. Clara Power Corporation's P4 Billion Project Finance Facility.

c. Major strategic initiatives of the QB and its subsidiaries, as applicable

There were major headwinds in 2023 in the form of elevated inflation and high interest rates. Philippine inflation was at 5.9% for the year, well above the government target of between 2% to 4%. This prompted the BSP to continue hiking monetary policy with an additional 100bps increase during the year. Fortunately, the Philippine economy was resilient and was able to post a respectable GDP growth of 5.6%.

Against this backdrop, RCAP was quick to strategically channel its resources to products and services that can withstand such conditions. A high inflation environment meant a slowdown in the equity capital market, so RCAP focused on its debt capital markets, loan syndication and promissory notes business. RCAP was involved in 3 corporate bond issues for the year which raised more than P55 billion, 2 commercial paper offerings which raised more than P2.8 billion, and a corporate notes facility which raised P2 billion. Likewise, for preferred shares which are typically viewed as an instrument with debt-like features, RCAP was involved in 4 issuances which raised more than P89 billion. For the promissory notes business, RCAP ended the year with an outstanding balance of P8.8 billion from 12 issuers.

RCBC Securities, Inc.

The Philippine stock market faced another challenging year in 2023 as interest rates remained high and global inflation uncertainty prevailed. Given the economic jitters, most investors stayed on the sidelines and opted to invest in fixed-income instruments with rates hitting a high of over 6% for 30-day time deposits.

Despite these negative factors, RCBC Securities' turnover ended at P53.41 billion, 125% higher than 2022's P23.69 Billion. Consequently, the company generated commission income of P56.61 million as against the previous year's P47.73 Million.

Meanwhile, expenses climbed by 4.5% due to the hiring of experienced sales and research people to beef up the company's sales push.

Notwithstanding the tough stock market environment, RCBC Securities (RSEC) managed to post a net income of P2.23 million.

In July 2023, RSEC officially launched and updated its trading platform to ezTrade Gold, providing more features to online trading clients. Moving forward, RSEC will continue to improve its customers' trading experience as it works with RCBC Unibank (awarded as the best digital bank for 2023) for seamless accessibility for its clients.

The beefed-up research team continues to provide daily guides, timely company reports, and technical analysis to clients. Through RCBC Data Science efforts and direction from Senior Management, RSEC also conducted roadshows in various regions such as Pampanga, Bulacan and Cebu, increasing new online accounts and commissions by 21% and 9.1% respectively for 2023.

RCBC Bankard Services Corp.

Throughout the fiscal year of 2023, the Credit Cards Group, operating under RCBC Bankard Services Corporation, showcased exceptional performance across Credit Cards, Payment Solutions, and Personal Loans.

RCBC Credit Cards, the rebranded name of RCBC Bankard, demonstrated robust performance with a notable 48.2% growth in Receivables, from P50.4 billion to P74.7 billion. This was propelled by a 44.7% increase in Issuing Billings, from P96.3 billion to P139.4 billion. Moreover, the group achieved a significant milestone by surpassing 1 million cards in circulation. RCBC Credit Cards solidified its position among the top 5 in Issuing Billings and Receivables and the top 6 in Cards-In-Force.

Notwithstanding its significant growth, the past due rate of RCBC Credit Cards remained low at 3.5%. The remarkable performance of RCBC Credit Cards in 2023 was due to the strategic utilization of data science and analytics to target high-quality customers, optimize credit limits, and launch tailored campaigns. To bolster customer engagement, various promotions were deployed across categories, ranging from non-discretionary to discretionary, including dining, online, and travel. Product innovations such as UnliPay and Unli Installment served as key differentiators, enhancing card utilization. The exemplary initiatives of RCBC Credit Cards garnered global recognition, including Credit Card of the Year - ASEAN at the Global Retail Banking Innovation Awards 2023 by The Digital Banker, Credit Card Initiative of the Year - Philippines at the Asian Banking & Finance Awards 2023, Outstanding Digital CX at the Digital CX Awards 2023 by The Digital Banker, and Best Credit Card Initiative, Highly Commended at the Retail Banker International Asia Trailblazer Awards 2023.

The Payment Solutions business witnessed a 21% increase in credit card acquiring billings to P34.3 billion, alongside an expansion of the merchant portfolio to 15,153 outlets. Additionally, the rollout of QRPh payments solution reached 2,563 outlets by the end of December 2023, registering billings of P264 million. A groundbreaking solution, launched with key partners, enabled terminals to accept Installment payments from cardholders of other participating credit card Issuers.

In the Personal Loans business, noteworthy growth was evident, with balances reaching P2.7 billion from P1.4 billion in 2022, representing a 90% year-on-year growth rate. This surge was

propelled by a 245% increase in new loans volume, ending at P2.8 billion in 2023 from P0.8 billion in 2022. Strengthening partnerships and streamlining processes contributed to shorter turnaround times. The launch of digital loans, notably RCBC Payday NOW, facilitated qualified customers to advance up to 40% of their net monthly salaries through the RCBC Pulz app.

d. Challenges, opportunities, and responses during the year, if any

Amid difficult times, RCAP can look back on its 49-year history to help it weather the challenges that come its way. Since our founding in 1974, we have managed to navigate any turbulence by staying true to our mission of being a trusted investment house by putting the interests of the clients first and foremost. We continue to provide the most suitable solutions for the financial requirements of our customers.

In order to achieve these, each member of the team will continue to level up their respective skillsets through continuous training and education. Only by having an exceptional team of competent and well-trained people is what ensures our ability to thrive under any circumstance.

RCAP continues to benefit from the financial strength and resources of its parent bank RCBC, the 5th largest private bank in the country. We continued to work closely with RCBC to identify leads and opportunities. We strengthened our collaboration efforts with Corporate Banking Group, Small & Medium Enterprises Banking Group, Treasury Group, Wealth Management Group, and Trust & Investments Group, among others.

4. FINANCIAL RESULTS OF MAJOR BUSINESS SEGMENTS

a. Summary of financial performance of the Parent Company's business segment for the year:

| Segment | Amount | % Contribution |
|-------------------------------------|--------------------|----------------|
| Investment Banking Fees | 192,806,368 | 50.56% |
| Trading and Other Investment Income | 130,235,618 | 34.15% |
| Others | 58,328,944 | 15.29% |
| Total | 381,370,930 | 100.00% |

As of December 31, 2023

b. Contribution of business segment to the total revenue of the QB during the year

The contribution of each business segment to the total revenue is shown in Item 4.a above

c. Significant developments during the year including major activities

RCAP received the following awards in year 2023: (i) The Asset Asian Awards' Best Corporate Bond Philippines for RCAP's participation in SM Prime Holdings' P33 Billion Fixed Rate Bonds; (ii) The Asset Asian Awards' Best Equity Deal Philippines for RCAP's participation in ACEN Corporation's P25 Billion Preferred Shares; (iii) The Asset Asian Awards' Best New Bond Philippines for RCAP's participation in Asialink Finance Corporation's P2 Billion Corporate Notes; and (iv) The Asset Asian Awards' Best Syndicated Loan Singapore for RCAP's participation in Wii Pte Ltd.'s US\$1.70 Billion Revolving Credit & Term Loan Facilities.

d. Future plans/targets/objectives

There is an age-old adage that investment banking is a feast or famine business – there are good years and there are lean years. While this is still very much true to this day, the challenge is to develop a resilient business model that can take advantage of the “feast”, and one that can withstand the “famine”.

RCBC Capital continues to evolve and transform with the times. RCAP's future performance will be a result of our relentless efforts to make our company strong and flexible to ensure that we are prepared for a constantly changing business landscape. Continuous improvement in our execution capabilities and operational efficiencies will allow RCAP to remain focused on providing insightful and tailor-fit investment banking services.

Furthermore, our long-term success and resiliency will go hand in hand with our focus on ESG-related deals and financings. We are mindful of what is happening to our world, and this compels us to do something even in our own small way. RCAP will identify and support projects that help minimize carbon footprint and benefit the environment. Social impactful projects that benefit a wide spectrum of stakeholders will be prioritized.

5. RISK MANAGEMENT FRAMEWORK

a. Overall risk management culture and philosophy

The Company's risk management mission and objectives serve as guides to the central profit-generating activities of the Company.

Risk Mission

RCBC Capital's risk management supervises various types of risks from a comprehensive perspective. In managing these risks, the approach is not always risk minimization but controlling risks to make an optimal contribution to RCBC Capital's revenues. This process requires a thorough, timely, and reasonable measurement of different types of risks. The company believes that controlling within reasonable limits, the extent and volume of risks, which are determined by the nature of risks involved, is critical for ensuring the soundness of RCBC Capital's operations, improving profitability and eventually maximizing shareholders' value.

Risk Objectives

To establish an effective risk management system for the safe and sound operation of the company.

1. Identify, measure, and control risks inherent in the company's major business activities or embedded in its portfolio.
2. Define and disseminate the risk philosophy and policies of the company.
3. Institutionalize the risk process as described in the company's risk management manual.
4. To decrease the risk of unexpected losses or damage to the company's reputation.

The company's risk goals are attained following the adoption of the company's board approved policies and standards such as:

1. Formation of a Risk Oversight Committee (ROC);
2. Appointment of a risk officer to oversee the risks assumed by the company;
3. Setting up of trading limits and measurement of VaR figures for the company's portfolios;
4. Formulation of risk-oriented audit procedures;
5. Full implementation of the Risk Management Manual as a core and essential document at all organizational levels.

b. Risk appetite and strategy

Risk Appetite

The Company has an Enterprise Risk Appetite statement in the form of a matrix that articulates the level of risk that it is willing to accept in pursuit of a certain level of return.

| Risk Appetite Parameter | Risk Appetite Thresholds |
|---|---|
| Earnings Volatility | Maximum deviation of annualized net income vs. target |
| Regulatory Standing | Minimum SAFr (Supervisory Assessment Framework) rating |
| Capital Adequacy | Regulatory CAR (Capital Adequacy Ratio) |
| Trading Risk | MTD loss limits |
| Liquidity Risk | Maximum tolerable outflows |
| Zero-tolerance Risks | Zero incidences of specific risk events |
| Money Laundering & Terrorist Financing Risk | Minimum prescribed AML Risk Rating (BSP); AML reports submitted within prescribed time frame |

The factors included in defining said risk appetite were done through proper risk measurement tools and methodology aligned with best practices and acceptable per regulatory standards. Minimum approaches are as contained under relevant BSP Circulars, with the objective of building on these regulatory prescriptions towards better risk management.

Significant Risk Areas/Exposures

Market Risk

It is the risk resulting from adverse movements in the general level of or volatility of market rates or commodity/equity prices possibly affecting the company's financial condition. The company has market risk exposure due to its fixed income securities investments, equity trading, and underwriting activities.

Credit Risk

It is the risk that a borrower, issuer or counterparty in a transaction may default and cause a potential loss to the company. The company has credit risk exposure due to its investments in fixed-income securities.

Operational Risk

It is the risk arising from the potential that inadequate information systems, operations or transactional problems (related to service or product delivery), breaches in internal controls, fraud or unforeseen catastrophes will result to unexpected loss.

Reputation Risk

It is the current and prospective adverse impact to earnings and capital arising from negative public opinion.

Compliance and Regulatory Risk

It is the current and prospective negative impact to earnings and capital arising from violation of laws, regulations, ethical standards, and the like.

c. Entity-wide risk governance structure and risk management process

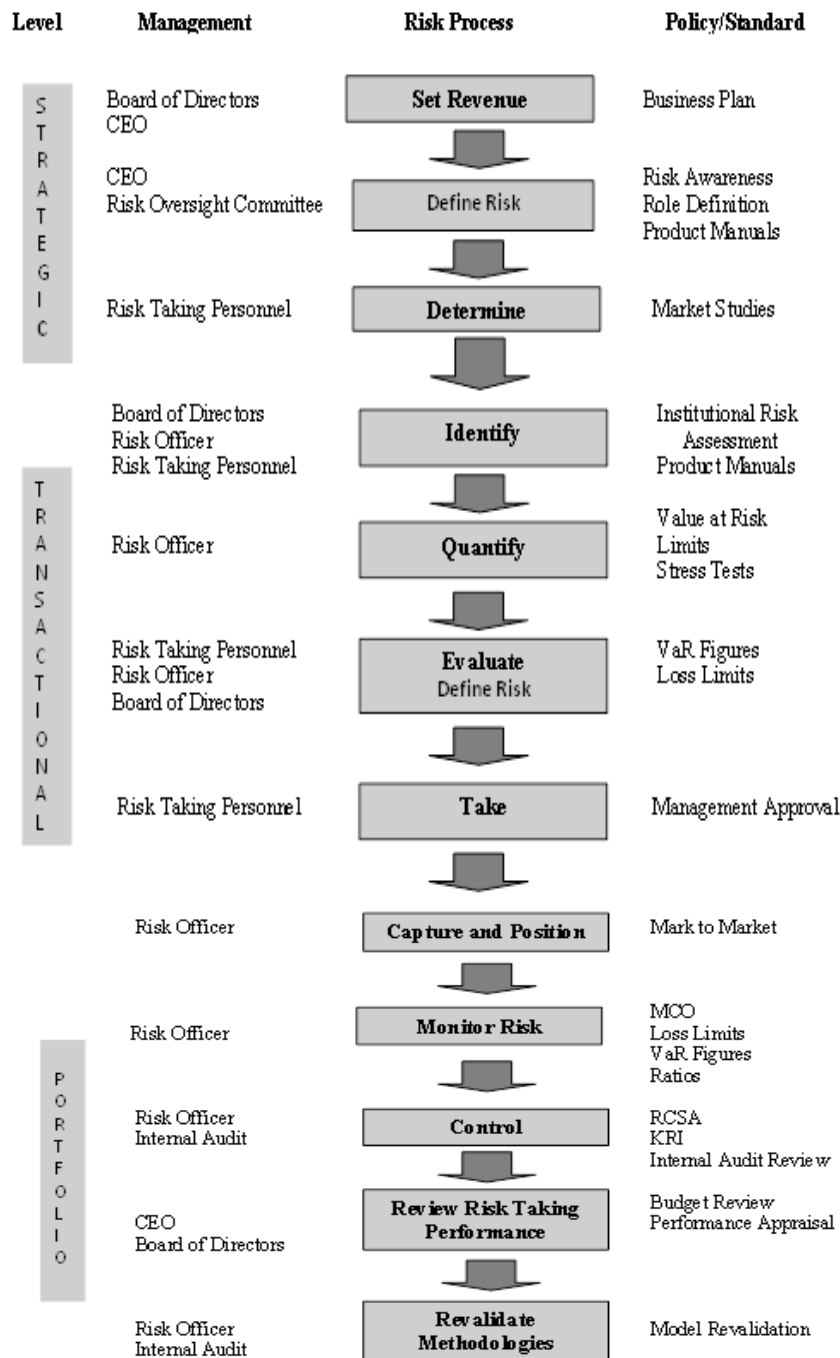
Risk Process

The risk process map as shown below traces out a complete and coherent risk management plan that is performed at three different levels: the strategic level, the transaction level and the portfolio level.

The first level provides a macro perspective. It starts with the basic reward/risk trade-off analysis where the business plan, through the budget process relates the amount of risks to be taken to achieve the desired revenue goals.

The next stage does not originate from metrics and models but from a culture that defines the company's philosophy on risk - a culture of living and accepting RISK as a financial variable. This process emanates from and is a prime responsibility of the President/CEO and the Board of Directors. They establish the risk culture and the risk management organization and incorporate the risk process as an essential part of the corporate strategic plan.

By contrast, the second (transaction) level and the third (portfolio) level look at the specifics - the risk concepts, trading tools, analytical models, statistical methodologies, historical studies and market analysis which are requisites of a coherent risk management system.

Risk Process Map

| Risk Policies and Procedures | Organization | Limits Structure | Systems and Technology | Reports | Risk Modeling |
|------------------------------------|--------------|---------------------|---------------------------|---------|---------------|
| Risk Management Structure | | | | | |

The Risk Taking Personnel starts the day-to-day risk process by determining financial opportunities, which normally involve risk. Once opportunities are identified, the RTP identifies, analyzes and quantifies (with assistance from the risk function) risk in light of its potential effect on a position/portfolio. This includes an assessment of existing system capability to support the risk-taking.

When a risk is assumed by the RTP, attendant processes of reporting and control, risk evaluation, and portfolio management are initiated - activities that require interaction between the risk taking personnel and the risk officer. The reporting system is important in immediately informing senior management of deviations and or weaknesses at any point of the risk process.

Senior management evaluates performance from a reward/risk perspective preset by the Board and makes adjustments to overall business strategy. Performance is measured relative to risk-free or "with-risk" benchmarks and/or target hurdles of return.

All three levels form the critical and integral components of the risk process. Statistics and studies will not be effective unless supported by precise corporate and written rules.

The bottom of the diagram highlights the infrastructure necessary for successful implementation of the risk process: clearly defined risk policies, effective organization and limits structures, appropriate systems and technology support, good management information reporting system, and model and system revalidation. The MIS must at a minimum have the ability to value positions and calculate risk in all of the instruments in which the company deals, individually and on an aggregate basis and report these in a timely manner to all units that require these reports.

d. AML governance and culture, and description of the overall Money Laundering (ML)/Terrorist Financing (TF) risk management framework

The Company is committed in instilling a compliance culture. An effectively implemented compliance program, approved by the Board of Directors, is essential to our efficient and successful operation and will contribute to the attainment of our mission of "conducting business with utmost integrity, excellence and commitment". As a responsible corporate citizen, the company is also committed to supporting the fight against money laundering and terrorism financing by taking the necessary actions to comply with the applicable laws and regulations and to prevent the use of its products and/or services for illegal purposes.

The existing and updated policies in compliance with the Anti-Money Laundering Act (AMLA) or Republic Act (RA) No. 9160 enacted in September 2001 and amended by RA Nos. 9194, 10167, 10168, 10365 and 10927, and the 2016 Revised Implementing Rules and Regulations of RA No. 9160.

In accordance with the mandate of BSP Circular No. 1022 dated 26 November 2018 entitled Amendments to Part 8 of the Manual of Regulations for Banks/Manual of Regulations for Non-Bank Financial Institutions and Circular No. 980 dated November 06, 2017, the Compliance Officer, updated the AML policies and procedures embodied in the Money Laundering and Terrorist Financing Prevention Program (MTPP) which was approved by the Board of Directors on 22 February 2019.

The MTPP which is aligned with the MTPP of RCBC was further revised in 2020 to add written guidelines on digitization of customer records and identifying beneficial ownership. In 2021, the MTPP was also revised to lay down the rule that the procedures of parent bank, RCBC, on customer due diligence shall apply to common clients of RCBC and RCAP while the customer due diligence procedures outlined in the MTPP shall apply to RCAP's direct clients, among others. In 2022, a list of the client documents that need to be digitized and uploaded pursuant to the DIGICUR requirements was added as one of the MTPP annexes, for clarity.

6. CORPORATE GOVERNANCE

a. Overall corporate governance structure and practices

The Company believes that corporate governance is a necessary component of what constitutes sound strategic business management. RCBC Capital affirms its commitment to good corporate governance as we continue to work towards a solid control environment, high level transparency, with an empowered Board leading the way.

RCBC Capital adheres to the core principles of transparency, accountability and fairness which are embodied in the Board-approved Corporate Governance Manual. The Manual is reviewed annually to ensure that governance policies are consistent with the pertinent regulations issued by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission. The latest substantial revisions to the Manual were approved on 15 November 2018. The governance structure and processes are patterned after that of the parent bank, RCBC, which in turn benchmarks against local and international leading practices in corporate governance. Thus, the Corporate Governance Manual incorporates the applicable and reasonable best practices set by the (i) Basel Committee on Banking Supervision's Principles for Enhancing Corporate Governance, and (ii) the SEC's Revised Code of Corporate Governance for Publicly Listed Companies. RCBC Capital keeps pace with RCBC's efforts towards continuous enhancement of Corporate Governance within the RCBC group to ensure that the interests of all stakeholders are well regarded, the directors, officers, and employees are cognizant of their responsibilities, and the affairs of the Company are conducted in a safe and sound manner. The company shall continue to strengthen its corporate governance policies and procedures in accordance with the BSP and SEC guidelines.

RCBC Capital is headed by a seven member board of directors, all of whom are known for their integrity, experience, education, training, and competence. The Board has six (6) non-executive directors and the President and CEO, who is the only executive director. Three (3) of the directors are independent directors.

b. Selection process for the board and senior management

The Corporate Governance Committee is charged with reviewing the qualifications of potential director candidates and making recommendations to the Board. The Board believes that its membership should be composed of highly qualified directors who demonstrate integrity and suitability for overseeing the management of the company. Besides the qualifications of a director required by existing regulations, it is preferred that potential candidates possess:

- prominence in business, institutions or professions;
- integrity, honesty and the ability to generate public confidence;
- demonstrated sound and independent business judgment;
- financial literacy;
- risk management experience;
- knowledge and appreciation of issues and familiarity with local, national and international affairs;
- the professional experience required to contribute to the Board's committees; and
- the ability to devote sufficient time to Board and Committee work.

The Committee ensures that each nominee possesses all the minimum qualifications and none of the disqualifications as prescribed under existing laws and regulations.

RCBC Capital also adopted fit and proper standards on directors and key personnel, taking into consideration their integrity/probity, technical expertise, physical/mental fitness, competence, relevant education/financial literacy, diligence, and knowledge/ experience/training. The qualifications of those nominated to the Board, as well as those nominated for positions requiring appointment by the Board, are reviewed and evaluated by the Corporate Governance Committee.

As a policy, directors shall maintain their professional integrity and shall continuously seek to enhance their skills, knowledge and understanding of the Company's present activities and those that the company intends to pursue. The directors shall keep abreast of the developments in the industry including regulatory changes through continuing education or training.

c. Board's overall responsibility

The Board has overall responsibility for the Company and provides oversight to senior management. Thus, it approves and oversees the implementation of the strategic objectives, risk strategy, corporate governance and corporate values.

The Board defines the appropriate corporate governance framework and practices. It ensures that there are governance policies and mechanisms appropriate to the structure, business and risks. Moreover, the Board sets the "tone at the top", the professional standards and the corporate values that promote integrity for self, senior management, and other employees.

Among others, the Board of Directors is responsible for:

- Fostering the long-term success of the company and sustaining its competitiveness and profitability in a manner consistent with our corporate objectives and the best interests of stockholders and other stakeholders.
- Formulating, approving and overseeing the implementation of the company's vision, mission, corporate strategy, major plans of action, risk management strategies and/or policies and procedures, annual budget and business plan, performance objectives, corporate governance and corporate values that shall guide and direct its activities and the means to attain the objectives as well as the mechanism for monitoring management's performance.
- Monitoring and overseeing management actions of the Company's day-to-day affairs, corporate performance, major capital expenditures, acquisitions and divestitures. It shall conduct itself with utmost honesty and integrity in the discharge of its duties, functions and responsibilities. It is vitally important that a number of board members be independent from management.
- Identifying major and other stakeholders (i.e. shareholders, investors, lenders, clients, other relevant stakeholders, market participants and the community in which we operate) and formulating a clear policy on communicating or relating with them. The Board shall be adequately transparent to shareholders and other stakeholders. The objective of transparency in the area of corporate governance is to provide these parties, consistent with national law and supervisory practice, with key information necessary to enable them to assess the effectiveness of the Board and senior management governing the company. The Board shall ensure the disclosure of relevant and useful information that supports the following key areas of corporate governance:
 - Board practices
 - Senior management
 - Risk management and internal controls
 - Compensation
 - Complex or opaque corporate structures
 - Disclosure and transparency

d. Description of the major role and contribution of the chairman of the board

The Chairperson ensures proper governance of the Company. She is responsible for ensuring compliance with and performance of the corporate governance policies and practices. She is likewise responsible for the efficient functioning of the Board, and this includes maintaining a relationship of trust with the other directors. Apart from presiding over meetings, the Chairperson's many roles include:

- Ensuring that the Board receives accurate, timely, relevant, insightful, concise and clear information to enable it to make sound decisions.
- Ensuring that the meeting agenda focuses on strategic matters including discussion on risk appetites and key governance concern.
- Ensuring a sound decision making process through the active participation and deep professional involvement of all members of the Board.
- Assuring the availability of proper orientation for first-time directors and continuing training opportunities for all directors.
- Making sure that the performance of the Board is evaluated at least once a year and discussed/followed up on.
- Encouraging and promoting critical discussion and ensuring that dissenting views can be expressed and discussed within the decision making process.

e. Board composition

| Name | Position | Type | Principal Stockholder Represented | Number of Years Served as Director | Number of Shares Held | | | % of Shares Held |
|--------------------------|----------------------|---------------------------|-----------------------------------|------------------------------------|-----------------------|-------------|-------------|------------------|
| | | | | | Direct | Indirect | Total | |
| Yvonne S. Yuchengco | Chairperson | Non-executive | RCBC, PMMIC, AYuchengco | 21 | 1 | 118,135,393 | 118,135,394 | 100% |
| Eugene S. Acevedo | Regular Director | Non-executive | RCBC | 5 | 1 | | 1 | 0% |
| Jose Luis F. Gomez | Regular Director | Executive / Non-executive | RCBC | 14 | 1 | | 1 | 0% |
| Cesar O. Virtusio | Independent Director | Non-executive | Independent | 3 | 1 | | 1 | 0% |
| Omar T. Cruz | Independent Director | Non-executive | Independent | 3 | 1 | | 1 | 0% |
| Vicente L. Ramirez Jr. | Independent Director | Non-executive | Independent | 1.5 | 1 | | 1 | 0% |
| Arsenio Kenneth M. Ona | Regular Director | Executive | RCBC | 1.25 | 1 | | 1 | 0% |
| Total Outstanding Shares | | 118,136,400 | | | 7 | 118,135,393 | 118,135,400 | 100% |

f. Board qualification

MS. YVONNE S. YUCHENGCO

Chairperson, Non-Executive Director

69 years of age, Filipino

AB Interdisciplinary Studies, Ateneo de Manila University

Ms. Yvonne S. Yuchengco has been the company's Chairperson since 2003.

Ms. Yuchengco is a director in other publicly listed companies within the YGC such as Petro Energy Resources Corp., House of Investments, Inc., Seafront Resources Corp., and I-People Inc. She is the Chairperson and President of Royal Commons, Inc., XYZ Assets Corp., Y Tower II Office Condominium Corp., andmYuchengco Tower Office Condominium Corp. She is also the Chairperson of Y Realty Corp. and Yuchengco Museum, Inc, and an advisor to the Board of the Rizal Commercial Banking Corporation.

Her other affiliations include A.T. Yuchengco, Inc. – Director; Alto Pacific Corporation - Director/President; Annabelle Y. Holdings & Management Corp. – Director; Avignon Tower Condominium Corp. – Trustee; MPC Investment Corporation - Director/Corporate Secretary; Mona Lisa Development Corp. - Director/Treasurer; Phil-Asia Assistance Foundation, Inc. – Trustee; RCBC Land, Inc. - Director/President; AY Holdings, Inc. – Director/Vice President; HYDee Management & Resource Corp. - Director; Luisita Industrial Park Corp. - Director; Director; National Reinsurance Corp. of the Phils. - Director; Yuchengco Center, Inc. - Director; Malayan High School of Science, Inc. - Director/Treasurer; Pan Malayan Management & Investment Corp. - Director/Treasurer/CFO; Pan Malayan Express - Director; The Malayan Plaza Condominium Owners Association, Inc. – Chairperson/Trustee; Phil. Integrated Advertising Agency, Inc. - Chairperson/President; GPL Holdings, Inc. - Director; La Funeraria Paz-Sucat, Inc. - Director; DS Realty, Inc. - Director; YGC Corporate Services, Inc. - Director; Asia-Pac Reinsurance Co., Ltd. - Director; AY Foundation, Inc. - Trustee; Malayan Education System, Inc. (Mapua University) - Trustee; Malayan Insurance Co., Inc. – Vice Chairperson; Malayan International Insurance Corp. - Director; Manila Memorial Park Cemetery, Inc. - Director; MICO Equities, Inc. - Director/President; Mayahin Holdings Corp. – Director/Treasurer; Shayamala Corporation - Director; HI Cars, Inc. - Director/Treasurer; Enrique T. Yuchengco, Inc. – Director; Pan Malayan Realty Corp. – Director; Water Dragon, Inc. – Director/Treasurer.

MR. EUGENE S. ACEVEDO

Non-Executive Director

59 years of age, Filipino

BS Physics (magna cum laude), University of San Carlos; Masters in Business Management, Asian Institute of Management; Advanced Management Program, Harvard Business School

Mr. Eugene S. Acevedo joined RCBC Capital on 31 July 2019.

Mr. Acevedo holds directorship and/or officership positions in Rizal Commercial Banking Corporation, RCBC Leasing and Finance Corp., RCBC Rental Corp., Rizal Microbank, Inc., Cajel Realty Corp., Niyog Property Holdings, Inc., RCBC International Finance Limited, RCBC Investment Limited, Holly Tree Holdings, and Amadeus Arabica Corp. He is the Chairman of Asian Bankers Association; a Director in Bankers Association of the Philippines, BancNet, Philippine Payments Management, Inc., Philippine Depository & Trust Corp., Philippine Dealing System Holdings, and Philippine Dealing & Exchange Corp.; and a Trustee in Asian Institute of Management, FINEX Foundation, and De La Salle John Bosco College.

He previously worked with the following financial institutions: PR Savings Bank - Chairman; CitySavings Bank - Chairman, President, and CEO; Fairbank - Chairman; Union Properties, Inc. - Director; UBP Securities, Inc. - Director; Union Currency Brokers Corp. - Director; UnionBank - SEVP; Philippine National Bank - Vice Chairman, President, & CEO; Citigroup - Managing Director & Head of Global Markets-Hongkong and Taiwan Cluster; Citibank, NA Philippines - Managing Director, Country Treasurer, & Head of Emerging Market Sales and Trading; Citibank, NA Singapore - Director & Asia Pacific Regional Derivatives Sales Head; Citibank, NA Hongkong - Vice President for Derivatives Marketing-Asia.

MR. JOSE LUIS F. GOMEZ

Executive Director, President & CEO until 30 Sept. 2022

Regular Director beginning 17 Nov. 2022

61 years of age, Filipino

BS Management Engineering, Ateneo de Manila University; MBA, Katholieke Universiteit Leuven, Belgium

Mr. Jose Luis F. Gomez, the immediate past President & CEO of RCAP, started to serve as a non-executive director of RCAP in November 2022.

Mr. Gomez is the Chairperson of RCBC Securities and a director in RCBC Bankard Services, Inc., Buhawind Energy Northern Luzon Corp., Buhawind Energy Northern Mindoro Corp., and Buhawind Energy East Panay Corp. A past president of Investment House Association of the Philippines (IHAP), he is also a director and an Executive Vice President of Financial Executives Institute of the Philippines (FINEX).

He previously worked with the following financial institutions: AIG Investment Corporation (Asia), Ltd. - Associate Director; Peregrine Capital Phils., Inc. - Associate Director; Falcon Properties and Resources, Inc. (wholly owned subsidiary of Peregrine) - Director & General Manager; Bank of America NT & SA - Assistant Vice President; Investment & Capital Group of the Phils. - Assistant Vice President.

MR. CESAR O. VIRTUSIO

Independent Director

68 years of age, Filipino

Bachelor in Business Administration, University of the East; MBA, George Washington University

Mr. Cesar O. Virtusio joined RCBC Capital on 18 March 2021.

Mr. Virtusio is also an independent director of Tonik Digital Bank, Inc., Beneficial Life Insurance Co., Inc., ATR Asset Management, Inc., ATRAM Trust Corp., Central Azucarera de San Antonio, Inc., and a regular director of CATS Motor, Inc.

He previously worked with the following financial institutions: Dresdner Bank and Dresdner Keinwort – Adviser and Chief of Representative in the Philippines; Banque National de Paris-HK – Senior Officer; Citibank Manila – Senior Officer. A former lecturer at the Ateneo De Manila Graduate School of Busines, Mr. Virtusio used to be the Managing Director of the Bankers Association of the Philippines (BAP) where he held board and executive positions in BAP-related entities like Philippine Clearing House Corporation and Philippine Deposit and Trust Corporation.

MR. OMAR T. CRUZ

Independent Director
69 years of age, Filipino

*BS Industrial Management Engineering minor in Mechanical Engineering, De La Salle University;
MS Industrial Economics, University of Asia and the Pacific*

Mr. Omar T. Cruz joined RCBC Capital on 29 June 2021.

Mr. Cruz, who once served as the Treasurer of the Republic of the Philippines, Governor of the Philippine Stock Exchange, and member of the Monetary Board of the Bangko Sentral ng Pilipinas, has a vast experience in banking, finance and insurance for a period spanning almost 40 years. His previous work experience includes, among others: Citicorp Securities International, Inc. – President; Citibank N.A. – Vice President; BPI-Philam Life Assurance Corp. - President and CEO; Insular Life Assurance Co., Ltd. - Chief Bancassurance Executive.

A member of the Institute of Corporate Directors and Financial Executives Institute of the Philippines (FINEX), he is the Lead Independent Director of Ayala Land REIT, Inc., an independent director of AbaCore Capital Holdings, Inc. and Toyota Financial Services, Inc. and has held directorship and trusteeship positions in various companies, foundations and organizations. He is also a businessman who owns and runs a food business, the Cruz-Fabz Food Corporation.

MR. VICENTE L. RAMIREZ JR.

Independent Director
77 years of age, Filipino

AB English, Ateneo De Naga University; MBA Candidate, Ateneo De Manila University Graduate School of Business

Mr. Vicente L. Ramirez Jr. joined RCBC Capital on 29 June 2022.

Mr. Ramirez is an independent director of three (3) other RCBC subsidiaries—Rizal Microbank, Inc., RCBC Rental Corporation, and RCBC Leasing and Finance Corporation—and of Metro Combined Logistics Solutions.

He previously worked with the following financial institutions: Japan-PNB Leasing and Finance Corporation – President and Director; Mercator Finance Corporation – President; Banco Del Oriente – President; Baldwin & Stewart Investment and Management Corporation – Asst. Vice President; W.I. Carr and Sons (HK), Manila Rep. Officer – Senior Securities. He has held leadership roles in various finance associations, both local and foreign, like Philippine Finance Association; International Finance and Leasing Association, London; and Asian Financial Services Association, Indonesia.

MR. ARSENIO KENNETH M. ONA

Executive Director, President & CEO
54 years of age, Filipino and American

BS Business Economics, University of the Philippines-Diliman; MBA, The Wharton School-University of Pennsylvania

Mr. Arsenio Kenneth M. Ona joined RCBC Capital in April 2020. He sits as a director in RCAP's subsidiaries, RCBC Securities, Inc. and RCBC Bankard Services Corporation. He is the President of InterGen Properties, Inc. and a director in Investment House Association of the Philippines (IHAP).

He previously held officership positions in the following institutions: First Metro Investment Corporation – First Vice President; PeopleSupport (Phils.), Inc. – Director for Financial Analysis; All Asia Capital and Trust Corp. – Asst. Vice President; Chase Manhattan Corp. – Associate; Security Bank Corporation – Asst. Trader; JF Exchange Capital Corp. – Financial Analyst. Also, he served as directors of PBC Capital Investment, SBC Properties, Inc., and Resiliency (SPC), Inc.

g. Board-level committees

The Board has constituted the following Board committees to assist in its oversight functions:

CORPORATE GOVERNANCE COMMITTEE

Composition:

Three (3) members of the Board, who are all non-executive directors and independent directors, including the chairman.

Members:

Mr. Vicente L. Ramirez Jr. (independent) – Chairperson

Mr. Cesar O. Virtusio (independent)

Mr. Omar T. Cruz (independent)

Responsibilities:

Assist the Board in fulfilling its corporate governance responsibilities by:

- Overseeing the nomination process for members of the Board and for positions appointed by the Board and reviewing and evaluating the qualifications of all persons nominated to the Board and to other positions requiring appointment by the Board;
- Recommending to the Board matters pertaining to the assignment to board committees, as well as succession plan for the members of the Board and senior management;
- Overseeing the continuing education program for the Board, ensuring the allocation of sufficient time, budget and other resources for the program and the effective implementation of policy for on-boarding/orientation program and annual continuing education for directors;
- Overseeing the periodic performance evaluation process for directors, board-level committees and senior management;
- Overseeing the design and operation of the remuneration and other incentives policy, ensuring that the remuneration and other incentives policy is aligned with operating and risk culture as well as with the strategic and financial interest of the company, promotes good performance and conveys acceptable risk-taking behavior defined under the company's Code of Ethics, and complies with legal and regulatory requirements.

AUDIT COMMITTEE

Composition:

Three (3) members of the Board who are all non-executive directors, majority of whom are independent directors including the chairman who is not the chairman of the board or any other committees.

Members:

Mr. Omar T. Cruz (independent) – Chairperson

Mr. Cesar O. Virtusio (independent)

Mr. Jose Luis F. Gomez (non-executive director)

Responsibilities:

Assist the Board of Directors in fulfilling its oversight responsibilities by:

- Overseeing the financial reporting process, practices and controls of the company, ensuring that the company's reporting framework enables the generation and preparation of accurate and comprehensive information and reports;
- Overseeing the implementation of internal control policies and activities and ensuring that the adequacy and effectiveness of the internal control system is monitored and evaluated so as to identify its weaknesses and evaluate its robustness taken into consideration the company's risk profile and strategic direction;
- Overseeing the internal audit function and reviewing and approving the audit scope and frequency and the performance and compensation of the head of internal audit, including his/her selection, appointment and dismissal, and the budget of the internal audit function;
- Overseeing the external audit function, including the appointment and replacement of external auditor, reviewing and approving the engagement contract of the external auditor and ensuring that the scope of audit covers areas specifically prescribed by the regulators;
- Overseeing the implementation of corrective actions, ensuring that the senior management is taking necessary corrective actions in a timely manner to address the weaknesses, non-compliance with policies, laws and regulations and other issues identified by auditors and other control functions; and
- Investigating significant issues/concern raised and establishing a whistle blowing mechanism by which officers and staff, in confidence, raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective actions.

RISK OVERSIGHT COMMITTEEComposition:

Three (3) members of the Board, majority of whom are independent directors including the chairman who is not the chairman of the Board or any other committees.

Members:

Mr. Cesar O. Virtusio (independent) – Chairperson

Ms. Yvonne S. Yuchengco (non-executive director)

Mr. Vicente L. Ramirez Jr. (independent)

Responsibilities:

Assist the Board of Directors in fulfilling its oversight responsibilities by:

- Overseeing the enterprise risk management framework of the company, ensuring that there is a periodic review of the effectiveness of the risk management systems and recovery plans and that corrective actions are promptly implemented to address risk management concerns;

- Overseeing adherence to risk appetite, ensuring that the current and emerging risk exposures are consistent with the company's strategic direction and overall risk appetite, and assessing the overall status of adherence to the risk appetite based on the quality of compliance with the limit structure, policies and procedures relating to risk management and control, and performance of management, among others; and
- Overseeing the risk management function, including the appointment, remuneration and dismissal of the Chief Risk Officer, and ensuring that the risk management function has adequate resources and the risk taking activities of the company is effectively overseen.

PERSONNEL EVALUATION AND REVIEW COMMITTEE

Composition:

A chairperson, who shall be a member of the Board and other members who may either be directors or company officers.

Members:

Ms. Yvonne S. Yuchengco – Chairperson

Mr. Eugene S. Acevedo (director)

Mr. Omar T. Cruz (independent director)

Mr. Arsenio Kenneth M. Ona (director)

Mr. Juan Marcelo M. Quijano (officer)

Atty. Samuel V. Torres (officer)

Ms. Claudine C. Del Rosario (officer)

Responsibilities:

Resolves cases of employees involving violations of Company policies, gross misconduct, and other acts detrimental to the institution.

h. Directors' attendance at board and committee meetings, special and regular.

| Name of Directors | Board of Directors | | Audit Committee | | Risk Oversight Committee | | Corporate Governance Committee | | Personnel Evaluation and Review Committee | |
|------------------------------------|--------------------|-----|-----------------|-----|--------------------------|-----|--------------------------------|-----|---|-----|
| | Number of Meetings | | | | | | | | | |
| | Attended | % | Attended | % | Attended | % | Attended | % | Attended | % |
| Yvonne S. Yuchengco | 15 | 100 | | | 4 | 100 | | | | |
| Eugene S. Acevedo | 15 | 100 | | | | | | 100 | | |
| Jose Luis F. Gomez | 12 | 100 | 5 | 100 | | | | | | |
| Cesar O. Virtusio | 15 | 100 | 5 | 100 | 4 | 100 | 4 | 100 | | |
| Omar T. Cruz | 15 | 100 | 5 | 100 | | | 4 | 100 | | |
| Vicente L. Ramirez Jr. | 15 | 100 | | | 4 | 100 | 4 | 100 | | |
| Arsenio Kenneth M. Ona | 15 | 100 | | | | | | | | |
| Total No. of Meetings Held in 2023 | 15 | | 5 | | 4 | | 4 | | Nil | Nil |

i. Changes in the board of directors

None.

j. List of executive officers/senior management

MR. ARSENIO KENNETH M. ONA

President & CEO

54 years of age, Filipino and American

BS Business Economics, University of the Philippines-Diliman; MBA, The Wharton School-University of Pennsylvania

Mr. Arsenio Kenneth M. Ona joined RCBC Capital in April 2020. He started serving as President and CEO of RCBC Capital on 01 Oct. 2022.

Mr. Ona is the President of InterGen Properties, Inc. and a director in Investment House Association of the Philippines (IHAP). He previously held officership positions in the following institutions: First Metro Investment Corporation – First Vice President; PeopleSupport (Phils.), Inc. – Director for Financial Analysis; All Asia Capital and Trust Corp. – Asst. Vice President; Chase Manhattan Corp. – Associate; Security Bank Corporation – Asst. Trader; JF Exchange Capital Corp. – Financial Analyst. Also, he served as directors of PBC Capital Investment, SBC Properties, Inc., and Resiliency (SPC), Inc.

MS. CLAUDINE C. DEL ROSARIO

Senior Vice President/IBG-Senior Account Officer

49 years of age, Filipino

BSC Management with MIS, Assumption College; MBA, Ateneo Graduate School of Business

Ms. Claudine C. Del Rosario has been with RCBC Capital since 2009. Ms. Del Rosario started her career at the Philippine Stock Exchange (PSE) as Listings Analyst. She was with PSE for eleven (11) years and held the Assistant Head position of its Listing Department prior to joining AC & D Corporate Partners as a Senior Associate.

MR. JUAN MARCELO M. QUIJANO

First Vice President/Credit & Administration Division Head

59 years of age, Filipino

BSC Accounting, Colegio de San Juan de Letran; Certified Public Accountant; Certified Securities Specialist

Mr. Juan Marcelo M. Quijano was previously with RCBC Capital as Compliance/Audit/Risk Officer in 2007 to 2008 and rejoined as Compliance Officer in 2011. He previously held officership positions in the following financial institutions: Premiere Development Bank – Assistant Compliance Officer; East West Bank – Operational Risk Manager; CitiFinancial Corporation – Compliance Manager; ABN AMRO Savings Bank (formerly BA Savings Bank) – Internal Audit Manager.

MR. JAYWIN R. MINA

Vice President/Financial Services Division Head

45 years of age, Filipino

BS Accountancy (cum laude), St. Ferdinand College-Isabela; Certified Public Accountant; Certified Internal Auditor

Mr. Jaywin R. Mina joined the company in 2009 as Asst. Head of the Financial Services Division. Prior to joining RCBC Capital, he was a Team Leader/Senior Associate at Deutsche Knowledge

Services, Before that, he was with Rizal Commercial Banking Corporation where he started as Audit Examiner and then became an Audit Manager.

MR. CHRISTIAN M. CHAVEZ

Vice President/Compliance Officer
45 years of age, Filipino

BA Philosophy (cum laude), University of the Philippines-Diliman; Bachelor of Laws, San Sebastian College-Recoletos; Trust Operations and Investment Management (With Satisfaction), Trust Institute Foundation of the Philippines

Atty. Christian M. Chavez joined RCBC Capital in June 2019. He previously held officership positions in the following institutions: Citystate Savings Bank, Inc. - Chief Compliance Officer; AllBank, Inc. (A Thrift Bank) - Compliance Officer, Head of Legal Services Dept., General Services Dept., and Property Management Dept., and Asst. Corporate Secretary; Asiatruster Devt. Bank - OIC Legal Services Group; Eton Properties Phil., Inc. - Corporate Counsel.

k. Performance Assessment Program

Board of Directors

The Board members conduct an annual self-assessment of the Board as a whole, of themselves as the individual members and as members of the Board committees. The self-assessment includes an evaluation of the independent judgment, objectivity and balanced perspectives of each member and of the Board as a whole. Additionally, the independent directors conduct an annual assessment of the Chairperson and the Chairperson conducted an assessment of the CEO. The purpose of the exercise is to show whether each director continues to contribute effectively and to demonstrate commitment to their role.

The self-assessment forms are based on the Corporate Governance Manual. Results of the assessment are submitted to the Corporate Governance Committee and the stockholders, and are considered in making recommendations on the directors to be nominated to the Board and appointed to the Board committees for the following year, and in developing action plans to address issues identified in the assessment process.

Senior Management

Senior management assesses their performance through the Performance Evaluation and Development process. It starts with the Key Result Areas (KRAs) that defines the targets and objectives of the company for each officer and his/her group. The officer's performance is reviewed on an annual basis against the KRAs and merit increases and promotions are based on the attainment of the targets contained in their KRAs.

l. Orientation and Education Program

Board of Directors

The directors keep abreast of the developments in the business, the industry, the regulatory environment in which the company operates and their duties and responsibilities as directors through continuing education or training.

New directors are provided with written information about the company, such as the Articles of Incorporation, By-laws, Code of Conduct, Corporate Governance program and their duties and responsibilities as directors to assist them in their education and meet with the Chairman, the President and Chief Executive Officer, and other executive officers, as needed. All directors have

access to seminars and presentations on aspects of our business and operations. Management regularly updates the Board on changing regulation and practices related to corporate governance.

A newly appointed director shall also attend seminars on corporate governance conducted by a duly recognized private or government institution duly accredited by the Bangko Sentral ng Pilipinas. Every year, all directors attend refresher training on anti-money laundering and corporate governance.

Senior Management

Officers are sent on training programs that are relevant to their specific responsibilities/jobs to keep them abreast with new regulations and policies. Other officers have also joined the parent Bank's Management Programs as well as other training programs and seminars. Corporate Governance, Anti-Money Laundering and Compliance refresher courses are obligatory for all senior officers.

m. Retirement and Succession Policy

Board of Directors

The Corporate Governance Committee, which is charged with reviewing the qualifications of potential director candidates, is guided by existing qualifications and disqualification regulations and/or requirements for board members. A director may be continuously elected to the board provided he possesses all the minimum qualifications and none of the disqualifications, and meet the requirements for integrity/probity, technical expertise, physical/mental fitness, competence, relevant education/financial literacy, diligence, and knowledge/ experience/training.

Under the Bangko Sentral ng Pilipinas Circular No. 970 dated 22 August 2017, independent directors should only serve for a maximum period of nine (9) cumulative years. At the end of such term, he shall be perpetually barred from re-election as an independent director. Nevertheless, he is still qualified for nomination and election as a non-independent director.

Senior Management

RCBC Capital has a succession planning program in place to ascertain continuity in all key positions in the organization. Weaknesses in succession planning like competency gaps of successors and the appropriateness and monitoring of their developmental plans were addressed this year. Normal retirement age for employees is 60 years old while early retirement is 55 years old.

n. Remuneration policy

i. Remuneration Policy and Structure for executive and non-executive directors.

Remuneration of directors is commensurate with their contributions and scope of their responsibilities.

Executive directors, including those who are concurrent officers of the RCBC group, do not receive any per diem for attendance in board meetings and board committee meetings. Non-executive directors receive a per diem of ₱20,000 for attendance in board meetings and/or board committee meetings.

ii. Remuneration Policy for senior management

RCBC Capital implements and maintains a sound compensation and incentive program for its senior management that is aligned with its parent Bank. The aggregate annual compensation for 2023 of the four most highly compensated officers of RCBC Capital is around P19.5 Million with bonuses totaling around P6 Million. These officers are: Arsenio Kenneth M. Ona, President

and CEO; Claudine C. Del Rosario, Senior Vice President; Juan Marcelo M. Quijano, First Vice President; and Clara Inez O. Rodriguez, Vice President.

To be competitive and relevant with the investment banking industry, RCBC Capital's salary structure is reviewed periodically so as to correct disparities and keep the talent pool intact.

o. Policies and procedures on related party transactions

i. Describe the QB's overarching policies and procedures for managing related party transactions (RPT), as defined under Sec. 131/131-Q of the MORB/MORNBFI, including managing of conflicts of interest or potential conflicts of interest.

The Company recognizes that transactions between and among related parties create financial, commercial and economic benefits to individual institution and to the entire Yuchengco Group of Companies ("YGC"). In this regard, it is company policy that related party transactions are generally allowed provided that these are conducted at arm's length basis or on terms no less favorable to the Company than terms available to any unconnected third party under the same or similar circumstances.

On 21 July 2016, the Board approved the Policy on Related Party Transactions (RPT) following BSP's issuance of Circular No. 895 or Guidelines on Related Party Transactions on 14 December 2015. On 15 November 2018, the said policy was revised to update and align it with the BSP Manual of Regulations for Non-Bank Financial Institution (NBFI). The said policy adopted the definition of "related party transactions" under the circular. Thus, "related party transactions" are transactions or dealings with related parties of the Company, regardless of whether or not a price is charged. These shall include, but not limited, to the following:

- On- and off-balance sheet credit exposures and claims and write-offs;
- Investments and/or subscriptions for debt/equity issuances;
- Consulting, professional, agency and other service arrangements/contracts;
- Purchases and sales of assets, including transfer of technology and intangible items (e.g. research and development, trademarks and license agreements)
- Construction arrangements/contracts;
- Lease arrangements/contracts;
- Trading and derivative transactions;
- Borrowings, commitments, fund transfers and guarantees;
- Sale, purchase or supply of any goods or materials; and
- Establishment of joint venture entities.

The RPT Policy was again revised in 2021 to enhance it, make it up-to-date and to address some weak areas in its implementation. The Board approved the revised RPT Policy on 16 September 2021.

RPTs shall be interpreted broadly to include not only transactions that are entered into with related parties but also outstanding transactions that were entered into with an unrelated party that subsequently becomes a related party.

The term "related parties" under the policy is broader in scope as includes consultants, and even non-related parties provided that their transactions with the Company or related parties may benefit other related parties or the Company, respectively.

The company constituted a management-level Transaction Review Committee to review and evaluate material related party transactions to ensure that the terms are no less favorable to the Company than terms available to any unconnected 3rd party under the same or similar

circumstances before these are presented to the Board for approval. For RCBC Capital, a transaction is considered “material” if it involves an amount of at least ₱5 million, or the transaction is with a Board member, or approval authority is reserved for the Board. Transactions below ₱5 million are approved at the Committee level.

The policy, however, identified transactions that are excluded from the materiality threshold requirement and these transactions are as follows:

- i. Regular and recurring banking transactions, i.e., deposits and/or withdrawals in savings, and current accounts [except the opening of the bank account];
- ii. Regular and recurring transactions such as:
 - a. Trading of debt securities traded in an active market,
 - b. Trading of equity securities traded in an active market,
 - c. Interbank call loan,
 - d. Direct match facility [except the approval of the facility / line by the Board];
- iii. Credit card availments [except those with credit card lines with amounts falling under the materiality threshold];
- iv. Availments under the BSP-approved fringe benefit program;
- v. Transactions that do not present real risk of potential abuse, i.e., sale of fully depreciated assets [except if the amount falls within the materiality threshold];
- vi. Normal day-to-day operating expenses amounting to less than P1,000,000.00 [i.e. purchase of office supplies or equipment, repair of office furniture or equipment, etc.]

To avoid conflict of interest, directors and officers with personal interest in the transaction is required to fully and timely disclose any and all facts, including their respective interests in the RPT, and to abstain from participating in the discussion, approval, and management of such transaction or matter affecting the company.

Pursuant to BSP Circular No. 895, the parent bank, RCBC is required to submit a report on material exposures to related parties, which shall include the material RPTs of their non-bank financial subsidiaries and affiliates within twenty (20) calendar days after the end of the reference quarter. For RCBC, material RPT is at least ₱10 million. In this regard, RCBC Capital reports to RCBC its RPTs amounting to at least ₱10 million for submission to the BSP.

ii. Provide the details of material RPTs as defined under Sec. 131/131-Q of the MORB/MORNBFI.

Following are the material related party transactions in 2023, sans the excluded transactions as defined in RCAP's RPT Policy:

| SUBSIDIARY / AFFILIATE | RELATIONSHIP BETWEEN THE PARTIES | TRANSACTION DATE | TYPE OF TRANSACTION | AMOUNT/ CONTRACT PRICE | RATIONALE FOR ENTERING INTO THE TRANSACTION |
|---------------------------------------|-------------------------------------|-------------------------------|---------------------------------|------------------------|--|
| A. SUBSIDIARIES AND AFFILIATES | | | | | |
| RCBC | Parent Bank | Monthly (Jan.-Dec. '23) | Rental Payment for 2023 | P 12,521,929.00 | Rental of office space |
| | Parent Bank | Monthly (Jan.-Dec. '23) | RCBC IT Shared Services Payment | P 2,003,649.56 | IT Services rendered by RCBC IT Group |
| RCBC Bankard Services Corp. | Subsidiary / Interlocking directors | Jan. 27, 2023 & Aug. 15, 2023 | Cash Dividend Collection | P 55,769,995.45 | Receipt of cash dividends declared by subsidiaries |
| B. DOSRI | | | | | |
| -None- | | | | | |
| C. OTHERS | | | | | |
| -None- | | | | | |

Other transactions with the parent, subsidiaries, and/or affiliates include regular banking transactions (current and savings accounts), collection of fees, commissions, and investments--all of which are at arms'-length. Below are the outstanding balances from transactions with related parties:

| Related Party Category | Notes | 2023 | | 2022 | |
|---|---------|-----------------------|---------------------|-----------------------|---------------------|
| | | Amount of Transaction | Outstanding Balance | Amount of Transaction | Outstanding Balance |
| Parent Company: | | | | | |
| Bank deposits | 6, 16.1 | P 27,779,860 | P 28,745,546 | P 4,571,868 | P 56,525,406 |
| Lease of office space | 16.2 | 12,521,929 | 26,255,155 | 11,925,628 | 37,960,589 |
| Dividend income | 16.3 | 1,579,272 | - | 903,695 | - |
| Interest income | 16.1 | 106,689 | - | 121,184 | - |
| Dividends | 12.2 | - | - | (500,000,000) | - |
| Acquisition of shares | 16.3 | - | - | - | (29,245,780) |
| Subsidiaries | | | | | |
| Security trading | 16.4 | 36,827,963 | 1,004,348 | 36,558,567 | - |
| Dividends | 9 | (25,739,994) | 30,000,000 | (55,769,997) | 30,000,000 |
| Equity share in net profit of subsidiaries | 9 | 50,290,334 | - | 21,738,431 | - |
| Share in other comprehensive losses of subsidiaries | 9 | (30,733,559) | - | (20,266,654) | - |
| Fees and commissions | 16.4 | 92,452 | - | 591,396 | - |
| Other Related Parties: | | | | | |
| Key management personnel compensation | 16.6 | 38,768,325 | - | 86,573,936 | - |
| Loans to employees and others – net | 8, 16.5 | 417,815 | 617,176 | 1,077,195 | 1,361,578 |

There were no impairment losses recognized on the outstanding receivables from related parties in 2023 and 2022 based on management's assessment.

p. Self-Assessment Function

- i. Describe the structure of the internal audit and compliance functions including its role, mandate/authority, and reporting process

Internal Audit

RCBC Capital has in place an independent internal audit function assigned to a lone internal auditor who directly reports to the Audit Committee. The Internal Auditor conducts independent and objective internal audit activities designed to add value and improve the Company's operations, and to help it accomplish its objectives by providing a systematic and disciplined approach in the evaluation and improvement of the effectiveness of risk management, control and governance processes through which the Board, as represented by the Audit Committee, and senior management gain reasonable assurance that its key organizational and procedural controls are appropriate, adequate, effective and complied with.

The minimum risk management and internal control mechanisms for Management's operational responsibility is centered on the CEO who is ultimately accountable for the Company's organization and procedural controls.

The objective of every audit engagement is to assist the management in its governance and risk management efforts by way of:

- a. Determining whether internal controls are in place to provide reasonable assurance that the Company:
 - Achieves the organization's strategic objectives;
 - Promotes reliability and integrity of its financial reporting and operational information;
 - Promotes efficiency and effectiveness of its operations and programs;
 - Has proper safeguarding of assets; and
 - Maintains compliance with applicable laws, regulations, policies, procedures, and contracts.
- b. Identifying areas where improvements might be necessary in terms of strengthening the Company's internal control posture, and
- c. Identifying and recommending internal control procedures that the management can consider implementing to mitigate risks.

The Internal Auditor submits an audit report to the Audit Committee for their review comments, which summarizes the control issues, risk exposures, recommendations, management's response, corrective action taken or to be taken, persons responsible and implementation dates. There were two audit reports for 2023, a final report for the March 2023 cut-off and an interim report for the December 2023 cut-off. Said reports were reviewed and approved by the Audit Committee on 02 August 2023 and 24 December 2023, respectively.

At least annually, the Internal Auditor submits to the Audit Committee an internal audit plan for their review and approval. The internal audit plan is developed based on a prioritization of the audit universe using a risk-based methodology, including input from senior management and the Audit Committee. The internal audit plan is presented to and approved by the Audit Committee prior to its execution.

Compliance

The Compliance function, which was created by virtue of BSP Circular No. 893 dated November 16, 2015, is tasked with overseeing the effective implementation of the company's compliance program. This program is consistent with the company's mission of conducting its business with integrity, excellence and commitment while providing fast, affordable and quality financial services to clients.

Pursuant to BSP Circular Nos. 893 and 972, Section 161-Q of the BSP's MORNBF1 as amended, and the SEC's Revised Code of Corporate Governance, the Board approved the revisions/updates to the Company's Compliance Program on 24 October 2019. From thereon, the Compliance Program is being updated on a yearly basis; the latest of the update was approved on 08 September 2021.

The Compliance Officer (CO), who directly reports to the Audit Committee, is the lead officer for the purpose of administering the compliance program and interacting with the BSP on compliance related issues. The principal function of the CO is to oversee the design of an appropriate compliance system, promote its effective implementation and address the breaches that may arise. The CO is also responsible in ensuring the integrity and accuracy of documentary submission to the BSP, implementing the policies on anti-money laundering, corporate governance, foreign account tax compliance act, and data privacy.

RCBC's Compliance Office also oversees the Compliance Officer to ensure consistent and uniform implementation of the requirements of the BSP and other regulatory agencies.

The Compliance Officer promotes compliance awareness and proactive regulatory compliance among officers and staff through dissemination of regulatory issuances, regular monitoring, compliance-testing, and conducting training. It maintains a clear and open communication process within the company to provide employees with a well-defined understanding of applicable laws, rules & regulations, as well as the risks and effects of non-compliance.

RCBC through its compliance group, the Regulatory Affairs Group, introduced in 2022 the Hub and Spoke Compliance Model to address the issues of the compliance office of RCBC subsidiaries. These issues include manpower constraint, manual processes, and inconsistent standards across the RCBC Group, among others.

Under this Model, certain compliance activities will be centralized at the Hub (parent bank RCBC) while the other compliance activities not performed by the Hub will be performed by the Spokes (the subsidiaries). On 27 June 2022, RCBC and the RCBC subsidiaries, including RCBC Capital, signed the Service Level Agreement implementing the Model.

- ii. Describe the review process adopted by the Board to ensure effectiveness and adequacy of the internal control system

Please refer to Item 6.p.i above.

- q. Dividend policy

Generally, RCBC Capital declares and pays out cash dividends from the unrestricted free earnings and undivided profits reported in the Balance Sheet as of the calendar year-end immediately preceding the date of the declaration as determined and approved by the Board of Directors in accordance with the company's By-laws, provisions of law, and regulations of the Bangko Sentral ng Pilipinas.

No dividend declaration was made for year 2023.

r. Corporate Social Responsibility Initiatives

Corporate Social Responsibility is undertaken through the parent bank, RCBC.

s. Consumer Protection Practices²

i. Describe the role and responsibility of the board and senior management for the development of consumer protection strategy and establishment of an effective oversight over the QB's consumer protection programs

The Board of Directors is devoted to protecting the interests of customers by overseeing the development of the consumer protection culture and standards. In response to BSP Circular No. 857 dated 21 November 2014, and to set the tone at the top, the Board approved on 02 December 2015, the policies on Financial Consumer Protection, and Customer Assistance, and the Consumer Protection Risk Management System. The Board has adopted the following consumer protection principles:

- Consumer rights
- Compliance with regulations
- Cooperation with the BSP
- Policies, procedures, and training

The President and CEO is the leader in building a culture of consumer protection. He is assisted in implementing the consumer protection policies by the Investment Banking Group-Distribution Unit, and the Credit and Administration Division Head who is the designated Customer Assistance Officer. The Customer Assistance Officer reports to the Board a summary and analysis of customer complaints every quarter.

ii. Describe the consumer protection risk management system of the QB.

RCBC Capital has identified that consumer protection risks arise in the areas of disclosure and transparency, protection of client information, fair treatment, effective recourse, and financial education. The company mitigates these risks by the effective implementation of the policies on information security, privacy, and customer assistance.

Consumer protection risk is monitored through the number of customer complaints received every month, and which was defined as a key risk indicator (KRI). The tolerance value for said KRI is zero. In effect, any occurrence of customer complaint is reported to the Risk Oversight Committee, and subsequently, to the Board of Directors. This measurement is subjected to periodic review as the consumer protection risks change, and practice that better suits the need of the company.

Controls over these risks that was instituted and/or enhanced include:

- Product-based controls - through product design principles, labeling, transparency measures, and information disclosure.
- Sales and distribution-based controls - suitability principles, regulatory standards, licensing requirements, and sales and marketing guidelines all contribute to consumer protection.
- Consumer-based controls - consumers may draw on their own knowledge, skills, and financial literacy to protect and enhance their own welfare.

² As required under Sec. 1001-Q of the MORNBF on Consumer Protection Oversight Function

- Third-party controls - intermediary organizations (e.g., independent personal finance publications, advisors) may provide education, ratings, evaluations, user reviews, pricing, and descriptive product information.
- Regulators and supervisors - in addition to voluntary actions to improve consumer welfare, regulators and supervisors create and enforce statutes that directly safeguard consumers through market intervention. As an example, the BSP intervenes preemptively to address issues in product design, selling practices, and detrimental consumer behavior. Supervisors' solutions include consumer warnings, product and sales prohibitions, etc.

iii. Describe the consumer assistance management system of the QB.

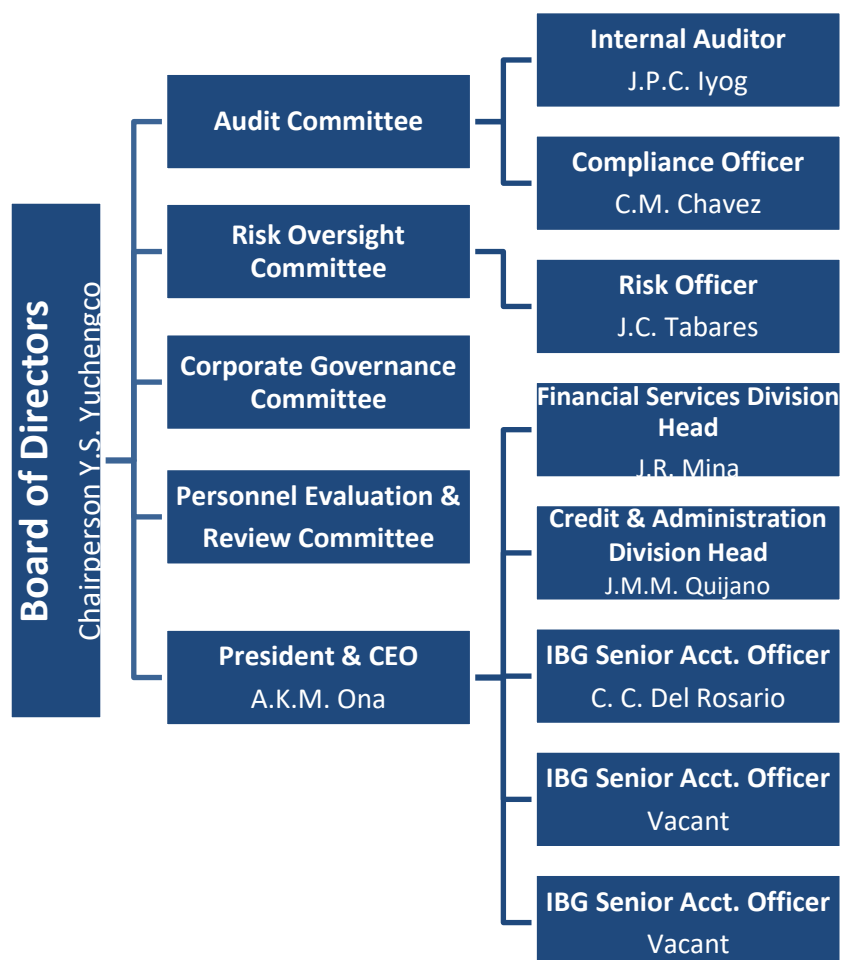
The Board of Directors is devoted to protecting the interests of our customers by overseeing the development of our customer assistance policies and standards. In response to BSP Circular No. 857 dated 21 November 2014, and to set the tone at the top, the Board approved on 02 December 2015, our policy on Customer Assistance. The Customer Assistance policy covers the following:

- Visibility and access
- Responsiveness
- Assessment and action
- Resolution and system improvement
- Monitoring effectiveness and reporting
- Confidentiality
- Conflict of interest
- Risk assessment strategies
- Customer feedback
- Corporate structure
- Capability building
- Time standards for response and resolution
- Record keeping
- Reporting

Customers may get in touch with RCBC Capital for their concerns via the account officers, or the Customer Assistance Officer, who shall resolve their concerns within strict turn-around times. Client concerns are tracked and monitored to determine root cause and improve processes. Customers may likewise elevate their complaints to the Consumer Affairs Unit of the Bangko Sentral ng Pilipinas.

7. CORPORATE INFORMATION

a. Organizational structure



b. List of major stockholders³

| Name | Nationality | Amount (₱) | % of Holdings | Voting Status |
|---|-------------|---------------|---------------|------------------|
| Rizal Commercial Banking Corporation | Filipino | 2,361,875,820 | 99.964% | Common |
| Rustan's Investment Management Corporation | Filipino | 774,000 | 0.033% | Common |
| Pan Malayan Management and Investment Corporation | Filipino | 20,000 | 0.001% | Common |
| Alfonso T. Yuchengco | Filipino | 58,040 | 0.002% | Common |
| Others (Board of Directors) | Filipino | 140 | 0.000% | Common (Nominal) |
| Totals | | 2,362,728,000 | 100.000% | |

³ Stockholders owning more than 20% of voting shares of stock of a bank or which enables such stockholder to elect, or be elected as, a director of such QB.

c. List and description of products and services offered

RCBC Capital provides a complete range of investment banking and financial consultancy services which include: (i) underwriting of debt and equity securities for distribution via public offering or private placement such as common and preferred stock, convertible preferred stocks, convertible bonds, long-term and short-term commercial papers and corporate notes, promissory notes, and corporate and government bonds; (ii) arranging / packaging of foreign currency and peso loans such as syndicated loans, joint ventures, and project finance; and (iii) financial advisory and consultancy with respect to mergers and acquisition, restructuring, company valuations, and spin-offs.

d. QB website

www.rcbccap.com

e. List of QB units

RCBC Capital operates only from its lone office in Makati City.

8. AUDITED FINANCIAL STATEMENTS WITH AUDITOR'S OPINION

Following is the 2023 Solo and Consolidated audited financial statements with the respective auditor's opinion.



Report of Independent Auditors

Punongbayan & Araullo
20th Floor, Tower 1
The Enterprise Center
6768 Ayala Avenue
1200 Makati City
Philippines
T +63 2 8988 2288

The Board of Directors
RCBC Capital Corporation
*(A Wholly Owned Subsidiary of
Rizal Commercial Banking Corporation)*
21st Floor, Yuchengco Tower II
RCBC Plaza, 6819 Ayala Avenue
Makati City

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of RCBC Capital Corporation (the Company), which comprise the statements of financial position as at December 31, 2023 and 2022, and the statements of profit or loss, statements of comprehensive income, statements of changes in equity and statements of cash flows for the years then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Company as at December 31, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Company in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

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

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

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

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Company to cease to continue as a going concern.

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

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

Report on Other Legal and Regulatory Requirements

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. As discussed in Note 17 to the financial statements, the Company presented the supplementary information for the year ended December 31, 2023 required by the Bureau of Internal Revenue in a supplementary schedule filed separately from the basic financial statements. The supplementary information for the years ended December 31, 2023 and 2022 required by the Bangko Sentral ng Pilipinas as disclosed in Note 21 to the financial statements is also presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with PFRS. Such supplementary information is the responsibility of management. The supplementary information, however, is neither a required part of the basic financial statements prepared in accordance with PFRS nor a required disclosure under the Revised Securities Regulation Code Rule 68 of the Philippine Securities and Exchange Commission. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

PUNONGBAYAN & ARAULLO



By: **Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10076138, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2027)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 19, 2024



Report of Independent Auditors

Punongbayan & Araullo
 20th Floor, Tower 1
 The Enterprise Center
 6766 Ayala Avenue
 1200 Makati City
 Philippines

T +63 2 8988 2288

The Board of Directors
 RCBC Capital Corporation and Subsidiaries
 21st Floor, Yuchengco Tower II
 RCBC Plaza, 6819 Ayala Avenue
 Makati City

Opinion

We have audited the consolidated financial statements of RCBC Capital Corporation and subsidiaries (the Group), which comprise the consolidated statements of financial position as of December 31, 2023 and 2022, and the consolidated statements of profit or loss, consolidated statements of comprehensive income, consolidated statements of changes in equity and consolidated statements of cash flows for the years then ended, and notes to the consolidated financial statements, including material accounting policy information.

In our opinion, the accompanying consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Group as of December 31, 2023 and 2022, and its consolidated financial performance and its consolidated cash flows for the years then ended in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Consolidated Financial Statements* section of our report. We are independent of the Group in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audits of the consolidated financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Matter

The consolidated financial statements of RCBC Capital Corporation and subsidiaries are intended solely for internal use and information of the Board of Directors of RCBC Capital Corporation.

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

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

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

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

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

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

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

PUNONGBAYAN & ARAULLO



By: **Maria Isabel E. Comedia**
Partner

CPA Reg. No. 0092966
TIN 189-477-563
PTR No. 10076138, January 3, 2024, Makati City
SEC Group A Accreditation
Partner - No. 92966-SEC (until financial period 2027)
Firm - No. 0002 (until financial period 2024)
BIR AN 08-002511-021-2022 (until Oct. 13, 2025)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Aug. 27, 2024)

February 19, 2024

RCBC CAPITAL CORPORATION
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF FINANCIAL POSITION
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

| RCBC CAPITAL CORPORATION (SOLO) | | | | RCBC CAPITAL CORPORATION & SUBSIDIARIES (CONSO) | | | |
|---|-------|------------------------|------------------------|--|-------|------------------------|------------------------|
| | Notes | 2023 | 2022 | | Notes | 2023 | 2022 |
| <u>ASSETS</u> | | | | <u>ASSETS</u> | | | |
| CASH AND CASH EQUIVALENTS | 6 | P 851,015,211 | P 404,901,221 | CASH AND CASH EQUIVALENTS | 6 | P 1,328,706,555 | P 859,090,497 |
| TRADING AND INVESTMENT SECURITIES - Net | 7 | 1,813,024,799 | 2,047,325,073 | TRADING AND INVESTMENT SECURITIES - Net | 7 | 2,018,233,668 | 2,304,886,720 |
| LOANS AND OTHER RECEIVABLES - Net | 8 | 28,462,430 | 88,302,930 | LOANS AND OTHER RECEIVABLES - Net | 8 | 136,643,479 | 203,556,392 |
| INVESTMENTS IN SUBSIDIARIES | 9 | 621,773,043 | 627,956,263 | DEFERRED TAX ASSETS - Net | 15 | 77,937,511 | 66,339,015 |
| DEFERRED TAX ASSETS - Net | 17 | 13,063,870 | 13,051,200 | OTHER ASSETS - Net | 9 | 310,770,268 | 231,046,624 |
| OTHER ASSETS - Net | 10 | 41,390,572 | 52,292,339 | | | | |
| TOTAL ASSETS | | P 3,368,729,925 | P 3,233,829,026 | TOTAL ASSETS | | P 3,872,291,481 | P 3,664,919,248 |
| <u>LIABILITY AND EQUITY</u> | | | | <u>LIABILITY AND EQUITY</u> | | | |
| LIABILITY | | | | LIABILITY | | | |
| Accrued expenses and other liabilities | 11 | P 42,587,469 | P 67,133,479 | Accrued expenses and other liabilities | 10 | P 546,149,025 | P 498,223,701 |
| EQUITY | 12 | | | EQUITY | 11 | | |
| Capital stock | | 2,362,728,000 | 2,362,728,000 | Capital stock | | 2,362,728,000 | 2,362,728,000 |
| Revaluation reserves | | (113,947,572) | (73,920,895) | Other reserves | | 295,878,729 | 335,905,406 |
| Retained earnings | | 1,077,362,028 | 877,888,442 | Retained earnings | | 667,535,727 | 468,062,141 |
| Total Equity | | 3,326,142,456 | 3,166,695,547 | Total Equity | | 3,326,142,456 | 3,166,695,547 |
| TOTAL LIABILITY AND EQUITY | | P 3,368,729,925 | P 3,233,829,026 | TOTAL LIABILITY AND EQUITY | | P 3,872,291,481 | P 3,664,919,248 |
| | | | | <i>See Notes to Consolidated Financial Statements.</i> | | | |

RCBC CAPITAL CORPORATION
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF PROFIT OR LOSS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

| RCBC CAPITAL CORPORATION (SOLO) | | | | RCBC CAPITAL CORPORATION & SUBSIDIARIES (CONSO) | | | |
|---|----------|----------------------|----------------------|---|---------|----------------------|----------------------|
| | Notes | 2023 | 2022 | | Notes | 2023 | 2022 |
| REVENUES | | | | NET REVENUES | | | |
| Fees and commissions | 18 | P 192,806,368 | P 273,591,574 | Commissions and fees | 17 | P 991,609,761 | P 971,055,602 |
| Interest and other financing income | 13 | 96,904,515 | 74,374,150 | Interest and other financing income | 12 | 121,698,555 | 91,343,310 |
| Dividend income | 7 | 35,098,013 | 53,611,752 | Dividend income | 7 | 47,109,460 | 65,948,326 |
| | | <u>324,808,896</u> | <u>401,577,476</u> | Trading and investment securities gain - net | 7 | 387,816 | - |
| | | | | Other revenues | 13 | <u>3,421,261</u> | <u>2,939,783</u> |
| | | | | | | <u>1,164,226,853</u> | <u>1,131,287,021</u> |
| OPERATING EXPENSES | | | | OPERATING EXPENSES | | | |
| Salaries and employee benefits | 15 | 74,725,676 | 93,921,814 | Salaries and employee benefits | 14 | 657,394,377 | 605,100,382 |
| Taxes and licenses | | 24,194,421 | 24,176,046 | Occupancy and equipment-related expenses | 9, 16 | 73,300,863 | 66,401,694 |
| Depreciation and amortization | 10 | 14,376,893 | 13,506,150 | Taxes and licenses | | 39,827,523 | 35,410,109 |
| Fees and commissions | 16 | 6,715,891 | 17,281,055 | Outside services | | 35,772,035 | 34,237,674 |
| Management and professional fees | | 6,152,726 | 3,027,013 | Management and professional fees | | 13,842,763 | 10,616,572 |
| Representation and entertainment | | 3,725,400 | 2,381,857 | Interest and other financing costs | 12 | 9,449,159 | 6,524,641 |
| Occupancy and equipment-related expenses | | 2,689,829 | 2,217,808 | Fees and commissions | | 9,030,621 | 19,688,797 |
| Outside services | | 2,302,000 | 1,681,214 | Representation and entertainment | | 8,118,335 | 6,096,992 |
| Trading and investment securities loss - net | 7 | 1,766,910 | 67,903,793 | Corporate and employee activities | | 2,711,577 | 1,711,832 |
| Supervisory fee | | 1,180,184 | 1,247,707 | Trading and investment securities loss - net | 7 | - | 76,109,103 |
| Interest and other financing costs | 13 | 1,099,024 | 2,619,881 | Other operating expenses | 13 | <u>67,011,498</u> | <u>67,082,516</u> |
| Insurance | | 965,471 | 1,098,837 | | | <u>916,458,751</u> | <u>928,980,312</u> |
| Employee activities, meetings and conferences | | 921,585 | 625,450 | | | | |
| Other operating expenses | 14 | <u>6,683,849</u> | <u>5,909,267</u> | | | | |
| | | <u>1,447,499,859</u> | <u>237,597,892</u> | | | | |
| | | | | | | | |
| OPERATING PROFIT | | <u>177,309,037</u> | <u>163,979,584</u> | OPERATING PROFIT | | <u>247,768,102</u> | <u>202,306,709</u> |
| | | | | | | | |
| OTHER INCOME | | | | OTHER INCOME | | | |
| Equity share in net profit of subsidiaries | 9 | 50,290,333 | 21,738,431 | | 7, 8, 9 | <u>7,977,428</u> | <u>3,329,846</u> |
| Miscellaneous | 7, 8, 10 | 8,038,610 | 8,338,719 | | | | |
| | | <u>58,328,943</u> | <u>30,077,150</u> | | | | |
| | | | | | | | |
| PROFIT BEFORE TAX | | <u>235,637,980</u> | <u>194,056,734</u> | PROFIT BEFORE TAX | | <u>255,745,530</u> | <u>205,636,555</u> |
| | | | | | | | |
| TAX EXPENSE | 17 | <u>36,164,394</u> | <u>44,621,627</u> | TAX EXPENSE | 15 | <u>56,271,944</u> | <u>56,201,448</u> |
| | | | | | | | |
| NET PROFIT | | <u>P 199,473,586</u> | <u>P 149,435,107</u> | NET PROFIT | | <u>P 199,473,586</u> | <u>P 149,435,107</u> |

See Notes to Consolidated Financial Statements

RCBC CAPITAL CORPORATION
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
STATEMENTS OF COMPREHENSIVE INCOME
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

RCBC CAPITAL CORPORATION (SOLO)

| | <u>Notes</u> | <u>2023</u> | <u>2022</u> |
|---|--------------|-----------------------|-----------------------|
| NET PROFIT | | P 199,473,586 | P 149,435,107 |
| OTHER COMPREHENSIVE LOSS | | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Equity share in other comprehensive loss of subsidiaries | 9, 12 | (30,733,559) | (20,266,654) |
| Fair value losses on equity securities at fair value through other comprehensive income (FVOCI) | 7, 12 | (13,966,919) | (22,711,230) |
| Remeasurements of retirement benefit plan | 12, 15 | (4,694,925) | 1,623,646 |
| Tax income (expense) on remeasurements | 17 | <u>1,173,731</u> | <u>(405,912)</u> |
| | | <u>(48,221,672)</u> | <u>(41,760,150)</u> |
| Items that will be reclassified subsequently to profit or loss | | | |
| Fair value gains (losses) on debt securities at FVOCI | 7, 12 | 8,234,507 | (21,012,085) |
| Expected credit loss reserve for debt securities at FVOCI | 7, 12 | <u>(39,512)</u> | <u>(34,082)</u> |
| | | <u>8,194,995</u> | <u>(21,046,167)</u> |
| | | <u>(40,026,677)</u> | <u>(62,806,317)</u> |
| TOTAL COMPREHENSIVE INCOME | | P 159,446,909 | P 86,628,790 |

RCBC CAPITAL CORPORATION & SUBSIDIARIES (CONSO)

| | <u>Notes</u> | <u>2023</u> | <u>2022</u> |
|--|--------------|-----------------------|-----------------------|
| NET PROFIT | | P 199,473,586 | P 149,435,107 |
| OTHER COMPREHENSIVE LOSS | 11 | | |
| Items that will not be reclassified subsequently to profit or loss | | | |
| Remeasurements of retirement benefit plan | 14 | (33,254,373) | (6,109,381) |
| Fair value losses on financial assets at fair value through other comprehensive income (FVOCI) | 7 | (26,528,882) | (42,073,743) |
| Tax income | 15 | <u>11,561,584</u> | <u>6,422,974</u> |
| | | <u>(48,221,671)</u> | <u>(41,760,150)</u> |
| Items that will be reclassified subsequently to profit or loss | | | |
| Fair value gains (losses) on financial assets at FVOCI | 7 | 8,234,506 | (21,012,085) |
| Expected credit loss reserve for financial assets at FVOCI | 7 | <u>(39,512)</u> | <u>(34,082)</u> |
| | | <u>8,194,994</u> | <u>(21,046,167)</u> |
| | | <u>(40,026,677)</u> | <u>(62,806,317)</u> |
| TOTAL COMPREHENSIVE INCOME | | P 159,446,909 | P 86,628,790 |

See Notes to Consolidated Financial Statements

RCBC CAPITAL CORPORATION
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (SOLO)
DECEMBER 31, 2023 AND 2022

| | <u>Notes</u> | <u>Capital Stock</u> | <u>Revaluation Reserves</u> | <u>Retained Earnings</u> | <u>Equity</u> |
|---|--------------|-------------------------------|---------------------------------|-------------------------------|-------------------------------|
| Balance at January 1, 2023 | | P 2,362,728,000 | (P 73,920,895) | P 877,888,442 | P 3,166,695,547 |
| Total comprehensive income (loss) for the year | 12 | <u>-</u> | <u>(40,026,677)</u> | <u>199,473,586</u> | <u>159,446,909</u> |
| Balance at December 31, 2023 | | <u>P 2,362,728,000</u> | <u>(P 113,947,572)</u> | <u>P 1,077,362,028</u> | <u>P 3,326,142,456</u> |
| Balance at January 1, 2022 | | P 2,362,728,000 | (P 10,957,288) | P 728,296,045 | P 3,080,066,757 |
| Reclassification of realized fair value income on disposals of financial assets at FVOCI | 7, 12 | - | (157,290) | 157,290 | - |
| Total comprehensive income (loss) for the year | 12 | <u>-</u> | <u>(62,806,317)</u> | <u>149,435,107</u> | <u>86,628,790</u> |
| Balance at December 31, 2022 | | <u>P 2,362,728,000</u> | <u>(P 73,920,895)</u> | <u>P 877,888,442</u> | <u>P 3,166,695,547</u> |

RCBC CAPITAL CORPORATION
(A Wholly Owned Subsidiary of Rizal Commercial Banking Corporation)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (CONSO)
DECEMBER 31, 2023 AND 2022

| | <u>Notes</u> | <u>Capital Stock</u> | <u>Other Reserves</u> | <u>Retained Earnings</u> | | <u>Total</u> | <u>Total Equity</u> |
|--|--------------|------------------------|-----------------------|--------------------------|-----------------------|----------------------|------------------------|
| | | | | <u>Appropriated</u> | <u>Unappropriated</u> | | |
| Balance at January 1, 2023 | | P 2,362,728,000 | P 335,905,406 | P 16,652,545 | P 451,409,596 | P 468,062,141 | P 3,166,695,547 |
| Appropriation during the year | 11 | - | - | 300,000 | (300,000) | - | - |
| Total comprehensive income (loss) for the year | | - | (40,026,677) | - | 199,473,586 | 199,473,586 | 159,446,909 |
| Balance at December 31, 2023 | | <u>P 2,362,728,000</u> | <u>P 295,878,729</u> | <u>P 16,952,545</u> | <u>P 650,583,182</u> | <u>P 667,535,727</u> | <u>P 3,326,142,456</u> |
| Balance at January 1, 2022 | | P 2,362,728,000 | P 398,869,013 | P 16,652,545 | P 301,817,199 | P 318,469,744 | P 3,080,066,757 |
| Reclassification of realized fair value gains on disposal of financial assets at fair value through other comprehensive income | 7, 11 | - | (157,290) | - | 157,290 | 157,290 | - |
| Total comprehensive income (loss) for the year | | - | (62,806,317) | - | 149,435,107 | 149,435,107 | 86,628,790 |
| Balance at December 31, 2022 | | <u>P 2,362,728,000</u> | <u>P 335,905,406</u> | <u>P 16,652,545</u> | <u>P 451,409,596</u> | <u>P 468,062,141</u> | <u>P 3,166,695,547</u> |

See Notes to Consolidated Financial Statements

RCBC CAPITAL CORPORATION (Parent)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

| | Notes | 2023 | 2022 |
|--|--------|-----------------------------|-----------------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | P 235,637,980 | P 194,056,734 |
| Adjustments for: | | | |
| Interest income | 13 | (96,904,515) | (74,374,150) |
| Equity share in net profit of subsidiaries | 9 | (50,290,333) | (21,738,431) |
| Dividend income | 7 | (35,098,013) | (53,611,752) |
| Depreciation and amortization | 10 | 14,376,893 | 13,506,150 |
| Recovery of financial assets - net | 7, 8 | (1,968,120) | (3,279,097) |
| Interest expense | 13 | 1,099,024 | 2,619,882 |
| Gain on sale of property and equipment, assets classified as held for sale and investment property | 10 | (672,500) | (35,543) |
| Foreign exchange gains - net | 7 | (64,227) | (475,600) |
| Operating profit before working capital changes | | 66,116,189 | 56,668,193 |
| Decrease in loans and other receivables | | 85,358,551 | 28,096,769 |
| Decrease in financial assets at fair value through profit or loss | | 14,305,830 | 72,564,211 |
| Decrease (increase) in other assets | | (2,443,993) | 1,032,559 |
| Decrease in accrued expenses and other liabilities | | (11,706,681) | (4,563,345) |
| Cash generated from operations | | 151,629,896 | 153,798,387 |
| Cash paid for final taxes | | (40,298,187) | (38,123,486) |
| Net Cash From Operating Activities | | <u>111,331,709</u> | <u>115,674,901</u> |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from maturity of financial assets at amortized cost | 7 | 1,472,350,000 | 1,461,000,000 |
| Acquisitions of financial assets at amortized cost | 7 | (1,257,602,693) | (1,490,247,307) |
| Interest received | | 97,191,941 | 74,723,141 |
| Dividends received | | 35,040,090 | 32,820,208 |
| Acquisitions of property and equipment | 10 | (1,764,051) | (5,210,574) |
| Proceeds from maturity of financial assets at fair value through other comprehensive income (FVOCI) | 7 | 1,500,000 | 572,142,500 |
| Proceeds from disposal of real and other properties acquired | 10 | 1,405,418 | 202,214 |
| Acquisitions of financial assets at FVOCI | 7 | - | (103,575,500) |
| Proceeds from disposals of financial assets at FVOCI | 7 | - | 70,070,000 |
| Net Cash From Investing Activities | | <u>348,120,705</u> | <u>611,924,682</u> |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Payments of lease liability | 11 | (12,521,929) | (11,925,628) |
| Interest paid | | (816,495) | (1,097,521) |
| Dividends paid | 12, 16 | - | (500,000,000) |
| Cash Used in Financing Activities | | <u>(13,338,424)</u> | <u>(513,023,149)</u> |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 446,113,990 | 214,576,434 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | <u>404,901,221</u> | <u>190,324,787</u> |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | <u>P 851,015,211</u> | <u>P 404,901,221</u> |

Supplemental Information on Non-cash Investing and Financing Activities :

During 2022, the Company paid dividends amounting to P500.0 million which was authorized for declaration by the Board of Directors on November 18, 2021. No dividend was declared in 2023 and 2022.

RCBC CAPITAL CORPORATION & SUBSIDIARIES (CONSO)
STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

| | Notes | 2023 | 2022 |
|--|---------|------------------------|----------------------|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Profit before tax | | P 255,745,530 | P 205,636,555 |
| Adjustments for: | | | |
| Interest and other financing income | 12 | (121,698,555) | (91,343,310) |
| Dividend income | 7 | (47,109,460) | (65,948,326) |
| Depreciation and amortization | 9 | 67,835,111 | 61,447,660 |
| Interest and other financing costs | 12 | 9,449,159 | 6,524,641 |
| Recovery of financial assets - net | 7, 8, 9 | (1,785,563) | (3,251,797) |
| Gain on sale of assets classified as held for sale - net | 9 | (720,000) | - |
| Gain on sale of property and equipment - net | 9 | (271,507) | (91,721) |
| Foreign exchange gains - net | 7 | (64,227) | (475,600) |
| Operating profit before working capital changes | | 161,380,488 | 112,498,102 |
| Decrease in financial assets at fair value through profit or loss | | 81,722,831 | 90,183,736 |
| Decrease in loans and other receivables | | 59,901,289 | 90,228,853 |
| Decrease (increase) in other assets | | (3,587,668) | 31,906,761 |
| Decrease in accrued expenses and other liabilities | | (79,684,749) | (222,053,216) |
| Cash generated from operations | | 219,732,191 | 102,764,236 |
| Interest received | | 127,131,949 | 84,810,123 |
| Cash paid for income taxes | | (29,134,734) | (22,879,910) |
| Net Cash From Operating Activities | | 317,729,406 | 164,694,449 |
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Proceeds from maturity of financial assets at amortized cost | 7 | 1,472,350,000 | 1,461,000,000 |
| Acquisitions of financial assets at amortized cost | 7 | (1,257,602,693) | (1,490,247,307) |
| Dividends received | | 35,040,090 | 32,820,208 |
| Acquisition of financial assets at fair value through other comprehensive income (FVOCI) | 7 | (20,099,438) | (115,467,344) |
| Acquisitions of property and equipment | 9 | (17,353,838) | (11,828,069) |
| Proceeds from disposal of property and equipment | 9 | 1,947,792 | 557,954 |
| Proceeds from redemption and disposal of FVOCI | 7 | 1,500,000 | 651,719,026 |
| Proceeds from disposal of asset held-for-sale | 9 | 1,200,000 | - |
| Net Cash From Investing Activities | | 216,981,913 | 528,554,468 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Repayment of lease liabilities | 10 | (64,278,766) | (57,681,040) |
| Interest paid | | (816,495) | (1,097,501) |
| Dividends paid | 11 | - | (500,000,000) |
| Net Cash Used in Financing Activities | | (65,095,261) | (558,778,541) |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | | 469,616,058 | 134,470,376 |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR | | 859,090,497 | 724,620,121 |
| CASH AND CASH EQUIVALENTS AT END OF YEAR | | P 1,328,706,555 | P 859,090,497 |

Supplemental Information on Non-cash Financing Activities:

1. On November 18, 2021, the Parent Company's Board of Directors authorized the declaration of cash dividends amounting to P500.0 million. The dividends were fully paid in 2022. No dividends were declared in 2023 and 2022.
2. In 2023, RCBC Bankard Services Corporation recognized additional right-of-use assets and lease liabilities amounting to P123.1 million and is presented as part of Other Assets account and Accrued Expenses and Other Liabilities account, respectively, in the 2023 consolidated statement of financial position. There was no similar transaction in 2022.

See Notes to Consolidated Financial Statements

RCBC CAPITAL CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2023 AND 2022
(Amounts in Philippine Pesos)

1. GENERAL INFORMATION

1.1 Incorporation and Operations

RCBC Capital Corporation (RCBC Capital or the Parent Company) was incorporated in the Philippines and was registered with the Philippine Securities and Exchange Commission (SEC) on January 29, 1974. As of December 31, 2023 and 2022, RCBC Capital has the following wholly owned subsidiaries, all of which are incorporated in the Philippines:

| Subsidiaries | Nature of Business |
|--|-----------------------|
| RCBC Securities, Inc. (RSEC) | Securities brokerage |
| RCBC Bankard Services Corporation (RBSC) | Credit card servicing |

RCBC Capital is a wholly owned subsidiary of Rizal Commercial Banking Corporation (RCBC or the intermediate parent company), a publicly-listed universal bank incorporated and domiciled in the Philippines. RCBC is a 33.92% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC or the ultimate parent company), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The Parent Company offers a complete range of investment banking and financial consultancy services. The Parent Company, being an investment house, is governed by the Presidential Decree No. 129 of 1973, the *Investment Houses Law* [as amended by Republic Act (R.A.) No. 8366 of 1997, *Act Liberalizing the Philippine Investment House Industry*], and by the Securities Regulations Code (SRC) issued by the SEC. On March 5, 1974, the Bangko Sentral ng Pilipinas (BSP) granted the Parent Company its license to engage in quasi-banking activities (NBQB). As a NBQB and a significant subsidiary of RCBC, the Parent Company is under regulatory supervision of the BSP.

The principal place of business of the Parent Company and its subsidiaries (herein referred to as the Group) and of its intermediate and ultimate parent are as follows:

- (a) PMMIC – 48th Floor, Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City
- (b) RCBC – Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue cor. Sen. Gil Puyat Avenue, Makati City
- (c) RCBC Capital and RSEC – 21st Floor, Yuchengco Tower II, RCBC Plaza, 6819 Ayala Avenue, Makati City
- (d) RBSC – 30th Robinsons-Equitable Tower, ADB Avenue corner Poveda Street, Ortigas Center, Pasig City

1.2 Approval of the Consolidated Financial Statements

The consolidated financial statements of the Group as of and for the year ended December 31, 2023 (including the comparative consolidated financial statements as of and for the year ended December 31,

2022) were authorized for issue by the Board of Directors (BOD) of the Parent Company on February 19, 2024.

2. MATERIAL ACCOUNTING POLICY INFORMATION

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) *Statement of Compliance with Philippine Financial Reporting Standards*

The consolidated financial statements of the Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial and Sustainability Reporting Standards Council (FSRSC) from the pronouncements issued by the International Accounting Standards Board and approved by the Philippine Board of Accountancy.

The consolidated financial statements have been prepared using the measurement bases specified by PFRS for each type of asset, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

(b) *Presentation of Consolidated Financial Statements*

The consolidated financial statements of the Group are presented in accordance with Philippine Accounting Standard (PAS) 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in two statements: a “consolidated statement of profit or loss” and a “consolidated statement of comprehensive income”.

The Group presents a third consolidated statement of financial position as of the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the consolidated statement of financial position at the beginning of the preceding period. The related notes to the third consolidated statement of financial position are not required to be disclosed.

(c) *Functional and Presentation Currency*

The consolidated financial statements are presented in Philippine pesos, the Group’s functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

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

2.2 Adoption of Amended Standards

(a) *Effective in 2023 that are Relevant to the Group*

The Group adopted for the first time the following amendments to existing standards, which are mandatorily effective for annual periods beginning on or after January 1, 2023:

PAS 1 and PFRS Practice

| | | |
|--------------------------|---|--|
| Statement 2 (Amendments) | : | Presentation of Financial Statements – Disclosure of Accounting Policies |
| PAS 8 (Amendments) | : | Definition of Accounting Estimates |
| PAS 12 (Amendments) | : | Deferred Tax Related to Assets and Liabilities from a Single Transaction |

Discussed below and in the succeeding page are the relevant information about these pronouncements.

- (i) PAS 1 and PFRS Practice Statement 2 (Amendments), Presentation of Financial Statements – Disclosure of Accounting Policies. The amendments replaced the requirement for entities to disclose their significant accounting policies with the requirement to disclose their material accounting policy information. The amendments also include guidance to help entities apply the definition of material in making decisions about accounting policy disclosures.

The amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial, that accounting policy information is material if users of an entity's financial statements would need it to understand other material information in the financial statements and if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information. The application of these amendments is reflected in the Group's consolidated financial statements under Notes 2 and 3.

- (ii) PAS 8 (Amendments), Definition of Accounting Estimates. The amendments introduced a new definition of accounting estimate which is a monetary amount in the financial statements that are subject to measurement uncertainty. It also clarifies that a change in accounting estimate that results from new information or new developments is not a correction of an error. In addition, the effects of a change in an input or a measurement technique used to develop an accounting estimate are changes in accounting estimates if they do not result from the correction of prior period errors. The application of these amendments had no significant impact on the Group's consolidated financial statements.
- (iii) PAS 12 (Amendments), Deferred Tax Related to Assets and Liabilities from a Single Transaction. The amendments narrow the scope of the initial recognition exception under PAS 12, so that it no longer applies to transactions that give rise to equal taxable and deductible temporary differences. The amendments also clarify that where payments that settle a liability are deductible for tax purposes, it is a matter of judgement (having considered the applicable tax law) whether such deductions are attributable for tax purposes to the liability recognized in the financial statements (and interest expense) or to the related asset component (and interest expense). Management assessed that the application of such amendments had no significant impact on the Group's consolidated financial statements.

(b) *Effective in 2023 that are not Relevant to the Group*

Among the amendments to PFRS, which are mandatorily effective for annual periods beginning on or after January 1, 2023, the amendments to PAS 12, *International Tax Reform – Pillar Two Model Rules*, are not relevant to the Group's consolidated financial statements.

(c) *Effective Subsequent to 2023 but not Adopted Early*

There are amendments to existing standards effective for annual periods subsequent to 2023, which are adopted by the FSRSC. Management will adopt the following relevant pronouncements below in accordance with their transitional provisions; and, unless otherwise stated, none of these are expected to have significant impact on the Group's consolidated financial statements.

- (i) PAS 1 (Amendments), *Presentation of Financial Statements – Classification of Liabilities as Current or Non-current* (effective from January 1, 2024)
- (ii) PAS 1 (Amendments), *Presentation of Financial Statements – Non-current Liabilities with Covenants* (effective from January 1, 2024)
- (iii) PAS 7 (Amendments), *Cash Flow Statements* and PFRS 7 (Amendments), *Financial Instruments: Disclosures – Supplier Finance Arrangements* (effective from January 1, 2024)
- (iv) PFRS 16 (Amendments), *Leases – Lease Liability in a Sale and Leaseback* (effective from January 1, 2024)
- (v) PAS 21 (Amendments), *The Effects of Changes in Foreign Exchange Rates – Lack of Exchangeability* (effective from January 1, 2025)

2.3 Basis of Consolidation

The Group's consolidated financial statements comprise the accounts of the Parent Company and its wholly owned subsidiaries, RSEC and RBSC, after the elimination of material intercompany transactions. All intercompany assets and liabilities, equity, income, expenses and cash flows relating to transactions between entities under the Group, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized as assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in the consolidated financial statements.

The separate financial statements of RSEC and RBSC are prepared for the same reporting period as the Parent Company, using consistent accounting principles.

Subsidiaries are consolidated from the date the Parent Company obtains control. The Parent Company reassesses whether or not it controls these entities if facts and circumstances indicate that there are changes to one or more of the three elements of controls indicated above. Accordingly, an entity is deconsolidated from the date that control ceases. The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred to the former owners of the acquiree and the equity interests issued by the Group, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the

Group recognizes any noncontrolling interest in the acquiree, either at fair value or at the non-controlling interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill. If the consideration transferred is less than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly as gain in profit or loss.

2.4 Financial Instruments

(a) *Financial Assets*

Regular purchases and sales of financial assets are recognized on their trade date (i.e., the date that the Group commits to purchase or sell the asset).

(i) *Classification, Measurement and Reclassification of Financial Assets*

The classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of the Group's consolidated financial assets are described below and in the succeeding pages.

Financial Assets at Amortized Cost

The Group's financial assets at amortized cost are presented in the consolidated statement of financial position as Cash and Cash Equivalents, Financial assets at amortized cost (part of Trading and Investment Securities account), Loans and Other Receivables, Clearing and Trade Guaranty Fund (CTGF), and Deposits (part of Other Assets account).

Financial Assets at FVOCI

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading or as mandatorily required to be classified as fair value through profit or loss (FVPL). The Group has designated equity instruments as at FVOCI on initial recognition.

Financial Assets at FVPL

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will take effect only at the beginning of the next reporting period following the change in the business mode.

(b) *Financial Liabilities*

Financial liabilities include accrued expenses and other liabilities (except retirement obligation and tax-related payables), and bills payable, and are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges incurred on a financial liability are recognized as an expense as part of Interest and Other Financing Costs in the consolidated statement of profit or loss.

2.5 Other Assets

Among others, components of other assets are as follows:

(a) *Property and Equipment*

Property and equipment are stated at cost less accumulated depreciation, amortization and any impairment in value.

Depreciation and amortization is computed on the straight-line basis over the estimated useful lives of the assets as follows:

| | |
|--|---------------|
| Computers and software development | 4 to 5 years |
| Transportation equipment | 5 to 6 years |
| Office furniture, fixtures and equipment | 5 to 10 years |

Leasehold improvements are amortized over their estimated useful life of five years (determined by reference to comparable owned assets) or over the remaining term of the lease, whichever is shorter.

(b) *Investment Property*

Investment property, which is composed of parcels of land, is held for capital appreciation, and is carried at cost. The carrying value of the land held for investment purposes is reviewed for impairment when changes in circumstances indicate that the carrying value may not be recoverable.

(c) *Assets Classified as Held for Sale*

Assets classified as held for sale include memorial lots that the Group intends to sell within one year from the date of classification as held for sale.

Assets classified as held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale and their fair value less costs to sell.

(d) *Trading Right*

Trading right is the result of the conversion plan to preserve RSEC's access to the trading facilities and for it to continue to transact business on the Philippine Stock Exchange (PSE). Trading right is assessed as having an indefinite useful life.

Trading right is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares) less allowance for impairment loss, if any. The trading right is tested annually for any impairment in realizable value, any impairment loss is charged to profit or loss.

2.6 Revenue and Expense Recognition

Revenue arises mainly from rendering of services.

Commissions and fees which arises from negotiating, or participating in the negotiation of a transaction for a third party, such as the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses, are recognized upon completion of the underlying transaction which is at a point in time. Service revenues recorded by RBSC were recognized over time in the same amount to which the entity has the right to invoice RCBC.

Management and advisory service fees based on the applicable service contracts are usually recognized on a time-proportionate basis which is recognized over time.

The transaction price allocated to performance obligation satisfied at a point in time is recognized as revenue when control of goods or services transfers to the customer. If the performance obligation is satisfied over time, the transaction price allocated to the performance obligation is recognized as revenue as the performance obligation is satisfied.

Costs and expenses are recognized in profit or loss upon utilization of goods or services or at the date they are incurred. Interest and other financing costs are reported in profit or loss on an accrual basis, except capitalized borrowing costs which are included as part of the cost of related qualifying asset.

2.7 Leases – Group as a Lessee

Subsequent to initial recognition, the Group depreciates the right-of-use asset on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Group has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the consolidated statement of financial position, right-of-use assets and lease liabilities have been presented as part of property and equipment under Other Assets, and Accrued Expenses and Other Liabilities, respectively.

2.8 Employee Benefits

The Group provides employee benefits to employees through a defined benefit plan and defined contribution plan, and other employee benefits.

The Group's defined benefit post-employment plan covers all regular full-time employees. The pension plan is tax-qualified, non-contributory and administered by a trustee.

The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect amounts reported in the consolidated financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the consolidated financial statements:

(a) *Determination of Lease Term of Contracts with Renewal Options*

In determining the lease term, management considers all relevant factors and circumstances that create an economic incentive to exercise a renewal option. Renewal options are only included in the lease term if it is enforceable.

The renewal options for lease of office were not included as part of the lease term because the contract states that this shall be subjected to the terms and conditions mutually agreed by both parties.

The lease term is reassessed if an option is actually exercised or not exercised or the Group becomes obliged to exercise or not exercise it. The assessment of reasonable certainty is only revised if a significant event or a significant change in circumstances occurs, which affects this assessment, and that is within the control of the Group.

(b) *Determination of Timing of Satisfaction of Performance Obligation*

The Group determines that its revenue for commissions and fees shall be recognized at a point in time, except for the service fees and advisory fees earned by RBSC, which shall be recognized over time. In making its judgment, the Group considers the three criteria in the satisfaction of the performance obligation. Management deems that the timing of receipt and consumption of benefits provided by the Group to the customers is most relevant, and the other criteria do not apply. The services provided by RCBC Capital and RSEC would need substantial re-performance from other entities. This demonstrates that the customers do not simultaneously receive and consume the benefits provided by RCBC Capital and RSEC. On the other hand, revenue of RBSC is recognized over time in the same amount to which RBSC has the right to invoice its customer.

(c) *Application of ECL to Financial Assets at Amortized Cost and Financial Assets at FVOCI*

The Group uses the general approach to calculate ECL for all debt instruments carried at amortized cost and FVOCI. The allowance for impairment is based on the ECLs associated with the probability of default of a financial instrument in the next 12 months, unless there has been a significant increase in credit risk since origination of the financial instrument, in such case, a lifetime ECL for the instrument is recognized.

The Group has established a policy to perform an assessment, at the end of each reporting period, 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.

(d) *Evaluation of Business Model Applied in Managing Financial Instruments*

The Group manages its financial assets based on a business model that maintains adequate level of financial assets to match its expected cash outflows while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

The Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belongs to taking into consideration the objectives of each business model established by the Group (e.g., held-for-trading, generating accrual income, direct matching to a specific liability) as those relate to the Group's investment and trading strategies.

(e) *Test of Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion.

The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in

the frequency or value of sales of financial instruments in a particular period is not necessary inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(f) *Distinction Between Investment Property and Owner-occupied Property*

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generates cash flows largely independent of the other assets held by an entity. Owner-occupied properties generate cash flows that are attributable not only to the property but also to other assets used in the production or supply process.

(g) *Recognition of Provisions and Contingencies*

Judgment is exercised by management to distinguish between provisions and contingencies. Disclosures on relevant provisions and contingencies are presented in Note 18.

Where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits to the Group that do not yet meet the recognition criteria of an asset are considered contingent assets; hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

3.2 Key Sources of Estimation Uncertainty

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

(a) *Determination of Appropriate Discount Rate in Measuring Lease Liabilities*

The Group measures its lease liability at present value of the lease payments that are not paid at the commencement date of the lease contract. The lease payments were discounted using a reasonable rate deemed by management equal to the Group's incremental borrowing rate. In determining a reasonable discount rate, management considers the term of the leases, the underlying asset and the economic environment. Actual results, however, may vary due to changes in estimates brought about by changes in such factors.

(b) *Estimation of Allowance for ECL*

The measurement of the allowance for ECL on financial assets at amortized cost and debt securities at FVOCI is an area that requires the use of significant assumptions about the future economic conditions and credit behavior (e.g., likelihood of customers defaulting and the resulting losses). Explanation of the inputs, assumptions and estimation used in measuring ECL is further detailed in Note 4.5.

The carrying value and the analysis of allowance for impairment of Financial Assets at Amortized Cost and Loans and Other Receivables are shown in Notes 7.2 and 8, respectively.

(c) *Determination of Fair Value Measurement for Financial Instruments*

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

The carrying values of the Group's financial assets at FVPL and FVOCI as of December 31, 2023 and 2022 and the amounts of fair value changes recognized on those assets are disclosed in Note 7.

(d) *Estimating Useful Lives of Property and Equipment*

The Group estimates the useful lives of property and equipment based on the period over which the assets are expected to be available for use. The estimated useful lives of property and equipment are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of property and equipment are analyzed in Note 9.1. There was no change in estimated useful lives of property and equipment in 2023 and 2022.

(e) *Determining Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized. Management assessed that the deferred tax assets recognized as of December 31, 2023 and 2022 will be fully utilized in the coming years. The carrying values of deferred tax assets as of those dates are disclosed in Note 15.

(f) *Impairment of Non-financial Assets*

In assessing impairment, management estimates the recoverable amount of each asset or a cash-generating unit based on expected future cash flows and uses an interest rate to calculate the present value of those cash flows. Estimation uncertainty relates to assumptions about future operating results and the determination of a suitable discount rate. Though management believes that the assumptions used in the estimation of fair values reflected in the consolidated financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(g) *Principal Assumption for Management's Estimation of Fair Value of Investment Property and Assets Classified as Held for Sale*

Investment property is measured using the cost model. The fair value of the investment property disclosed in the consolidated financial statements is determined by the Group based on the appraisal reports of the RCBC Credit and Administrative Division, an internal appraiser with appropriate qualifications and recent experience in the valuation of similar properties in the relevant locations. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property, quantity of comparable properties in the market and economic condition and behavior of the buying parties. A significant change in these elements may affect prices and the value of the assets.

Assets classified as held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. The estimated fair value of assets classified as held for sale is determined based on the internal valuation conducted by the Group in reference to the prevailing market price of the asset. The fair value of the Group's investment property and assets held for sale as of December 31, 2023 and 2022 is disclosed in Note 9.

(h) *Valuation of Post-employment Defined Benefit Plan*

The determination of the Group's obligation and cost of post-employment defined benefit is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 14.2 and include, among others, discount rates and salary increase rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense and the carrying amount of the defined post-employment benefit obligation in the next reporting period.

The amounts of post-employment benefit obligation and expense and an analysis of the movements in the estimated present value of post-employment benefit obligation, as well as the significant assumptions used in estimating such obligation, are presented in Note 14.2.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group is exposed to a variety of financial risks which result from both its operating, financing and investing activities. The risk management activities at the level of each of the companies in the Group is coordinated with RCBC, close cooperation with the BOD, and focuses on actively securing the Group's short to medium term cash flows by optimizing results of its exposure to financial markets to the best interest of the Group. Long-term financial investments are managed to generate lasting returns.

The Group formulated risk management policies encompassing major business ventures that include underwriting, investments and trading activities, inter-bank transactions, syndicated loan packaging, lending and brokering. The Group also formulated liquidity risk policies in order to properly manage short to medium-term cash flows by minimizing exposure to financial markets. It also formulated operations risk policies in order to mitigate risks inherent in the conduct of day-to-day business operations.

The management and all risk-taking personnel ensure compliance with these risk policies. Risk management strategies are coordinated with its ultimate Parent Company to effectively monitor and manage risk exposures of the Group.

4.1 Foreign Currency Risk

Most of the Group's transactions are carried out in Philippine pesos, its functional currency. Exposures to currency exchange rates arise from bank deposits and trading and investment securities, which are primarily denominated in United States (U.S.) dollars. The Group holds U.S. dollar-denominated bank deposits amounting to P11.9 million or \$0.2 million as of December 31, 2023 and P55.2 million or \$1.1 million as of December 31, 2022, which may be affected by fluctuations of foreign currency exchange.

To mitigate the Group's exposure to foreign currency risk, non-Philippine peso cash flows are monitored.

The sensitivity of the Group's profit before tax with respect to changes in Philippine peso against U.S. dollar exchange rate amounted to P2.3 million and P9.3 million in 2023 and 2022, respectively, to a reasonably possible change in foreign currency risk of 16.06% and 15.94% in 2023 and 2022, respectively. The percentage changes in rates have been determined based on the average market volatility in exchange rates, using standard deviation, in the previous 12 months at a 99% confidence level.

Other than this, the Group does not have exposure to foreign currency risks, as most of its transactions are denominated in Philippine peso, its functional currency.

4.2 Interest Rate Risk

The Group's policy is to minimize interest rate flow risk exposures on long-term financing. Longer-term borrowings, if any, are therefore usually obtained and negotiated at fixed rates.

At December 31, 2023 and 2022, the Group has no long-term bank borrowings and is only exposed to changes in market interest through its cash and cash equivalents, which are subject to variable interest rates and are deemed not significant. The bills payable has short-term duration and with interest rate per annum based on prevailing market rate, has no significant interest rate risk exposure as it is normally settled within three to five days.

All other financial assets and liabilities have also short-term maturities or fixed rates.

4.3 Market Price Risk

The Group's market price risk arises from its investments carried at fair value (financial assets classified as financial assets at FVPL and at FVOCI). The Group manages exposure to price risk by monitoring the changes in the market price of the investments.

In accordance with the Group's policies, no specific hedging activities are undertaken in relation to these investments. The investments are continuously monitored and voting rights arising from these equity instruments are utilized in the Group's favor. The Group assesses its market price risk using different models, as presented in the below and in the succeeding page.

4.4 Using Value-at-Risk Model

The Parent Company uses the delta-normal approach as its Value-at-Risk (VaR) model to estimate the daily potential loss that the Parent Company can incur from its equity securities held for trading. VaR is a

key measure in the Parent Company's management of market price risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. The Parent Company uses a 99% confidence level and a minimum 260-day observation period in VaR calculation.

The Parent Company's VaR limit, established by the Risk Management Committee and approved by the Parent Company's BOD, is used to alert senior management whenever the potential losses in the Parent Company's portfolios exceed the VaR amount. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based to give rise to some limitations, including the following:

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR.
- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day.
- The size of the data sample used to determine the standard deviation affects the accuracy of the VaR estimate. As a model based on historical data from a limited time series, it suffers from 'estimation error' which is a natural sampling variability due a shortened sample size. In other words, extreme movements of the past are "forgotten" as the data series moves forward in time.
- The VaR measure is dependent upon the Parent Company's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.
- Using factor sensitivity and historical volatility method is less effective in instruments that do not have the characteristics of a normal distribution; and the valuation method only approximates the risks in more complex derivative instruments (referred to as "nonlinear positions" in risk parlance).

A summary of the VaR position of the fixed-income trading portfolios is summarized below.

| | <u>Nominal Position</u> | <u>Market Value</u> | <u>Value-at-risk</u> |
|--------------------------|-----------------------------|-------------------------|----------------------|
| December 31, 2023 | P 128,930,000 | P 121,737,105 | P 772,132 |
| December 31, 2022 | P 130,430,000 | P 114,983,534 | P 1,633,934 |

For equities trading portfolio, the Parent Company uses the historical simulation method. As of December 31, 2023 and 2022, the VaR position of the equities trading portfolio is P64.5 million and P71.8 million, respectively.

4.5 Credit Risk

Credit risk is the risk that a customer or a counter-party will be unable or unwilling to pay obligations on time or in full as expected or previously contracted, subjecting the Group to financial loss. The goal of

credit risk management is to maximize the Group's risk-adjusted rate of return by maintaining credit risk exposure within approved parameters. This is accomplished by means of approved credit policies, credit limits and other credit risk management systems that identifies, measures and controls the credit risks.

The Group's credit risk management system includes processes to identify, measure, control and report the credit risk.

Credit policies are in place and include a thorough understanding of the borrower or counter-party as well as the purpose and structure of credit and its source of repayment.

Credit limits are set and are monitored to avoid significant concentrations of credit risk. The Group also employs credit administration activities to ensure that all facets of credit are properly maintained.

In the process of applying the Group's internal credit risk rating system (ICRRS) in determining indications of impairment on individually significant items of loans and receivables and debt securities at amortized cost and at FVOCI, the Group analyzes the credit quality of the borrowers and counterparties through a set of criteria and rating scale classified below.

| <u>Risk Rating</u> | <u>Rating Description/Criteria</u> |
|--------------------|--|
| AAA | Extremely strong capacity to meet financial commitments |
| AA* | Very strong capacity to meet financial commitments |
| A* | Strong capacity to meet financial commitments, but somewhat susceptible to adverse economic conditions and changes in circumstances |
| BBB* | Adequate capacity to meet financial commitments, but more subject to adverse economic conditions |
| BB* | Less vulnerable in the near-term but faces major ongoing uncertainties to adverse business, financial and economic conditions |
| B* | More vulnerable to adverse business, financial and economic conditions but currently has the capacity to meet financial commitments |
| CCC and below* | Not at risk of loss at the moment and the borrower has the financial capacity to meet its obligations but its exposure to adverse business, financial or economic conditions has weakened it and, unless present trends are reversed, could eventually lead to losses. |

** Ratings from AA to CCC are modified by a plus (+) or minus (-) sign to show relative standing within the rating categories.*

These ratings are continuously monitored and updated. The Group considers a debt security to have low credit risk when its credit risk rating is equivalent to those rated by external rating agencies as investment grade. The PD associated with each rating is determined based on realized default rates over the previous 12 months, as published by the rating agency.

The foregoing ICRRS is established by the Group in congruence with and with reference to the credit risk rating methodology used by Standard & Poor's in measuring the creditworthiness of an individual debt issue which is still performing or current in status. The risk ratings determined by the Group for its portfolio of loans and receivables and debt securities at amortized cost and at FVOCI at a given review date is updated to consider the possible shift in the economy or business environment or circumstances affecting the industry and the entity or borrower, in particular. Accordingly, a periodic assessment of credit quality may improve the borrower's rating, or it could lead to one or more rating downgrades over time.

4.5.1 ECL Measurement

(a) Assessment of SICR

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the Group assesses the change in the risk of a default occurring over the remaining life of the financial instrument. In making this assessment, the Group assesses on a periodic basis both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information as appropriate. These may include macroeconomic conditions, economic sector and geographical region relevant to the counterparty or borrower and other factors that are counterparty-specific. As the Group holds various arrays of financial instruments, the extent of assessment may depend on the materiality of the financial instrument or the complexity of the portfolio being assessed.

The Group's ECL model follows a three-stage impairment approach in determining the loss allowance to be recognized in the consolidated financial statements:

- (i) Stage 1 – comprises of all credit exposures that are considered 'performing' and with no observed SICR since initial recognition. These include those financial instruments with low credit risk. For these financial instruments, the loss allowance is determined based on a 12-month ECL.
- (ii) Stage 2 – comprises of all financial instruments assessed to have SICR since initial recognition based on the Group's quantitative and qualitative criteria, though not yet deemed to be credit-impaired.
- (iii) Stage 3 – comprises credit exposures which are assessed as 'credit-impaired', thus considered by the Group as 'non-performing', which is assessed consistently with the Group's definition of default for each loan portfolio.

The Group considers low credit risk for listed debt security when its credit risk rating is equivalent to a globally understood definition of 'investment grade' (which should be from at least one major rating agency); other debt securities are considered to be low credit risk when they have a low risk of default and the issuer has a strong capacity to meet its contractual cash flow obligations in the near term.

For portfolios in respect of which the Group has limited historical data, external benchmark information (e.g., Basel LGD) is used to supplement the internally available data. The portfolios for which external benchmark information represents a significant input into measurement of ECL include exposures to low default borrower segments.

(b) Definition of Default

Investments in debt securities is assessed as credit-impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of an event that occurred after the initial recognition of the security (a “loss event”) and that loss event has impact on the estimated future cash flows of the securities. Losses expected as a result of future events, shall also be considered in estimating the ECL. Objective evidence that the security is impaired includes observable data that comes to the attention of the holder of the security about the following loss events:

- significant financial difficulty of the issuer or obligor;
- breach of contract, such as a default or delinquency in interest or principal payments;
- the financial institution, for economic or legal reasons relating to the issuer’s financial difficulty, granting to the issuer a concession that the financial institution would not otherwise consider;
- it becoming probable that the issuer will enter bankruptcy or other financial reorganization;
- the disappearance of an active market for that security because of financial difficulties; or,
- observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of securities since the initial recognition of those assets, although the decrease cannot yet be identified with the individual securities in the portfolio, including adverse change in the payment status of issuers in the portfolio; or national or local economic conditions that correlate with defaults on the securities in the portfolio.

The disappearance of an active market because a financial institution’s held securities are no longer publicly traded is not an evidence of impairment. A downgrade of an issuer’s credit rating is not, by itself, evidence of impairment, although it may be evidence of impairment when considered with other available information. A decline in the fair value of a security below its cost or amortized cost is not necessarily evidence of impairment (for example, a decline in fair value of an investment in debt security that results from an increase in the risk-free interest rate).

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Group considers the following factors:

- the market’s assessment of creditworthiness as reflected in the bond yields;
- the rating agencies’ assessment of creditworthiness;
- the country’s ability to access the capital markets for new debt issuance;
- the probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness; or,
- the internal support mechanism in place to provide the necessary support as ‘lender of last resort’ to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

(c) Key Inputs, Assumptions and Estimation Techniques Used in Measurement of ECL

The ECL is determined by projecting the PD, LGD and EAD for each future month and for each individual exposure or collective segment.

- *Probability of Default*

This represents an estimate of likelihood of a borrower defaulting on its financial obligation over a given time horizon, either over the next 12 months (12-month PD) or over the remaining lifetime (lifetime PD) of the obligation. PD is calculated based on statistical rating models, and assessed using rating tools tailored to the various categories of counterparties and exposures, which consider both quantitative and qualitative factors.

- *Loss Given Default*

This pertains to estimate of loss related to the amount that may not be recovered after the counterparty defaults. The Group estimates Basel III framework recommended rate to estimate LGD. Recoveries are calculated on a discounted cash flows basis using the effective interest rate as the discounting factor.

- *Exposure at Default*

This represents the gross carrying amount of the exposure in the event of default which includes the amortized cost amount of an instrument and any accrued interest receivable.

These three components are multiplied together and adjusted for the likelihood of survival (i.e., the exposure has not been prepaid or defaulted in an earlier month). This effectively calculates an ECL for each future month, which is then discounted back to and summed at the end of the reporting period. The discount rate used in the ECL calculation is the original effective interest rate or an approximation thereof.

The lifetime PD is developed by applying a maturity profile to the current 12-month PD. The maturity profile looks at how defaults develop on a portfolio from the point of initial recognition throughout the life of the instrument.

The 12-month and lifetime LGDs are determined based on the factors which impact the recoveries made post default, and may vary by product type. For secured products, this is primarily based on collateral type and projected collateral values, historical discounts to market or book values due to forced sales, time to repossession and recovery costs observed. For unsecured products, LGD is typically set at product level due to the limited differentiation in recoveries achieved across different borrowers. The LGD is influenced by collection strategies.

The determination of the 12-month and lifetime PD, LGD, and EAD includes the overlay of forward-looking economic information [see Note 4.5.1(d)].

Further, the assumptions underlying the calculation of the ECL – such as how the maturity profile of the PDs and how collateral values change – are monitored and reviewed by the Group on a periodic basis.

(d) *Overlay of Forward-looking Information (FLI) in the Measurement of ECL*

The Group incorporates FLI in its assessment of SICR and calculation of ECL. The Group has performed historical analysis and has identified the key macroeconomic variables (MEVs) affecting credit risk associated with its counterparties and the ECL for each portfolio of debt instruments.

The Group has identified and documented key drivers of credit risk and credit losses for each portfolio of financial instruments and, using an analysis of historical data, has estimated relationships between MEVs, credit risk, and credit losses.

The significance of the selected MEVs as predictors of default may change over time as historical information is added. As such, the generated macro-economic models are updated at least on an annual basis.

The MEVs considered by the Group includes economic data and forecasts published by government bodies (e.g., BSP and Philippine Statistics Authority), international organizations (e.g., International Monetary Fund), and certain reputable private and academic organizations involved in forecasting.

As with any economic forecasts, the projections and likelihoods of occurrence are subject to a high degree of inherent uncertainty, and therefore, the actual outcomes may be significantly different to those projections.

Management has also considered other FLIs such as any regulatory, legislative, or political changes, but are not deemed to have a significant impact on the calculation of ECL. Management reviews and monitors the appropriateness of FLIs at least annually.

4.5.2 Exposure to Credit Risk

The maximum credit risk exposure of financial assets is the carrying amount of the financial assets as shown on the face of the consolidated statements of financial position or in the detailed analysis provided in the notes to the consolidated financial statements as summarized below.

| | <u>Notes</u> | <u>2023</u> | <u>2022</u> |
|------------------------------------|--------------|-------------------------------|-------------------------------|
| Cash and cash equivalents | 6 | P 1,328,706,555 | P 859,090,497 |
| Trading and investment securities | 7 | | |
| Financial assets at amortized cost | | 531,568,229 | 744,394,488 |
| Financial assets at FVOCI | | 116,010,262 | 109,275,754 |
| Financial assets at FVPL | | 40,417,255 | 48,994,869 |
| Loans and other receivables - net | 8 | 136,643,479 | 203,556,392 |
| Deposits | 9 | 24,965,698 | 24,133,759 |
| CTGF | 9 | 8,094,462 | 7,773,637 |
| | | <u>P 2,186,405,940</u> | <u>P 1,997,219,396</u> |

Loans and other receivables includes accounts receivables from customers, accrued interest on investments in debt securities, and loans receivable from employees and other receivables.

The credit risk for cash and cash equivalents, including the related accrued interest thereon, is considered negligible, since the counterparties are reputable banks with high quality external credit ratings. Included in the cash and cash equivalents are cash in banks and short-term placements, which are insured by the Philippine Deposit Insurance Corporation up to a maximum coverage of P0.5 million for every depositor per banking institution.

The table presented below shows the Group's credit exposures on the above financial assets by stages of impairment as of December 31, 2023 and 2022, shown at their gross and net carrying amounts, with the corresponding allowance for impairment.

| | <u>At Amortized Cost</u> | <u>At FVOCI</u> | <u>Total</u> |
|--|------------------------------|----------------------|----------------------|
| 2023: | | | |
| Investment in debt securities – | | | |
| Corporate bonds: | | | |
| AAA | P - | P - | P - |
| BBB+ to BBB- | 5,640,000 | 82,505,150 | 88,145,150 |
| BB+ to BB- | <u>526,000,000</u> | <u>33,105,112</u> | <u>559,505,112</u> |
| | 531,640,000 | 116,010,262 | 647,650,262 |
| Allowance for impairment | (<u>71,771</u>) | (<u>26,644</u>) | (<u>98,415</u>) |
| | <u>531,568,229</u> | <u>115,983,618</u> | <u>647,551,847</u> |
| Loans and other receivables: | | | |
| AAA | 232,179 | - | 232,179 |
| A+ to A- | 4,136,039 | - | 4,136,039 |
| BBB+ to BBB- | 108,477,018 | - | 108,477,018 |
| BB+ to BB- | 1,106,141 | - | 1,106,141 |
| B+ and below | <u>23,113,749</u> | <u>-</u> | <u>23,113,749</u> |
| | 137,065,126 | - | 137,056,126 |
| Allowance for impairment | (<u>421,647</u>) | <u>-</u> | (<u>421,647</u>) |
| | <u>136,643,479</u> | <u>-</u> | <u>136,643,479</u> |
| | P 668,211,708 | P 115,983,618 | P 784,195,326 |

2022:

Investment in debt securities –

Corporate bonds:

| | | | | | | |
|--------------------------|---|--------------------|---|--------------------|---|--------------------|
| AAA | P | 36,747,307 | P | - | P | 36,747,307 |
| BBB+ to BBB- | | 5,640,000 | | 109,275,754 | | 114,915,754 |
| BB+ to BB- | | <u>704,000,000</u> | | <u>-</u> | | <u>704,000,000</u> |
| | | 746,387,307 | | 109,275,754 | | 855,663,061 |
| Allowance for impairment | (| <u>1,992,819</u>) | (| <u>66,156</u>) | (| <u>2,058,975</u>) |
| | | <u>744,394,488</u> | | <u>109,209,598</u> | | <u>853,604,086</u> |

Loans and other receivables:

| | | | |
|--------------------------|--------------------|---------------|--------------------|
| AAA | 100,208 | - | 100,208 |
| BBB+ to BBB- | 115,622,507 | - | 115,622,507 |
| BB+ to BB- | 2,139,431 | - | 2,139,431 |
| B+ and below | <u>85,945,295</u> | <u>-</u> | <u>85,945,295</u> |
| | 203,807,441 | - | 203,807,441 |
| Allowance for impairment | (<u>251,049</u>) | <u>-</u> | (<u>251,049</u>) |
| | <u>203,556,392</u> | <u>-</u> | <u>203,556,392</u> |
| | P 947,950,880 | P 109,209,598 | P 1,057,160,478 |

For investments in debt securities at amortized cost, the Group has recognized reversal of ECL amounting to P1.9 million and P3.2 million in 2023 and 2022, respectively, as part of Other Income in the consolidated statements of profit or loss. These are all classified in Stage 1 due to the low credit risk [see Note 4.5.1(c)]. This resulted in allowances for ECL for debt securities at amortized cost as of December 31, 2023 and 2022 amounting to P71,771 and P2.0 million, respectively (see Note 7.2).

While for loans and other receivables, the Group has recognized impairment loss amounting to P237,014 and P48,011 in 2023 and 2022, respectively, and reversal of ECL amounting to P66,416 and P18,954 in 2023 and 2022, respectively. All loans and other receivables are classified in Stage 1 due to the low credit risk. This resulted in allowances for ECL as of December 31, 2023 and 2022 amounting to P0.4 million and P0.3 million, respectively (see Note 8).

The Group's receivables arising from employee loans are generally fully recoverable as those are collected through salary deductions, except for those receivables from resigned employees which will be provided

with full ECL allowance. There are no receivables from resigned employees as of December 31, 2023 and 2022.

The gross carrying amounts of the Group's investments in debt securities at amortized cost and at FVOCI are disclosed in Notes 7.2 and 7.3.

To measure the ECL, due from employees have been grouped based on type of loans and the days past due (age buckets). The expected loss rates are based on the collection of loans payment over a period of 60 months before December 31, 2023 and 2022, and the corresponding historical credit losses experienced within such period.

The management assessed that expected loss rate for due from a related party would be insignificant as there were no historical credit loss experience.

For financial assets at FVPL, which include investments in government and corporate bonds, the RCBC Trust and Investments Group ensures that all investments in debt securities held in the Investment Management Agreement (IMA) are considered high grade that is neither past due nor specifically impaired.

The Group has no financial asset whose terms have been renegotiated, that would otherwise be past due or impaired as at December 31, 2023 and 2022.

4.6 Liquidity Risk

Liquidity risk is the risk arising from the potential that the Group will be unable to meet its obligation as they come due to inability to liquidate assets or obtain adequate funding or the inability to unwind or offset specific exposures in the event of market disruptions.

The Group manages its liquidity needs by carefully monitoring scheduled debt servicing payments for short-term and long-term financial liabilities as well as cash outflows due in a day-to-day business. Liquidity needs are monitored in various time bands, on a day-to-day and week-to-week basis, as well as on the basis of a rolling 30-day projection. Long-term liquidity needs for a six-month and one-year period are identified monthly.

The Group maintains cash to meet its liquidity requirements for up to 60-day periods. Excess cash are invested either in BSP's overnight and term deposit facilities, overnight lending via reversed repurchased transaction with the BSP, interbank lending, time deposits, or short-term marketable securities in the form of government securities and highly-traded equity securities. Bills payable to RCBC and various individuals are raised for short-term funding requirements. Funding for long-term liquidity needs is additionally secured by an adequate amount of committed credit facilities with RCBC and the ability to sell long-term financial assets.

As at December 31, 2023 and 2022, the Group's financial liabilities amounting to P477.3 million and P477.1 million, respectively, have contractual maturities of within one year from the end of the reporting period, while lease liabilities amounting to P118.1 million and P71.0 million in 2023 and 2022, respectively, as disclosed in Note 10, will be settled over a longer period.

Liquidity measurement involves assessing all cash inflows against outflows to identify the potential for any net shortfalls going forward. This calculation includes funding requirements for off-statement of financial position commitments. A core measurement of liquidity, the Maximum Cumulative Outflow,

defined as the amount of prospective funding that the Group will require at pre-specified future dates in normal operating environment. This monetary amount is a measure of the liquidity gap between the maturing liabilities and assets.

The measurement of the Group's net funding requirements also requires qualitative assessments. Some cash flows are easily calculated or predicted, but assumptions about future liquidity needs, both in the very short-term and for long-term time periods are also considered. In like manner, the Group's reputation impacts its ability to access funds, therefore, any information that could have an impact on market and public perceptions is considered.

5. CATEGORIES, OFFSETTING, FAIR VALUE MEASUREMENTS AND DISCLOSURES OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

5.1 Carrying Amounts and Fair Values by Category

The carrying amount and fair values of the categories of financial assets and financial liabilities presented in the consolidated statements of financial position are shown below.

| | 2023 | | 2022 | |
|--|------------------------|------------------------|------------------------|------------------------|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| <i>Financial Assets</i> | | | | |
| Financial assets at FVPL: | | | | |
| Equity securities | P 783,280,130 | P 783,280,130 | P 848,898,598 | P 848,898,598 |
| Government securities | 31,072,231 | 31,072,231 | 30,695,879 | 30,695,879 |
| Corporate debt securities | <u>9,345,024</u> | <u>9,345,024</u> | <u>18,298,990</u> | <u>18,298,990</u> |
| | <u>823,697,385</u> | <u>823,697,385</u> | <u>897,893,467</u> | <u>897,893,467</u> |
| Financial assets at amortized cost: | | | | |
| Cash and cash equivalents | 1,328,706,555 | 1,328,706,555 | 859,090,497 | 859,090,497 |
| Loans and receivables | 136,643,479 | 136,643,479 | 203,556,392 | 203,556,392 |
| Corporate debt securities | 531,568,229 | 535,733,165 | 744,394,488 | 778,185,753 |
| CTGF | 8,094,462 | 8,094,462 | 7,773,637 | 7,773,637 |
| Deposits | <u>24,965,698</u> | <u>24,965,698</u> | <u>24,133,759</u> | <u>24,133,759</u> |
| | <u>2,029,978,423</u> | <u>2,034,143,359</u> | <u>1,838,948,773</u> | <u>1,872,740,038</u> |
| Financial assets at FVOCI: | | | | |
| Equity securities | 546,957,792 | 546,957,792 | 553,323,011 | 553,323,011 |
| Corporate debt securities | <u>116,010,262</u> | <u>116,010,262</u> | <u>109,275,754</u> | <u>109,275,754</u> |
| | <u>662,968,054</u> | <u>662,968,054</u> | <u>662,598,765</u> | <u>662,598,765</u> |
| | <u>P 3,516,643,862</u> | <u>P 3,520,808,798</u> | <u>P 3,399,441,005</u> | <u>P 3,433,232,270</u> |
| <i>Financial Liabilities</i> | | | | |
| At amortized cost — | | | | |
| Accrued expenses and other liabilities | <u>P 477,332,291</u> | <u>P 477,332,291</u> | <u>P 477,120,486</u> | <u>P 477,120,486</u> |

See Note 2.4 for a description of the accounting policies for each category of financial instrument. A description of the Group's risk management objectives and policies for financial instruments is provided in Note 4.

5.2 Offsetting of Financial Assets and Financial Liabilities

The Group has not set-off financial instruments in 2023 and 2022 and does not have relevant offsetting arrangements. Currently, financial assets and financial liabilities are settled on a gross basis; however, each party to the financial instrument (particularly related parties) will have the option to settle such amount on a net basis in the event of default on the other party through approval by both parties' BOD and stockholders.

5.3 Fair Value Hierarchy

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

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

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

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

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

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

5.4 Financial Instruments Measurement at Fair Value

The table below shows the fair value hierarchy of the Group's classes of financial assets measured at fair value in the consolidated statements of financial position on a recurring basis as of December 31, 2023 and 2022. There are no financial liabilities measured at fair value on those years.

The fair value hierarchy of the Group's financial assets by categories and by type are as follows:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|---------------------------|-----------------------------|---------------------------|---------------------------|-----------------------------|
| <u>2023</u> | | | | |
| At FVPL: | | | | |
| Equity securities | P 783,280,130 | P - | P - | P 783,280,130 |
| Government securities | 31,072,231 | - | - | 31,072,231 |
| Corporate debt securities | <u>9,345,024</u> | <u>-</u> | <u>-</u> | <u>9,345,024</u> |
| | <u>P 823,697,385</u> | <u>P -</u> | <u>P -</u> | <u>P 823,697,385</u> |
| At FVOCI: | | | | |
| Equity securities | P 539,066,843 | P 4,810,000 | P 3,080,949 | P 546,957,792 |
| Corporate debt securities | <u>116,010,262</u> | <u>-</u> | <u>-</u> | <u>116,010,262</u> |
| | <u>P 655,077,105</u> | <u>P 4,810,000</u> | <u>P 3,080,949</u> | <u>P 662,968,054</u> |
| <u>2022</u> | | | | |
| At FVPL: | | | | |
| Equity securities | P 848,898,598 | P - | P - | P 848,898,598 |
| Government securities | 30,695,879 | - | - | 30,695,879 |
| Corporate debt securities | <u>18,298,990</u> | <u>-</u> | <u>-</u> | <u>18,298,990</u> |
| | <u>P 897,893,467</u> | <u>P -</u> | <u>P -</u> | <u>P 897,893,467</u> |
| At FVOCI: | | | | |
| Equity securities | P 547,162,062 | P 3,080,000 | P 3,080,949 | P 553,323,011 |
| Corporate debt securities | <u>109,275,754</u> | <u>-</u> | <u>-</u> | <u>109,275,754</u> |
| | <u>P 656,437,816</u> | <u>P 3,080,000</u> | <u>P 3,080,949</u> | <u>P 662,598,765</u> |

The fair value of those financial instruments are determined and disclosed on the following basis:

(a) *Equity Securities*

The fair values of equity securities both for common and preferred shares were valued based on their market prices quoted in the stock exchanges at the end of each reporting period; hence, included in Level 1. Equity securities categorized under Level 2 pertain to Golf club shares which are proprietary membership club shares, which prices are not derived from market considered as active due to lack of trading activities among participants at the end or close to the end of the

reporting period. Moreover, preferred equity securities categorized under Level 3 are not traded in an active market and its fair values were determined through valuation techniques.

(b) *Debt Securities*

The fair values of government and corporate debt securities categorized within Level 1 is determined directly based on published closing prices available from the electronic financial data service providers which had been based on price quoted or actually dealt in an active market (i.e., BVAL, PDEX) at the end of each of the reporting end.

5.5 Financial Instruments Measured at Amortized Cost for which Fair Value is Disclosed

The table below summarizes the fair value hierarchy of the Group's financial assets and financial liabilities which are not measured at fair value in the 2023 and 2022 consolidated statements of financial position but for which fair value is disclosed:

| | <u>Level 1</u> | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u> |
|--|------------------------|----------------|------------------------|------------------------|
| 2023 | | | | |
| <i>Financial assets:</i> | | | | |
| Cash and cash equivalents | P 1,328,706,555 | P - | P - | P 1,328,706,555 |
| Loans and other receivables | - | - | 136,643,479 | 136,643,479 |
| Corporate debt securities | 5,726,495 | - | 530,006,670 | 535,733,165 |
| CTGF | - | - | 8,094,462 | 8,094,462 |
| Deposits | - | - | 24,965,698 | 24,965,698 |
| | <u>P 1,334,433,050</u> | <u>P -</u> | <u>P 669,710,309</u> | <u>P 2,034,143,359</u> |
| <i>Financial liabilities —</i> | | | | |
| Accrued expenses and other liabilities | <u>P -</u> | <u>P -</u> | <u>P 477,332,291</u> | <u>P 477,332,291</u> |
| 2022 | | | | |
| <i>Financial assets:</i> | | | | |
| Cash and cash equivalents | P 859,090,497 | P - | P - | P 859,090,497 |
| Loans and other receivables | - | - | 203,556,392 | 203,556,392 |
| Corporate debt securities | 5,728,794 | - | 772,456,959 | 778,185,753 |
| CTGF | - | - | 7,773,637 | 7,773,637 |
| Deposits | - | - | 24,133,759 | 24,133,759 |
| | <u>P 864,819,291</u> | <u>P -</u> | <u>P 1,007,920,747</u> | <u>P 1,872,740,038</u> |
| <i>Financial liabilities —</i> | | | | |
| Accrued expenses and other liabilities | <u>P -</u> | <u>P -</u> | <u>P 477,120,486</u> | <u>P 477,120,486</u> |

For financial assets and financial liabilities, other than corporate debt securities, management considers that the carrying amounts of those short-term financial instruments approximate their fair values.

Corporate debt securities are investments with fair value determined based on prices quoted in PDEX representing the bid prices at the end of the reporting periods, as such at Level 1.

5.6 Non-Financial Assets Measured at Fair Value

The fair value of the Group's land classified under investment property amounted to P3.6 million and P3.4 million as of December 31, 2023 and 2022, respectively, while the fair value of the Group's land classified under assets classified as held for sale amounted to P15.7 million and P16.4 million as of December 31, 2023 and 2022, respectively. These were determined based on the valuation performed by the Credit Management Group of RCBC (see Note 9). The valuation was made in reference to the prevailing market price that reflects the recent transaction prices for similar properties in nearby location. Under this method, when sales prices of comparable land in close proximity are used in the valuation of the subject property with adjustment on the price, fair value is included in Level 3.

The technique of this approach requires the observable recent prices of the reference properties be adjusted for differences in key attributes such as property size, zoning and accessibility. The most significant input to this valuation approach is the price per square meter; hence, the higher the price per square meter, the higher the fair value.

There has been no change to the valuation techniques used by the Group during the year for its non-financial assets. There were also no transfers into or out of Level 3 fair value hierarchy in 2023 and 2022.

6. CASH AND CASH EQUIVALENTS

This account includes the following:

| | <u>Note</u> | <u>2023</u> | <u>2022</u> |
|--|-------------|-------------------------|--------------------|
| Loans and receivable arising from reverse repurchase agreement | | P 817,787,374 | P 147,954,255 |
| Short-term placements | 16.1 | 409,076,787 | 346,191,217 |
| Cash on hand and in banks | 16.1 | 98,302,490 | 165,373,211 |
| Due from BSP | | <u>3,539,904</u> | <u>199,571,814</u> |
| | | P 1,328,706,555 | P 859,090,497 |

Cash in banks generally earn interest at rates based on daily bank deposit rates (see Note 12.1).

Short-term placements have an average maturity of 1 to 92 days in 2023 and 1 to 62 days in 2022 and earn interest at the average annual effective interest rates ranging from 0.15% to 6.30% in 2023 and 0.25% to 5.50% in 2022 (see Note 12.1).

Due from BSP represents the balance of deposit account to serve as a clearing account with the Philippine Payment and Settlement System for interbank transactions and overnight deposit placements, a facility which the BSP uses to manage domestic liquidity. In 2023 and 2022, the Group's demand deposit account with BSP does not bear any interest as per Monetary Board Resolution No. 1924 and Circular No. 753.

Reverse repurchase agreement loans represent loans and receivables from BSP as of December 31, 2023 and 2022 that arise from overnight lending from excess liquidity which earn effective interest per annum

of 6.38% in 2023 and 5.50% in 2022. These loans normally mature within one to five days. Interest income earned from these financial assets is presented under Interest and Other Financing Income in the consolidated statements of profit or loss (see Note 12.1).

The Group maintains a noninterest-bearing deposits under special reserve bank accounts amounting P287.7 million and P260.8 million as of December 31, 2023 and 2022, respectively, which are included as part of Cash on hand and in banks and Short-term placements. Such reserve bank accounts are used only for the sole and exclusive benefit of the customers of RSEC in compliance with the SRC Rule 49.2 covering customer protection, reserves and custody of securities. Minimum reserve requirements in said bank accounts are determined on a monthly basis using a prescribed computation by the SEC. RSEC's minimum reserve requirement as of December 31, 2023 and 2022 amounted to P131.3 million and P154.3 million, respectively.

7. TRADING AND INVESTMENT SECURITIES

This account is composed of the following:

| | Note | 2023 | 2022 |
|------------------------------------|------|-------------------------------|------------------------|
| Financial assets at FVPL | 7.1 | P 823,697,385 | P 897,893,467 |
| Financial assets at amortized cost | 7.2 | 531,568,229 | 744,394,488 |
| Financial assets at FVOCI | 7.3 | <u>662,968,054</u> | <u>662,598,765</u> |
| | | <u>P 2,018,223,668</u> | <u>P 2,304,886,720</u> |

The maturity profile of trading and investment securities are as follows:

| | 2023 | 2022 |
|--------------------|-------------------------------|------------------------|
| Within one year | P 1,735,806,024 | P 2,079,110,015 |
| More than one year | <u>282,427,644</u> | <u>225,776,705</u> |
| | <u>P 2,018,233,668</u> | <u>P 2,304,886,720</u> |

7.1 Financial Assets at FVPL

The composition of these financial assets is shown below.

| | 2023 | 2022 |
|---------------------------|-----------------------------|----------------------|
| Equity securities | P 783,280,130 | P 848,898,598 |
| Government securities | 31,072,231 | 30,695,879 |
| Corporate debt securities | <u>9,345,024</u> | <u>18,298,990</u> |
| | <u>P 823,697,385</u> | <u>P 897,893,467</u> |

The movements in the carrying amount of financial assets at FVPL for 2023 and 2022 are summarized below.

| | <u>2023</u> | <u>2022</u> |
|--------------------------------|-----------------------------|-----------------------------|
| Balance at beginning of year | P 897,893,467 | P 983,567,234 |
| Disposals | (319,580,875) | (20,563,162) |
| Additions | 210,891,888 | 15,888,500 |
| Fair value gain (losses) - net | <u>34,492,905</u> | <u>(80,999,105)</u> |
| Balance at end of year | <u>P 823,697,385</u> | <u>P 897,893,467</u> |

Other information about the fair value measurement of the Group's financial assets at FVPL are presented in Note 5.4.

(a) Equity Securities

Financial assets at FVPL include various equity securities denominated in Philippine peso and are publicly traded in the PSE.

The Group recognized net fair value loss of P0.2 million and P74.1 million in 2023 and 2022, respectively, on these equity securities and are presented as part of Trading and Investment Securities Loss account in the consolidated statements of profit or loss. Dividend income from these securities amounted to P18.7 million and P17.8 million in December 31, 2023 and 2022, respectively, and are presented as part of Dividend Income under Revenues in the consolidated statements of profit or loss.

(b) Government Securities

The Group's government securities classified as financial assets at FVPL have effective interest rates ranging from 3.50% to 6.25% and maturities ranging from one to five years for 2023 and 2022.

The recognized net fair value gains (losses) on these debt securities and interest income earned are presented as part of Trading and Investment Securities Gain (Loss) and Interest and Other Financing Income accounts (see Note 12.1), respectively, in the consolidated statements of profit or loss.

(c) Corporate Debt Securities

Financial assets at FVPL include corporate debt securities denominated in Philippine Peso. The Group's corporate debt securities have effective annual interest rates ranging from 3.75% to 6.75% and maturities ranging from one to eight years for 2023 and 2022.

The recognized net fair value gains (losses) on these debt securities and Interest income earned are presented as part of Trading and Investment Securities Gain (Loss) and Interest and Other Financing Income accounts (see Note 12.1), respectively, in the consolidated statements of profit or loss.

7.2 Financial Assets at Amortized Cost

This account is composed of debt securities denominated in Philippine peso and are publicly traded and issued by domestic companies in the Philippines (see Note 5.5).

The movements in the carrying amount of financial assets at amortized cost for 2023 and 2022 are summarized below.

| | <u>2023</u> | <u>2022</u> |
|------------------------------|-----------------------------|----------------------|
| Balance at beginning of year | P 746,387,307 | P 717,140,000 |
| Redemption at maturity | (1,472,350,000) | (1,461,000,000) |
| Additions | <u>1,257,602,693</u> | <u>1,490,247,307</u> |
| | 531,640,000 | 746,387,307 |
| Allowance for impairment | (71,771) | (1,992,819) |
| Balance at end of year | <u>P 531,568,229</u> | <u>P 744,394,488</u> |

Annual effective interest rates from these debt securities ranges from 7.82% to 8.75% in 2023 and 4.28% to 8.25% 2022. Interest income earned from financial assets at amortized cost amounted to P55.1 million and P47.1 million in 2023 and 2022, respectively, and are presented as part of Interest and Other Financing Income account in the consolidated statements of profit or loss (see Note 12.1). These debt securities have maturities ranging from one to ten years. As of December 31, 2023 and 2022, the Group has recognized an allowance of P71,771 and P2.0 million, respectively, and the related reversal of impairment and impairment loss is presented as part of Other Income and Miscellaneous under Other Operating Expenses (see Note 13.2), respectively, in the consolidated statements of profit and loss.

7.3 Financial Assets at FVOCI

This account is composed of the following:

| | <u>2023</u> | <u>2022</u> |
|---------------------------|-----------------------------|----------------------|
| Equity securities | P 546,957,792 | P 553,323,011 |
| Corporate debt securities | <u>116,010,262</u> | <u>109,275,754</u> |
| | <u>P 662,968,054</u> | <u>P 662,598,765</u> |

As of December 31, 2023 and 2022, corporate debt securities amounting to P123.3 million and P124.8 million, respectively, are denominated in Philippine peso with fixed interest rate ranging from 4.76% to 7.60% per annum in 2023 and 2022.

The movements in the carrying amount of financial assets at FVOCI are summarized below.

| | <u>2023</u> | <u>2022</u> |
|------------------------------|----------------------|-----------------|
| Balance at beginning of year | P 662,598,765 | P 1,261,460,675 |
| Additions | 20,099,438 | 115,467,344 |

| | | |
|-------------------------|----------------------|----------------------|
| Fair value losses - net | (18,294,376) | (63,085,828) |
| Redemption at maturity | (1,500,000) | (581,649,026) |
| Foreign exchange gains | 64,227 | 475,600 |
| Disposals | - | (70,070,000) |
| Balance at end of year | P 662,968,054 | P 662,598,765 |

(a) *Equity Securities*

The Group has designated these equity securities as at FVOCI because these are held for long-term investments rather than for trading. Equity securities are denominated in Philippine peso and US dollars. The fair value changes are recognized as an adjustment in other comprehensive income and presented in the consolidated statement comprehensive income.

The net fair value losses amounting to P26.5 million and P42.1 million in 2023 and 2022, respectively, are recognized in other comprehensive income and presented in the consolidated statements of comprehensive income. In addition, as a result of the disposal of certain financial asset at FVOCI amounting to P70.1 million in 2022, the cumulative unrealized gains amounting to P0.2 million in 2022 were transferred from Other Reserves to the Retained Earnings account in the consolidated statements of changes in equity(see Note 11.2). There was no similar transaction in 2023.

Dividend income from these investments amounted to P28.4 million and P48.2 million in 2023 and 2022, respectively, and are presented as part of Dividend Income under Revenues account in the consolidated statements of profit or loss.

(b) *Corporate Debt Securities*

Financial assets at FVOCI include corporate debt securities denominated in Philippine peso and US dollar (see Note 4.1).

The Group recognized net fair value gains amounting to P8.2 million and net fair value losses amounting to P21.0 million in 2023 and 2022, respectively, on these debt securities and are presented as part of Fair value gains (losses) on financial assets at FVOCI account in the consolidated statements of comprehensive income. Interest income earned from these investments amounted to P6.8 million and P19.3 million in 2023 and 2022, respectively, and are presented as part of Interest and Other Financing Income account in the consolidated statements of profit or loss (see Note 12.1).

The Group has recognized a reversal of loss allowance of P39,512 and P34,082 in 2023 and 2022, respectively, for its corporate debt securities at FVOCI. Reversal of impairment loss is presented as part of Other Income, with a corresponding reserve for ECL presented under other comprehensive income during the year (see Note 11.2).

8. LOANS AND OTHER RECEIVABLES

This account is composed of the following:

| | Note | 2023 | 2022 |
|---|-------------|----------------------|---------------|
| Receivables from stock brokerage customers | 16.9 | P 11,700,649 | P 55,532,567 |
| Others: | | | |
| Receivable from a related party | 16.4, 16.10 | 66,660,638 | 67,277,198 |
| Loans and other receivables from officers and employees | 16.2 | 26,231,473 | 20,325,393 |
| Trade receivable | | 15,651,513 | 44,381,400 |
| Dividend receivable | | 3,993,102 | 4,957,416 |
| Other receivables | | 12,827,751 | 11,333,467 |
| | | 125,364,477 | 148,274,874 |
| | | 137,065,126 | 203,807,441 |
| Allowance for impairment | | (421,647) | (251,049) |
| | | P 136,643,479 | P 203,556,392 |

Receivables from stock brokerage customers arose from brokerage transactions of RSEC.

All receivables from customers on the stock brokerage transactions of RSEC do not bear any interest and are due within two days from the date of the transaction, except for those on which allowance for impairment has already been provided.

Trade receivables generally pertain to underwriting and financial advisory services rendered by RCBC Capital to raise up funds for project financing facilities. All trade receivables are due within 60 days from the date of completion of services. No trade receivable is denominated in foreign currency.

The related interest income earned on loans and other receivables amounting to P0.9 million and P0.4 million in 2023 and 2022, respectively, are presented as part of Interest and Other Financing Income in the consolidated statements of comprehensive income (see Note 12.1).

Other receivables pertain to receivables from underwriting fees, processing, legal and filing fees, and trust investments, among others.

All of the Group's loans and other receivables have been reviewed for indications of impairment. Certain receivables were found to be impaired and adequate amount of allowance for impairment were recognized accordingly. All partially secured receivables were deemed not impaired because these are substantially collected subsequent to the reporting periods.

A reconciliation of the allowance for impairment of loans and other receivables at the beginning and end of 2023 and 2022 is shown in the below.

| | 2023 | 2022 |
|------------------------------|------------------|-----------|
| Balance at beginning of year | P 251,049 | P 221,992 |

| | | |
|------------------------|------------------|---------------|
| Impairment loss | <u>170,598</u> | <u>29,057</u> |
| Balance at end of year | P 421,647 | P 251,049 |

The maturity profile are as follows:

| | <u>2023</u> | <u>2022</u> |
|------------------------------------|----------------------|-------------------|
| Within one year | P 122,237,866 | P 193,506,880 |
| Beyond one year, within five years | <u>14,405,613</u> | <u>10,049,512</u> |
| | P 136,643,479 | P 203,556,392 |

9. OTHER ASSETS

This account consists of:

| | <u>Notes</u> | <u>2023</u> | <u>2022</u> |
|------------------------------------|--------------|----------------------|-------------------|
| Current: | | | |
| Creditable withholding tax | | P 43,455,499 | P 37,424,788 |
| Prepaid expenses | | 13,882,893 | 15,952,444 |
| Assets classified as held for sale | 9.2 | 4,000,000 | 4,480,000 |
| Advance rentals | | 3,221,666 | 3,068,261 |
| Prepaid taxes | | 22,493 | 232,388 |
| Other current assets | | <u>4,740,616</u> | <u>3,249,267</u> |
| | | 69,323,167 | 64,407,148 |
| Allowance for impairment | | (674,602) | (653,053) |
| | | <u>68,648,565</u> | <u>63,754,095</u> |
| Non-current: | | | |
| Property and equipment - net | 9.1 | 198,495,596 | 127,589,099 |
| Deposits | | 24,965,698 | 24,133,759 |
| CTGF | | 8,094,462 | 7,773,637 |
| Investment property | 9.1 | 1,464,248 | 1,464,248 |
| Retirement benefit asset | 14.2 | 2,769,913 | - |
| Other non-current assets | | <u>6,331,786</u> | <u>6,331,786</u> |
| | | 242,121,703 | 167,292,529 |
| | | P 310,770,268 | P 231,046,624 |

A reconciliation of the allowance for impairment of other assets at the beginning and end of 2023 and 2022 is shown below.

| | <u>2023</u> | <u>2022</u> |
|------------------------------|------------------|-----------------|
| Balance at beginning of year | P 653,053 | P 654,099 |
| Impairment loss (reversals) | <u>21,549</u> | <u>(1,046)</u> |
| Balance at end of year | P 674,602 | P 653,053 |

9.1 Property and Equipment and Investment Property

The movements in the net carrying amount of property and equipment and investment property of the Group are shown below.

| | <u>Property and Equipment</u> | | <u>Investment Property</u> | |
|--|-------------------------------|----------------|----------------------------|-------------|
| | <u>2023</u> | <u>2022</u> | <u>2023</u> | <u>2022</u> |
| Net carrying amount, beginning | P 127,589,099 | P 177,674,923 | P 1,464,248 | P 1,464,248 |
| Additions | 140,417,893 | 11,828,069 | - | - |
| Disposals | (1,676,285) | (466,233) | - | - |
| Depreciation and amortization charges for the year | (67,835,111) | (61,447,660) | - | - |
| Net carrying amount, ending | P 198,495,596 | P 127,589,099 | P 1,464,248 | P 1,464,248 |

Property and equipment includes right-of-use assets recognized in 2019 upon adoption of PFRS 16. In 2023, the Group recognized additional right-of-use asset amounting to P123.1 million. There was no similar transaction in 2022.

The Group leases its principal office space. The lease is reflected on the consolidated statements of financial position as right-of-use asset and a lease liability as part of other assets, and accrued expenses and other liabilities (see Note 10), respectively. It does not have variable lease payments which depend on an index or a rate.

The lease imposes a restriction that the right-of-use asset can only be used by the Group. The leases are non-cancellable and do not contain an option to purchase the underlying lease asset outright at the end of the lease, or to extend the lease for a further term without mutual agreement on both parties. The Group is prohibited from selling or pledging the underlying leased assets as security. For leases over office space, the Group must also keep the property in a good state of repair and return the property in its original condition at the end of the lease. Further, the Group must incur maintenance fees on such items in accordance with the lease contracts.

In 2023 and 2022, the Group sold property and equipment with carrying value of P1.7 million and P0.5 million. The recognized gain of P0.3 million and P0.1 million in 2023 and 2022, respectively, on sale of property and equipment is presented as part of Other Revenues account under Revenues section in the consolidated statements of profit or loss (see Note 13.1).

The depreciation and amortization relating to the Group's property and equipment totaling P67.8 million and P61.4 million in 2023 and 2022, respectively, is reported as part of Occupancy and Equipment-Related Expenses account in the consolidated statements of profit or loss. This also includes amortization of the right-of-use assets amounting to P57.6 million and P53.3 million in 2023 and 2022 respectively (see Note 16.3).

The Group's investment property includes parcels of land that are owned for capital appreciation or investment purposes only and is valued at cost. No income or direct operating expenses were recognized during the reporting period, except for real property taxes of inconsequential amounts for the reporting periods.

9.2 Assets Classified as Held for Sale

Assets classified as held for sale (ACHFS) consist of memorial lots amounting to P4.0 million and P4.5 million as of December 31, 2023 and 2022, respectively. In 2023, the Group sold ACHFS with a carrying amount of P0.5 million for P1.2 million, resulting in a gain of P0.7 million recorded as part of Other Revenues account under Revenues section in the 2023 consolidated statement of profit or loss (see Note 13.1). There was no similar transaction in 2022.

The Group is actively looking for buyers and remains committed to fully dispose of the properties through selling such assets through a real estate broker engaged by the Group.

9.3 Trading Right

As certified by the PSE as at December 31, 2023 and 2022, the latest transacted price of an exchange for the trading right is P8.0 million. Relative to this, the carrying value of trading rights is lower than its recoverable amount as at the end of the reporting periods. Therefore, based from the comparison of the carrying amount and recoverable amount, the trading right is not impaired.

10. ACCRUED EXPENSES AND OTHER LIABILITIES

The details of this account as of December 31 are as follows:

| | Notes | 2023 | 2022 |
|--------------------------------------|-------|----------------------|----------------------|
| Current: | | | |
| Accrued expenses | | P 131,684,124 | P 131,907,273 |
| Lease liabilities | | 59,072,333 | 38,816,896 |
| Payable to stock brokerage customers | 16.9 | 24,391,474 | 11,399,510 |
| Value added tax payable | | 20,159,085 | 7,284,832 |
| Accounts payable | | 11,552,391 | 6,875,038 |
| Withholding tax | | 4,751,267 | 2,414,513 |
| Income tax payable | | 4,124,695 | 9,265,916 |
| Payable to clearing organization | | 3,516,694 | 42,872,042 |
| Other liabilities | | <u>128,973,615</u> | <u>174,236,206</u> |
| | | <u>388,225,678</u> | <u>425,072,226</u> |
| Non-current: | | | |
| Lease liabilities | | 118,141,660 | 71,013,521 |
| Retirement benefit obligation | 14.2 | <u>39,781,687</u> | <u>2,137,954</u> |
| | | <u>157,923,347</u> | <u>73,151,475</u> |
| | | <u>P 546,149,025</u> | <u>P 498,223,701</u> |

Accrued expenses include, among others, litigation fees to lawyers, management and professional fees, other employee benefits and activities, utilities and unpaid rent to condominium dues for the Group's leased office space from RCBC.

Accounts payable include, among others, expense reimbursements, the Group's obligations to its employees, and intercompany payable.

The total cash outflow in respect of leases amounted to P64.3 million and P57.7 million in 2023 and 2022, respectively. Interest expense in relation to lease liabilities amounted to P8.6 million and P5.8 million in 2023 and 2022, respectively, and is presented as part of Interest and Other Financing Costs under Operating Expenses in the consolidated statements of profit or loss (see Note 12.2).

The undiscounted analysis of the lease liability as of December 31, 2023 and 2022 are as follows:

| | <u>Within 1 year</u> | <u>1 to 2 years</u> | <u>2 to 3 years</u> | <u>3 to 4 years</u> | <u>4 to 5 years</u> | <u>Total</u> |
|---------------------------------|----------------------|---------------------|---------------------|---------------------|---------------------|----------------------|
| <u>December 31, 2023</u> | | | | | | |
| Lease payments | P 66,879,617 | P 58,545,031 | P 32,877,798 | P31,012,149 | P 5,237,718 | P 194,552,313 |
| Finance charges | (7,807,284) | (5,221,330) | (2,984,491) | (1,286,492) | (38,723) | (17,338,320) |
| Net present value | P 59,072,333 | P 53,323,701 | P 29,893,307 | P29,725,657 | P 5,198,995 | P 177,213,993 |
| <u>December 31, 2022</u> | | | | | | |
| Lease payments | P 42,224,912 | P 40,090,161 | P 30,416,098 | P 3,349,171 | P - | P 116,080,342 |
| Finance charges | (3,408,016) | (2,037,163) | (775,906) | (28,840) | - | (6,249,925) |
| | | | | i. | | |
| Net present value | P 38,816,896 | P 38,052,998 | P 29,640,192 | P 3,320,331 | P - | P 109,830,417 |

11. EQUITY

11.1 Capital Stock

Capital stock represents the nominal value of shares that have been issued. Capital stock as of December 31, 2023 and 2022 consist of the following:

| | <u>Number of Shares</u> | <u>Amount</u> |
|-------------------------------|-----------------------------|------------------------|
| Common shares – P20 par value | | |
| Authorized | <u>125,000,000</u> | <u>P 2,500,000,000</u> |
| Issued and outstanding | <u>118,136,400</u> | <u>P 2,362,728,000</u> |

As of December 31, 2023 and 2022, the Parent Company has four stockholders owning 100 or more shares each of the Parent Company's capital stock.

11.2 Other Reserves

Other reserves consist of:

- a) Unrealized fair value gains or losses arising from the mark-to-market valuation of investment securities classified as financial assets at FVOCI [see Note 2.4(a)(i)]; and,

- b) Re-measurements of defined benefit post-employment plan based on the cumulative balance of actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions used in the determination of post-employment defined benefit plan; and (see Note 2.8).

The components and reconciliation of items of other comprehensive income presented in the consolidated statements of changes in equity at their aggregate amount under Other Reserves account, are shown below:

| | Financial Assets at FVOCI | Retirement Benefit Plan | Others | Total |
|---|--|------------------------------------|----------------------|----------------------|
| Balance as of January 1, 2023 | (P 80,545,357) | P 6,624,463 | P 409,826,300 | P 335,905,406 |
| Fair value loss on financial assets at FVOCI | (18,294,376) | - | - | (18,294,376) |
| Remeasurements of retirement benefit plan | - | (33,254,373) | - | (33,254,373) |
| ECL on financial assets at FVOCI | (39,512) | - | - | (39,512) |
| Other comprehensive loss before tax | (18,333,888) | (33,254,373) | - | (51,588,261) |
| Tax expense | 3,247,991 | 8,313,593 | - | 11,561,584 |
| Other comprehensive loss after tax | (15,085,897) | (24,940,780) | - | (40,026,677) |
| Balance as of December 31, 2023 | (P 95,631,254) | (P 18,316,317) | P 409,826,300 | P 295,878,729 |
| Balance as of January 1, 2022 | (P 22,163,785) | P 11,206,498 | P 409,826,300 | P 398,869,013 |
| Reclassification of realized fair value gains on disposals of financial assets at FVOCI | (157,290) | - | - | (157,290) |
| | (22,321,075) | 11,206,498 | 409,826,300 | 398,711,723 |
| Fair value loss on financial assets at FVOCI | (63,085,828) | - | - | (63,085,828) |
| Remeasurements of retirement benefit plan | - | (6,109,381) | - | (6,109,381) |
| ECL on financial assets at FVOCI | (34,082) | - | - | (34,082) |
| Other comprehensive loss before tax | (63,119,910) | (6,109,381) | - | (69,229,291) |
| Tax expense | 4,895,628 | 1,527,346 | - | 6,422,974 |
| Other comprehensive loss after tax | (58,224,282) | (4,582,035) | - | (62,806,317) |
| Balance as of December 31, 2022 | (P 80,545,357) | P 6,624,463 | P 409,826,300 | P 335,905,406 |

11.3 Retained Earnings

Retained earnings include all current and prior period results of operations as reported in the statement of profit or loss, reduced by the amounts of dividends declared.

On November 18, 2021, the Parent Company's BOD approved the declaration of cash dividends of P4.23 per share (or a total of P500.0 million) payable to its stockholders of record as of December 31, 2021. The dividends were paid in 2022. No dividend was declared in 2023 and 2022.

11.4 Capital Management Objectives, Policies and Procedures

The Group's objectives when managing capital, which is a broader concept than the equity on the face of the consolidated statements of financial position, are:

- to comply with the minimum paid-up capital required by law and the risk-based capital adequacy (RBCA) ratio requirement by the BSP;
- to safeguard the Group's ability to continue as a going concern so that it can continue to provide return to shareholders; and,
- to maintain a strong capital base to support operations.

The Group monitors its capital on the following basis:

(a) Compliance of the Parent Company with the Minimum Paid-up Capital, the RBCA, Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) Requirements of the BSP

Under the provisions of Section 3, amending Section 8 of Presidential Decree No. 129, of R.A. No. 8366, the Parent Company is required to maintain a minimum paid-up capital of P300.0 million.

The Parent Company is in compliance with the required minimum paid-up capital requirement as of December 31, 2023 and 2022.

Moreover, the Parent Company is also required to maintain a risk-based capital adequacy ratio, expressed as a percentage of qualifying capital to risk weighted assets of at least 10% as prescribed by the Monetary Board of the BSP.

Qualifying capital consists of Tier 1 (core capital) and Tier 2 (supplementary capital), less regulatory deductions. The delineation between core and supplementary capital is based on the capital elements' ability to absorb losses. Tier 2 capital is limited to 100% of Tier 1 capital. Deductions include equity investments in subsidiaries and reciprocal investments in other enterprises, which capture the multiple use of capital.

Risk-weighted assets, on the other hand, comprise of both on-and-off-statement of financial position exposures weighted according to their relative riskiness. The risk weights are applied to the book value of on-statement of financial position assets and the credit equivalent amount of off-statement of financial position exposures.

The Parent Company's regulatory capital position as of December 31, 2023 and 2022 is presented as follows (in thousands):

| | <u>2023</u> | <u>2022</u> |
|----------------------------|--------------------|-------------|
| Tier 1 Capital | P 2,270,220 | P 2,073,259 |
| Tier 2 Capital | <u>9</u> | <u>14</u> |
| Total Regulatory Capital | P 2,270,229 | P 2,073,273 |
| Total Risk Weighted Assets | P 2,931,667 | P 3,242,302 |

Capital ratios:

Total regulatory capital expressed as

| | | |
|---|--------|--------|
| percentage of total risk weighted assets | 77.44% | 63.94% |
| Total Tier 1 expressed as percentage of total risk weighted assets | 77.44% | 63.94% |

The above capital ratios comply with the related BSP prescribed ratios.

On March 10, 2016, the BSP issued Circular No. 905, *Implementation of Basel III Framework on Liquidity Standards - Liquidity Coverage Ratio and Disclosure Standards*, which provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is the ratio of high-quality liquid assets to total net cash outflows, which should not be lower than 100.00%. Compliance with the LCR minimum requirement commenced on January 1, 2018 with the prescribed minimum ratio of 90.00% for 2018 and 100.00% effective January 1, 2020.

To promote the short-term resilience of the liquidity risk profile, the Parent Company maintains adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. The stock of liquid assets should enable the Parent Company to withstand significant liquidity shocks for at least 30 calendar days, which would give time for corrective actions to be taken by the Company management and/or the BSP. Details of the Parent Company LCR as of December 31, 2023 and 2022 are summarized in the succeeding page.

| | <u>Total Unweighted Value</u> | <u>Total Weighted Value</u> |
|---------------------------------|-----------------------------------|---------------------------------|
| <u>December 31, 2023</u> | | |
| Total stock of HQLA | P 1,400,549,609 | P 1,110,938,444 |
| Expected Net Cash Outflows | <u>3,729,150</u> | <u>3,699,095</u> |
| Liquidity Coverage Ratio | | <u>30,032.71%</u> |
| <u>December 31, 2022</u> | | |
| Total stock of HQLA | P 974,918,240 | P 579,210,115 |
| Expected Net Cash Inflows | <u>1,751,129</u> | <u>1,746,775</u> |
| Liquidity Coverage Ratio | | <u>33,158.83%</u> |

NFSR, as detailed in BSP Circular 1007, *Implementing Guidelines on the adoption of the Basel III Framework on Liquidity Standards - Net Stable Funding Ratio*, measures the availability of medium and long-term stable funding to support illiquid assets and business activities on an on-going basis. It is an assessment of the level of sustainable funding required to reduce funding risk over a one-year time horizon. The NFSR complements the LCR, which promotes short-term resilience of the Parent Company's liquidity profile.

To promote long-term resilience against liquidity risk, the Parent Company maintains a stable funding profile in relation to the composition of its assets and off-balance sheet activities and seeks to meet this objective by limiting overreliance on short-term wholesale funding and promoting enhanced assessment of funding risk across all on- and off-balance sheet accounts.

Details of the Parent Company's Basel III NSFR as of December 31, 2023 and 2022 are summarized below.

| | <u>2023</u> | <u>2022</u> |
|--------------------------|-----------------------------|----------------------|
| Available stable funding | P 3,323,006,743 | P 3,166,695,547 |
| Required stable funding | <u>1,903,219,636</u> | <u>2,025,586,415</u> |
| Basel III NSFR | <u>174.60%</u> | <u>156.33%</u> |

The Parent Company has complied with the daily minimum regulatory requirement of 100% for both ratios in 2023 and 2022.

(b) Compliance of RSEC with the SRC issued by the SEC

RSEC's capital management objectives are to ensure RSEC's ability to continue as a going concern and to provide an adequate return to shareholders by pricing services commensurately with the level of risk.

RSEC monitors capital on the basis of the following:

- Carrying amount of equity as presented in the consolidated statements of financial position; and,
- Rules and regulations of the SRC with respect to the minimum:
 - Unimpaired paid-up capital
 - Net liquid capital (NLC)
 - RBCA ratio

The following governs the regulatory capital requirements of RSEC under the Amended Implementing Rules and Regulations of the SRC issued by the SEC.

In both 2023 and 2022, RSEC is compliant with the requirements of the SRC discussed as follows:

(i) Paid-Up Capital Requirement

Every Broker Dealer shall maintain the minimum unimpaired paid up capital as governed by existing requirements of SRC Rule 28.1. For this purpose, the term "paid up capital" shall include the following:

- capital contributions or par value or stated value of common stock;
- payment made on subscribed common stock;
- par or stated value of preferred stock;
- payment made on subscribed preferred stock;
- common stock to be distributed arising from a dividend declaration;
- additional paid-in capital for both common and preferred stocks; and,
- donated capital.

The value representing treasury stock and any deficiency in retained earnings are deducted in the computation of paid-up capital.

Under present regulations, the minimum paid-up capital for existing Broker Dealer participating in a registered clearing agency is P100.0 million. RSEC's paid-up capital is P389.7 million as of December 31, 2023 and 2022.

(ii) NLC Requirement

Every broker dealer shall, at all times, have and maintain a NLC of at least P5.0 million or 5% of the aggregate indebtedness, whichever is higher. However, a Broker Dealer who deals only with proprietary shares who does not keep the shares under its custody shall maintain a NLC of P2.5 million or 2.50% of the aggregate indebtedness, whichever is higher.

NLC is the sum of paid-up capital and equities eligible for NLC less all non-allowable assets/equities, and collateralized liabilities as specified in the applicable regulations, provided further, that the following items shall be excluded from eligible equity for net liquid capital:

- deferred income tax;
- other reserves; and,
- minority interest and any outside investment in affiliates and associates.

RSEC's NLC is P176.6 million and P189.0 million as of December 31, 2023 and 2022, respectively, which is more than 5% of the RSEC's aggregate indebtedness.

(iii) RBCA Ratio Requirement

Every broker dealer shall ensure that its RBCA ratio is greater than or equal to 1.1 and its core equity is at all times greater than its operational risk requirement. Core equity is the sum of paid-up capital and surplus reserves.

RBCA ratio is the ratio linking the NLC to the Broker Dealer's total risk exposure (Total Risk Requirement), calculated as the Brokers Dealers NLC divided by its Total Risk Requirement which is the sum of:

- operational risk requirement;
- credit risk requirement which include requirements for counterparty risk, settlement risk, large exposure risk, and margin lending/financing risk; and,
- position or market risk requirement.

RSEC's RBCA ratio is 10.7:1 and 6.2:1 as of December 31, 2023 and 2022, respectively.

(iv) PSE's Rules Governing Trading Rights and Trading Participants

On May 28, 2009, the SEC approved PSE's Rules Governing Trading Rights and Trading Participants which provides among others the following provisions:

- trading participants should have a minimum unimpaired paid-up capital (defined as the trading participant's total paid-up capital less any deficiency in the retained earnings account) of P30.0 million effective December 31, 2010; and,
- each trading participant shall pledge its trading right to the extent of its full value to secure the payment of all of debts and claims due to the trading participant, the government, the

PSE and to other trading participants of the PSE and to the Securities Clearing Corporation of the Philippines.

As of December 31, 2023 and 2022, RSEC is in compliance with PSE's Rules Governing Trading Rights and Trading Participants.

(v) *Appropriation of Retained Earnings*

Rule 49.1(B), *Reserve Fund of SEC Memorandum Circular No. 16*, requires that every broker dealer shall annually appropriate a certain minimum percentage of its audited profit after tax and transfer the same to the Appropriated Retained Earnings account. Appropriation shall be 30%, 20%, 10% of profit after tax for broker dealers with unimpaired paid up capital of between P10.0 million to P30.0 million, between P30.0 million and P50.0 million and above P50.0 million, respectively.

Notwithstanding the requirements of this section, the SEC may prescribe a different capital build up plan for all brokers dealers, specifically those incurring net losses during the period, which may include the programmed infusion of fresh capital.

In 2023, RSEC appropriated P0.3 million to meet the circular requirement. No similar transaction occurred in 2022. The total appropriated retained earnings amounted to P17.0 million and P16.7 million as of December 31, 2023 and 2022, respectively.

12. INTEREST AND OTHER FINANCING INCOME AND COSTS

The breakdown of these accounts are as follows:

12.1 Interest and Other Financing Income

| | Notes | 2023 | 2022 |
|------------------------------------|-------|----------------------|---------------------|
| Interest income from: | | | |
| Financial assets at amortized cost | 7.2 | P 55,132,041 | P 47,072,083 |
| Cash and cash equivalents | 6 | 49,476,996 | 13,479,359 |
| Financial assets at FVPL | 7.1 | 7,526,748 | 4,509,969 |
| Financial assets at FVOCI | 7.3 | 6,796,900 | 19,272,489 |
| Loans and other receivables | 8 | 938,472 | 393,495 |
| Retirement benefit asset | 14.2 | 244,878 | - |
| Others | | <u>1,582,520</u> | <u>6,615,915</u> |
| | | P 121,698,555 | P 91,343,310 |

12.2 Interest and Other Financing Costs

| | <u>Notes</u> | <u>2023</u> | <u>2022</u> |
|-------------------------------|--------------|---------------------------|--------------------|
| Interest expense from: | | | |
| Lease liability | 10 | P 8,598,288 | P 5,815,780 |
| Retirement benefit obligation | 14.2 | - | 493,453 |
| Others | | <u>850,871</u> | <u>215,408</u> |
| | | <u>P 9,449,159</u> | <u>P 6,524,641</u> |

13. OTHER REVENUES, OTHER OPERATING EXPENSES AND OTHER CHARGES

The breakdown of these accounts are as follows:

13.1 Other Revenues

| | <u>Note</u> | <u>2023</u> | <u>2022</u> |
|---|-------------|---------------------------|--------------------|
| Recoveries on credit card collection receivables | | P 850,235 | P 980,297 |
| Gain on sale of asset classified as held for sale | 9.2 | 720,000 | - |
| Gain on sale of property and equipment | 9.1 | 271,507 | 56,178 |
| Miscellaneous income | | <u>1,579,519</u> | <u>1,903,308</u> |
| | | <u>P 3,421,261</u> | <u>P 2,939,783</u> |

Miscellaneous income includes billings for research fees charged to a third-party customer.

13.2 Other Operating Expenses

| | <u>Notes</u> | <u>2023</u> | <u>2022</u> |
|---|--------------|---------------------|--------------|
| Communications | | P 18,859,696 | P 18,129,596 |
| Utilities | | 8,682,213 | 10,671,498 |
| Repairs and maintenance | | 6,597,472 | 6,901,085 |
| Transportation | | 5,605,640 | 4,362,674 |
| Insurance | | 5,590,705 | 5,602,051 |
| Philippine Depository and Trust Corporation charges | | 3,357,803 | 3,346,062 |
| Information technology | | 3,105,126 | 2,980,094 |
| Terminal fees | | 3,017,212 | 3,434,926 |
| Membership fees and dues | | 1,484,415 | 1,192,870 |
| Supervisory fee | | 1,180,184 | 1,247,707 |

| | | | |
|---------------------------|----------------|-------------------------|------------------|
| Condominium dues and fees | | 1,039,869 | 953,213 |
| Advertising and publicity | | 969,829 | 1,277,503 |
| Donation | | 613,100 | 315,800 |
| Supplies and contribution | | 583,669 | 660,789 |
| Clearing house fees | | 229,732 | 367,445 |
| Miscellaneous | 7.2, 7.3, 16.8 | <u>6,094,833</u> | <u>5,639,203</u> |
| | | P 67,011,498 | P 67,082,516 |

Miscellaneous operating expenses include impairment loss on financial assets at amortized cost and FVOCI, shared expenses in Yuchengco Group of Companies activities, other expenses related to IMA investments, underwriting and other investment banking transactions and non-deductible fines and penalties, if any.

14. EMPLOYEE BENEFITS

14.1 Salaries and Employee Benefits Expense

Expenses recognized for salaries and employee benefits are presented below.

| | <u>Note</u> | <u>2023</u> | <u>2022</u> |
|--------------------------------------|-------------|-----------------------|----------------|
| Short-term employee benefits | | P 627,659,327 | P 574,002,575 |
| Post-employment defined benefit | 14.2 | 29,129,630 | 30,288,291 |
| Post-employment defined contribution | | <u>605,420</u> | <u>809,516</u> |
| | | P 657,394,377 | P 605,100,382 |

14.2 Post-employment Defined Benefit Plan

(a) Characteristics of the Defined Benefit Plan

The Group maintains a funded, tax-qualified, noncontributory post-employment benefit plan that is being administered by a trustee bank that is legally separated from the Group.

The trustee bank manages the fund in coordination with the Group's Retirement Plan Committee who acts in the best interest of the plan assets and is responsible for setting the investment policies. The post-employment plan covers all regular full-time employees.

The normal retirement age of the Group's employees is 60. The plan also provides for an early retirement at age 55 with a minimum of 20 years of credit service for the Parent Company and RSEC or at age 50 with minimum of 10 years of credited service for RBSC, and late retirement after age 60 but not exceeding age of 65, subject to the approval of the BOD for the Parent Company and Retirement Plan Committee for RSEC and RSBC. Normal retirement benefit for the Parent Company is an amount equivalent to 200% of the final monthly covered compensation

(latest monthly basic salary at retirement) for every year of credited service while normal retirement benefit for RSEC and RBSC is an amount equivalent to two months' pay (based on salary at retirement) for every year of credited service.

(b) *Explanation of Amounts Presented in the Consolidated Financial Statements*

Actuarial valuations are made annually to update the retirement benefit costs and the amount of contributions. All amounts presented below and in the succeeding pages are based on the actuarial valuation report obtained from an independent actuary in 2023 and 2022.

The amounts of retirement benefit obligation (included as part of Accrued Expenses and Other Liabilities account – see Note 10) and retirement benefit asset (presented as part of Other Assets account – see Note 9) recognized in the consolidated statements of financial position are presented below:

| | <u>2023</u> | | <u>2022</u> |
|-------------------------------------|-----------------------|---|------------------|
| Present value of obligation | P 267,673,991 | P | 217,215,738 |
| Fair value of plan assets | (230,835,891) | (| 215,099,248) |
| | 36,838,100 | | 2,116,490 |
| Effect of asset ceiling | <u>173,674</u> | | <u>21,464</u> |
| Retirement benefit obligation - net | P 37,011,774 | P | <u>2,137,954</u> |

The movements in the present value of retirement benefit obligation recognized in the consolidated financial statements are as follows:

| | <u>2023</u> | | <u>2022</u> |
|--|----------------------|---|--------------------|
| Balance at beginning of year | P 217,215,738 | P | 228,616,829 |
| Benefits paid | (16,095,155) | (| 42,194,290) |
| Current service cost | 29,129,630 | | 30,288,291 |
| Interest expense | 16,125,384 | | 11,503,610 |
| Remeasurements – actuarial losses (gains) arising from changes in: | | | |
| Financial assumptions | 30,090,501 | (| 21,856,172) |
| Experience adjustments | (8,214,589) | | 11,897,382 |
| Demographic assumptions | (577,518) | (| 1,039,912) |
| Balance at end of year | P 267,673,991 | P | <u>217,215,738</u> |

The movements in the fair value of plan assets are presented below.

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------------|----------------------|
| Balance at beginning of year | P 215,099,248 | P 232,143,859 |
| Benefits paid | (16,095,155) | (42,194,290) |
| Contributions to the plan | 27,265,303 | 27,515,025 |
| Loss on plan assets (excluding amounts included in net interest) | (11,805,392) | (18,058,651) |
| Interest income | 16,371,887 | 11,010,157 |
| Transfer to plan assets | <u>-</u> | <u>4,683,148</u> |
| Balance at end of year | <u>P 230,835,891</u> | <u>P 215,099,248</u> |

The composition of the fair value of plan assets at the end of the reporting period by category and risk characteristics is shown below:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|-----------------------------|----------------------|
| Cash and cash equivalents | <u>P 33,866,781</u> | <u>P 46,738,709</u> |
| Quoted equity securities: | | |
| Holding firm | 12,522,184 | 7,395,807 |
| Financial institutions | 9,017,809 | 4,084,734 |
| Service | 4,456,020 | 5,179,169 |
| Property | 4,254,853 | 4,183,297 |
| Industrial | 3,364,904 | 2,135,149 |
| Mining and oil | <u>2,404,934</u> | <u>2,066,450</u> |
| | <u>36,020,704</u> | <u>25,044,606</u> |
| Debt securities: | | |
| Philippine government securities | 116,695,600 | 104,789,790 |
| Corporate debt securities | <u>7,141,697</u> | <u>11,344,335</u> |
| | <u>123,837,297</u> | <u>116,134,125</u> |
| Others | <u>37,111,109</u> | <u>27,181,808</u> |
| | <u>P 230,835,891</u> | <u>P 215,099,248</u> |

The fair values of the equity and debt securities are determined based on quoted market prices published in the PSE and BVAL, respectively. The plan assets earned a return amounting to P4.7 million in 2023 and incurred a loss amounting to P7.1 million in 2022.

The components of amounts recognized in the consolidated statement of profit or loss and in other comprehensive income (loss) in respect of the defined benefit post-employment plan are presented below:

| | <u>Notes</u> | <u>2023</u> | <u>2022</u> |
|--|--------------|-----------------------|----------------------|
| <i>Reported in profit or loss:</i> | | | |
| Current service cost | 14.1 | P 29,129,630 | P 30,288,291 |
| Interest cost (income) - net | 12.1, 12.2 | (246,501) | 493,453 |
| Interest on the effect of asset ceiling | | <u>1,623</u> | <u>-</u> |
| | | <u>P 28,884,752</u> | <u>P 30,781,744</u> |
| <i>Reported in other comprehensive income (loss):</i> | | | |
| Actuarial gains (losses) arising from changes in: | | | |
| Financial assumptions | | (P 30,090,501) | P 21,856,172 |
| Experience adjustments | | 8,214,589 | (11,897,382) |
| Demographic assumptions | | 577,518 | 1,039,912 |
| Return on plan assets (excluding amounts included in net interest expense) | | (11,805,392) | (18,058,651) |
| Effect of asset ceiling | | (<u>150,587</u>) | <u>950,568</u> |
| | | <u>(P 33,254,373)</u> | <u>(P 6,109,381)</u> |

The interest income (expense) is included as part of Interest and Other Financing Income (Costs) in the consolidated statements of profit or loss (see Notes 12.1 and 12.2).

Amount recognized in other comprehensive income is included and presented in the consolidated statements of comprehensive income (see Note 11.2).

In determining the retirement benefit obligation, the following actuarial assumptions were used:

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|---------------|---------------|
| Discount rates | 6.27% - 6.28% | 7.37% - 7.56% |
| Expected rate of salary increase | 5.00% - 6.00% | 5.00% - 6.00% |

Assumptions regarding future mortality are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at age 60 is 22.7 years for both males and females. These assumptions were developed by management with the assistance of an independent

actuary. Discount factors are determined close to the end of each reporting period by reference to the interest rates of a zero coupon government bond with terms to maturity approximating to the terms of the post-employment obligation. Other assumptions are based on current actuarial benchmarks and management's historical experience.

(c) *Risks Associated with the Post-employment Plan*

The plan exposes the Group to actuarial risks such as investment risk, interest rate risk, longevity risk and salary risk.

(i) *Investment and Interest Rate Risks*

The present value of the defined benefit obligation is calculated using a discount rate determined by reference to market yields of government bonds. Generally, a decrease in the interest rate of a reference government bonds will increase the plan obligation. However, this will be partially offset by an increase in the return on the plan's investments in debt securities and if the return on plan asset falls below this rate, it will create a deficit in the plan. Currently, the plan has relatively balanced investment in cash and cash equivalents, equity securities and debt securities.

Due to the long-term nature of the plan obligation, a level of continuing equity investments is an appropriate element of the Group's long-term strategy to manage the plan efficiently.

(ii) *Longevity and Salary Risks*

The present value of the defined benefit obligation is calculated by reference to the best estimate of the mortality of the plan participants both during and after their employment and to their future salaries. Consequently, increases in the life expectancy and salary of the plan participants will result in an increase in the plan obligation.

(d) *Other Information*

The information on the sensitivity analysis for certain significant actuarial assumptions and the timing and uncertainty of future cash flows related to the defined benefit post-employment plan are described below.

(i) *Sensitivity Analysis*

The following table summarizes the effects of changes in the significant actuarial assumptions used in the determination of the defined benefit obligation as at December 31, 2023 and 2022:

| <u>Impact on Post-employment Benefit Obligation</u> | | |
|---|-----------------------------|---|
| | <u>Change in Assumption</u> | <u>Increase in Assumption</u> <u>Decrease in Assumption</u> |
| <u>December 31, 2023</u> | | |
| Discount rate | +/- 1.0% | (P 31,274,310) P 27,868,735 |

| | | | | |
|--------------------------|----------|----------------|---|-------------|
| Salary growth rate | +/- 1.0% | 31,954,430 | (| 27,373,537) |
| <u>December 31, 2022</u> | | | | |
| Discount rate | +/- 1.0% | (P 22,427,131) | P | 20,118,694 |
| Salary growth rate | +/- 1.0% | 23,333,550 | (| 20,035,291) |

The sensitivity analysis is based on a change in an assumption while holding all other assumptions constant. This analysis may not be representative of the actual change in the defined benefit obligation as it is unlikely that the change in assumptions would occur in isolation of one another as some of the assumptions may be correlated. Furthermore, in presenting the above sensitivity analysis, the present value of the defined benefit obligation has been calculated using the projected unit credit method at the end of the reporting period, which is the same as that applied in calculating the defined benefit obligation liability recognized in the consolidated statements of financial position.

The methods and types of assumptions used in preparing the sensitivity analysis did not change compared to the previous years.

(ii) Asset-liability Matching Strategies

To efficiently manage the retirement plan, the Group ensures that the investment positions are managed to achieve that long-term investments are in line with the obligations under the retirement scheme. The plan assets are invested in long-term fixed interest securities (i.e., government bonds) with maturities that match the benefit payments as they fall due and in the appropriate currency. The Group, in coordination with the trustee bank, monitors the expected yield of the investments.

In view of this, investments are made in reasonably diversified portfolio, such that the failure of any single investment would not have a material impact on the overall level of assets.

A large portion of the plan assets as of December 31, 2023 and 2022 consists of equity and government debt securities, although the Group also invests in cash and cash equivalents. The Group believes that equity securities offer the best returns over the long term with an acceptable level of risk. The majority of equity securities are in a diversified portfolio of local blue-chip entities.

There has been no change in the Group's manner of oversight on its post-employment fund.

(iii) Funding Arrangements and Expected Contributions

The combined plans of the Group is currently underfunded by P39.8 million based on the latest actuarial valuation as of December 31, 2023. While there are no minimum funding requirement in the country, the size of the underfunding may pose a cash flow risk in about five to seven years' time when a significant number of employees is expected to retire.

The maturity profile of undiscounted expected benefits payments from the plan follows:

| | <u>2023</u> | <u>2022</u> |
|--------------------------|-----------------------------|----------------------|
| Within one year | P 700,419 | P 8,008,760 |
| Within two to five years | 206,429,161 | 108,175,555 |
| More than five years | <u>168,321,812</u> | <u>154,340,579</u> |
| | <u>P 375,451,392</u> | <u>P 270,524,894</u> |

The weighted average duration of the defined benefit obligation at the end of the reporting period is 10 years.

15. TAXES

15.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 are as follows:

| | <u>2023</u> | <u>2022</u> |
|--|------------------------------|----------------------|
| <i>Reported in profit or loss:</i> | | |
| Current tax expense: | | |
| Regular corporate income tax (RCIT) at 25% | P 42,962,779 | P 49,295,013 |
| Final tax at 20% and 15% | 13,109,706 | 8,815,503 |
| Minimum corporate income tax (MCIT) at 1.5% in 2023 and 1% in 2022 | <u>236,372</u> | <u>132,531</u> |
| | <u>56,308,857</u> | <u>58,243,047</u> |
| Deferred tax income relating to – | | |
| Origination of temporary differences | (<u>36,913</u>) | (<u>2,041,599</u>) |
| | <u>P 56,271,944</u> | <u>P 56,201,448</u> |
| <i>Reported in other comprehensive income (loss) —</i> | | |
| Deferred tax income relating to: | | |
| Gains on financial assets at FVOCI | (P 8,313,593) | (P 4,895,628) |
| Remeasurement of retirement benefit plan | (<u>3,247,991</u>) | (<u>1,527,346</u>) |
| | <u>(P 11,561,584)</u> | <u>(P 6,422,974)</u> |

A reconciliation of tax on pretax profit computed at the applicable statutory rates to tax expense reported in profit or loss is as follows:

| | <u>2023</u> | <u>2022</u> |
|--|-----------------------|----------------|
| Tax on pretax profit at 25% | P 63,936,383 | P 51,409,139 |
| Unrecognized deferred tax on net operating loss carry-over | 6,785,984 | 7,131,381 |
| Adjustment for income subjected to lower income tax rates | (4,342,131) | (2,566,125) |
| Tax effects of: | | |
| Non-taxable income | (11,947,044) | (16,841,114) |

| | | |
|-------------------------|---------------------|---------------------|
| Non-deductible expenses | <u>1,838,752</u> | <u>17,068,167</u> |
| | P 56,271,944 | P 56,201,448 |

The Group's net deferred tax assets relate to the following as at December 31, 2023 and 2022:

| | <u>2023</u> | <u>2022</u> |
|--|----------------------------|-----------------------------|
| Deferred tax assets: | | |
| Accrued expenses | P 26,316,866 | P 24,042,065 |
| Unamortized past service cost | 24,631,475 | 23,645,780 |
| Retirement benefit obligation | 17,794,705 | 13,265,112 |
| Lease liabilities | 6,560,376 | 20,480,507 |
| Fair value loss on financial assets at FVOCI | 6,097,869 | 2,849,879 |
| Retirement benefit asset | 901,606 | (70,980) |
| MCIT | 853,300 | 616,929 |
| Provision for losses | 302,550 | 743,553 |
| Unrealized foreign currency gains | 152,831 | (1,252,218) |
| Fair value loss on financial assets at FVPL | <u>-</u> | <u>1,957,412</u> |
| | <u>83,611,578</u> | <u>87,601,237</u> |
| Deferred tax liabilities: | | |
| Right-of-use asset | (5,474,544) | (19,866,956) |
| Fair value gain on financial assets at FVPL | (199,523) | (72,068) |
| | <u>(5,674,067)</u> | <u>(21,262,222)</u> |
| | P 77,937,511 | P 66,339,015 |

The movements in net deferred tax assets are as follows:

| <u>Consolidated Statements of Comprehensive Income</u> | | | |
|--|-----------------------------|-----------------------------------|---|
| | <u>Profit or Loss</u> | <u>Other Comprehensive Income</u> | |
| | <u>2023</u> | <u>2022</u> | <u>2023</u> <u>2022</u> |
| Deferred tax assets: | | | |
| Lease liabilities | (P 13,920,131) | (P 13,733,375) | P - P - |
| Retirement benefit obligation | (2,811,415) | 3,725,928 | 8,313,593 1,527,346 |
| Accrued expenses | 2,274,802 | 1,185,296 | - - |
| Fair value loss on financial assets at FVPL | (1,957,412) | 1,099,372 | - - |
| Unamortized past service cost | 985,695 | (2,709,308) | - - |
| MCIT | 236,371 | 132,531 | - - |
| Provision for losses | (441,003) | (814,311) | - - |
| Fair value loss on financial assets at FVOCI | <u>-</u> | <u>52,430</u> | <u>3,247,991</u> <u>4,895,628</u> |
| | <u>(15,633,093)</u> | <u>(11,061,437)</u> | <u>11,561,584</u> <u>6,422,974</u> |

| | | | | |
|--|-------------------|--------------------|---------------------|--------------------|
| Deferred tax liabilities: | | | | |
| Right-of-use asset | 14,392,412 | 13,301,246 | - | - |
| Unrealized foreign currency gains (loss) | 1,405,049 | (652,824) | - | - |
| Fair value gain (loss) on financial assets at FVPL | (127,455) | 454,614 | - | - |
| | <u>15,670,006</u> | <u>13,103,036</u> | <u>-</u> | <u>-</u> |
| Net deferred tax income | <u>P 36,913</u> | <u>P 2,041,599</u> | <u>P 11,561,584</u> | <u>P 6,422,974</u> |

RSEC is subject to either MCIT computed at 1.5% in 2023 and 1% in 2022 of gross income, net of allowable deductions, or RCIT, whichever is higher. The MCIT for RSEC amounted to P0.2 million in 2023 and P0.1 million in 2022. No MCIT was recorded in 2023 and 2022 for the Parent Company and RBSC as RCIT was higher than MCIT.

In 2023 and 2022, the Group opted to claim itemized deductions for tax purposes.

16. RELATED PARTY TRANSACTIONS

The Group's related parties include its ultimate parent company, parent company, the Group's key management personnel, its retirement plan and others as described in the succeeding pages.

The summary of the Group's transactions and balances with its related parties as at and for the year ended December 31 follow:

| Related Party Category | Notes | Amount of Transaction | Outstanding Balance | Terms |
|----------------------------------|------------|-----------------------|---------------------|----------------------------------|
| 2023: | | | | |
| PMMIC: | | | | |
| Trading transactions | 16.9 | P 343,016,764 | (P 120) | |
| Commission income | 16.9 | 547,741 | - | |
| RCBC: | | | | |
| Bank deposits | 6, 16.1 | 42,598,968 | 95,963,913 | on demand; interest-bearing |
| Short-term placements | 6, 16.1 | (20,283,286) | 112,038,986 | on demand |
| Loans payable | 10 | 323,000,000 | - | |
| Interest income | 12.1, 16.1 | 106,689 | - | |
| Lease of office space | 16.3 | 20,260,278 | 26,255,155 | subject to annual escalation |
| Advance rentals | 16.3 | 39,584 | 7,078,222 | 5-year term with renewal options |
| Rental deposits | 16.3 | 325,467 | 13,018,255 | 5-year term with renewal options |
| Service agreement | 16.4 | 742,410,958 | 65,731,988 | non-interest bearing; unsecured |
| Dividend income | 16.5 | 1,579,272 | - | collected in cash |
| Acquisition of shares | 16.5 | - | 29,245,780 | measured at fair market value |
| IMA | 16.8 | 35,956,376 | 121,584,238 | |
| SMBC: | | | | |
| Trading transactions | 16.9 | 15,154,044,608 | - | |
| Commission income | 16.9 | 7,577,022 | - | |
| Other related parties: | | | | |
| Trading transactions | 16.9 | 3,975,396,552 | (3,346,267) | |
| Commission income | 16.9 | 5,695,287 | - | |
| Sale of transportation equipment | 16.10 | 928,650 | 928,650 | |

| | | | | | |
|---------------------------------------|------------|---|--------------------|------------------|---|
| Officers and employees: | | | | | |
| Loans to officers and employees | 8, 16.2 | | 1,464,881 | 5,927,660 | subject to salary deduction; interest-bearing; not impaired |
| Key management personnel compensation | 16.6 | | 150,264,761 | - | |
| 2022: | | | | | |
| PMMIC: | | | | | |
| Trading transactions | 16.9 | P | 9,997,995 | (P 120) | |
| Commission income | 16.9 | | 24,995 | - | |
| RCBC: | | | | | |
| Bank deposits | 6, 16.1 | (| 209,983,679) | 163,320,117 | on demand; interest-bearing |
| Short-term placements | 6, 16.1 | | 88,178,529 | 91,755,700 | on demand |
| Dividends paid | 11.3 | (| 500,000,000) | - | |
| Interest income | 12.1, 16.1 | | 121,184 | - | |
| Lease of office space | 16.3 | | 18,803,957 | 37,960,589 | subject to annual escalation |
| Advance rentals | 16.3 | | 162,070 | 7,038,638 | 5-year term with renewal options |
| Rental deposits | 16.3 | | 520,243 | 12,701,788 | 5-year term with renewal options |
| Service agreement | 16.4 | | 649,837,054 | 67,277,198 | non-interest bearing; unsecured |
| Dividend income | 16.5 | | 903,695 | - | collected in cash |
| Acquisition of shares | 16.5 | | - | 29,245,780 | measured at fair market value |
| IMA | 16.8 | | 44,788,486 | 85,627,862 | |
| Related Party | | | Amount of | Outstanding | |
| Category | Notes | | Transaction | Balance | Terms |
| 2022: | | | | | |
| Other related parties: | | | | | |
| Trading transactions | 16.9 | P | 823,245,011 | P 6,116,413 | |
| Commission income | 16.9 | | 2,059,781 | - | |
| Officers and employees: | | | | | |
| Loans to officers and employees | 8, 16.2 | (| 135,117) | 4,517,214 | subject to salary deduction; interest-bearing; not impaired |
| Key management personnel compensation | 16.6 | | 188,665,914 | - | |

16.1 Banking Transactions

In the ordinary course of business, the Group transacts with RCBC and with certain directors, officers, stockholders, and related interests (DOSRI). The major related party transactions include deposits, investments, borrowings, lending and other banking and securities transactions. These transactions are made substantially on the same terms as transactions entered into with other third party individuals and businesses of comparable risks.

As of December 31, 2023 and 2022, the Group has an outstanding cash deposits with RCBC which are payable on demand, and short-term placements with RCBC Trust and Investment Group and RCBC (see Note 6).

16.2 Loans Granted to Officers and Employees

The Group granted loans to officers and employees and are presented as part of Loans and other receivables from officers and employees under Loans and Other Receivables account in the consolidated statements of financial position (see Note 8). The loans to officers and employees, which include housing

loans, auto loans, salary loans and emergency loans, are interest bearing and payable through salary deduction. Housing loans and auto loans are secured by real and chattel mortgage, respectively.

The granting of such loans complies with the regulatory requirements on DOSRI. Under current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the individual's deposit and the book value of the investment in the Group. In the aggregate, loans to DOSRIs, generally, should not exceed the total equity or 15% of the total loan portfolio of the Group.

The total DOSRI loans represents 20% and 10% of the Group's total loans and other receivables as of December 31, 2023 and 2022, respectively (see Note 8). As of December 31, 2023 and 2022, the Group is in compliance with the existing regulations on DOSRI. These loans were subjected to the Group's ECL model and appropriate provisions were recognized.

16.3 Lease of Office Space

The Group leases its office space from RCBC. Rent expense and amortization of right-of-use assets recognized on these leased premises are reported in the consolidated statements of profit or loss as part of Occupancy and Equipment-related Expenses.

The Group has advance rentals and rental deposits with RCBC which amounted to P20.1 million and P19.7 million as of December 31, 2023 and 2022, respectively.

16.4 Service Agreement

In December 2013, relative to the transfer of Bankard credit card servicing operation to the Group, the BOD of RCBC approved the assignment of the Service Agreement (the Agreement) with Bankard and RCBC to the Group, in accordance with the Purchase Agreement. Under the Agreement, the Group shall provide RCBC with marketing, distribution, technical, collection and selling assistance and Processing services in connection with the operation of RCBC's credit card business.

The total service fees earned for services rendered to RCBC, which is reported as part of Commissions and Fees under Revenues in the consolidated statements of profit or loss, amounted to P742.4 million and P649.8 million in 2023 and 2022, respectively (see Note 17). The accrued service fee is shown as part of Receivable from a related party under Loans and Other Receivables account in the consolidated statements of financial position (see Note 8). These receivables are non-interest bearing, unsecured and collectible within 30 days. The outstanding receivable is deemed collectible; hence, no impairment losses were recognized in 2023 and 2022.

16.5 Acquisition of RCBC Equity Securities

The Group acquired equity securities of RCBC classified as financial assets at FVPL with total market value amounting to P33.6 million and P34.7 million as of December 31, 2023 and 2022, respectively. Dividend income received from such shares amounted to P1.6 million and P0.9 million in 2023 and 2022, respectively.

16.6 Key Management Personnel Compensation

The compensation of key management personnel for employee services is shown below.

| | <u>2023</u> | <u>2022</u> |
|--------------------------|-----------------------------|-----------------------------|
| Short-term benefits | P 143,441,647 | P 181,307,331 |
| Post-employment benefits | <u>6,823,114</u> | <u>7,358,583</u> |
| | <u>P 150,264,761</u> | <u>P 188,665,914</u> |

16.7 Retirement Plan

The Group's retirement plan is in the form of a bank-trustee managed account maintained with RCBC. The carrying and fair values of the retirement plan totaled P230.8 million and P215.1 million as of December 31, 2023 and 2022, respectively (see Note 14.2). The Group had no transactions with the retirement plan other than contributions and benefit payments.

The Group's plan asset includes the following investment with RCBC as of December 31:

| | <u>2023</u> | <u>2022</u> |
|-------------------------------|----------------------------|----------------------------|
| Cash and cash equivalents | P 33,045,953 | P 58,648,648 |
| Investment in shares of stock | 1,289,656 | 1,325,130 |
| Debt instruments | <u>-</u> | <u>760,698</u> |
| | <u>P 34,335,609</u> | <u>P 60,734,476</u> |

The retirement fund neither provides any guarantee or surety for any obligation of the Group nor its investments covered by any restrictions or liens. The details of the contributions of the Group and benefits paid out by the plan are presented in Note 14.2.

16.8 IMA

On December 23, 2014, RBSC entered into an IMA with the Trust and Investments Group of RCBC wherein RBSC availed of the services of RCBC relative to the management and investment of the RBSC's investible funds. The IMA account consists of savings and time deposits which are presented as part of Cash and Cash Equivalents account, and government and corporate bonds and equity securities which are presented as part of Financial Assets at FVPL account in the consolidated statements of financial position (see Notes 6 and 7). In 2023 and 2022, interest income earned on investments under the IMA amounted to P7.5 million and P4.5 million, respectively, is presented as part of Interest and Other Financing Income in the consolidated statements of profit and loss. Trust fees incurred amounted to P0.7 million and P0.6 million in 2023 and 2022, respectively which are presented as part of Miscellaneous under Other Operating Expenses account in the consolidated statements of profit and loss (see Note 13.2).

16.9 Trading Transactions

RSEC was engaged by PMMIC, RCBC, SMBC and other related parties as securities broker for shares traded in the PSE. In July 2023, SMBC engaged the services of the Company as securities broker to acquire an additional 15.01% equity stake in RCBC resulting in an increase of SMBC's shareholding to 20.00%. In consideration for the trading transactions, RSEC earns commission income which is presented as part of Commissions under Revenues section in the statements of profit or loss. Any outstanding receivables arising from these trading transactions, which are due within three days after transaction date, are presented as part of Receivables from stock brokerage customers under Loans and Other Receivables account in the consolidated statements of financial position and are collateralized by the listed equity securities traded by RSEC on behalf of the abovementioned related parties (see Note 8). On the other hand, outstanding payables arising from these trading transactions are presented as part of Payable to stock brokerage customers under Accrued Expenses and Other Liabilities account in the consolidated statements of financial position (see Note 10). The fair value of the equity securities which are held for trading purposes as of December 31, 2023 and 2022 amounted to P13.9 billion and P17.5 billion, respectively.

16.10 Sale of Transportation Equipment

In 2023, RSEC sold a transportation equipment to other related parties with a total consideration of P0.9 million. The outstanding receivable amounting to P0.9 million is presented as part of Receivable from a related party under Loans and Other Receivables account in the 2023 consolidated statement of financial position (see Note 8). The gain on sale totaling P3,650 is presented as part of Other Revenues account in the 2023 consolidated statement of profit or loss. There was no similar transaction in 2022.

17. COMMISSIONS AND FEES

This account consists of:

| | <u>Note</u> | <u>2023</u> | <u>2022</u> |
|-----------------------|-------------|-----------------------------|----------------------|
| <i>Point in time:</i> | | | |
| Underwriting fees | | P 83,587,670 | P 101,856,269 |
| Arrangement fees | | 68,813,032 | 128,712,976 |
| Commission fees | | 56,392,435 | 47,626,974 |
| Broker's fees | | 37,196,589 | 28,697,635 |
| Selling fees | | 415,828 | 2,926,845 |
| | | <u>246,405,554</u> | <u>309,820,699</u> |
| <i>Overtime:</i> | | | |
| Service fees | 16.4 | 742,410,958 | 649,837,054 |
| Advisory fees | | 2,793,249 | 11,397,849 |
| | | <u>745,204,207</u> | <u>661,234,903</u> |
| | | <u>P 991,609,761</u> | <u>P 971,055,602</u> |

18. COMMITMENTS AND CONTINGENCIES

There are other contingent liabilities and commitments that arise in the normal course of the Group's operations which are also not reflected in the consolidated financial statements of the Group.

Management is of the opinion that losses, if any, from these commitments and contingencies will not have material effects on the Group's consolidated financial statements.

19. MATURITY ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analyzed according to when they are expected to be recovered or settled:

| | 2023 | | | 2022 | | |
|--|------------------------|----------------------|------------------------|------------------------|----------------------|------------------------|
| | Within One Year | Beyond One Year | Total | Within One Year | Beyond One Year | Total |
| Financial Assets | | | | | | |
| Cash and cash equivalents | P 1,328,706,555 | P - | P 1,328,706,555 | P 859,090,497 | P - | P 859,090,497 |
| Trading and investment securities: | | | | | | |
| Financial assets at FVPL | 823,697,385 | - | 823,697,385 | 897,893,467 | - | 897,893,467 |
| Financial assets at FVOCI – net | 385,409,753 | 277,558,301 | 662,968,054 | 442,459,522 | 220,139,243 | 662,598,765 |
| Financial assets at amortized cost - net | 526,698,886 | 4,869,343 | 531,568,229 | 738,757,026 | 5,637,462 | 744,394,488 |
| Loans and other receivables - net | 122,237,865 | 14,405,613 | 136,643,479 | 193,506,880 | 10,049,512 | 203,556,392 |
| CTGF | - | 8,094,462 | 8,094,462 | - | 7,773,637 | 7,773,637 |
| Deposits | - | 24,965,698 | 24,965,698 | - | 24,133,759 | 24,133,759 |
| | <u>3,186,750,445</u> | <u>329,893,417</u> | <u>3,516,643,862</u> | <u>3,131,707,392</u> | <u>267,733,613</u> | <u>3,399,441,005</u> |
| Non Financial Assets | | | | | | |
| Deferred tax asset - net | - | 77,937,511 | 77,937,511 | - | 66,339,015 | 66,339,015 |
| Other assets - net | <u>19,729,719</u> | <u>257,980,389</u> | <u>277,710,108</u> | <u>18,833,533</u> | <u>180,305,695</u> | <u>199,139,228</u> |
| | <u>19,729,719</u> | <u>335,917,900</u> | <u>355,647,619</u> | <u>18,833,533</u> | <u>246,644,710</u> | <u>265,478,243</u> |
| | P 3,206,480,164 | P 665,811,317 | P 3,872,291,481 | P 3,150,540,925 | P 514,378,323 | P 3,664,919,248 |
| Financial Liabilities | | | | | | |
| Accrued expenses and other liabilities | P 359,190,631 | P 118,141,660 | P 477,332,291 | P 406,106,965 | P 71,013,521 | P 477,120,486 |
| Non Financial Liabilities | | | | | | |
| Accrued expenses and other liabilities | <u>68,816,734</u> | <u>-</u> | <u>68,816,734</u> | <u>9,472,157</u> | <u>11,631,058</u> | <u>21,103,215</u> |
| | P 428,007,365 | P 118,141,660 | P 546,149,025 | P 415,579,122 | P 82,644,579 | P 498,223,701 |

9. CAPITAL STRUCTURE AND CAPITAL ADEQUACY

A. CET 1 and a breakdown of its components

| As of December 31, 2023 (in ₱ million) | Conso | Solo |
|---|----------------|----------------|
| Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital | | |
| Paid up common stock | 2362.73 | 2362.73 |
| Retained Earnings | 877.89 | 877.89 |
| Undivided profits | 191.14 | 191.14 |
| Other Comprehensive Income | | |
| Net unrealized gains or losses on AFS securities | (67.81) | (67.81) |
| Re-measurement of Net Defined Benefit Liability/(Asset) | (16.04) | (25.53) |
| Others | (24.90) | (15.41) |
| Common Equity Tier 1 (CET1) Capital | 3323.01 | 3323.01 |
| Less: Regulatory Adjustments to CET1 Capital | | |
| Deferred tax assets | 85.37 | 13.05 |
| Other Intangible Assets | 0.00 | 0.00 |
| Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers brokers and insurance companies), after deducting related goodwill, if any | | 623.93 |
| Other equity investments in non-financial allied undertakings and non-allied undertakings | 546.96 | 382.18 |
| Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases) | 33.63 | 33.63 |
| Total Regulatory Adjustments to CET1 Capital | 665.96 | 1052.79 |
| Total Common Equity Tier 1 Capital | 2657.05 | 2270.22 |
| Additional Tier 1 (AT1) Capital | 0.00 | 0.00 |
| Less: Regulatory Adjustments to AT1 Capital | | |
| Total Additional Tier 1 (AT1) Capital | 0.00 | 0.00 |
| Total Tier 1 (Common Equity Tier 1 plus Additional Tier 1) Capital | 2657.05 | 2270.22 |
| Tier 2 Capital | | |
| General loan loss provision | 0.01 | 0.01 |
| Total Tier 2 capital | 0.01 | 0.01 |
| Less: Regulatory Adjustments to Tier 2 Capital | 0.00 | 0.00 |
| Total Tier 2 Capital | 0.01 | 0.01 |
| Total Qualifying Capital | 2657.05 | 2270.23 |

B. Tier 1 capital and a breakdown of its components

Please refer to the table in Item 9.A above.

C. Tier 2 capital and a breakdown of its components

Please refer to the table in Item 9.A above

D. Total qualifying capital

Please refer to the table in Item 9.A above

E. Capital conservation buffer

| Nature of Item | Conso | Solo | | | | | |
|---|--------|--------|---------------|--------------|---------------|--------------------|-------------------|
| RISK-BASED CAPITAL ADEQUACY RATIO | 46.93% | 63.94% | Minimum | Buffer | Total | Conso Over (Under) | Solo Over (Under) |
| Common Equity Tier 1 Ratio | 46.92% | 63.94% | 6.00% | 2.50% | 8.50% | 38.42% | 55.44% |
| of which is Capital Conservation Buffer | 40.92% | 57.94% | | | | | |
| Tier 1 Capital Ratio | 46.92% | 63.94% | 7.50% | | 7.50% | 39.42% | 56.44% |
| Total Capital Adequacy Ratio | 46.93% | 63.94% | 10.00% | 2.50% | | | |
| With Capital Conservation Buffer | | | | | 12.50% | 34.43% | 51.44% |

F. Capital requirements for credit risk (including securitization exposures)

| As of December 31, 2023 (in ₱ million) | Credit Risk | | Market Risk | | Operational Risk | |
|---|-------------|-----------|-------------|------------|------------------|-----------|
| | Conso | Solo | Conso | Solo | Conso | Solo |
| On-Balance Sheet Assets | 1,446 | 568 | | | | |
| Market Risk-Weighted Assets | | | 1,575 | 1,567 | | |
| Operational Risk using Basic Indicator Approach | | | | | 2,076 | 797 |
| Total | 1,446 | 568 | 1,575 | 1,567 | 2,076 | 797 |
| Capital Requirements | 145 | 57 | 157 | 157 | 208 | 80 |

G. Capital requirements for market risk

Please refer to the table in Item 9.F above.

H. Capital requirements for operational risk

Please refer to the table in item 9.F above.

I. Total CAR, Tier 1 and CET 1 ratios on both solo and consolidated basis

| As of December 31, 2023 | Conso | Solo |
|-------------------------------|--------|--------|
| Total Capital Adequacy Ratio | 52.14% | 77.44% |
| Tier 1 Capital Adequacy Ratio | 52.14% | 77.44% |
| Common Equity Tier 1 Ratio | 46.92% | 63.94% |
| Capital Conservation Buffer | 46.14% | 71.44% |

J. Full reconciliation of all regulatory capital elements back to the balance sheet in the audited financial statements (Solo Basis):

| Equity Accounts (in ₱ million) | Audited FS | BSP FRP/ CSOC | Change | Details | Amount |
|--|-----------------|------------------|---------------|---|--------|
| Common Stock | 2,362.73 | 2,362.73 | 0.0 | | |
| Revaluation Reserves | (113.95) | (108.75) | (5.20) | | |
| <i>Actuarial Gains and Losses on Retirement Plan - RCAP and subsidiaries</i> | (29.05) | (25.53) | (3.52) | Year-end audit adjustments | |
| <i>Net unrealized gains or losses on AFS securities</i> | (70.20) | (67.81) | (2.38) | NUGL of AFS Others in CSOC/CSIE but booked as NCAHS without MTM in Audited FS | (2.38) |
| <i>Others (NUGL and Impairment Reserves – FVOCI Debt)</i> | (14.70) | (15.41) | 0.71 | Year-end audit adjustments | 0.71 |
| Surplus | 1,077.36 | 1,069.03 | 8.33 | | |
| <i>Retained Earnings</i> | 877.89 | 877.89 | 0.0 | | |
| <i>Undivided Profits</i> | 199.47 | 191.14 | 8.33 | Year-end adjustments on various income/expense accounts | 8.33 |
| Total Capital | 3,326.14 | 3,323.01 | 3.14 | | |

| Conso | As of December 31, 2023 | | | | |
|--|-------------------------|-----------------|-----------------|-------------------|-------------------------------|
| FRP Equity Accounts (in ₱ million) | CSOC/ FRP | CET1 Capital | Add'l Tier 1 | Tier 2 Capital | Total Basel III Capital |
| <i>Paid in Capital Stock</i> | 2,362.73 | 2,362.73 | - | | 2,362.73 |
| Common Stock | 2,362.73 | 2,362.73 | | | 2,362.73 |
| Retained Earnings | 877.89 | 877.89 | | | 877.89 |
| Undivided Profits | 191.14 | 191.14 | | | 191.14 |
| Other Comprehensive Income | (108.75) | (108.75) | | | (108.75) |
| Total Equity Accounts | 3,323.01 | 3,323.01 | | | 3,323.01 |
| Other Accounts Eligible as Regulatory Capital | | | | | |
| Regulatory Adjustments/Deductions to CET1 Capital | | | | | |

| Conso | | As of December 31, 2023 | | | |
|---|----------------------|--------------------------------|-------------------------|---------------------------|--|
| FRP Equity Accounts (in ₱ million) | CSOC/ FRP | CET1 Capital | Add'l Tier 1 | Tier 2 Capital | Total Basel III Capital |
| Deferred tax assets | (85.37) | (85.37) | | | (85.37) |
| Other Intangible Assets | | | | | 0.00 |
| Other equity investments in non-financial allied undertakings and non-allied undertakings | (546.96) | (546.96) | | | (546.96) |
| Reciprocal investments in common stock of other banks quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases) | (33.63) | (33.63) | | | (33.63) |
| Total Regulatory Capital | 2,506.78 | 2,657.05 | - | - | 2,657.05 |

| Solo | | As of December 31, 2023 | | | |
|---|----------------------|--------------------------------|-------------------------|---------------------------|------------------------------------|
| FRP Equity Accounts (in ₱ million) | CSOC/ FRP | CET1 Capital | Add'l Tier 1 | Tier 2 Capital | Total Basel III Capital |
| Paid in Capital Stock | 2362.73 | 2362.73 | - | | 2362.73 |
| Common Stock | 2,362.73 | 2,362.73 | | | 2,362.73 |
| Retained Earnings | 877.89 | 877.89 | | | 877.89 |
| Undivided Profits | 191.14 | 191.14 | | | 191.14 |
| Other Comprehensive Income | (108.75) | (108.75) | | | (108.75) |
| Total Equity Accounts | 3323.01 | 3323.01 | - | | 3323.01 |
| Other Accounts Eligible as Regulatory Capital-- | | | | | |
| Regulatory Adjustments/Deductions to CET1 Capital | | | | | |
| Deferred tax assets | (13.05) | (13.05) | | | (13.05) |
| Investments in equity of unconsolidated subsidiary securities dealers/brokers and insurance companies after deducting related goodwill, if any (for both solo and consolidated bases and as applicable) | (623.93) | (623.93) | | | (623.93) |
| Other equity investments in non-financial allied undertakings and non-allied undertakings | (382.18) | (382.18) | | | (382.18) |
| Reciprocal investments in common stock of other banks/quasi-banks and financial allied undertakings including securities dealers/brokers and insurance companies, after deducting related goodwill, if any (for both solo and consolidated bases) | (33.63) | (33.63) | | | (33.63) |
| Total Regulatory Capital | 2,270.22 | 2,270.22 | - | - | 2,270.22 |

K. All regulatory adjustments/deductions, as applicable

Regulatory Adjustments to Capital consists of the sum of the following accounts:

- a. Unsecured credit accommodations
- b. Unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates
- c. Deferred Tax Assets
- d. Goodwill
- e. Other Intangible Assets net of any allowance for impairment
- f. Defined benefit pension fund assets (liabilities)
- g. Investments in equity of unconsolidated subsidiary banks, RCBC Securities Incorporated, and RCBC Bankard Services Corporation, for the solo reporting
- h. Other equity investments in non-financial allied undertakings and non-allied undertakings represent investments in various listed companies. Such investments are currently classified under the Financial Assets at Fair Value thru Other Comprehensive Income (FVOCI)

L. Description of the main features of capital instruments issued

No capital instrument was issued for the year. The company's existing capital base is primarily capital stock, surplus and undivided profits and other comprehensive income. Please refer to the table in Item 9.A for the details.

M. Comprehensive explanations of how ratios involving components of regulatory capital are calculated

Ratios of common equity tier 1 (CET 1) capital, tier 1 capital and total qualifying capital are computed by dividing each component over the total risk-weighted assets.

Regulatory Capital consist of the sum of the following accounts as reported in the BSP Financial Reporting Package (FRP) which are eligible as common equity tier 1 (CET1) and Additional Tier 1 (AT1) capital guided by Circular No. 781 - Basel III Implementing Guidelines on Minimum Capital Requirements:

- a. Paid up common stock
- b. Retained Earnings
- c. Undivided Profits
- d. Other Comprehensive Income
 - Net Unrealized Gains or Losses on AFS Securities
 - Cumulative foreign currency translation
- e. Minority Interest in Subsidiaries (for consolidated report only)

Regulatory Adjustments to Capital consists of the sum of the following accounts:

- a. Unsecured credit accommodations
- b. Unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates
- c. Deferred Tax Assets
- d. Goodwill
- e. Other Intangible Assets net of any allowance for impairment
- f. Defined benefit pension fund assets (liabilities)
- g. Investments in equity of unconsolidated subsidiary banks, RCBC Securities Incorporated, and RCBC Bankard Services Corporation, for the solo reporting

- h. Other equity investments in non-financial allied undertakings and non-allied undertakings represent investments in various listed companies. Such investments are currently classified under the Financial Assets at Fair Value thru Other Comprehensive Income (FVOCI)

Tier 2 capital consists of the General Loan Loss Reserves which is equivalent to 1% of the credit risk-weighted assets.

10. GENERAL RISK EXPOSURES AND ASSESSMENTS

A. Strategies and processes

MARKET RISK

The company assumed market risk in trading activities by taking positions in financial instruments, such as fixed income and equity securities.

Risk Assessment Process

The market metrics in use include the following:

- Nominal Position – an open risk position that is held as of any point in time expressed in terms of the nominal amount of the exposure.
- Value-at-Risk (VaR) - an estimated of the amount of loss that a given risk exposure is unlikely to exceed during a given time period, at a given level of statistical confidence. Analytically, VaR is the product of: (a) the sensitivity of the market value of the position to movement of the relevant market risk factors and (b) the volatility of the market risk factor for the given time horizon at a specified level of statistical confidence.

Risk Control Set-up

The Risk-taking Approval Process

The setting of specific risk levels takes its cue from the general business and risk appetite set by the Board. The setting of tolerance levels is approved by the ROC. Guided by institutional risk-reward targets set by the Board, and aided by information provided by market risk-specific undertakings, the ROC decides on the proposed exposure levels, and sets the risk limits accordingly.

Risk Tolerance

The company sets a more rationalized set of risk limits, such that products, in general are aggregated as either trading or investment positions. These market (or price) risk tolerances are with respect to: a) position, b) value-at-risk (VaR), and c) loss. Where appropriate, management action triggers are likewise set.

- Trading position limits are driven initially by target trading revenue; but ultimate approval is provided in the context of the overall risk tolerance set by the company.
- Value-at-Risk (VaR) is the estimated maximum potential loss on a position, during a given time period, at a specified statistical probability level. The given time period referred to is one that allows an orderly liquidation period, or time to unwind a position. The company makes an assumption as to these unwind periods. The probability level at which the company estimates VaR is 99%.

- The Loss Limit defines the maximum loss the company is prepared to absorb for any given period, ordinarily a month.

Equities Portfolio

The company's portfolios of equities in the trading books are classified as Fair Value Through Profit and Loss (FVTPL) and Fair Value Through Other Comprehensive Income (FVOCI). The procedure for fair valuation is documented in the operations manual.

An equity portfolios position limit, expressed as a nominal position, provides the first measure of risk tolerance.

Fixed Income Portfolio

The company's portfolios of fixed income securities in the trading books are classified as Fair Value Through Profit and Loss (FVTPL) and Hold-to-Collect (HTC). The procedure for fair valuation is documented in the operations manual.

Aggregate Risk Tolerance Level

To control overall trading risk, the company likewise sets aggregate VaR and Loss levels. The responsibility for monitoring compliance to portfolio market risk limits is vested upon the risk officer.

Risk Monitoring and Reporting

| Report | Description | Frequency |
|---|--|-----------|
| 1. Limits Monitoring 1.1 Month to Date Gain/ Loss 1.2 Value at Risk | Report showing the following limits vs. levels: Profit & Loss, Value at Risk | Daily |
| 2. Stress Tests | Report showing values of the portfolios under extreme market movements | Weekly |
| 3. Backtest | Report showing how adequate the Value at Risk model predicts the maximum loss the company may incur in a day | Quarterly |

Limit Breaches

Whenever a loss limit is breached, the Portfolio Manager seeks the guidance of management relative to the position. Three alternative courses of action are available, as follows:

- Unwind the position, wholly or in part (and if the latter, to what extent); and stop trading for the month. In this case, no transactions will take place other than sell the position (if long) or buy (if short).
- Hold the position and stop trading for the month. Sell or buy but only if this reduces the loss, i.e., for long position, sell on price uptick at the discretion of the Portfolio Manager subject to the approval by the Management.
- Continue normal trading activity (as if nothing happened) and establish temporary loss limit for the month in question.

Exception Approval & Authority Delegation

The following summarizes the current practice with regard to exception approvals and authority delegations. These practices are an offshoot of market risk monitoring and reporting.

- ROC approval of exceptions requires the approval of at least two (2) members.
- The President/Chief Executive Officer is given authority to temporarily relax any Loss Limit. Occurrence and the use of such authority should be reported in the next ROC meetings.

LIQUIDITY RISK

A potential or probable loss to earnings and capital arising from the company's inability to meet its obligations when they fall due may be due to either the company's inability to liquidate assets or obtain adequate funding, or the inability to unwind large exposures without significantly lowering market prices.

The main tool for liquidity risk management is the Maximum Cumulative Outflow (MCO) Report. Policies relating to the management of liquidity risk are approved by the ROC.

Risk Assessment Process

Liquidity risk is measured using the established Maximum Cumulative Outflow (MCO) method, which in turn is based on historical observations and simulations of prospective liquidity risk events. The starting point of an MCO analysis is liquidity (cash flow) gapping.

In addition to the quantitative assessment of the company's over-all liquidity profile, it has a well-established contingency funding plan (CFP). The plan strives to define liquidity stress levels from the standpoint of both systemic and name-specific crisis including the early warning indicators and the crisis management process once the plan is activated.

Risk Control and Mitigation

The company's appetite for liquidity risk is set via the establishment of the Maximum Cumulative Outflow (MCO) limit, which is guided by relevant factors, including the availability of lines of credit that may be drawn down without creating any adverse market reaction. When a limit for a time bucket is not defined, it is assumed to be zero, which means that, as a matter of policy direction, liquidity flows are planned so that no cumulative outflow (no negative cumulative gap) is reported for that time bucket.

Likewise, regular monitoring of sufficient stock of liquid assets for use during a crisis scenario and ensuring that structural funding mismatches are within tolerance levels constitute the company's mitigating techniques.

The tracking of approved liquidity triggers based on selected market indicators is also one of the company's risk mitigating activities. The following spells out the market indicators monitored by the risk officer.

| Stress Event | Warning | Parameter |
|--|---|--|
| Inability to sell equity issues | Substantial and sudden decline in hot money investments in the stock market. | Stock exchange indices |
| Inability to sell equity Issues | Substantial decline in value turnover in the stock market | Stock exchange indices |
| Inability to sell fixed income securities and/or non-equity assets | Deterioration of market values of fixed income investments | Fixed income exchange indices |
| Inability to access funding lines | Elimination of committed credit lines by counterparties (country and credit name issue) | Rapid decline in stock price: Stock Exchange indices, RCBC stock price |

| Stress Event | Warning | Parameter |
|-----------------------------------|--|--|
| Inability to access funding lines | Significant increases in funding costs | Spread between short-term and long-term borrowing benchmarks |

Once any of the triggers are hit, the ROC-approved policy mandates the coordination of the senior management for an assessment if indeed a liquidity event looms.

Basel III

The BSP in 2015 issued two exposure drafts on the implementation of the Liquidity Coverage Ratio (LCR). The company regularly computes its LCR. Computed values are submitted to the Parent Bank for consolidation. Furthermore, the LCR serves as a guide when considering both the short-term and long term strategic investment and funding initiatives of the company.

CREDIT RISK

The company engages in the purchase and sale of fixed income securities. In particular, the company currently invests in the purchase of corporate bonds. The credit risk is associated with the issuer's ability to pay its principal and interest obligations to the holder of the security it issued. If the position is an investment position, the company is exposed to this risk until maturity.

Risk Monitoring and Reporting

| Report | Description | Frequency |
|--------------------|--|-----------|
| Credit risk rating | Report obtained from the website of the Philippine Rating Services Corporation, containing the current credit risk rating of corporate bonds | Monthly |
| Financial ratios | Report on the financial performance of the bond issuers based on their financial statements | Quarterly |

Risk Control and Mitigation

The company only invests in bonds with high credit ratings as assessed by the Philippine Rating Services Corporation (PhilRatings). PhilRatings is the pioneer domestic credit rating agency that is accredited by the Securities and Exchange Commission and recognized by the Bangko Sentral ng Pilipinas.

Once there is deterioration in the bond issuer's financial standing, senior management will assess how the fixed income security should be liquidated.

OPERATIONAL RISK

Operational risks are risks arising from the potential inadequate information systems, operations or transactional problems (relating to service or product delivery), breaches in internal controls and fraud or unforeseen catastrophes that may result in unexpected loss. Operational risks include the risk of loss arising from various types of human or technical error, settlement or payments failures, business interruption, administrative and legal risks, and the risk arising from systems not performing adequately.

Operational Risk Management (ORM) Tools

For purposes of identification, monitoring and reporting analysis, the company categorizes operational risk events as follows:

1. Internal Fraud – Losses due to acts of a type intended to defraud, misappropriate funds/property or circumvent regulations, the law or company policy, excluding diversity/discrimination events, which involves at least one internal party. Example is theft of company property by staff.
2. External Fraud – Losses due to acts of a type intended to defraud, misappropriate funds/property or circumvent the law, by a third party. Example includes forgery of the drawer's signature on checks drawn on the bank.
3. Employment Practices and Workplace Safety – Losses arising from acts inconsistent with employment, health or safety laws or agreements, from payment of personal injury claims, or from diversity/discrimination events. This includes events arising from organized labor activity.
4. Clients, Products and Business Practices – Losses arising from an unintentional or negligent failure to meet a professional obligation to specific clients (including fiduciary and suitability requirements), or from the nature or design of a product. Example is legal liability that may arise from the sale of products to customers deemed without proper risk disclosure.
5. Damage to Physical Assets – Losses arising from loss or damage to physical assets from natural disaster or other events such as those caused by natural calamities as well as those caused by terrorism.
6. Business Disruption and System Failures – Losses arising from disruption of business or system failures such as information systems or telecommunications failure which disables the bank's ability to conduct its business with customers.
7. Execution, Delivery and Process Management – Losses or events arising from failure of transaction processing, process management from relations with trade counter parties and vendors/alliance partners/service providers. Example is incomplete legal documentation of credit exposures.

To aid in the management of operational risk and the analysis of the company's operational risk profile, the following tools are used:

Loss Events Reporting

Information on losses is a fundamental part of the company's operational risk management process, as losses are a clear and explicit signal that a risk event has occurred. This may be due to the failure of control, the lack of control or simply a very unusual event that was not foreseen.

Businesses are required to report their loss events. These reports include losses reported to BSP, special audit cases, and other loss incidents occurring in the business such as penalties, etc. Potential losses and near misses are likewise required to be reported.

Key Risk Indicators (KRI)

KRI are used to monitor the operational risk profile and alert the company to impending problems in a timely fashion. KRIs facilitates the forward looking management of operational risk and provides information on the level of exposure to a given operational risk at a particular point in time. These indicators allow the monitoring of the company's control culture and trigger risk mitigating actions.

KRIs includes measurable thresholds that reflect risk appetite. These are monitored to serve as alerts when risk levels exceed acceptable ranges and drive timely decision making and actions.

Risk and Control Self-Assessment (RCSA)

The company identifies and assesses all risk within each business and evaluates the controls in place to mitigate those risks. Business and support units use self-assessment techniques to

identify risks, evaluate the effectiveness of controls in place, and assess whether the risks are effectively managed within the business.

In the annual self-assessment process, areas with high risk potential are highlighted and risk mitigating measures to resolve them are identified. Risk assessment results are then reviewed and discussed with the head and senior officers of business and support units. These discussions of assessment results enable management to detect changes to risk profiles, and consequently take corrective actions.

Risk Assessment Process

The company uses the Basic Indicator Approach in its assessment of this risk, as it relates to capital adequacy determination. It however uses an Operational Risk Management System (ORMS) to monitor operational risk, compile and analyze operational risk data and to facilitate timely reporting mechanisms for the company's ROC, senior management, and business line levels that support proactive management of operational risk.

The following are the current methodologies used in assessing the company's operational risk profile.

Probability and Severity Analysis

This tool is used to quantify the likelihood (or frequency) and impact (or consequence) of identified risks in order to prioritize risk response activities. The probability addresses: a) the likelihood of the risk event occurring (the uncertainty dimension) based on current status of mitigation actions, and b) the impact detailing the extent of what would happen if the risk were to materialize (the effect dimension).

Probability assessment uses a 5-scale likelihood factor matrix ranging from "least likely" to "almost certain". Impact Assessment on the other hand employs a 5-scale severity factor matrix ranging from "least severe" to "very severe".

Control Rating

Existing controls are assessed likewise using a 5-scale control adequacy matrix ranging from "substantially under control" to "no controls in place".

Risk Rating

The Probability & Severity Analysis described above, along with the control rating, result in a Risk Rating. It is a quantitative measure of the risk level of each event, and helps to focus on those determined to be high risk. For each risk event identified, a risk score is calculated and later classified as: High (Red), Medium (Yellow) and Low (Green). The scale is as follows:

| Risk Description | Risk Rating |
|------------------|--------------------|
| Low (Green) | Risk Score 1 - 4 |
| Medium (Yellow) | Risk Score 5 - 10 |
| High (Red) | Risk Score 11 - 25 |

Risk Monitoring and Reporting

The continuous monitoring and reporting of operational risk is a key component of an effective Operational Risk Management Framework. Therefore, it is imperative that reports on operational risks are submitted on a timely basis, and information generated both for external and internal parties are reported internally to senior management and the Board where appropriate.

In accordance with its monitoring and reporting functions, the risk officer prepares reports on operational risk as follows:

| Report | Frequency | Reported to |
|----------------------------------|-----------|--------------------------|
| Loss Events | Quarterly | Risk Oversight Committee |
| Key Risk Indicators | Quarterly | Risk Oversight Committee |
| Risk and Control Self-Assessment | Annual | Risk Oversight Committee |

Operational Risk Control and Mitigation

The company endeavors to operate within a strong control environment focused on the protection of its capital and earnings, while allowing the business to operate such that the risk are taken without exposure to unacceptable potential losses through the utilization of approved policies, sound processes, and reliable information technology systems. These controls include: segregation of duties, dual controls, approvals and authorization, exception reporting, sound technology infrastructure, product manuals and circulars review.

B. The structure and organization of the relevant risk management function

Please refer to Item 10.A above

C. The scope and nature of risk reporting and/or measurement systems

Please refer to Item 10.A above

D. Policies for hedging and/or mitigating risk and strategies and processes for monitoring the continuing effectiveness of hedges/mitigants

Please refer to Item 10.A above

1) Total credit risk exposures broken down by type of exposures

* Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision

| Type of Exposures (in ₹ million) | Total Exposure s* | Credit Risk Mitigants (CRM) | Total Credit Risk Exposure after CRM | Risk Weights (%) | | | | | | Total Risk Weighted Assets |
|-------------------------------------|----------------------|--------------------------------|---|------------------|--------|----|----|----------|------|----------------------------|
| | | | | 0 | 20 | 50 | 75 | 100 | 150 | |
| On-Balance Sheet Exposures | | | | | | | | | | |
| Sovereigns | - | - | - | - | - | - | | - | | - |
| Banks | 851.01 | - | 851.01 | 821.33 | - | - | | 29.69 | | 851.01 |
| Corporates | 647.58 | - | 647.58 | - | 221.64 | - | - | 425.94 | - | 647.58 |
| ROPA | - | - | - | - | - | - | - | - | | - |
| All other assets, net of deductions | 0.00 | - | 0.00 | - | - | - | - | - | 0.00 | 0.00 |
| Total on-balance sheet exposures | 1,870.72 | - | 1,870.72 | | | | | 1,870.72 | | 1,870.72 |
| Off-balance sheet exposures | 3,369.32 | - | 3,369.32 | 821.33 | 221.64 | - | - | 2,326.35 | 0.00 | 3,369.32 |
| Total | - | - | - | - | - | - | - | - | - | - |
| Deductions from Capital | 3,369.32 | - | 3,369.32 | 821.33 | 221.64 | - | - | 2,326.35 | 0.00 | 3,369.32 |
| Total, net of deductions | 1,802.42 | - | 1,802.42 | - | - | - | - | 1,802.42 | - | 1,802.42 |

* Principal amount for on-balance sheet and credit equivalent amount for off-balance sheet, net of specific provision

2) Total credit risk exposure after risk mitigation, broken down by:

i. Type of exposures

Please refer to the tables in Item 11.A.1 above.

ii. Risk buckets, as well as those that are deducted from capital

Please refer to the tables in Item 11.A.1 above.

3) Total credit risk-weighted assets broken down by type of exposures

| Conso On-Balance Sheet Assets (in ₱ million) | As of December 31, 2023 | | | | | | | | | |
|--|-------------------------|--------------------------------------|---|------------------|---------------|-------------|----------|-----------------|-------------|-----------------|
| | Principal Amount | Credit Risk Mitigants (CRM) | Total Credit Risk Exposure after CRM | Risk Weights (%) | | | | | | Total |
| | | | | 0 | 20 | 50 | 75 | 100 | 150 | |
| Due from Bangko Sentral ng Pilipinas | 3.54 | - | 3.54 | 3.54 | | | | | | 3.54 |
| Due from Other Banks | 507.97 | - | 507.97 | | | | | 507.97 | | 507.97 |
| Financial Assets Designated at Fair | 40.42 | - | 40.42 | 31.07 | 9.35 | | | | | 40.42 |
| Available for sale – Financial Assets | 116.01 | - | 116.01 | | 116.01 | | | - | | 116.01 |
| Held-to-Maturity (HTM) Financial | 531.57 | - | 531.57 | | 105.63 | - | | 425.94 | | 531.57 |
| Loans and Receivables | 26.67 | - | 26.67 | | | 6.55 | | 20.12 | | 26.67 |
| Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, and Securities Lending and Borrowing Transactions | 817.79 | - | 817.79 | 817.79 | | | | | | 817.79 |
| Real and Other Properties Acquired | 1.46 | - | 1.46 | | | | | | 1.46 | 1.46 |
| Other Assets | 439.86 | - | 439.86 | | | | | 439.86 | | 439.86 |
| Total Exposures | 2,485.28 | - | 2,485.28 | 852.40 | 230.98 | 6.55 | - | 1,393.89 | 1.46 | 2,485.28 |
| Total Risk-weighted On-Balance | 1,445.56 | - | 1,445.56 | - | 46.20 | 3.27 | - | 1,393.89 | 2.20 | 1,445.56 |

Solo

| On-Balance Sheet Assets (in ₱ million) | As of December 31, 2023 | | | | | | | | | |
|--|-------------------------|-----------------------------------|---|------------------|---------------|----------|----------|---------------|----------|-----------------|
| | Principal Amount | Credit Risk Mitigants (CRM) | Total Credit Risk Exposure after CRM | Risk Weights (%) | | | | | | Total |
| | | | | 0 | 20 | 50 | 75 | 100 | 150 | |
| Due from Bangko Sentral ng Pilipinas (BSP) | 3.54 | - | 3.54 | 3.54 | | | | | | 3.54 |
| Due from Other Banks | 29.69 | - | 29.69 | | | | | 29.69 | | 29.69 |
| Financial Assets Designated at Fair Value | - | - | - | | | | | | | - |
| Available for Sale–Financial Assets | 116.01 | - | 116.01 | | 116.01 | | | | | 116.01 |
| Held-to-Maturity (HTM) Financial Assets | 531.57 | - | 531.57 | | 105.63 | - | | 425.94 | | 531.57 |
| Loans and Receivables | 0.85 | - | 0.85 | | | | | 0.85 | | 0.85 |
| Loans and Receivables Arising from Repurchase Agreements, Certificates of Assignment/ Participation with Recourse, and Securities Lending and Borrowing Transactions | 817.79 | - | 817.79 | 817.79 | | | | | | 817.79 |
| Other Assets | 67.46 | - | 67.46 | | | | | 67.46 | | 67.46 |
| Total Exposures | 1,566.90 | - | 1,566.90 | 821.33 | 221.64 | - | - | 523.94 | - | 1,566.90 |
| Total Risk-weighted On-Balance Sheet Assets | 1,566.90 | - | 1,566.90 | - | 44.33 | - | - | 523.94 | - | 568.26 |

4) Names of external credit assessment institutions used and the types of exposures for which they were used

RCBC Capital uses the Philippine Rating Services Corporation (PhilRatings) for the company's investments in corporate bonds.

5) Types of eligible credit risk mitigants used including credit derivatives

None

- 6) For QBs with exposures to securitization structures
- Accounting policies for these activities
RCBC Capital has no exposure to securitization structures.
 - Total outstanding exposures securitized by the QB
RCBC Capital has no exposure to securitization structures.
 - Total amount of securitization exposures retained or purchased broken down by exposure type
RCBC Capital has no exposure to securitization structures.
- 7) Total outstanding amount of credit protection given by the QB broken down by type of reference exposures
- None
- 8) Total outstanding amount of other types of structured products issued or purchased by the QB broken down by type
- None

B. Market Risk

- 1) Total market risk weighted assets broken down by type of exposures (interest rate, equity, foreign exchange and options)

| Using Standardized Approach (in ₱ million) | Conso | | Solo | |
|---|-----------------|-----------------------------|-----------------|-----------------------------|
| | Notional Amount | Market Risk Weighted Assets | Notional Amount | Market Risk Weighted Assets |
| Interest Rate Exposures | 40 | 8 | - | - |
| Equity Exposures | 783 | 1,567 | 783 | 1,567 |
| Total | 824 | 1,575 | 783 | 1,567 |

- 2) For QBs using the internal models approach
- The characteristics of the models used

Delta-Normal Approach

The method for estimating VaR is a parametric approach that assumes that the risk factors follow a normal distribution. The advantage of the normal distribution is, it only requires two parameters, the mean and standard deviation, to define it.

The mean parameter is estimated by the average of the sample data. However, since the data modeled in market risk are usually the changes of market factors, the standard assumption is that the mean of the changes is zero.

The standard deviation (SD) parameter is estimated by the standard deviation of the sample data. The SD of market factor changes can be viewed as a measure of the volatility of those factors. The higher the standard deviation is, the more volatile that factor is.

In obtaining the standard deviation of the sample, one should build and maintain historical database of various market factors. For fixed income portfolio, the market factors are interest rates. These are taken to be the zero rates rather than par rates. If zero rates are not available, these can be derived from par rates using the bootstrapping method.

In modeling volatility of the factors, there are various return series such as actual returns and log normal returns that can be utilized. Although there is no theoretical proof on which kind of return is better, the standard practice is to use lognormal returns. Also, it seems more logical to use since it can be viewed as the percentage change and thus considers current risk factor levels.

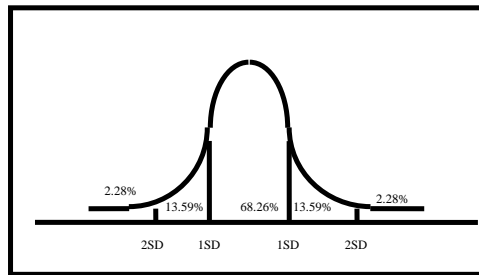
$$\text{percentagechange} = \sigma(r_t)$$

Secondly, to obtain the actual change, one multiplies this percentage change to the current rates. (Last month's average rate, "average", is taken as the current rate in the company's practice.)

$$\text{actualchange} = \text{average} \times \sigma(r_t)$$

The confidence level usually refers to the probability that an event (e.g. rate movement of 200 bps) would occur. Under a normal distribution, the size of the SD from the mean determines the range of probability the event will occur.

For the normal distribution, 68.26% of all likely movements would be within 1 SD of the mean, while 2 SD encompasses 95.44% of all likely rate movements. (In the figure below, measures of 2SD encompass 68.26% plus 13.59% and 13.59% totaling 95.44% of all outcomes.)



Because VaR is mainly concerned with potential loss, the main focus for VaR computation is the left side of the distribution. Therefore the level of confidence of a 2 SD measure of risk is said to be 97.72% instead of 95.44%. The additional 2.28% is the area that is more than 2 SD but on the right side of the distribution. This is referred to as one-tailed confidence level. In the company's practice, the one-tailed confidence level is the perspective when discussing confidence level.

Continuing with the example above, to obtain the 99% confidence level, multiply the actual change volatility by 2.326, the number of SD movement it is equivalent to. Thus, the yield volatility with 99% confidence level is the product of: 2.326 which is the number of SD corresponding to the confidence level of 99%, the current average rate (average) and the percentage change in the risk factor.

$$\text{yieldvolatility} = 2.326 \times (\text{average}) \times \sigma(r_t)$$

The impact of the volatility to the instrument can be estimated through *delta valuations*. Delta valuation uses the fact that the change in value of the instrument can be approximated by multiplying its market value- or price-sensitivity to the risk factor at the initial position, by the change in risk factor.

For fixed income securities, the price sensitivity of the instrument is measured by DV01 and the risk factor would be interest rates, particularly zero rates. Value-at-Risk (VaR) for a fixed income instrument is DV01 multiplied by the yield volatility.

Historical Simulation Approach

This computation of VaR assumes that historical data reflect future prices and correlation as well. The simulation requires historical data of the market factors concerned. The current position for each day of the historical horizon chosen is valued using the historical market factors for the day, and then for the following day. The difference would be the hypothetical gain/loss for the day had the position been held. This simulation results to a distribution of the daily gains/losses of the portfolio. One can then derive the mean and the 1st or 99th percentile of the historical gains/losses. Since the mean may be substantial in this case, the VaR with a 99% confidence level is defined as the mean minus the 99th percentile of the distribution.

For the equities portfolios, the company uses this approach in VaR estimation.

Volatility Estimation

The size of the data series used to estimate volatility affects the VaR calculations. On the one hand a limited time series may not capture risk factor movements occurring beyond the range of the time series. Relevant movements are thus “forgotten”. On the other hand, an inordinately long series may contain data that is no longer relevant in the current economic / business regime due to structural changes that have taken place. The choice of the length of the time series is thus a judgment that takes these into account.

The company uses a minimum of 780 days (approximately equivalent to 3 years) of historical data for volatility estimation.

The volatility over a period of days is not a linear sum of the daily volatility. A statistical estimate is to multiply the 1-day volatility by the square root of the number of days in the period. Thus, to estimate annual volatility, multiply daily volatility by the square root of the number of trading days in the year.

ii. A description of stress testing applied to the portfolio

Stress testing involves estimating how the portfolio would have performed under some of the most extreme market moves in the last 10 to 20 years. It can also be considered as a way of taking into account extreme events that do occur from time to time but that are virtually impossible according to the probability distributions assumed for market variables.

For the equities portfolios, a 5-standard deviation daily move in the market prices was applied to the current prices. For the fixed-income portfolio, a 200 bps change in yield was assumed for all tenors in the current yield curve.

iii. A description of the approach used for backtesting/validating the accuracy and consistency of the internal models and modeling processes

Back-Testing of VaR vs. Hypothetical Daily Profit & Loss Figures

The company uses a back-testing methodology where the position of each trading day is marked-to-market using prices of the following trading day and thereby calculates a “hypothetical” daily P&L for the portfolio. The underlying logic is that if the portfolio remained constant, then its daily P&L would be the result of the daily movement of the prices of the instruments comprising the portfolio. P&L resulting from the buying/selling of the same instrument during the day is not considered. It thus corresponds directly to what VaR is attempting to measure.

Each VaR confidence level has an implied frequency of losses greater than VaR to be expected, which can be compared against the actual frequency of losses that exceed VaR. A loss exceeding VaR is an *exception*. There is an expected number of exceptions associated with each VaR confidence level. The actual number of exceptions shown by back-testing compared with the expected number of exceptions determines the VaR model's acceptability.

The BIS-recommended VaR back-testing framework involves testing the number of times that trading losses exceeded the 99% confidence level (2.326 SD) VaR calculation for the past year. This formal testing and accounting of exceptions is to be done on at least an annual basis.

The BIS categorizes⁴ the number of exceptions into three “zones” as follows:

The green zone shows the range of exceptions which suggest no problems with the quality or accuracy of the model, and the probability of erroneously accepting an inaccurate model is very low.

The yellow zone shows the range of exceptions where questions should be raised about model accuracy, but the conclusion of inaccuracy is not definitive. In this middle zone back-testing results are consistent with both accurate and inaccurate models.

The red zone refers to the situation in terms of the number of exceptions indicating an almost certainty of a problem with the model, and the probability of erroneously rejecting an accurate model is very remote.

The table below shows the zones for a 99% VaR model. It also shows the suggested increases in the so-called “multiplicative factor” which is the factor used to multiply VaR with if this was being used for capital adequacy calculation purposes under Basel guidelines:

| ZONE | Number of Exceptions (out of 250 days) | Increase in Multiplicative Factor |
|-------------|---|-----------------------------------|
| Green Zone | 0 | 0.00 |
| | 1 | 0.00 |
| | 2 | 0.00 |
| | 3 | 0.00 |
| | 4 | 0.00 |
| Yellow Zone | 5 | 0.40 |
| | 6 | 0.50 |
| | 7 | 0.65 |
| | 8 | 0.75 |
| | 9 | 0.85 |

⁴ The approach was concerned with two types of errors in testing model validity: type 1) where a model is accurate, but is rejected and, type 2) where a model is inaccurate but is accepted.

| ZONE | Number of Exceptions (out of 250 days) | Increase in Multiplicative Factor |
|----------|---|-----------------------------------|
| Red Zone | 10 or more | 1.00 |

iv. The scope of acceptance by the BSP

Regarding the internal models, stress testing, and backtesting methodologies the company applies, it had not received any feedback from the BSP except for the VaR model used in the equities portfolios. The BSP required the model to be validated by an independent party. This has already been done by the company and will be ready for the next BSP audit for examination

v. A comparison of VaR estimates with actual gains/losses experienced by the QB, with analysis of important outliers in backtest results.

For the fixed income portfolio, four (4) exceptions were noted for the year. No outliers were noted in the backtest results for the year 2023. Using the table above, the number of exceptions for the model is still in the green zone.

For the equities portfolios, there was no exception noted in the backtest results.

C. Operational risk

1. Operational risk-weighted assets

| Nature of Item (in ₱ million) | Total Risk Weighted Assets | |
|----------------------------------|----------------------------|-----------|
| | Conso | Solo |
| Net interest income | 13 | 11 |
| Other non-interest income | 154 | 52 |
| Gross Income | 166 | 64 |
| Capital Requirements | 208 | 80 |

D. Interest Rate or Interest Rate Risk in the Banking Book

1) Internal measurement of interest or interest rate risk in the banking book, including assumptions regarding loan payments and behavior of non-maturity deposits, and frequency of measurement

As of 31 December 2023, RCBC Capital does not have any non-maturity deposits or loans. The company maintains minimal funds with depository banks since excess funds are placed in BSP's RRP and Term Deposit Facility. The only interest rate risk carried pertains to the corporate bond investments. Where, as an internal measurement, a 400 bps increase in rates is applied for all tenors in the current yield curve, resulting in a decrease in values of bond prices.

2) The increase (decrease) in earnings or economic value (or relevant measure used by management) for upward and downward rate shocks according to internal measurement of interest rate risk in the banking book.

As of 31 December 2023, the company's fixed income portfolio was valued at ₱121,737,105.16. Applying the internal measurement of interest rate risk as described above, the value becomes ₱111,196,940.61 resulting in an 8.66% decrease in the portfolio's market value.



RCBC Plaza Tower 2
6819 Ayala Avenue, Makati City, 0727 Philippines
(632) 88949000

<https://www.rcbc.com/rcbc-capital-corporation>