

INDUSTRIAL AND COMMERCIAL
BANK OF CHINA LIMITED –
MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT

Financial Statements
December 31, 2022 and 2021
and
Independent Auditor's Report

24th FLOOR, THE CURVE, 32ND ST. COR. 3RD AVENUE,
FORT BONIFACIO, TAGUIG CITY

INDEPENDENT AUDITOR'S REPORT TO ACCOMPANY INCOME TAX RETURN

Bureau of Internal Revenue
BIR Building, East Triangle
Diliman, Quezon City

Gentlemen:

In connection with our audit of the statements of financial position of the Foreign Currency Deposit Unit (the "FCDU") of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") as at December 31, 2022, and the statements of comprehensive income, and statements of cash flows for the year then ended, on which we have rendered our report dated April 28, 2023, and in compliance with the Statement required by Section 8-A of Revenue Regulations V-1, as amended by Revenue Regulations V-20, we state that no partner of our Firm is related by consanguinity or affinity to any of the principal officers of the FCDU of the Manila Branch.

Navarro Amper & Co.


BOA Registration No. 0004, valid from June 7, 2021 to September 22, 2024

SEC A.N. 0004-SEC, issued on December 7, 2021; Group A, valid to audit 2021 to 2025 financial statements

BSP R. N. 004-BSP, issued on September 21, 2020, effective until September 21, 2024

TIN 005299331

By:


Sonny M. Lalunio
Partner

CPA License No. 0107457

SEC A.N. 107457-SEC, issued on October 18, 2022, Group A, valid to audit 2022 to 2026 financial statements

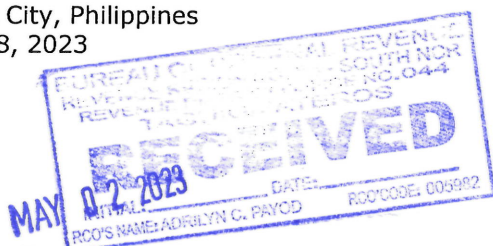
TIN 221842496

BIR A.N. 08-002552-081-2022, issued on January 27, 2022; effective until January 26, 2025

BSP R. N. 107457-BSP, issued on November 18, 2022, Group A, valid to audit 2022 to 2026 financial statements

PTR No. A-5701210, issued on January 12, 2023, Taguig City

Taguig City, Philippines
April 28, 2023



INDEPENDENT AUDITOR'S REPORT

The General Manager

Industrial and Commercial Bank of China Limited - Manila Branch

Ground Floor/24th Floor, The Curve, 32nd Street corner 3rd Avenue
Fort Bonifacio, Taguig City, Metro Manila, 1630

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Foreign Currency Deposit Unit (the "FCDU") of Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch"), which comprise the statements of financial position as at December 31, 2022 and 2021, and the statements of comprehensive income, and statements of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the FCDU of the Manila Branch as at December 31, 2022 and 2021 and its financial performance and its cash flows for the year then ended, in accordance with Philippine Financial Reporting Standards (PFRS).

Basis for Opinion

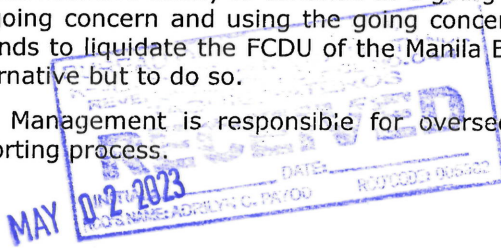
We conducted our audits in accordance with Philippine Standards on Auditing (PSA). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the FCDU of the Manila Branch in accordance with the Code of Ethics for Professional Accountants in the Philippines (Code of Ethics) together with the ethical requirements that are relevant to our audit of the financial statements in the Philippines, and we have fulfilled our other ethical responsibilities in accordance with these requirements and 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 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 FCDU of the Manila Branch's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless Management either intends to liquidate the FCDU of the Manila Branch, or to cease operations, or has no realistic alternative but to do so.

The Management is responsible for overseeing the FCDU of the Manila Branch's financial reporting process.



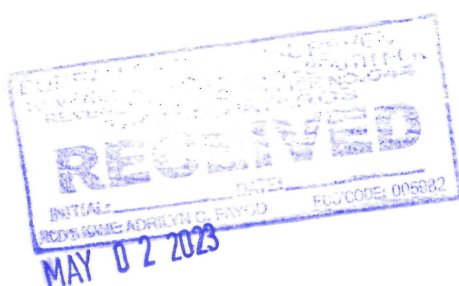
Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with 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 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 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 FCDU of the Manila Branch's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Management.
- Conclude on the appropriateness of Management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the FCDU of the Manila Branch's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the FCDU of the Manila Branch to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with Management 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

Report on the Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations No. 15-2010

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information required under BSP Circular No. 1074 in Notes 5, 7, 11, 19 and 21, and Revenue Regulations No. 15-2010 in Note 22 to the financial statements are presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and are not required part of the basic financial statements. Such supplementary information are the responsibility of Management and have been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the supplementary information are fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Navarro Amper & Co.

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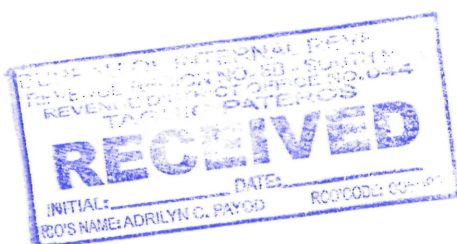
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April 28, 2023



MAY 02 2023



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED -
MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF FINANCIAL POSITION**

		December 31	
	Notes	2022	2021
ASSETS			
Due from Other Banks – net	6	P 128,327,526	P 389,255,565
Loans and Receivables – net	7	3,630,923,756	4,348,703,467
Financial Asset at Fair Value through Profit or Loss (FVTPL)	11	19,134,075	10,518,167
Other Assets		9,825,009	5,937,835
		P3,788,210,366	P4,754,415,034
LIABILITIES			
Due to Head Office and Other Branches - net	11	P3,379,140,229	P4,045,680,483
Deposit Liabilities	9	399,683,191	708,269,692
Accrued Expense and Other Payables	10	280,547	237,878
Other Liability	12	9,106,399	226,981
		P3,788,210,366	P4,754,415,034

See Notes to the Financial Statements.



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED -
MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF COMPREHENSIVE INCOME**

		Year Ended December 31	
	Notes	2022	2021
INTEREST INCOME			
Loans and receivables	7	P170,283,146	P110,033,683
Due from Head Office and other branches	11	758,088	893,340
Due from other banks	6	322,098	327,520
		171,363,332	111,254,543
INTEREST EXPENSE			
Due to Head Office and other branches	11	63,637,256	7,970,312
Interest expense of lease liability	16	667,980	368,506
Deposit liabilities.	9	210,743	163,621
		64,515,979	8,502,439
NET INTEREST INCOME		106,847,353	102,752,104
(REVERSAL OF) PROVISION FOR EXPECTED CREDIT LOSSES	8	(135,446,938)	44,909,662
		242,294,291	57,842,442
OTHER INCOME			
Fees and commissions	12	20,098,065	22,084,707
Foreign exchange gain		12,366,932	10,476,641
		32,464,997	32,561,348
OPERATING EXPENSES			
Salaries, bonuses and allowances	13	105,004,528	101,983,520
Depreciation and amortization	16	21,286,889	24,552,987
Taxes and licenses	16	12,082,714	7,490,677
Occupancy expenses	14	3,540,908	4,801,664
Other operating expenses	15	23,198,191	14,972,202
		165,113,230	153,801,050
INCOME/(LOSS) BEFORE INCOME TAX EXPENSE		109,646,058	(63,397,260)
INCOME TAX EXPENSE	17	3,307,292	1,275,148
NET INCOME/(LOSS)		106,338,766	(64,672,408)
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Item that may be reclassified to profit or loss</i>			
Translation adjustment		(14,604,042)	3,133,899
TOTAL COMPREHENSIVE INCOME		P91,734,724	(P61,538,509)

See Notes to the Financial Statements.



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED -
MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT
STATEMENTS OF CASH FLOWS**

		Year Ended December 31	
	Notes	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES			
Income/(Loss) before income tax expense		P109,646,058	(P63,397,260)
Adjustments for:			
Interest income	6, 7, 10	(171,363,332)	(111,254,543)
(Reversal) Provision for expected credit losses	8	(135,446,938)	44,909,662
Interest expense	9, 11, 16	64,515,979	8,502,439
Depreciation and amortization		21,286,889	24,552,987
Fair value (gain) loss – net	10	(12,366,932)	(10,467,641)
Operating loss before working capital changes		(123,728,276)	(107,163,356)
Decrease (Increase) in:			
Loans and receivables		717,779,711	(460,579,810)
Financial asset at FVTPL		(8,615,908)	(10,518,167)
Other assets		3,887,174	(1,491,339)
Increase (decrease) in:			
Deposit liabilities		(308,586,501)	(698,436,884)
Financial liability at FVTPL		-	(639,537)
Due to Head Office and other branches		(666,540,254)	1,394,879,043
Other liabilities		8,879,418	92,429
Cash provided by operations		(340,558,804)	116,142,379
Interest received		150,554,177	111,211,643
Interest paid		(53,012,078)	(8,713,699)
Income taxes paid		(3,307,292)	(1,275,148)
Net cash provided by operating activities		(246,323,997)	217,365,175
NET EFFECT OF EXCHANGE RATE DIFFERENCES		(14,604,042)	3,133,899
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(260,928,039)	220,499,074
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Due from other banks	6	389,255,565	168,756,491
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Due from other banks	6	P128,327,526	P389,255,565

See Notes to the Financial Statements.



**INDUSTRIAL AND COMMERCIAL BANK OF CHINA LIMITED - MANILA BRANCH
FOREIGN CURRENCY DEPOSIT UNIT**

NOTES TO THE FINANCIAL STATEMENTS

AS AT AND FOR THE YEARS ENDED DECEMBER 31, 2022 and 2021

1. CORPORATE INFORMATION

Industrial and Commercial Bank of China Limited - Manila Branch (the "Manila Branch") is the Philippine branch of Industrial and Commercial Bank of China Limited (the "Head Office") based commercial bank and perpetually existing joint stock limited company, organized under the Company Law of the People's Republic of China. The ultimate parent of the Manila Branch is China Investment Corporation, a state-owned entity which was established in Beijing, China and holds 34.71% ordinary shares of the Head Office.

The Manila Branch acquired its license to transact business issued by the Securities and Exchange Commission (SEC) on August 2, 2018. The Manila Branch was authorized to operate as a foreign branch with commercial banking license and to operate an Expanded Foreign Currency Deposit Unit in the Philippines by the Bangko Sentral ng Pilipinas (BSP) on November 7, 2018. The Manila Branch started business operations on February 14, 2019. To date, the Manila Branch has no authority to engage in trust operations.

The Manila Branch's principal activities are to provide commercial banking services such as deposit products, loans and trade finance and settlement products.

The Manila Branch's registered address and principal place of business is at Ground Floor/24th Floor, The Curve, 32nd Street corner 3rd Avenue, Fort Bonifacio, Taguig City.

2. FINANCIAL REPORTING FRAMEWORK AND BASIS OF PREPARATION AND PRESENTATION

Statement of Compliance

The financial statements of the Foreign Currency Deposit Unit (FCDU) of the Manila Branch have been prepared in accordance with Philippine Financial Reporting Standards (PFRS) for the first time. PFRS includes all applicable PFRS, Philippine Accounting Standards (PAS), and interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC), Philippine Interpretations Committee (PIC) and Standing Interpretations Committee (SIC) as approved by the Philippine Financial and Sustainability Reporting Standards Council (FSRSC) and Board of Accountancy (BOA) and adopted by the SEC.

Basis of Preparation and Presentation

The FCDU financial statements have been prepared on the historical cost basis, except for:

- certain financial instruments measured at fair value; and
- certain financial instruments that are carried at amortized cost.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the FCDU of the Manila Branch takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for leasing

transactions that are within the scope of PFRS 16, *Leases*.

In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

Functional and Presentation Currency

The books of accounts of the FCDU of the Manila Branch are maintained in United States Dollar (USD), the currency of the primary economic environment in which the Branch's FCDU operates. For financial reporting purposes, the FCDU accounts are translated into their equivalents in Philippine Peso (PHP) using the BSP Foreign Exchange Bulletin PDS kRate.

All financial information presented in PHP have been rounded off to the nearest currency unit, except when otherwise indicated.

3. ADOPTION OF NEW AND REVISED ACCOUNTING STANDARDS

Adoption of New and Revised Accounting Standards Effective in 2022

The FCDU of the Manila Branch adopted all applicable accounting standards and interpretations as at December 31, 2022. The new and revised accounting standards and interpretations that have been published by the International Accounting Standards Board (IASB) and approved by the FSRSC in the Philippines to be effective for annual periods beginning on or after January 1, 2022, were assessed to be applicable to the FCDU of the Manila Branch's financial statements, are enumerated below.

The FCDU of the Manila Branch's adoption of these amendments and improvements did not result in changes to the accounting policies and has no material effect on the disclosures or on the amounts reported for the current or prior year.

Amendments to PFRS 16, *Covid-19-Related Rent Concessions beyond June 30, 2021*

In March 2021, the Board issued Covid-19-Related Rent Concessions beyond June 30, 2021 (Amendment to PFRS 16) that extends the practical expedient to apply to reduction in lease payments originally due on or before June 30, 2022.

In the current financial year, the FCDU of the Manila Branch has applied the amendment to PFRS 16 (as issued by the Board in May 2021) in advance of its effective date.

Amendments to PAS 16, Property, Plant and Equipment – *Proceeds before Intended Use*

The amendments prohibit deducting from the cost of an item of property, plant and equipment any proceeds from selling items produced before that asset is available for use, i.e. proceeds while bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Consequently, an entity recognizes such sales proceeds and related costs in profit or loss. The entity measures the cost of those items in accordance with PAS 2, Inventories.

The amendments also clarify the meaning of 'testing whether an asset is functioning properly'. PAS 16 now specifies this as assessing whether the technical and physical performance of the asset is such that it is capable of being used in the production or supply of goods or services, for rental to others, or for administrative purposes.

If not presented separately in the statements of comprehensive income, the financial statements shall disclose the amounts of proceeds and cost included in profit or loss that relate to items produced that are not an output of the entity's ordinary activities, and which line item(s) in the statements of comprehensive income include(s) such proceeds and cost.

The amendments are applied retrospectively, but only to items of property, plant and equipment that are brought to the location and condition necessary for them to be capable of operating in the manner intended by management on or after the beginning of the earliest period presented in the financial statements in which the entity first applies the amendments.

The entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at the beginning of that earliest period presented.

Amendments to PAS 37, Onerous Contracts – Cost of Fulfilling a Contract

The amendments specify that the 'cost of fulfilling' a contract comprises the 'costs that relate directly to the contract'. Costs that relate directly to a contract consist of both the incremental costs of fulfilling that contract (examples would be direct labour or materials) and an allocation of other costs that relate directly to fulfilling contracts (an example would be the allocation of the depreciation charge for an item of property, plant and equipment used in fulfilling the contract).

The amendments apply to contracts for which the entity has not yet fulfilled all its obligations at the beginning of the annual reporting period in which the entity first applies the amendments. Comparatives are not restated. Instead, the entity shall recognize the cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings or other component of equity, as appropriate, at the date of initial application.

Annual Improvements to PFRS Standards 2018-2020 Cycle

Amendments to PFRS 9 – Fees in the '10 percent' test for derecognition of financial liabilities

The amendment clarifies that in applying the '10 percent' test to assess whether to derecognize a financial liability, an entity includes only fees paid or received between the entity (the borrower) and the lender, including fees paid or received by either the entity or the lender on the other's behalf.

The amendment is applied prospectively to modifications and exchanges that occur on or after the date the entity first applies the amendment.

Amendments to PFRS 16 – Lease Incentives

The amendment removes the illustration of the reimbursement of leasehold improvements.

As the amendment to PFRS 16 only regards an illustrative example, no effective date is stated.

New Accounting Standards Effective after the Reporting Period Ended December 31, 2022

PFRS 17 – Insurance Contracts

PFRS 17 establishes the principles for the recognition, measurement, presentation and disclosure of insurance contracts and supersedes PFRS 4, *Insurance Contracts*.

PFRS 17 outlines a general model, which is modified for insurance contracts with direct participation features, described as the variable fee approach. The general model is simplified if certain criteria are met by measuring the liability for remaining coverage using the premium allocation approach.

The general model uses current assumptions to estimate the amount, timing and uncertainty of future cash flows and it explicitly measures the cost of that uncertainty. It takes into account market interest rates and the impact of policyholders' options and guarantees.

An amendment issued on June 2020 and adopted by FSRSC on August 2020 addresses concerns and implementation challenges that were identified after PFRS 17 was published.

PFRS 17 must be applied retrospectively unless impracticable, in which case the modified retrospective approach or the fair value approach is applied.

For the purpose of the transition requirements, the date of initial application is the start of the annual reporting period in which the entity first applies the Standard, and the transition date is the beginning of the period immediately preceding the date of initial application.

The standard (incorporating the amendments) is effective for periods beginning on or after January 1, 2025, as amended by the FSRSC from January 1, 2023. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB. Earlier application is permitted.

The future adoption of the standard will not have a significant impact on the FCDU of the Manila Branch's financial statements as the FCDU of the Manila Branch does not issue insurance contracts.

Amendments to PFRS 10 and PAS 28, Sale or Contribution of Assets between an Investor and Its Associate or Joint Venture

The amendments to PFRS 10 and PAS 28 deal with situations where there is a sale or contribution of assets between an investor and its associate or joint venture. Specifically, the amendments state that gains or losses resulting from the loss of control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method, are recognized in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement of investments retained in any former subsidiary (that has become an associate or a joint venture that is accounted for using the equity method) to fair value are recognized in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The effective date of the amendments has yet to be set by the Board; however, earlier application of the amendments is permitted.

The amendment has no significant impact on the FCDU of the Manila Branch's financial statements as the FCDU of the Manila Branch does not have investment in associates or joint ventures.

Amendments to PAS 1 and PFRS Practice Statement 2, *Disclosure Initiative – Accounting Policies*

The amendments are as follows:

- An entity is now required to disclose its material accounting policy information instead of its significant accounting policies
- several paragraphs are added to explain how an entity can identify material accounting policy information and to give examples of when accounting policy information is likely to be material;
- the amendments clarify that accounting policy information may be material because of its nature, even if the related amounts are immaterial;
- the amendments clarify 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
- the amendments clarify that if an entity discloses immaterial accounting policy information, such information shall not obscure material accounting policy information

The amendments are applied prospectively. The amendments to PAS 1 are effective for annual periods beginning on or after January 1, 2023. Earlier application is permitted.

Management is still in the process of evaluating the impact of these amendments to the level and extent of accounting policy disclosures in the financial statements, taking into considerations the FCDU of the Manila Branch's current and future transactions and account balances.

Amendments to PAS 8, *Definition of Accounting Estimates*

With the amendment, accounting estimates are now defined as "monetary amounts in financial statements that are subject to measurement uncertainty."

The amendment clarified that a change in accounting estimate that results from new information or new developments is not the 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.

A change in an accounting estimate may affect only the current period's profit or loss, or the profit or loss of both the current period and future periods. The effect of the change relating to the current period is recognized as income or expense in the current period. The effect, if any, on future periods is recognized as income or expense in those future periods

The amendments are effective for annual periods beginning on or after January 1, 2023 and changes in accounting policies and changes in accounting estimates that occur on or after the start of that period. Earlier application is permitted.

Management is still evaluating the impact of the amendments on the FCDU of the Manila Branch's financial statements.

Amendments to PAS 12 Income Taxes—*Deferred Tax related to Assets and Liabilities arising from a Single Transaction*

The amendments introduce a further exception from the initial recognition exemption. Under the amendments, an entity does not apply the initial recognition exemption for transactions that give rise to equal taxable and deductible temporary differences.

Depending on the applicable tax law, equal taxable and deductible temporary differences may arise on initial recognition of an asset and liability in a transaction that is not a business combination and affects neither accounting nor taxable profit. For example, this may arise upon recognition of a lease liability and the corresponding right-of-use asset applying PFRS 16 at the commencement date of a lease.

Following the amendments to PAS 12, an entity is required to recognize the related deferred tax asset and liability, with the recognition of any deferred tax asset being subject to the recoverability criteria in PAS 12.

The Board also adds an illustrative example to PAS 12 that explains how the amendments are applied.

The amendments apply to transactions that occur on or after the beginning of the earliest comparative period presented. In addition, at the beginning of the earliest comparative period an entity recognizes:

- A deferred tax asset (to the extent that it is probable that taxable profit will be available against which the deductible temporary difference can be utilized) and a deferred tax liability for all deductible and taxable temporary differences associated with:
 - Right-of-use assets and lease liabilities
 - Decommissioning, restoration and similar liabilities and the corresponding amounts recognized as part of the cost of the related asset
- The cumulative effect of initially applying the amendments as an adjustment to the opening balance of retained earnings (or other component of equity, as appropriate) at that date

The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted.

Management is still evaluating the impact of the amendments on the FCDU of the Manila Branch's financial statements.

Amendment to PFRS 17, Initial Application of PFRS 17 and PFRS 9 – Comparative Information

The amendment is a transition option relating to comparative information about financial assets presented on initial application of PFRS 17.

The main amendment in Initial Application of PFRS 17 and PFRS 9 — Comparative Information (Amendment to PFRS 17) is a narrow-scope amendment to the transition requirements of PFRS 17 for entities that first apply PFRS 17 and PFRS 9 at the same time. The amendment regards financial assets for which comparative information is presented on initial application of PFRS 17 and PFRS 9, but where this information has not been restated for PFRS 9.

Under the amendment, an entity is permitted to present comparative information about a financial asset as if the classification and measurement requirements of PFRS 9 had been applied to that financial asset before. The option is available on an instrument-by-instrument basis. In applying the classification overlay to a financial asset, an entity is not required to apply the impairment requirements of PFRS 9.

There are no changes to the transition requirements in PFRS 9

The amendment is effective for annual periods beginning on or after January 1, 2025, as amended by the FSRSC from January 1, 2023. This is consistent with Circular Letter No. 2020-62 issued by the Insurance Commission which deferred the implementation of PFRS 17 by two (2) years after its effective date as decided by the IASB. Still subject to approval of the Board of Accountancy

Management is still evaluating the impact of the amendments on the FCDU of the Manila Branch's financial statements.

Amendments to PFRS 16, Lease Liability in a Sale and Leaseback

The amendments to PFRS 16 that require a seller-lessee to subsequently measure lease liabilities arising from a sale and leaseback transaction in a way that does not result in recognition of a gain or loss that relates to the right of use it retain

The amendments add subsequent measurement requirements for sale and leaseback transactions that satisfy the requirements in I\PFRS 15 Revenue from Contracts with Customers to be accounted for as a sale.

The amendments require the seller-lessee to determine 'lease payments' or 'revised lease payments' such that the seller-lessee does not recognize a gain or loss that relates to the right of use retained by the seller-lessee, after the commencement date.

The amendments do not affect the gain or loss recognized by the seller-lessee relating to the partial or full termination of a lease.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024, with early application permitted. Still subject to approval of the Board of Accountancy and Financial and Sustainability Reporting Standard Council.

Management is still evaluating the impact of the amendments on the FCDU of the Manila Branch's financial statements.

Amendments to IAS 1, Non-current Liabilities with Covenants

The amendments specify that only covenants that an entity is required to comply with on or before the end of the reporting period affect the entity's right to defer settlement of a liability for at least twelve months after the reporting date (and therefore must be considered in assessing the classification of the liability as current or non-current).

Such covenants affect whether the right exists at the end of the reporting period, even if compliance with the covenant is assessed only after the reporting date (e.g. a covenant based on the entity's financial position at the reporting date that is assessed for compliance only after the reporting date).

The amendments specify that the right to defer settlement is not affected if an entity only has to comply with a covenant after the reporting period. However, if the entity's right to defer settlement of a liability is subject to the entity complying with covenants within twelve months after the reporting period, an entity discloses information that enables users of financial statements to understand the risk of the liabilities becoming repayable within twelve months after the reporting period. This would include information about the covenants (including the nature of the covenants and when the entity is required to comply with them), the carrying amount of related liabilities and facts and circumstances, if any, that indicate that the entity may have difficulties complying with the covenants.

The amendments are applied retrospectively for annual periods beginning on or after January 1, 2024, with early application permitted. Still subject to approval of the Board of Accountancy and Financial and Sustainability Reporting Standard Council.

Management is still evaluating the impact of the amendments on the FCDU of the Manila Branch's financial statements.

4. SIGNIFICANT ACCOUNTING POLICIES

Foreign Currency Transactions and Translation

Transactions in foreign currencies are initially recorded at the functional rate of exchange at the date of transaction.

Foreign exchange differences arising from revaluation and re-translation of foreign currency-denominated monetary assets and liabilities are credited to or charged against operations in the year in which the rates change under "Foreign exchange gain or loss" account in the statements of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

The assets and liabilities of the FCDU are translated into the Manila Branch's presentation currency using the BSP Foreign Exchange Bulletin PDS rate prevailing at the statements of financial position date, and its income and expenses are translated at weighted average rate for the year. Exchange differences arising from translation to the presentation currency are taken directly to other comprehensive income (OCI) in the statements of comprehensive income under "Cumulative translation adjustment" and is accumulated and presented as part of Due to Regular Banking Unit. Upon disposal of the FCDU or upon actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as other comprehensive income is recognized in profit or loss.

Financial Instruments

Financial assets and financial liabilities are recognized in the FCDU of the Manila Branch's financial statements when the FCDU of the Manila Branch becomes a party to the contractual provisions of the instrument.

Initial recognition

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities, other than financial assets and financial liabilities at fair value through profit or loss (FVTPL), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognized immediately in profit or loss.

Business model in managing financial assets

Business model reflects the manner by which financial assets will be managed to generate cash flows such as by collecting contractual cash flows or selling of financial assets or by both collecting contractual cash flows and selling the financial assets, among others. The FCDU of the Manila Branch determines the business model for managing the financial assets according to the facts and based on the specific business objective for managing the financial assets determined by the management. Once the business model of financial assets is determined, it cannot be changed randomly.

In this respect, these scenarios do not include "worst case" or "stress case" scenarios.

- a) The criteria that are used in determining the business model for managing financial assets are applied to financial assets on a portfolio basis.

- b) Business models for managing financial assets are reviewed and approved by the Head Office on an annual basis, or if there is any adjustment, and are adequately documented. The documentation for each business model includes, among others, detailed description of specific business objectives (whether to hold in order to collect contractual cash flows, to sell or both); cases of sales and/ or derecognition of financial assets and conditions for changes in business model; and appropriate level of authority designated to approve determination of business model of specific portfolios of financial assets as well as the sales, derecognition, and changes in business model of financial assets.
- c) Changes in business model are expected to be rare and determined as a result of external or internal changes which are significant to the FCDU of the Manila Branch's operations and evident to external parties. Change in intention related to the management of particular financial assets does not constitute a change in business model. The change in business model is approved by the appropriate level of authority based on sound justifications and in accordance with accounting standards. The qualitative and quantitative impacts of the change in business model are adequately documented and appropriately disclosed in the financial statements in line with the disclosure of risk management policies on the relevant risk exposure.
- d) All affected financial assets are reclassified when, and only when, the Manila Branch changes its business model for managing financial assets. Financial liabilities are not allowed to be reclassified. If cash flows are realized in a way that is different from the expectations at the date at which the FCDU of the Manila Branch assessed the business model, it does not constitute a change in the classification of the remaining financial assets as long as the FCDU of the Manila Branch considered all relevant and objective information available when it initially made the business model assessment.

Once determined, the business model of each type of credit assets cannot be changed without proper authorization. In cases where the FCDU of the Manila Branch changes a business model, the financial assets within the said model are not reclassified within the reporting period that the change in business model is made. The reclassification in this case only takes effect in the next financial reporting period. In this respect, any previously recognized gains, losses or interest are not restated.

Financial Assets

Classification and subsequent measurement

All regular way purchases or sales of financial assets are recognized and derecognized on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the period established by regulation or convention in the marketplace.

All recognized financial assets are subsequently measured in their entirety at either amortized cost or fair value, depending on the classification of the financial assets.

Financial assets are subsequently measured at amortized cost or fair value on the basis of the FCDU of the Manila Branch's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets, as follows:

- financial assets that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest (SPPI), are subsequently measured at amortized cost;
- financial assets that are held within a business model whose objective is both to collect the contractual cash flows and to sell the debt instruments, and that have contractual cash flows that are SPPI, are subsequently measured at fair value through other comprehensive income (FVTOCI); and

- all other financial assets managed on their fair value basis and equity instruments are subsequently measured at FVTPL unless the Manila Branch makes an irrevocable designation to classify the financial assets as at FVTOCI.

Amortized cost and effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset and of allocating interest income over the relevant period.

For financial instruments other than purchased or originated credit-impaired (POCI) financial assets, the effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) excluding expected credit loss (ECL), through the expected life of the debt instrument, or, where appropriate, a shorter period, to the gross carrying amount of the debt instrument on initial recognition.

For POCI financial assets, a credit-adjusted effective interest rate is calculated by discounting the estimated future cash flows, including ECL, to the amortized cost of the debt instrument on initial recognition.

The amortized cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. On the other hand, the gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any loss allowance.

Interest income is recognized using the effective interest method for debt instruments measured subsequently at amortized cost and at FVTOCI.

For financial instruments other than POCI financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired.

For financial assets that have subsequently become credit-impaired, interest income is recognized by applying the effective interest rate to the amortized cost of the financial asset. If, in subsequent reporting periods, the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognized by applying the effective interest rate to the gross carrying amount of the financial asset.

Debt instruments classified at Amortized Cost

A financial asset that is a debt instrument is measured at amortized cost if it meets both of the following conditions and is not designated as FVTPL:

- The financial asset is held within a business model whose objective is to hold financial assets to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are SPPI on the principal amount outstanding.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These financial assets are subsequently measured at amortized cost using the effective interest method less any impairment allowance, with the interest calculated and recognized in profit or loss.

Financial assets at FVTPL

All other financial assets not measured at amortized cost or at FVTOCI are classified as measured at FVTPL, except when the financial asset is part of a hedging relationship.

Financial assets measured at FVTPL consist of: (a) financial assets held for trading (HFT), which include stand-alone and/ or embedded derivatives, except a derivative that is a financial guarantee contract or designated and effective hedging instruments; and (b) other financial assets other than those that are HFT and are designated at FVTPL.

The FCDU of the Manila Branch may, at initial recognition, irrevocably designate financial assets that are debt instruments as measured at FVTPL, provided that the designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains or losses on them on different bases.

As at December 31, 2022 and 2021, the FCDU of the Manila Branch's financial assets at FVTPL consists of derivative assets (see Note 10).

The FCDU of the Manila Branch enters into contracts with off-books risks. These contracts are entered into as a service to customers and as a means of reducing and managing the FCDU of the Manila Branch's risk exposures, as well as for trading purposes. These derivative financial instruments are initially recognized at fair value on the date when the derivative contract is entered into and are subsequently remeasured at their fair value. All derivatives are reported as assets when fair value is positive and as liabilities when fair value is negative.

The method of recognizing fair value gains and losses depends on whether derivatives are HFT or are designated as hedging instruments, and if the latter, the nature of the risks being hedged.

In 2022 and 2021, the FCDU of the Manila Branch did not apply hedge accounting treatment for any of its derivative transactions since the derivatives are HFT and not designated as hedging instruments.

Impairment of financial assets

The FCDU of the Manila Branch recognizes an allowance for ECL on all financial assets measured at amortized cost such as cash and cash equivalents and loans and receivables. The FCDU of the Manila Branch also provides financial guarantees to customers which are also subject to ECL assessment.

The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition of the respective financial instrument.

Moreover, the FCDU of the Manila Branch uses reasonable and supportable information that is available without undue cost or effort to determine the credit risk at the date that a financial instrument was initially recognized.

Expected Credit Loss Model

ECL is a probability weighted estimate of credit loss within the expected lifetime of the financial instruments. Credit losses are measured as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the FCDU of the Manila Branch in accordance with the contract and the cash flows that the FCDU of the Manila Branch expects to receive).

The FCDU of the Manila Branch's method of measuring the ECL of the financial instruments reflects the following elements:

- a. the unbiased weighted average probability determined by the results of evaluating a range of possible outcome;
- b. the time value of money; and
- c. the reasonable and evidenced-based information about past events, current conditions and future economic forecasts that are available at no additional cost or effort at the end of the reporting period.

The maximum period considered when estimating ECL is the maximum contractual period (including extension options, if any) over which the FCDU of the Manila Branch is exposed to credit risk.

The FCDU of the Manila Branch classifies financial instruments into three (3) stages and makes provisions for ECL accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

- Stage 1 - A financial instrument of which the credit risk has not significantly increased since initial recognition. The amount equal to 12-month expected credit losses is recognized as loss allowance.
- Stage 2 - A financial instrument with a significant increase in credit risk since initial recognition but is not considered to be credit-impaired. The amount equal to lifetime expected credit losses is recognized as loss allowance. Refer to Notes 5 and 16 on credit risk discussion for the description of how the FCDU of the Manila Branch determines when a significant increase in credit risk has occurred.
- Stage 3 - A financial instrument is considered to be credit-impaired as at the end of the reporting period. The amount equal to lifetime expected credit losses is recognized as loss allowance. Refer to Note 16 on credit risk section for the definition of credit-impaired financial assets, including the quantitative and qualitative information considered by the FCDU of the Manila Branch in the assessment.

Lifetime ECL represents the ECLs that will result from all possible default events over the expected life of a financial instrument. In contrast, 12-month ECL represents the portion of lifetime ECL that is expected to result from default events on a financial instrument that are possible within 12 months after the reporting date.

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

As for the exposure at default, for financial assets, this is represented by the assets' gross carrying amount at the reporting date; for financial guarantee contracts, the exposure includes the amount drawn down as at the reporting date, together with any additional amounts expected to be drawn down in the future by default date determined based on historical trend, the FCDU of the Manila Branch's understanding of the specific future financing needs of the debtors, and other relevant forward-looking information.

The FCDU of the Manila Branch measures ECL on an individual basis, or on a collective basis for portfolios of loans that share similar economic risk characteristics. The measurement of the loss allowance is based on the present value of the asset's expected cash flows using the asset's original effective interest rate method, regardless of whether it is measured on an individual basis or a collective basis.

Significant increase in credit risk

The FCDU of the Manila Branch monitors all financial assets contracts that are subject to the impairment requirements to assess whether there has been an SICR since initial recognition. If there has been an SICR the FCDU of the Manila Branch will measure the loss allowance based on lifetime rather than 12-month ECL.

In assessing whether the credit risk on a financial instrument has increased significantly since initial recognition, the FCDU of the Manila Branch compares the risk of a default occurring on the financial instrument at the reporting date based on the remaining maturity of the instrument with the risk of a default occurring that was anticipated for the remaining maturity at the current reporting date when the financial instrument was first recognized. In making this assessment, the FCDU of the Manila Branch considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort, based on the Manila Branch's historical experience and expert credit assessment including forward-looking information. In the process of assessing SICR, the Manila Branch considers various factors as further discussed in Note 16.

The FCDU of the Manila Branch assumes that the credit risk on a financial instrument has not increased significantly since initial recognition if the financial instrument is determined to have low credit risk at the reporting date.

A financial instrument is determined to have low credit risk if:

- the financial instrument has a low risk of default;
- the debtor has a strong capacity to meet its contractual cash flow obligations in the near term; and
- adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfill its contractual cash flow obligations.

The FCDU of the Manila Branch considers a financial asset to have low credit risk when the asset has external credit rating of 'investment grade' in accordance with the globally understood definition which is used by the FCDU of the Manila Branch to establish its internal risk rating. Under its risk categorization, the Manila Branch considers low credit risk to refer to counterparties having the highest quality, high quality, and upper medium grade as fully discussed in Note 18. These are customers with great operating and financial strength as well as strong and very stable solvency and have demonstrated that they can withstand and bear major internal and external adverse change, with very reliable and predictable net cash flows.

The FCDU of the Manila Branch regularly monitors the effectiveness of the criteria used to identify whether there has been an SICR and revises them as appropriate to ensure that the criteria are capable of identifying SICR before the amount becomes past due.

Default

Critical to the determination of ECL is the definition of default. The definition of default is used in measuring the amount of ECL and in the determination of whether the loss allowance is based on 12-month or lifetime ECL, as default is a component of the probability of default (PD) which affects both the measurement of ECLs and the identification of SICR (see Note 16 for definition of default with respect to the FCDU of the Manila Branch financial assets).

Credit-impaired financial assets

A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred. Credit-impaired financial assets are referred to as Stage 3 assets. The FCDU of the Manila Branch uses observable data about various events that may lead to an asset being assessed as credit-impaired. These are fully discussed in Note 16.

It may not be possible to identify a single discrete event—instead, the combined effect of several events may have caused financial assets to become credit-impaired. The FCDU of the Manila Branch assesses whether debt instruments that are financial assets measured at amortized cost or FVTOCI are credit-impaired at each reporting date. To assess if debt instruments are credit impaired, the FCDU of the Manila Branch considers factors such as bond yields, credit ratings and the ability of the borrower to raise funding.

Write-off

The FCDU of the Manila Branch writes off a financial asset when there is information indicating that the debtor is in severe financial difficulty and there is no realistic prospect of recovery, when the debtor has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner.

Financial assets written off may still be subject to enforcement activities under the FCDU of the Manila Branch's recovery procedures, taking into account legal advice where appropriate. Any recoveries made are recognized in profit or loss.

Recognition and presentation of ECL

The FCDU of the Manila Branch recognizes an impairment gain or loss in profit or loss for all financial instruments.

Allowance for ECL is presented in the statements of financial position as follows:

- for financial assets measured at amortized cost: as a deduction from the gross carrying amount of the assets; and
- for loan commitments and financial guarantee contracts: as a provision.

Derecognition

The FCDU of the Manila Branch derecognizes financial assets when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another party. If the FCDU of the Manila Branch neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the FCDU of the Manila Branch recognizes its retained interest in the asset and an associated liability for amounts it may have to pay.

If the FCDU of the Manila Branch retains substantially all the risks and rewards of ownership of a transferred financial asset, the FCDU of the Manila Branch continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

On derecognition of financial assets in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized in OCI and accumulated in equity is recognized in profit or loss.

Financial Liabilities and Equity Instruments

Classification as debt or equity

Debt and equity instruments are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Financial liabilities

A financial liability is a contractual obligation to deliver cash or another financial asset or to exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the FCDU of the Manila Branch or a contract that will or may be settled in the FCDU of the Manila Branch's own equity instruments and is a non-derivative contract for which the FCDU of the Manila Branch is or may be obliged to deliver a variable number of its own equity instruments, or a derivative contract over own equity that will or may be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the FCDU of the Manila Branch's own equity instruments.

Financial liabilities are classified as either financial liabilities 'at FVTPL' or 'other financial liabilities'.

Since the FCDU of the Manila Branch does not have financial liabilities classified at FVTPL, all financial liabilities are subsequently measured at amortized cost.

Financial liabilities measured subsequently at amortized cost

Financial liabilities that are not (i) contingent consideration of an acquirer in a business combination, (ii) held-for-trading, or (iii) designated as at FVTPL, are measured subsequently at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or (where appropriate) a shorter period, to the amortized cost of a financial liability.

Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statements of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis or realize the asset and settle the liability simultaneously.

A right to offset must be available today rather than being contingent on a future event and must be exercisable by any of the counterparties, both in the normal course of business and in the event of default, insolvency or bankruptcy.

Derecognition

The FCDU of the Manila Branch derecognizes financial liabilities when, and only when, the FCDU of the Manila Branch's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

When the FCDU of the Manila Branch exchanges with the existing lender one debt instrument into another one with substantially different terms, such exchange is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability. Similarly, the FCDU of the Manila Branch accounts for substantial modification of terms of an existing liability or part of it as an extinguishment of the original financial liability and the recognition of a new liability. It is assumed that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective rate is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability.

If the modification is not substantial, the difference between: (1) the carrying amount of the liability before the modification; and (2) the present value of the cash flows after modification should be recognized in profit or loss.

Net Due to Regular Banking Unit

In accordance with Financial Reporting Package of Banks updated as at July 15, 2015 and issued by the BSP, the FCDU of the Manila Branch maintains "Due to Regular Banking Unit (RBU)" to record the net profits of the FCDU of the Manila Branch including realized profits awaiting transfer to the RBU Books, and the cumulative foreign exchange differences arising from the translation of FCDU accounts to PHP as presentation currency and cumulative gains or losses arising from the mark-to-market valuation of FVTOCI financial assets and other accounts as required to be recognized in an entity's equity. This is presented under the "Due to Head Office and other branches" account in the statements of financial position.

Cash and Due from Other Banks

All cash and short-term investments with original maturities of three months or less are considered cash equivalents, since they are readily convertible to cash. These short-term investments are stated at cost, which approximates fair value.

Cash deposited in third party banking institutions in the form of savings accounts are considered as due from banks.

Prepayments and Other assets

Prepayments represent expenses not yet incurred but already paid in cash. Prepayments are initially recorded as assets and measured at the amount of cash paid. Subsequently, these are charged to profit or loss as they are consumed in operations or expire with the passage of time.

Other assets pertain to other assets controlled by the FCDU of the Manila Branch as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to the FCDU of the Manila Branch and the asset has a cost or value that can be measured reliably.

Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events (e.g., legal dispute or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole.

When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessments and the risks specific to the obligation. The increase in provision due to passage of time is recognized as interest expense.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases, where the possible outflow of economic resources 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 FCDU of the Manila Branch 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 FCDU of the Manila Branch 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.

Employee Benefits

Short-term benefits

The FCDU of the Manila Branch recognizes a liability net of amounts already paid and an expense for services rendered by employees during the accounting period. A liability is also recognized for the amount expected to be paid under short-term cash bonus or profit-sharing plans if the FCDU of the Manila Branch has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee, and the obligation can be estimated reliably.

Short-term employee benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

Revenue Recognition

The FCDU of the Manila Branch recognizes revenue from the following major sources:

Fees and Commissions

The FCDU of the Manila Branch earns fees and commission income from a diverse range of services it provides to its customers. The fees and commission income recognized by the FCDU of the Manila Branch reflects the amount of consideration to which the FCDU of the Manila Branch expects to be entitled in exchange of transferring promised services to customers, and income is recognized when its performance obligation in contracts is satisfied.

The table below provides information about the nature and timing of the satisfaction of performance obligations in contracts with customers, including significant payment terms, and the related revenue recognition standards:

Type of income	Nature and timing of satisfaction of performance obligation	Revenue recognition under PFRS 15
Lending fees and commission	<p>Fee for every trade-related transaction.</p> <p>This also includes fees charged for providing customers a distinct good or service that are recognized separately from the underlying lending product.</p>	<p><i>Guarantee Fees</i></p> <p>Revenue is recognized upon execution of the trade finance products (e.g., letters of credit, letters of guarantees and acceptances, etc.).</p> <p>Revenue is recognized over the term of the service.</p> <p><i>Commitment Fees</i></p> <p>Revenue is recognized when service (i.e. loan processing and drawdown) is provided. If there are contract milestones, these arrangement fees are recognized upon completion of such milestones.</p>
Non-lending fees and commission	<p>Non-lending fees and commission pertain to outward telegraphic transfer fees, import and export fees and other non-lending services costs.</p> <p>Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.</p>	<p><i>Service Transfer Fees</i></p> <p>Revenue is recognized at point in time that the associated service is provided.</p>

Interest income

Interest on financial instruments measured at amortized cost is recognized based on the effective interest rate method.

Other income

Other income is income generated outside the normal course of business and is recognized when it is probable that the economic benefits will flow to the FCDU of the Manila Branch and it can be measured reliably.

Expense Recognition

Expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase in a liability has arisen that can be measured reliably. Expenses are recognized in profit or loss on the basis of a direct association between the costs incurred and the earning of specific items of income; on the basis of systematic and rational allocation procedures when economic benefits are expected to arise over several accounting periods and the association with income can only be broadly or indirectly determined; or immediately when an expenditure produces no future economic benefits or when, and to the extent that, future economic benefits do not qualify or cease to qualify for recognition in the statements of financial position as an asset.

Expenses in the statements of comprehensive income are presented using the function of expense method. Operating expenses are costs attributable to the administrative and other business activities of the FCDU of the Manila Branch.

Leases

The Manila Branch as lessee

The Manila Branch assesses whether a contract is or contains a lease, at inception of the contract. The Manila Branch recognizes a right-of-use (ROU) asset and a corresponding lease liability with respect to all lease arrangements in which it is the lessee, except for short-term leases (defined as leases with a lease term of 12 months or less) and leases of low value assets. For these leases, the Manila Branch recognizes the lease payments as operating expenses on a straight-line basis over the term of the lease unless another systematic basis is more representative of the time pattern in which economic benefits from the leased assets are consumed.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted by using the rate implicit in the lease. If this rate cannot be readily determined, the Manila Branch uses the government bonds risk free interest rates adjusted for financing spread factors as its incremental borrowing rate. The rate is defined as the rate of interest that the lessee would have to pay to borrow over a similar term and with a similar security the funds necessary to obtain an asset of a similar value to the ROU asset in a similar economic environment.

Lease payments included in the measurement of the lease liability comprise:

- fixed lease payments (including in-substance fixed payments), less any lease incentives; and
- Lease payments included in the measurement of the lease liability comprise of fixed lease payments (including in-substance fixed payments), less any lease incentives.

The lease liability is presented as a separate line in the statements of financial position.

The lease liability is subsequently measured by increasing the carrying amount to reflect interest on the lease liability (using the effective interest method) and by reducing the carrying amount to reflect the lease payments made.

The Manila Branch remeasures the lease liability (and makes a corresponding adjustment to the related ROU asset) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.
- the lease payments change due to changes in an index or rate or a change in expected payment under a guaranteed residual value, in which cases the lease liability is remeasured by discounting the revised lease payments using the initial discount rate (unless the lease payments change is due to a change in a floating interest rate, in which case a revised discount rate is used).

- a lease contract is modified and the lease modification is not accounted for as a separate lease, in which case the lease liability is remeasured by discounting the revised lease payments using a revised discount rate.

The Manila Branch did not make any such adjustments during the periods presented.

The ROU assets comprise the initial measurement of the corresponding lease liability, lease payments made at or before the commencement day and any initial direct costs. They are subsequently measured at cost less accumulated depreciation and impairment losses.

Whenever the Manila Branch incurs an obligation for costs to dismantle and remove a leased asset, restore the site on which it is located or restore the underlying asset to the condition required by the terms and conditions of the lease, a provision is recognized and measured under PAS 37. The costs are included in the related ROU asset.

ROU assets are depreciated over the shorter period of lease term and useful life of the underlying asset.

The depreciation starts at the commencement date of the lease.

The ROU assets are presented as a separate line in the statements of financial position. The Manila Branch applies PAS 36 to determine whether an ROU asset is impaired and accounts for any identified impairment loss as described in the 'Impairment of Non-financial assets' policy.

Variable rents that do not depend on an index or rate are not included in the measurement of the lease liability and the ROU asset. The related payments are recognized as expenses in the period in which the event or condition that triggers those payments occurs.

Related Party Transactions

A related party transaction is a transfer of resources, services or obligations between the FCDU of the Manila Branch and a related party, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions. These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Manila Branch; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the Manila Branch that gives them significant influence over the Manila Branch and close members of the family of any such individual; and, (d) the Manila Branch's retirement plan, if any.

Taxation

Income tax expense represents the sum of the current tax and deferred tax expense.

Current tax

The current tax expense is based on taxable profit for the year. Taxable profit differs from net profit as reported in the statements of comprehensive income because it excludes items of income or expense that are taxable or deductible in other years and it further excludes items that are never taxable or deductible. Income taxes include corporate income taxes and final taxes.

The FCDU of the Manila Branch's corporate income tax expense is calculated using 25.00% Regular Corporate Income Tax (RCIT) rate in 2022 and in 2021. The Manila Branch's final taxes, and final tax paid at the rate of 20.00% on gross interest income and 7.50% from foreign deposit substitutes.

FCDU offshore income (income from non-residents) is tax exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 15.00% final tax. RA 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and FCDUs*, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

Deferred tax

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liability is generally recognized for all taxable temporary differences. Deferred tax asset is generally recognized for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilized. Such deferred tax assets and liabilities are not recognized if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

The carrying amount of deferred tax asset is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax liabilities and assets are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates

(and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the FCDU of the Manila Branch expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred taxes for the period

Current and deferred taxes are recognized in profit or loss, except when they relate to items that are recognized in OCI or directly in equity, in which case, the current and deferred taxes are also recognized in OCI or directly in equity, respectively.

Events After the Reporting Period

The FCDU of the Manila Branch identifies events after the end of each reporting period as those events, both favorable and unfavorable, that occur between the end of the reporting period and the date when the financial statements are authorized for issue. The financial statements of the FCDU of the Manila Branch are adjusted to reflect those events that provide evidence of conditions that existed at the end of the reporting period. Non-adjusting events after the end of the reporting period are disclosed in the notes to the financial statements when material.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the FCDU of the Manila Branch's accounting policies, Management is required to make judgments, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on the historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

Critical Judgments in Applying Accounting Policies

The following are the critical judgments, apart from those involving estimations, that Management has made in the process of applying the entity's accounting policies and that have the most significant effect on the amounts recognized in the financial statements.

Determination and assessment of functional currency

PAS 21, The Effects of Changes in Foreign Exchange Rates, requires Management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the following were considered:

- The currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
- The currency in which funds from financing activities are generated; and
- The currency in which receipts from operating activities are usually retained.

Based on the economic substance of the underlying circumstances relevant to the FCDU of the Manila Branch, the functional currency of the FCDU books have been determined to be the USD as disclosed in Note 2.

Business model assessment

Classification and measurement of financial assets depend on the results of the SPPI and the business model test. The FCDU of the Manila Branch determines the business model at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. This assessment includes judgment reflecting all relevant evidence including how the performance of the assets is evaluated and their performance is measured, the risks that affect the performance of the assets and how these are managed and how the managers of the assets are compensated. The FCDU of the Manila Branch monitors financial assets measured at amortized cost or FVTOCI that are derecognized prior to their maturity to understand the reason for their disposal and whether the reasons are consistent with the objective of the business model for which the asset was held. Monitoring is part of the FCDU of the Manila Branch's continuous assessment of whether the business model for which the remaining financial assets are held continues to be appropriate and if it is not appropriate whether there has been a change in business model and so a prospective change to the classification of those assets.

The FCDU of the Manila Branch determines its business model at an aggregated portfolio and is assessed on an instrument-by-instrument basis.

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

Significant increase of credit risk

ECL are measured as an allowance equal to 12-month ECL for Stage 1 assets, or lifetime ECL assets for Stage 2 or Stage 3 assets. An asset moves to Stage 2 when its credit risk has increased significantly since initial recognition. PFRS 9 does not define what constitutes an SICR. In assessing whether the credit risk of an asset has significantly increased the Manila Branch takes into account qualitative and quantitative reasonable and supportable forward-looking information.

Based on the FCDU of the Manila Branch's evaluation, financial assets measured at amortized cost are classified at Stage 1 in which ECL are measured as an allowance equal to 12-month ECL, except for one account under loans and receivables which was assessed under Stage 2 with an allowance equal to lifetime ECL.

The carrying amounts of the FCDU of the Manila Branch's financial assets measured at amortized cost comprising due from other banks and loans and receivables amounted to P3,759,251,282 and P4,737,959,032 as at December 31, 2022 and 2021, respectively.

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 each reporting period that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

Probability of default (PD)

PD constitutes a key input in measuring ECL. PD is an estimate of the likelihood of default over a given time horizon, the calculation of which includes historical data, assumptions and expectations of future conditions.

As at December 31, 2022 and 2021, the FCDU of the Manila Branch's Management through the Head Office assessed that the PD for Stage 1 financial assets at amortized cost ranges from 1.47% to 4.05% for bonds rated BBB+/BBB/BBB-. As at December 31, 2022 and 2021, the Head Office assessed that the PD for Stage 1 loans ranges from 0.61% to 3.87% for bonds rated AAA to A-. The Head Office assessed that the PD as at December 31, 2022 and 2021 for Stage 2 loans is 12.50% for rated BBB- and 23.35% for rated at BBB- respectively.

All investment securities at amortized cost are assessed under Stage 1 in 2022 and 2021.

Stage 1 comprises all financial instruments which have not experienced SICR since initial recognition or is considered of low credit risk as at reporting date. Stage 2 is where credit risk has increased significantly since initial recognition and resulted to a downgrade on rating from original date of recognition to assessment date.

As at December 31, 2022 and 2021, the FCDU of the Manila Branch's loans receivable are assessed under Stage 1, with one account assessed under Stage 2.

Loss Given Default (LGD)

LGD is an estimate of the loss arising on default. It is based on the difference between the contractual cash flows due and those that the lender would expect to receive, taking into account cash flows from collateral and integral credit enhancements.

The FCDU of the Manila Branch segmented its LGD based on homogenous risk characteristics and calculated the corresponding segment-level average.

As at December 31, 2022, LGD for Stage 1 and 2 loan receivables at amortized cost is at 37.30%. As at December 31, 2021, LGD for Stage 1 loan receivables at amortized cost is at 35.86%, while Stage 2 special mentioned loan is at 55.76%.

Estimating allowance for ECLs

The FCDU of the Manila Branch measures ECLs of a financial instrument in a way that reflects an unbiased and probability-weighted amount that is determined by evaluating a range of possible outcomes, the time value of money and information about past events, current conditions and forecasts of future economic conditions. When measuring ECL, the FCDU of the Manila Branch uses reasonable and supportable forward-looking information, which is based on assumptions for the future movement of different economic drivers and how these drivers will affect each other.

Due from other banks recognized in the FCDU of the Manila Branch's statements of financial position as at December 31, 2022 and 2021 amounted to P128,327,526 and P389,255,565 respectively, which is net of the related allowance for ECL amounting to nil for both years, as disclosed in Note 6.

As at December 31, 2022 and 2021 respectively, the carrying amounts of loans receivable subsequent to initial recognition amounted to P3,630,923,756 and P4,348,703,467, respectively, as disclosed in Note 7. The amounts are net of allowance for ECL amounting to P75,506,851 and P176,560,868 as at December 31, 2022 and 2021, respectively, as disclosed in Note 8.

Determining the fair value of financial instruments

The FCDU of the Manila Branch carries some of its financial assets and liabilities at fair value, which requires extensive use of accounting estimates and judgment. In addition, certain liabilities acquired through restructuring are required to be carried at fair value at the time of the restructuring.

While significant components of fair value measurement were determined using verifiable objective evidence, i.e., foreign exchange rates, interest rates, volatility rates, the amount of changes in fair value would differ if the FCDU of the Manila Branch utilized different valuation methodology. Any change in fair value of these financial assets and liabilities would affect profit or loss.

As at December 31, 2022 and 2021, the carrying amounts of financial assets carried at FVTPL subsequent to initial recognition amounted to P19,134,075 and P10,518,167, respectively. No carrying amounts of financial liabilities carried at FVTPL for 2022 and 2021.

Deferred tax assets

The FCDU of the Manila Branch reviews the carrying amount of deferred tax asset at the end of the reporting period and reduces it 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. When there is no absolute assurance that the FCDU of the Manila Branch will generate sufficient taxable profit to allow all or part of its deferred tax assets to be utilized, deferred tax assets are not recognized.

No deferred tax assets were recognized by the FCDU of the Manila Branch as Management has assessed that it is not probable that sufficient taxable income will be generated in the coming years from which the benefits of deductible temporary differences can be utilized as disclosed in Note 14.

6. DUE FROM BANKS – net

This account consists of the following:

	Note	2022	2021
Due from other banks		P128,327,526	P389,255,565

Due from other banks represent deposit accounts with domestic and foreign banks which earn interest at the prevailing rate of 0.05% to 1.00% per annum in 2022 and 2021.

Interest income earned from the savings account amounted to P322,098 and P327,520 in 2022 and 2021, respectively, and is presented under the "Interest income" in the statements of comprehensive income.

7. LOANS AND RECEIVABLE – net

Loans and receivables include the following:

	Notes	2022	2021
Syndicated loans to customers at amortized cost	19	P3,660,381,417	P4,500,024,300
Accrued interest receivable	19	46,049,190	25,240,035
		3,706,430,607	4,525,264,335
Allowance for expected credit losses	8	(75,506,851)	(176,560,868)
		P3,630,923,756	P4,348,703,467

As at December 31, 2022, 99.87% of the total loans of the FCDU of the Manila Branch are subject to periodic interest repricing (2021: 86.80%). Remaining foreign- currency denominated receivables from customers are subject to annual interest rates ranging from 2.34% to 7.36% per annum in 2022 and 1.05% to 6.25% per annum in 2021.

Interest income earned from loans and receivables amounted to P170,283,146 and P110,033,683 in 2022 and 2021, respectively, and is presented under the "Interest income" in the statements of comprehensive income.

BSP regulatory reporting

The following table shows the breakdown of loans and advances to customers at amortized cost, excluding allowance for expected credit losses, as to secured and unsecured and the breakdown of secured loans as to type of security as at December 31, 2022 and 2021:

	2022		2021	
Secured loans:				
Financial instruments	P1,186,187,625	32.4%	P1,095,203,525	24.3%
Chattel mortgages	669,060,000	18.3%	841,483,500	18.7%
Unsecured loans	1,805,133,792	49.3%	2,563,337,275	57.0%
Total	P3,660,381,417	100.0%	P4,500,024,300	100.0%

As at December 31, 2022 and 2021, there were no loans pledged as collateral for liabilities.

As at December 31, 2022 and 2021, information on the concentration of credit as to industry follows (amounts in thousands, except percentages):

	2022		2021	
	Amount	%	Amount	%
Manufacturing	P857,299	23.4%	P1,358,911	30.2%
Real estate, renting and business activities	892,080	24.4%	795,584	17.7%
Information and communication activities	696,938	19.0%	637,487	14.2%
Transportation and storage	669,060	18.3%	841,484	18.7%
Electricity, energy, power	545,005	14.9%	866,558	19.2%
	P3,660,381	100.0%	P4,500,024	100.0%

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of the total loan portfolio.

As at December 31, 2022 and 2021, the FCDU of the Manila Branch has 23.4% and 30.2% concentration in the manufacturing sector, respectively. Management believes that the high concentration in the manufacturing sector should not be a cause for concern because the main target of the FCDU of the Manila Branch are large industry leaders with good development prospects to expand business scale.

As at December 31, 2022 and 2021, other than the above mentioned, the FCDU of the Manila Branch has no credit concentration risk to any particular industry exceeding 10% of Tier 1 capital.

Under Section 304 of the Manual of Regulations for Banks (MORB), loans shall be considered non-performing, even without any missed contractual payments, when it is considered impaired under existing accounting standards, classified as doubtful or loss, in litigation, and/ or there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, if any. All other loans, even if not considered impaired, shall be considered non-performing if any principal and/or interest are unpaid for more than ninety (90) days from contractual due date, or accrued interests for more than ninety (90) days have been capitalized, refinanced, or delayed by agreement.

Non-performing loans (NPL), investments, receivables, or any financial asset (and/or any replacement loan) shall remain classified as such until (a) there is sufficient evidence to support that full collection of principal and interests is probable and payments of interest and/ or principal are received for at least six (6) months; or (b) written-off.

The gross and net NPLs of the FCDU of the Manila Branch, as defined under Section 304 of MORB, amounted to nil as at December 31, 2022 and 2021.

Effective January 24, 2013, BSP Circular No. 779 amended the regulations on Single Borrower Limit. Per amendment, the total amount of loans, credit accommodations and guarantees may be increased by an additional twenty-five percent (25%) of the Manila Branch's net worth provided those are granted for the purpose of undertaking infrastructure and/ or development projects under the Public-Private Partnership Program of the government duly certified by the Secretary of Socio-Economic Planning; Provided, further that the total exposures of the Manila Branch to any borrower pertaining to the above-mentioned projects shall not exceed 25% of the Manila Branch's net worth and that it shall only be allowed for a period of six (6) years from December 28, 2010.

Effective December 6, 2014, BSP Circular No. 858 amended the regulations on single borrower's limit. Per amendment, loans and credit commitments of foreign bank branches as of effectivity of R.A. No. 10641 may be maintained, but once repaid or expired, shall no longer be increased in excess of the ceiling allowed under this Circular.

Further, existing foreign bank branches shall be given until December 31, 2019 to use twice the level of capital as defined in this Subsection as net worth, as reference point for purposes of determining the appropriate single borrower's limit.

During 2022 and 2021, the FCDU of the Manila Branch has been compliant with the regulations on single borrower's limit of the BSP. As at December 31, 2022 and 2021, there were no loans pledged as collateral for liabilities.

8. ALLOWANCE FOR EXPECTED CREDIT LOSSES

The composition and movements in the account are as follows:

	Due from Other Banks (Note 6)	Loans and Receivables (Note 7)	Total
2022			
Balance at January 1, 2022	P -	P176,580,868	P176,580,868
(Reversal of) Provision for credit loss for the year	-	(135,446,938)	(135,446,938)
Effect of foreign exchange difference	-	34,372,921	34,372,921
Balance at December 31, 2022	P -	P 75,506,851	P 75,506,851
2021			
Balance at January 1, 2021	P 14,924	P123,394,787	P123,409,711
Credit loss for the year	(14,924)	44,924,585	44,909,661
Effect of foreign exchange difference	-	8,241,496	8,241,496
Balance at December 31, 2021	P -	P 176,560,868	P176,560,868

9. DEPOSIT LIABILITIES

In 2022 and 2021, the FCDU of the Manila Branch holds dollar denominated and yuan-denominated current deposits are subject to annual interest rates of 0.025% and 0.15%, respectively.

The deposit liabilities of the FCDU of the Manila Branch as at December 31, 2022 and 2021 amounted to P399,683,191 and P708,269,692, respectively.

Accrued interest payable arising from deposit liabilities amounted to P29,345 and P15,198 as at December 31, 2022 and 2021, respectively, included in the carrying amount mentioned above.

Interest expense arising from deposit liabilities amounted to P210,743 and P163,621 in 2022 and 2021, respectively, as shown in the statements of comprehensive income.

10. ACCRUED EXPENSES AND OTHER PAYABLES

This account consists of:

	Note	2022	2021
IRS swap interest payable	11	P259,837	P237,672
Other accrued expenses		20,182	-
Accrued taxes		528	206
		P280,547	P237,878

Accrued taxes consist of gross receipt taxes payable.

Other accrued expenses consist of funds to be cleared or transferred upon receipt of documents.

11. RELATED PARTY TRANSACTIONS

A related party transaction is a transfer of resources, services or obligations between the FCDU of the Manila Branch and a related party, regardless of whether a price is charged.

Parties are considered to be related if one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions.

These include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the FCDU of the Manila Branch; (b) associates; (c) individuals owning, directly or indirectly, an interest in the voting power of the FCDU of the Manila Branch that gives them significant influence over the FCDU of the Manila Branch and close members of the family of any such individual.

The related parties of the FCDU of the Manila Branch include its Head Office, other branches and key management personnel. The related party transactions of the FCDU of the Manila Branch are collected (for financial assets) or settled (for financial liabilities) in cash.

Summary of significant transactions and outstanding balances with related parties as at December 31, 2022 and 2021 follows:

Nature of Transaction	Amount/ Volume	Outstanding Balance		Nature, Terms of Conditions	Notes
		Due from related party	Due to related party		
2022					
Parent					
<i>Due from Head Office</i>					
Due from banks:				Working fund with	
Deposits	P29,119,041	P74,393	P	Head office; short -	
Withdrawals	(29,183,046)	-	-	term, unsecured and	a
Accrued interest receivable	665	-	-	unimpaired	
<i>Due to Head Office</i>					
Interoffice borrowings:				Fixed rate, interest	
Proceeds	P7,694,190	-	-	bearing, borrowings	
Withdrawals	(9,530,154)	-	-	to Head office; short-	b
Accrued interest payable	39,342	-	-	term, unsecured	
Entities Under					
Common Control					
<i>Due from other Branches</i>					
Due from banks:				Working fund with	
Deposits	P896,755	132,261	-	Head office; short -	
Withdrawals	(788,047)	-	-	term, unsecured and	a
Accrued interest receivable	93	-	-	unimpaired	
<i>Due to other Branches</i>					
Interoffice borrowings:				Fixed rate, interest	
Proceeds	19,663,698	-	3,182,573	bearing, borrowings	
Withdrawals	(18,720,632)	-	-	to other ICBC	b
Accrued interest payable	24,192	-	12,428	branches; short-	
Due to RBU	390,793	-	390,793	term, unsecured	c
Due to Head Office and Other Branches	P -	P -	P3,585,794		
Due from Head Office and Other Branches	P -	P206,654	P -		

2021					
Parent					
<i>Due from Head Office</i>					
<i>Due from banks:</i>					
Deposits	P33,323,588	P138,399	P	-	Working fund with
Withdrawals	(33,973,639)	-	-	-	Head office; short -
					term, unsecured and
Accrued interest receivable		-	-	-	unimpaired
<i>Due to Head Office</i>					
<i>Interoffice borrowings:</i>					
Proceeds	P14,968,207	-	1,835,964	-	Fixed rate, interest
Withdrawals	(16,043,382)	-	-	-	bearing, borrowings
					to Head office; short-
Accrued interest payable	8,223	-	854	-	term, unsecured
Entities Under					
Common Control					
<i>Due from other Branches</i>					
<i>Due from banks:</i>					
Deposits	P5,507,033	23,553	-	-	Working fund with
Withdrawals	(5,745,150)	-	-	-	Head office; short -
					term, unsecured and
Accrued interest receivable	893	-	-	-	unimpaired
<i>Due to other Branches</i>					
<i>Interoffice borrowings:</i>					
Proceeds	6,630,398	-	2,239,508	-	Fixed rate, interest
Withdrawals	(5,695,272)	-	-	-	bearing, borrowings
					to other ICBC
					branches; short-
Accrued interest payable	(1,341)	-	84	-	term, unsecured
Due to RBU	131,222	-	131,222	-	c
Due to Head Office and	P	-	P	-	P4,207,632
Other Branches					
Due from Head Office and	P	-	P161,952	P	-
Other Branches					

- a. Deposits pertain to demand deposit accounts and placements. Demand deposit accounts are used for inter-branch transactions with Head Office and other branches while placements are short term unsecured lending to Head Office and other branches.

Interest income earned on demand deposit accounts for the years ended December 31, 2022 and 2021 amounted to P758,088 and P893,340, respectively.

- b. These represent short-term borrowings from the Head Office and other branches. These borrowings have variable interest rates benchmarked to the London Interbank Offer Rate (LIBOR) and Europe Interbank Offer Rate (EURIBOR). In 2022, interest rates range from (0.20%) to 5.25%.

Interest was accrued for these short-term borrowings and is included as part of Due to Head Office and other branches account in the statements of financial position. Interest expense on these short-term borrowings for the year ended December 31, 2022 and 2021 amounted to P63,637,256 and P7,970,312, respectively.

- c. Due to RBU

	2022	2021
	<i>(In Thousands)</i>	
Balance as at January 1	P131,222	P 43,940
Net income for the year	106,339	-
	237,561	43,940
Inter-unit transfers	166,843	86,289
Cumulative translation adjustment	(13,611)	993
Balance as at December 31	P390,793	P131,222
	2022	2021
Cumulative Foreign Currency		
Translation Adjustments		
Balance at beginning of the year	(P 993)	P2,141
Translation adjustment for the year	14,604	(3,134)
	P13,611	(P 993)

Financial instruments at FVTPL

Financial instruments at FVTPL pertains to IRS contract entered by the FCDU of the Manila Branch with the Head Office. IRS has a notional amount of USD 7,000,000 with a payment fixed rate of 0.49% quarterly and receiving rate of USD Libor 3 months + 0 basis point quarterly. Term of the IRS is five (5) years.

The table below shows the details of the amounts related to the IRS contract:

	2022	2021
IRS Receivable	P 2,520,433	P 76,545
IRS Liability	259,837	237,672
Financial Asset at FVTPL	19,134,075	10,518,167
Fair value loss	12,450,367	9,793,986

The IRS receivable is presented under "Other Assets" in the statements of financial position, IRS liability presented under "Accrued Expense and Other Payables" in the statements of financial position, financial asset at FVTPL, and fair value loss recognized by the FCDU of the Manila Branch.

Remuneration of Key Management Personnel

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

The FCDU of the Manila Branch's compensation to key management personnel shown as part of "Salaries, bonus and allowances" account in the statements of comprehensive income for the year December 31, 2022 and 2021 amounted to P56.48 million and P9.61 million, respectively.

12. FEES AND COMMISSION

The details of this account is as follows:

	2022	2021
Commission income	P11,086,801	P 2,013,848
Commitment fees	8,717,175	12,500,624
Remittance fees	283,498	51,219
Advisory fees	10,591	7,519,016
	P20,098,065	P22,084,707

The FCDU of the Manila Branch has unearned income on guarantees pertaining to fees received in advance on its issuance of financial guarantees amounting to P9,106,399 and P226,981 as at December 31, 2022 and 2021, respectively. The unearned income is presented in the other liability account in the statements of financial position.

13. SALARIES, BONUSES AND ALLOWANCES

The details of this account is as follows:

	2022	2021
Salaries and wages	P 86,433,875	P86,739,165
Employee benefits	18,570,653	15,244,355
	P105,004,528	P101,983,520

Salaries and wages pertain to the basic salary, overtime pay, and other fixed allowances of employees managing and operating the FCDU of the Manila Branch.

Employee benefits consist of retirement benefits, insurance, rent, subsidies, and other benefits provided to its employees.

14. OCCUPANCY EXPENSES

The details of this account is as follows:

	2022	2021
Vehicle rent	P2,030,949	P3,289,122
House rental	1,411,334	1,214,243
Amortization of deferred expense	P98,625	298,299
	P3,540,908	P4,801,664

Occupancy expenses pertains to expenses which are incurred in the rental of the office space and vehicle such as the taxes, insurance and labor cost.

15. OTHER OPERATING EXPENSES

Other operating expenses consist of:

	2022	2021
Communications	P5,574,912	P2,576,771
Utilities	4,901,978	4,815,588
Management and other professional services	4,024,811	2,216,514
Penalties	2,952,212	-
Service charges	1,659,173	1,523,338
Insurance	1,316,199	1,325,695
Membership fees and dues	648,658	581,157
Office supplies	502,816	450,788
Representation and entertainment	416,625	573,538
Trainings	79,516	60,495
Others	1,121,291	848,318
	P23,198,191	P14,972,202

Communication expenses includes among others, expenses for Bloomberg Terminals, cost of Loandex Information System and Negative Information System, cost of access of Reuters and participation to BAP Cyber Security Incident Database (BAPCID) Facility. Agent bank charges pertain to the fees charged by BDO Unibank, Inc for the management of the FCDU of the Manila Branch's investment in government securities. It is expressed as a fixed percentage of the total assets being managed.

Service charges pertain to expenses incurred after a settlement service or advisory services were acquired from other institutions.

Membership fees and dues pertain to payments made to Chinese Enterprise Philippine Association, Credit Management Association of the Philippines and Bankers' Association of the Philippines as part of membership requirements. Utilities pertain to incurred water, electricity, postage, telecom, vehicle, maintenance cost and property management cost. Others include equipment rent, company social, security services, repairs and maintenance among others.

16. ALLOCATION OF FCDU EXPENSES

The Manila Branch allocated certain operating expenses incurred in the branch operations to the FCDU , as presented in the statements of comprehensive income:

	2022	2021
Depreciation and amortization	P21,286,889	P24,552,987
Taxes and licenses	12,082,714	7,490,677
Interest expense of lease liability	667,980	368,506
	P34,037,583	P32,412,170

17. INCOME TAXES

FCDU offshore income (income from non-residents) is tax exempt while gross onshore income (income from residents) is generally subject to 10.00% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 15.00% final tax.

RA 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and FCDUs*, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10.00% income tax.

The income tax expense consists of:

	2022	2021
Current	P3,306,938	P1,275,070
Final taxes	353	78
	P3,307,291	P1,275,148

The reconciliation between loss before income tax expense and income tax expense is as follows:

	2022	2021
Loss before income tax expense	(P109,646,058)	(P63,397,260)
Statutory income tax (25% for 2021 and 30% for 2020)	P27,411,515	(P15,849,315)
Adjusted for the tax effects of:		
Unrecognized deferred tax asset (liability)	(32,103,069)	18,503,004
Difference on statutory rate and 10% special rate for FCDU	(4,960,407)	(1,912,605)
Nondeductible expense	13,923,294	1,026,515
Tax-paid and tax-exempt income	(964,394)	(492,529)
Final tax expense	353	78
Income tax expense	P 3,307,292	P 1,275,148

Management believes that certain future deductible items may not be realized in the near foreseeable future as future taxable income may not be sufficient for the related tax benefits to be realized. Accordingly, the FCDU of the Manila Branch did not recognize deferred tax asset on loss allowance as at December 31, 2022 and 2021.

Details of the tax base and deferred tax of the loss allowance follows:

	2022		2021	
	Deductible Temporary Differences	Deferred Tax Asset (Liability)	Deductible Temporary Differences	Deferred Tax Asset (Liability)
Loss allowance	(P135,446,938)	(P44,924,585)	P44,924,817	P11,231,204
Accrued Salaries	5,013,502	1,253,376	29,000,000	7,250,000
NOLCO	2,021,184	505,296	87,199	21,800
	(P128,412,252)	(P43,165,913)	P74,012,016	P18,503,004

The BIR issued Revenue Regulations (RR) No. 25-2020 to implement Section 4 of R.A. No. 11494, Bayanihan to Recover as One Act, which provides that the NOLCO incurred for taxable years 2020 and 2021 can be carried over as a deduction from gross income for the next five (5) consecutive taxable years immediately following the year of such loss.

Details of the Company's NOLCO under RR No. 25-2020 are as follows:

Inception Year	Amount	Expired/Used	Balance	Expiry Year
2021	P87,199	P -	P87,199	2026

Details of the Manila Branch's NOLCO not covered by RR No. 25-2020 which could be carried over as a deduction from the Manila Branch's future taxable income for the next three (3) succeeding taxable years are as follows:

Inception Year	Amount	Expired/Used	Balance	Expiry Year
2022	P2,021,184	P -	P2,021,184	2025

18. FAIR VALUE AND MATURITY ANALYSIS OF FINANCIAL INSTRUMENTS

Maturity analysis of Assets and Liabilities

The following table presents the maturity profile of the assets and liabilities of the FCDU of the Manila Branch based on the amounts to be recovered or settled with and/ or after more than 12 months after the reporting period (in thousands):

	2022			2021		
	Within One Year	Beyond One Year	Total	Within One Year	Beyond One Year	Total
Financial Assets at Gross						
Due from other banks	P128,328	P -	P 128,328	P 389,256	P -	P 389,256
Financial assets at FVTPL	19,134	-	19,134	10,518	-	10,518
Loans and receivables	717,455	2,988,976	3,706,431	280,235	4,245,029	4,525,264
Other assets	2,520	-	2,520	77	-	77
	867,437	2,988,976	3,856,413	680,086	4,245,029	4,925,115
Non-financial Assets at Gross						
Other assets	7,305	-	7,305	5,861	-	5,861
	874,742	2,988,976	3,863,718	685,947	4,245,029	4,930,976
Less: Allowance for credit losses	119	75,388	75,507	38	176,523	176,561
	P874,622	P2,913,588	P3,788,211	P 658,909	P4,068,506	P4,754,415
Financial Liabilities						
Due to Head Office and other branches	P2,988,347	P -	2,988,347	P3,097,784	P816,674	P3,914,458
Deposit liabilities	399,683	-	399,683	708,270	-	708,270
Financial liability at FVPTL	-	-	-	-	-	-
Accrued expense and other payables	281	-	281	238	-	238
	3,388,311	-	3,388,311	3,806,292	816,674	4,622,966
Non-financial Liabilities						
Other liability	9,106	-	9,106	227	-	227
	P3,397,417	P -	P3,397,417	P3,806,519	P 816,674	P4,623,193

Fair Value of Financial Instruments

The carrying amount of the financial instruments in the financial statements are equal or approximate their fair value. For long term interest bearing loans and receivables, the effect of discounting is not material. Except for financial assets and liabilities at FVTPL which are categorized as Level 2, all other financial instruments are categorized as Level 3 in the fair value hierarchy.

19. FINANCIAL RISK MANAGEMENT

Financial risk management objectives and policies

The Head Office has the ultimate role and responsibilities in developing and approving a comprehensive risk management framework for the ICBC Group through its Risk Management Committee (RMC). Business authorization is granted to the Manila Branch by the Head Office on an annual basis, as well as guidance and support on business development, risk management, internal governance, compliance, considering the safeguarding of the Manila Branch's long-term financial stability, solvency and liquidity situation.

The General Manager of the Manila Branch has the overall responsibility for the establishment and oversight of various risk management measures within the mandate of the Head Office.

The Management has established the Risk Oversight Committee (ROC), which is the decision-making body within the Manila Branch responsible for reviewing and strengthening risk management measures and assessing indicator results of risk and compliance management. Its risk mission and objectives are to consistently and accurately consider risks and return in evaluating transactions and exposures while preserving and maintaining adequate risk-based capital, and to ensure adequate returns on such capital. Risk mitigation strategies form an integral part on the risk management activities.

The FCDU of the Manila Branch has significant exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity and Funding Risk
- Market Risk

The FCDU of the Manila Branch's policies and objective in managing these risks are summarized below:

Credit risk

Credit risk is defined by the FCDU of the Manila Branch as the risk of financial loss arising from the borrower's inability to repay principal and/ or interest. Of all forms of risk faced by the FCDU of the Manila Branch, credit risk from non-payment or late payment is the most significant as potential losses from mismanagement of credit risk may be substantial.

The FCDU of the Manila Branch assumes credit risk in a wide range of lending and other activities in diverse markets. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury and capital markets activities.

The FCDU of the Manila Branch's credit risk is mainly attributable to its loans, due from banks and other non-financial institutions and financial investments. In addition, the Manila Branch provides guarantees for customers and may therefore be required to make payments on their behalf. These payments will be recovered from customers in accordance with the terms of the agreement. Therefore, the FCDU of the Manila Branch assumes a credit risk similar to that arising from loans and applies the same risk control procedures and policies to reduce risks.

Credit risk management

The Head Office delegates credit business authority to the General Manager based on the annual operation and management authorization, who may then sub-delegate, in whole or in part, its credit business authority to different levels of authorized approvers. Credit Management from the Risk Control Department conducts independent credit assessment and evaluation of all counterparties and other risks presented for approval by the Marketing Department. The Credit Risk Officer, also the Deputy General Manager, oversees the credit and credit risk management processes of the Manila Branch as the chairman of the Credit Review Committee.

The FCDU of the Manila Branch has adopted stringent procedures in extending credit terms to borrowers and in monitoring its credit risk. Personnel involved in the management of credit risk and the credit process must therefore exercise due diligence and sound judgment in the evaluation and assessment of risks when assessing lending requests from borrowers as well as in post-lending management of credit facilities since credit facilities should only be granted for genuine business requirements.

The final part of the end-to-end credit process consists of post-approval and monitoring procedures, such as annual credit reviews, which aims to maintain the quality of credits and safeguard the assets of the Manila Branch with the view of avoiding potential losses. This is achieved by ensuring that all transactions are within the approved limits, appropriateness of the credit rating is monitored and credit limits and that other credit issues such as amount, maturity, security, repayment and other financial covenants are in accordance with the approved terms.

Risk concentrations of the maximum exposure to credit risk

Concentration risk can arise from excessive exposures to individual obligors, groups of connected counterparties and groups of counterparties with similar characteristics (e.g., counterparties in specific geographical locations, economic or industry sectors) or entities in a foreign country or a group of countries with strongly interrelated economies that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations of risk are managed by counterparty and by industry sector.

The FCDU of the Manila Branch generally considers concentration risk as excessive when the ratio of a seg exposure (e.g., this may be an industry demographic attribute or a program) to the total portfolio exceeds the BSP threshold. The BSP considers that credit concentration risk exists when the total loan exposure to an industry or economic sector exceeds 30.00% of the total loan portfolio or 10.00% of Tier 1 capital, except for the commercial real estate industry which has regulatory limit of 20.00% of total loan portfolio excluding interbank loans receivable.

The table below shows the concentration of the financial assets of the FCDU of the Manila Branch by type of industry, gross of allowance for credit losses as at December 31, 2022 and 2021:

	Financial Institutions	Electricity, Energy, Power	Manufacturing	Real Estate and Business Activities	Transportation and Communication	Information and Communication	Total
2022							
Due from other banks	P128,328	P -	P -	P -	P -	P -	P 128,328
Loans and receivables:							
Loans to customers	-	545,005	857,299	892,080	669,060	696,938	3,660,382
Accrued interest receivable	-	11,088	1,567	9,608	3,269	20,517	46,049
Other assets	2,520	-	-	-	-	-	2,520
	P130,848	P556,093	P858,866	P901,688	P672,329	P717,455	P3,837,279
2021							
Due from other banks	P389,256	P -	P -	P -	P -	P -	P 389,256
Loans and receivables:							
Loans to customers	-	866,558	1,358,911	795,584	841,484	637,487	4,500,024
Accrued interest receivable	-	11,616	762	1,791	1,288	9,783	25,240
Other assets	77	-	-	-	-	-	77
	P389,333	P878,174	P1,359,673	P797,375	P842,772	P647,270	P4,914,597

Collateral and other credit enhancements

The amount and type of collateral required depend on the assessment of the credit risk of the counterparty. Guidelines are in place specifying the types of collateral and valuation parameters which can be accepted.

The FCDU of the Manila Branch holds collateral against certain loans in the form of mortgage interest over real property. Estimates of fair value are based on the value of collateral assessed at the time of borrowing, and are updated periodically or when a loan is individually assessed as impaired.

Management monitors the market value of collateral periodically and requests additional collateral in accordance with the underlying agreement when it is considered necessary.

Maximum exposure to credit risk after collateral held or other credit enhancements

The FCDU of the Manila exposure to credit risk arises from the default of the counterparty, with a maximum exposure equal to the carrying amounts of these assets.

The table below shows the maximum exposure to credit risk of the FCDU of the Manila Branch as at December 31, 2022 and 2021 after taking into account any collateral held or other credit enhancements (in thousands):

	2022			2021		
	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk	Carrying Amount	Fair Value of Collateral	Maximum Exposure to Credit Risk
Due from other banks	P 128,328	P -	P128,328	P 389,256	-	P 389,256
Loans and receivables	3,630,924	1,200,405	2,430,519	4,348,703	1,140,546	3,208,157
Other assets	2,520	-	2,520	77	-	77
	P3,761,772	P1,200,405	P2,561,367	P4,738,036	P1,140,546	P3,597,490

Credit quality per class of financial assets

The credit quality of financial assets is managed by the FCDU of the Manila Branch using internal and external credit ratings which covers both on- and off- balance sheet exposures.

Internal rating

The FCDU of the Manila Branch has adopted its Head Office's internal rating model which is based on quantitative and qualitative assessment of a corporate customer. The quantitative assessment takes into consideration profitability, accounting quality, cash flow and liquidity, capital and debt structure and solvency among others while qualitative assessment includes industry environment, the entity's market position and competitive strengths and weaknesses, management and corporate governance.

External rating

In ensuring a quality investment portfolio, the FCDU of the Manila Branch uses the credit risk rating of Moody's Standard & Poor and Fitch.

The table below shows the credit risk rating comprising the equivalent external grades for each internal credit risk rating following the Head Office's master scale of 21-grade credit rating applied for comparison purposes only.

Internal Borrower's Risk Ratings	Moody's Equivalent Grades	Standard & Poor's and Fitch Equivalent Grades	Description
sAAA+	Aaa, Aa1, Aa2	AAA, AA+, AA	Customers with great operating and financial strength as well as strong and very stable solvency and have demonstrated that they can withstand and bear major internal and external adverse change, with very reliable and predictable net cash flow.
AAA+	Aa3	AA-	
sAAA	Aaa, Aa1, Aa2	A+	
AAA	A2	A	
sAAA-	A3	A-	
AAA-	Baa1	BBB+	

sAA+ AA+	Baa2 Baa2	BBB BBB	Customers with very good operating and financial strength as well as very strong solvency and can withstand and bear large internal and external adverse changes, with good financial performance and sufficient cash flows.
sAA AA	Baa3 Baa3	BBB- BBB-	Customers with very good operating and financial strength as well as very strong solvency and may be affected by adverse changes in internal and external economic situations.
sAA- AA-	Ba1 Ba1	BB+ BB+	Customers with moderately good operating and financial strength as well as moderately strong solvency but will be affected by adverse changes in internal and external economic situations; has moderately sufficient cash flow; moderate strong customer market competitiveness.
sA+ A+ A A-	Ba2 Ba2 Ba3 B1	BB BB BB- BB+	Customers with general operating and financial strength as well as acceptable solvency and will be greatly affected by changes in the external economic environment; it has a slightly poor net cash flow, fair customer market competitiveness.
BBB+ BBB BBB-	B2 B3 Caa1, Caa2, Caa3	B B- CCC	Customers with weak financial position, very poor operating and financial strength, weak and unstable solvency, as well as a weak ability to withstand risks; has a poor cash flow, an extremely heavy dependence on banking facilities, and weak customer market competitiveness.
BB	Ca, C	CC, C	It suffers severe losses or losses for consecutive years, has an extremely poor financial performance, is almost insolvent, and has basically no ability to withstand risks; it has an insufficient cash flow, very weak customer market competitiveness.
B	C	D	The customer goes bankrupt and shuts down or materially defaults on its debts.

The table below shows the credit score rating comprising each category of credit quality, risk category and stage.

Standard & Poor Equivalent Grades	Credit Quality	Risk Category	Stage
AAA / AA+ / AA	Highest Quality	Very Low Risk	1
AA- / A+	High Quality	Low Risk	1
A / A-	Upper Medium Grade	Low Risk	1
BBB+ / BBB / BBB-	Medium Grade	Moderate Risk	1
BB+ / BB / BB- / B+	Speculative	Substantial Risk	1
B / B-	Speculative	High Risk	2
CCC	Poor	Very High Risk	2
CC/ C	Poor	Very High Risk	3
D	Default	Very High Risk	3

The credit quality of the assets held by the FCDU of the Manila Branch is generally monitored through the internal and external ratings, which is then used to detect any deterioration in the quality of assets and tracks migration of credit risks.

Significant increase in credit risk

The assessment of significant increase since initial recognition in the credit risk is performed at least on a quarterly basis for financial instruments held by the FCDU of the Manila Branch. The FCDU of the Manila Branch takes into consideration all reasonable and supportable information (including forward-looking information) that reflects significant change in credit risk for the purposes of classifying financial instruments. The main considerations are regulatory and operating environment, internal and external credit risk gradings, debt-servicing capacity, operating capabilities, contractual terms, and repayment records. The FCDU of the Manila Branch compares the risk of default of a single financial instrument or a portfolio of financial instruments with similar credit risk characteristics as at the end of the reporting period and its risk of default at the date of initial recognition to determine changes in the risk of default during the lifetime of a financial instrument or a portfolio of financial instruments. In determining whether credit risk of a financial instrument has increased significantly since initial recognition, the FCDU of the Manila Branch considers factors indicating whether the probability of default has risen sharply, whether the financial instrument has been past due for more than 30 days, whether the market price has been falling to assess deterioration.

As at December 31, 2022 and 2021, the FCDU of the Manila Branch has no past due financial assets.

Default

The FCDU of the Manila Branch defines a corporate borrower as in default when it meets one or more of the following criteria at the timing of recognition:

- (i) The principal or interest of loan is past due more than 90 days;
- (ii) The corporate borrower is unlikely to pay its credit obligations in full, without recourse by the Manila Branch to actions such as liquidation against collateral; or
- (iii) The corporate borrower has the above matters in other financial institutions refers to (i), (ii).

POCI Assets

POCI assets are financial assets that are credit-impaired on initial recognition. Impairment on a POCI asset is determined based on lifetime ECL from initial recognition. POCI assets are recognized initially at an amount net of impairment and are measured at AC using a credit-adjusted effective interest rate. In subsequent periods, any changes to the estimated lifetime ECL are recognized in the statements of income and expenses. Favorable changes are recognized as a reversal of impairment if the lifetime ECL at the reporting date is lower than the estimated lifetime ECL at origination.

Stage of financial instruments

The FCDU of the Manila Branch classifies financial instruments into three (3) risk stages and makes provisions for expected credit losses, accordingly, depending on whether credit risk on that financial instrument has increased significantly since initial recognition.

Refer to Note 3 Impairment of Financial Instruments for the definition of the three (3) risk stages.

The table below shows the credit quality of the financial assets of the FCDU of the Manila Branch by credit risk rating and stage as at December 31, 2022 (in thousands):

	Stage 1	Stage 2	2022 Stage 3	POCI	Total	2021 Total
Due from Other Banks						
AAA / AA+ / AA	P128,328	-	-	-	P128,328	P389,256
AA- / A+	-	-	-	-	-	-
A / A-	-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-	-
BB+ / BB / BB- / B+ B / B-	-	-	-	-	-	-
CCC	-	-	-	-	-	-
CC / C D	-	-	-	-	-	-
Unrated	-	-	-	-	-	-
Loss allowance	-	-	-	-	-	-
Carrying amounts	P128,328	-	-	-	P128,328	P389,256
Loans and receivables						
AAA / AA+ / AA	P1,236,403	-	-	-	P1,236,403	P2,422,046
AA- / A+	-	-	-	-	-	1,260,447
A / A-	-	-	-	-	-	-
BBB+ / BBB / BBB-	-	-	-	-	-	842,771
BB+ / BB / BB- / B+	-	-	-	-	-	-
B / B-	-	-	-	-	-	-
CCC	-	-	-	-	-	-
CC / C	-	-	-	-	-	-
D	-	-	-	-	-	-
Unrated	1,797,699	672,329	-	-	2,470,028	-
Loss allowance	(8,601)	(66,906)	-	-	(75,507)	(176,561)
Carrying amounts	P3,025,501	605,423	-	-	P3,630,924	P4,348,703

Impairment assessment

Generally, a financial asset is considered to be credit-impaired if:

- (i) It has been overdue for more than 90 days;
- (ii) In light of economic, legal or other factors, the Manila Branch has made concessions to a borrower in financial difficulties, which would otherwise have been impossible under normal circumstances;
- (iii) The borrower is probable to be insolvent or carry out other financial restructurings;
- (iv) Due to serious financial difficulties, the financial asset cannot continue to be traded in an active market;
- (v) There are other objective evidences that the financial asset is impaired.

Description of parameters, assumptions, and estimation techniques

ECL for a financial instrument is measured at an amount equal to 12-month ECL or lifetime ECL depending on whether a significant increase in credit risk on that financial instrument has occurred since initial recognition or whether an asset is considered to be credit-impaired. The loss allowance is measured using the risk parameters method.

The key parameters are as follows:

- *Probability of default (PD)*

PD is the possibility that a customer will default on its obligation within a certain period of time in light of forward-looking information. The FCDU of the Manila Branch's PD is adjusted based on the results of the Internal Rating-Based Approach under the New Basel Capital Accord, taking the forward-looking information into account and deducting the prudential adjustment to reflect the debtor's point-in-time (PIT) PD under the current macroeconomic environment.

- *Loss given default (LGD)*

LGD is the magnitude of the likely loss if there is a default considering forward-looking information. The LGD is depending on the type of counterparty, the method and priority of the recourse, and the type of collaterals, with taking the forward-looking information into account.

- *Exposure at default (EAD)*

EAD refers to the total amount of on-balance sheet and off-balance sheet exposures in the event of default and is determined based on the historical repayment records.

The assumptions underlying the ECL calculation, such as how the PDs and LGDs of different maturity profiles change are monitored and reviewed on a quarterly basis by the Head Office and FCDU of the Manila Branch.

There have been no significant changes in estimation techniques or significant assumptions made during the year.

During the years ended December 31, 2022 and 2021, the Management has identified a significant increase in credit risk for one of its financial assets measured at amortized cost from origination date.

Forward-looking information contained in ECL

The calculation of ECL incorporates forward-looking information. The Manila Branch has performed historical analysis and identified the key economic variables, including GDP, Inflation Rate and Change Rate of Total Import Goods, impacting ECL for each portfolio. The impact of these economic variables on the PD has been determined by performing statistical regression analysis to understand the correlations among the historical changes of the economic variables. The Head Office provides forecasts of these economic variables quarterly including the best estimate view of the economy over the next year.

When calculating the weighted average ECL, the optimism, neutral and pessimism scenarios and its weightings determined by a combination of macro-statistical analysis and expert judgment are taken into account by the Manila Branch.

Sensitivity of ECL in future economic conditions

The ECL are sensitive to judgements and assumptions made regarding formulation of forward-looking scenarios and how such scenarios are incorporated into the calculations.

The ICBC Group has carried out sensitivity analysis of key economic variables, used in forward-looking measurement. As at December 31, 2022 and 2021, when the key economic indicators in the neutral scenario move up or down by 10%, the ECL will not change by more than 5%.

This sensitivity calculation of ICBC Group is applicable to the FCDU of the Manila Branch.

Recovery of impairment loss

If in a subsequent period, an improvement in scenarios arise whereby the borrower's credit rating, financial strength and the overall economy recovery and others, the previously recognized impairment loss is reversed directly to profit and loss, in line with the adjustment of the impairment loss account.

Restructured Loans

Where possible, the FCDU of the Manila Branch seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and the future payments are likely to occur. When the loan has been restructured but not derecognized, the FCDU of the Manila Branch also reassesses whether there has been a SICR and considers whether the assets should be classified as Stage 3. If the restructuring terms are substantially different, the loan is derecognized at fair value using the revised effective interest rate.

Write-off

The FCDU of the Manila Branch writes off financial assets when it has exhausted practical recovery efforts and has concluded there is no reasonable expectation of recovery.

Liquidity and funding risk

The FCDU of the Manila Branch defines liquidity and funding risk as the risk to the business earnings, capital and solvency, arising from inability to meet contractual payments and other financial obligations on their due date, or the inability to fund (at a reasonable cost) the business needs of the FCDU of the Manila and, by extension, the needs of its customers, and risk that the FCDU of the Manila Branch will not be able to meet efficiently both expected and unexpected current and future cash flow without affecting either the daily operations or its financial condition.

Liquidity risk management

The objective of the FCDU of the Manila Branch's liquidity and funding risks management is to maintain at all times liquidity resources which are adequate, both as to amount and quality, to ensure that there is no significant risk that its liabilities cannot be met as they fall due.

In order to implement effective internal control on liquidity risk, the FCDU of the Manila Branch has established a sound framework for measuring, monitoring and controlling liquidity risk across different time horizons and stress scenarios:

- Identification

The FCDU of the Manila Branch examines its key liquidity and funding risk drivers in the context of a comprehensive list of potential liquidity and funding risk factors which is reviewed and approved by the RMC at least annually.

- Measurement

The FCDU of the Manila Branch uses a series of measures to monitor both short and long-term liquidity including: ratios, cash outflow triggers, wholesale funding maturity profile, and early warning indicators. Strict criteria and limits are in place to ensure highly liquid marketable securities are available as part of the portfolio of liquid assets. The Manila Branch's liquidity measurement involves assessing cash inflows against outflows and the liquidity value of its assets to identify the potential for future net funding shortfalls.

- Liquidity and funding risks control through limits

The FCDU of the Manila Branch has set limits to control liquidity risk exposure and vulnerabilities and established corresponding escalation procedures. These limits are not only used for managing day-to-day liquidity, but also include measures aimed at ensuring that it can continue to operate in a period of market stress, bank-specific stress and a combination of the two to ensure that, under stressed conditions, available liquidity exceeds liquidity needs.

- Intraday liquidity management.

The FCDU of the Manila Branch actively manages its intraday liquidity positions so that it is able to meet payment and settlement obligations on a timely basis under both normal and stress financial conditions.

The FCDU of the Manila Branch also has a formal Liquidity Contingency Plan (LCP) that sets out the strategies for addressing liquidity shortfalls in emergency situations. The LCP outlines policies to manage a range of stress environments and establish clear lines of responsibility, and details clear invocation and escalation procedures. The results of the scenarios and the assumptions used in stress tests are factored in the LCP's design, plans and procedures which, in turn, are closely integrated with the Manila Branch's liquidity and funding risk appetite setting.

The maturity profile of the financial assets and liabilities of the FCDU of the Manila Branch as at December 31, 2022 and 2021 are as follows (in thousands):

	Carrying Amounts	Gross Nominal Inflow/ Outflow	Less than 1 Month	1-3 Months	3-12 Months	1-5 Years	More than 5 Years
2022							
Financial Assets							
Due from other banks	P 128,328	P 128,328	P 128,328	P -	P -	P -	P -
Financial assets at FVTPL	19,134	19,134	-	-	-	19,134	-
Loans and receivables	3,630,924	4,150,319	718,627	-	-	1,799,923	1,631,769
Other assets*	2,520	2,520	-	2,520	-	-	-
	3,780,906	4,300,301	846,955	2,520	-	1,819,057	1,631,769
Financial Liabilities							
Due to Head Office and other branches	3,379,172	3,203,366	2,299,935	903,431	-	-	-
Deposit liabilities	399,683	399,683	399,683	-	-	-	-
Accrued Expense and Other Payables*	281	281	281	-	-	-	-
	3,779,136	3,603,330	2,699,899	903,431	-	-	-
Net Liquidity Surplus (Gap)	P 1,771	P 696,971	(P1,852,944)	(P900,911)	P -	P1,819,057	P1,631,769
2021							
Financial Assets							
Due from other banks	P 389,256	P 389,256	P 389,256	P -	P -	P -	P -
Financial assets at FVTPL	10,518	10,518	-	-	-	10,518	-
Loans and receivables	4,348,703	4,912,354	256,332	-	-	3,912,472	743,550
Other assets*	77	77	-	77	-	-	-
	4,748,554	5,312,205	645,588	77	-	3,922,990	743,550
Financial Liabilities							
Due to Head Office and other branches	4,045,680	4,197,269	2,633,988	714,515	-	848,766	-
Deposit liabilities	708,270	708,270	708,270	-	-	-	-
Accrued Expense and Other Payables*	238	238	238	-	-	-	-
	4,754,188	4,905,777	3,342,496	714,515	-	848,766	-
Net Liquidity Surplus (Gap)	(P5,634)	P406,428	(P2,696,908)	(P714,438)	P -	P3,074,224	P743,550

*Other assets consists of IRS interest receivable

*Accrued expense and other payables consist of IRS interest payable.

As at December 31, 2022 and 2021, there are no financial assets pledged as collateral for liabilities.

Market risk

Market risk is the risk of a loss in the FCDU of the Manila Branch's on-balance-sheet or off-balance-sheet business due to unfavorable changes in market prices. The value of a financial instrument may change as a result of changes in equity prices, interest rates, foreign currency exchange rates and other market changes. Given the Manila Branch's current business model, foreign exchange risk from banking book and trading book are the major sources of market risk.

Market risk management

The FCDU of the Manila Branch follows a prudent policy on managing its financial assets and financial liabilities to ensure that exposure to fluctuations in market prices are kept within acceptable limits. Through market risk management, it is ensured that the market risks undertaken are well managed within the Manila Branch appetite and that the income after risk-adjustment is maximized.

The Senior Management ensures that the structure of the Manila Branch's business and the level of market risk it assumes are effectively managed, that appropriate policies and procedures are established to control and limit these risks, and that resources are available and sufficient for evaluating and controlling market risk. Senior management is particularly responsible for maintaining:

- (i) Appropriate limits on risk taking;
- (ii) Adequate systems and standards for measuring risk;
- (iii) Standards for valuing positions and measuring performance;
- (iv) A comprehensive market risk reporting and management review process; and
- (v) Effective internal controls.

Consistent with the Head Office's market risk management policy, the FCDU of the Manila

Branch's trading book consists of all positions in financial instruments and commodities held either with trading intent or in order to hedge against other elements of the trading book and which are either free of any restrictive covenants on their tradability or able to be hedged. Positions held with trading intent are those held intentionally for short-term resale and/ or with the intent of benefiting from actual or expected short-term price movements or to lock in arbitrage profits.

The FCDU of the Manila Branch segregates their business between trading book and banking book activity on a consistent basis and allocates transactions accordingly for the purpose of adopting more pertinent market risk management measurement.

Trading book positions are accurately valued on a daily basis while the portfolio is actively managed. All positions that are not in the Manila trading book are included in the FCDU of the Manila Branch's banking book. If a specific financial instrument is used to hedge an exposure in banking book, it will be taken out of the trading book for the period of the hedge and included in the banking book.

As the FCDU of the Manila Branch currently do not undertake proprietary trading and market making, trading book exposure only results from client servicing.

The market risk exposure is measured both across risk types, such as interest rate, foreign exchange and across the entire portfolio. The FCDU of the Manila Branch identifies and measures the impact of any new transaction on its market risk position on an on-going basis.

Currency risk

Foreign currency exposure is used to measure foreign exchange risk, which refers to the risk of loss caused by currency imbalance between foreign exchange assets and foreign exchange liabilities due to adverse exchange rate changes. The major foreign exchange rate risks of the Manila Branch arise from foreign exchange exposure generated from client transactions and conversion of working capital in PHP into US dollar.

2022				
	USD	EURO	CNY	Total
Financial Assets				
Due from other banks	P 127,298	P -	P 1,242	P 128,540
Financial Asset at FVTPL	19,210	-	-	19,210
Loans and receivable	2,981,889	579,403	-	3,561,292
Other Assets*	2,520	-	-	2,520
	3,130,917	579,403	1,242	3,711,562
Financial Liabilities				
Deposit liabilities	245,635	-	153,925	399,560
Accrued Expense and Other Payables**	244	-	-	244
Deferred Income	9,245	-	-	9,245
Due to Head Office and other branches	2,590,891	559,538	(156,618)	2,993,811
	2,846,015	559,538	(2,693)	3,402,590
Net Position	P 284,902	P 19,865	P 3,935	P 308,972
2021				
Financial Assets				
Due from other banks	P 389,176	P -	P 80	P 389,256
Financial Asset at FVTPL	10,518	-	-	10,518
Loans and receivable	3,756,418	592,285	-	4,348,703
Other Assets*	77	-	-	77
	4,156,189	592,285	80	4,748,554
Financial Liabilities				
Deposit liabilities	688,011	-	20,259	708,270
Financial Liability at FVTPL	-	-	-	-
Accrued Expense and Other Payables**	238	-	-	238
Due to Head Office and other branches	3,489,673	579,719	(23,712)	4,045,680
	4,177,922	579,719	(3,453)	4,754,188
Net Position	(P 21,733)	P12,566	(P3,533)	(P5,634)

The table below summarizes the exposure to foreign exchange risk of the FCDU of the Manila Branch as at December 31, 2022 and 2021. Included in the table are the assets and liabilities of the FCDU of the Manila Branch at carrying amounts, categorized by currency (PHP equivalents in thousands).

Other assets consists of IRS interest receivable

***Accrued expense and other payables consist of IRS interest payable.*

The table below indicates the currencies which the FCDU of the Manila Branch has significant exposure to as at December 31, 2022 and 2021 on its foreign currency-denominated assets and liabilities and its forecasted cash flows. The analysis calculates the effect of a reasonably possible movement of other currency rates against the PHP, with all other variables held constant on the results of operations (due to the fair value of currency sensitive monetary assets and liabilities) and other comprehensive income.

	Foreign Currency Appreciates Against PHP by	Effects on Profit before Tax (in thousands)	Foreign Currency Depreciates by	Effects on Profit before Tax (in thousands)
2022				
USD	9.3257%	P26,569	(9.3257%)	(P26,569)
EUR	2.4248%	482	(2.4248%)	(482)
CNY	(0.2162%)	(9)	0.2162%	9
2021				
USD	2.7380%	(P10,638)	(2.7380%)	P10,638
EUR	(1.1787%)	(149)	1.1787%	149
CNY	0.6200%	22	(0.6200%)	(22)

A negative amount in the table reflects a potential net reduction of net income or other comprehensive income while a positive amount reflects a net potential increase. Change in currency rates are based on the historical movements of each currency for the same period.

Interest rate risk

Interest rate risk is defined as the current or prospective risk to both the capital and earnings of the FCDU of the Manila Branch arising from adverse movements in underlying interest rate.

One of the FCDU of the Manila Branch primary business functions is providing financial products that meet the needs of its customers. Loans and deposits are tailored to the requirements with regard to tenor credit standing. The FCDU of the Manila Branch has assessed its interest rate risk drivers and concluded that material risks arise from only re-pricing risk, which is the risk related to the timing mismatch in the maturity and re-pricing of assets and liabilities and off-balance-sheet short and long-term positions.

The table set forth the interest rate repricing gap of the FCDU of the Manila Branch as at December 31, 2022 and 2021 (in thousands):

	Overnight to 1 month	1-3 Months	3-6 Months	6-12 Months	1-2 Years	Beyond 2 Years	Non-rate Sensitive	Total
2022								
Assets								
Due from other banks	P 128,328	P -	P -	P -	P -	P -	P -	P 128,328
Loans and receivables (gross)	1,644,773	947,835	578,524	-	-	489,250	-	3,660,382
	1,773,101	947,835	578,524	-	-	489,250	-	3,788,710
Liabilities								
Due to Head Office and other branches	2,424,404	563,943	-	-	-	-	-	2,988,347
Deposit liabilities	399,654	-	-	-	-	-	-	399,654
	2,824,058	563,943	-	-	-	-	-	3,388,001
Net Repricing Gap	(P1,050,958)	P 383,892	P 578,524	P -	P -	P489,250	P -	P 400,708
2021								
Assets								
Due from other banks	P122,336	P -	P -	P -	P -	P -	P266,919	P389,255
Loans and receivables (gross)	254,995	-	-	-	2,753,946	1,491,083	-	4,500,024
	377,331	-	-	-	2,753,946	1,491,083	266,919	4,889,279
Liabilities								
Due to Head Office and other branches	2,383,653	714,131	-	-	-	816,674	-	3,914,458
Deposit liabilities	708,254	-	-	-	-	-	-	708,254
	3,091,907	714,131	-	-	-	816,674	-	4,622,712
Net Repricing Gap	(P2,714,576)	(P714,131)	P -	P -	P2,753,946	P674,409	P266,919	P266,567

The sensitivity of the results of operations is measured as the effect of the assumed changes in interest rates on the net interest income for one period based on the floating rate of financial assets and financial liabilities held as at December 31, 2022 and 2021.

The table below demonstrates the potential impact on the income before income tax of the FCDU of the Manila Branch attributed from a 200-basis point parallel move in interest rates, with all other variables held constant, as at December 31, 2022 and 2021. The impact from non-parallel movements may be materially different from the estimated impact of parallel movements (in thousands).

As at December 31, 2022, the management believes that the FCDU of the Manila Branch is not exposed to any significant market risk as the financial assets of the FCDU of the Manila Branch are concentrated in due from other banks denominated in PHP which earn interest at fixed bank interest rates. Consequently, no sensitivity analysis was presented.

	Increase/Decrease in interest rates (in basis points)	Effect in Income Before Income Tax
2022	+300bps	P12,021
	-300bps	(12,021)
2021	+275bps	P7,331
	-275bps	(7,331)

Interest rate risk in the banking book (IRRBB)

IRRBB refers to the current or prospective risk to the FCDU of the Manila Branch's capital and earnings arising from adverse movements in interest rates that affect the FCDU of the Manila Branch banking book positions. The three main forms of IRRBB are gap risk, basis risk and option risk:

- Gap Risk

Gap risk arises from the term structure of banking book instruments, and describes the risk arising from the timing of instruments. The extent of gap risk depends on whether changes to the term structure of interest rates occur consistently across the yield curve (parallel risk) or differentially by period (non-parallel risk).

- Basis Risk

Basis risk describes the impact of relative changes in interest rates for financial instruments that have similar tenors but are priced using different interest rate indices.

- Option Risk

Option risk arises from option derivative positions or from optional elements embedded in a bank's assets, liabilities and/or off-balance sheet items, where the FCDU of the Manila Branch or its customer can alter the level and timing of their cash flows. Option risk can be further characterized into automatic option risk and behavioral option risk.

As at December 31, 2022 and 2021, the FCDU of the Manila Branch has assessed its interest rate risk drivers and noted that only gap risk is the significant risk it faces.

IRRBB Management

The FCDU of the Manila Branch has established a management framework with the objective of decreasing the sensitivity of its earnings and economic value of equity to market fluctuations.

The FCDU of the Manila Branch adopted three methods to measure IRRBB:

- Standardized measurement framework

A standardized approach for measurement of IRRBB based on changes in economic value. When applying this framework, the Manila Branch calculates the currencies whose balance accounts for more than 5% of the assets or liabilities in the banking books separately according to the characteristics of the nominal repricing cash flow of the relevant on/ off-balance-sheet items in the banking book. Rate sensitivity positions are allocated as fully standardized positions, semi- standardized positions and non-standardized positions.

The nominal repricing cash flows of these positions are projected to given time buckets and discounted wherein changes in the net present value (excluding the automatic interest rate option positions) are calculated under the six types of scenarios of interest rate shocks. The value changes of automatic interest rate options are also calculated under the interest rate shock scenarios, which includes parallel up, parallel down and non-parallel shifts of the yield curve.

All future notional repricing cash flows of interest rate sensitive positions are projected into 19 predefined time buckets as set out below according to their repricing dates, which refers to the principal repayment date (at contractual maturity) for fixed rate instruments, first reset date for floating rate instruments, and the interest payment date for any principal that has not yet been repaid or repriced.

Short-term interest rate	Overnight (0.0028Y)	Overnight (0.0417Y)	1M<≤3M (0.1667Y)	3M<≤6M (0.375Y)	6M<≤9M 6 (0.625Y)	9M<≤1Y (0.875Y)
	1Y<≤1.5Y (1.25Y)	1.5Y<≤2Y (1.75Y)	-	-	-	-
Mid-term rates	2Y<≤3Y (2.5Y)	3Y<≤4Y (3.5Y)	4Y<≤5Y (4.5Y)	5Y<≤6Y (5.5Y)	6Y<≤7Y (6.5Y)	-
Long-term rate	7Y<≤8Y (7.5Y)	8Y<≤9Y (8.5Y)	9Y<≤10Y (9.5Y)	10Y<≤11Y (12.5Y)	15Y<≤20Y (17.5Y)	t>20 (25Y)

Interest rate sensitive positions of banking book include:

- Interest rate sensitive assets, which are not deducted from Common Equity Tier 1 (CET1) capital and which exclude fixed assets such as real estate or intangible assets and equity exposures in the banking book;
- Interest rate sensitive liabilities, including debt instruments included in CET1 and CET2, etc.; and
- Off-balance-sheet items of banking book interest rate sensitivity, including off-balance-sheet derivatives and off-balance-sheet commitments with fixed interest rates.

The sum of the changes in net present value of nominal repricing cash flows and the value changes of automatic interest rate options under interest rate shock scenarios equals the economic value changes under this interest rate scenario. After the aggregation of all currencies, the maximum loss of economic value changes under the six types of interest rate shock scenarios is the value of IRRBB based on the changes of economic value.

After the aggregation of all currencies, the maximum loss of economic value changes under the six types of interest rate shock scenarios is the value of IRRBB based on the changes of economic value.

- Earnings perspective

Earnings risk is defined as the short-term sensitivity of earnings to interest rate movements. The focus of the earnings perspective is on the impact of interest rate movements on the net interest income (NII) over a time horizon of one year. Market interest rate changes sometimes also have an impact on banking activities that generate fee-based and other non-interest income.

250 bps shift in interest rates in both directions are applied to measure the impact on net interest income (NII) within one year.

- Stress Testing

The FCDU of the Manila Branch measures its vulnerability to loss under stressful market conditions and considers those results when establishing and reviewing its policies and limits for IRRBB.

The Manila Branch carries out an evaluation of exposure to the IRRBB under stressful market conditions arising from its non-trading activities in the IRRBB report on a quarterly basis.

Possible stress scenarios might include abrupt changes in the general level of interest rates (evaluation will cover the effect of a sudden and unexpected parallel change in interest rates of 250 basis points in both directions), changes in the slope and the shape of the yield curve (i.e., yield curve risk).

In addition, a set of limits has been put in place to control the FCDU of the Manila Branch's exposure to IRRBB in line with its risk appetite which was approved by the Asset and Liability Committee (ALCO).

Monitoring and oversight of Manila Branch's IRRBB have been delegated to the ALCO, which is responsible in ensuring that the structure of the FCDU of the Manila Branch's banking book business and the level of IRRBB are effectively managed, policies and procedures are updated and maintained regularly, and that hedging, and risk-management strategies are adequately reviewed prior execution. While the oversight function is assigned to the ALCO, active management of IRRBB is designated to the Treasury Department which is the department in charge of implementing the balance sheet strategies of the FCDU of the Manila Branch. The Risk Control Department conducts independent monitoring to ensure that risk-taking positions are within established risk appetite while Internal Audit, as the third line of defense, reviews the implementation and effectiveness of the IRRBB management framework.

20. EVENTS AFTER REPORTING PERIOD

One of the Manila Branch's customers with outstanding loan that was considered past due in the first quarter of 2023 was classified to Stage 3 as per Asset Provision Policy with an increase of 50% on ECL allowance resulting in an increase of P339.75 million.

21. SUPPLEMENTARY INFORMATION REQUIRED BY THE BSP UNDER BSP CIRCULAR NO. 1074

The following supplementary information is presented for purposes of filing with the BSP and is not a required part of the basic financial statements.

a. Financial Performance Indicators

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

Manila Branch

	2022	2021
Return on average equity	4.23%	(1.26%)
Return on average assets	1.49%	(0.48%)
Net interest margin on earning assets	3.29%	3.23%

FCDU of the Manila Branch

	2022	2021
Return on average assets	2.81%	(1.46%)
Net interest margin on earning assets	2.84%	2.32%

b. Commitment and Contingencies

In the normal course of the Manila Branch's operations, there are outstanding commitments and contingencies which are not shown in these financial statements. The Manila Branch does not anticipate material losses as a result of these commitments and contingent liabilities.

The following is a summary of the Manila Branch's commitments and contingencies at their equivalent Philippine peso valued amounts as at December 31, 2022 and 2021 arising from off-book transactions:

	2022	2021
Performance standby letters of credit	P9,941,399,914	P2,809,704,215
Currency swaps	-	509,990,000
Interest rate swaps	390,285,000	356,993,000
Total	P10,331,684,914	P3,676,687,215

The Manila Branch and the FCDU of the Manila Branch have no pending suits, claims and regulatory examinations that remain unsettled or outstanding.

Other relevant disclosures required by BSP Circular No. 1074 are in Note 5, 7, 11, and 16.

22. SUPPLEMENTARY INFORMATION REQUIRED BY THE BUREAU OF INTERNAL REVENUE (BIR) UNDER REVENUE REGULATIONS NO. 15-2010

In addition to the disclosures mandated under PFRSs, and such other standards and/ or conventions as may be adopted, companies are required by the BIR to provide in the notes to the financial statements, certain supplementary information for the taxable year. The amounts relating to such information may not necessarily be the same with those amounts disclosed in the financial statements which were prepared in accordance with PFRSs.

In compliance with the requirements set forth by RR No. 15-2010, the following tax information required for the taxable year ended December 31, 2022.

A. Documentary Stamp Tax

Debt instruments	P7,002,305
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Documentary stamp taxes paid on debt instruments are assumed by customers.

B. Withholding Taxes

Final withholding taxes	P31,496
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The above withholding taxes pertain to total remittances made by the FCDU of the Manila Branch to tax authority during the year.

The FCDU of the Manila Branch does not have taxes on compensation and benefits recorded separately under FCDU Tax Identification Number as the remittance of these withholding taxes to the BIR during the year was made under the RBU Tax Identification Number.

C. All Other Taxes (Local and National)

This consists of the following:

	2022
Other taxes paid during the year recognized under "Taxes and Licenses"	
Fringe benefit taxes	P 8,319,425
Gross receipts taxes	3,527,336
License and permit fees	235,953
	P12,082,714

D. Tax Cases and Assessments

As at December 31, 2022, the FCDU of the Manila Branch has no pending tax cases but there is an ongoing tax assessment with the BIR. The FCDU of the Manila Branch received a Notice of Discrepancy from the BIR last February 22, 2023.

22. ESG DISCLOSURES

Sustainable Finance

BSP Circular No. 1085, *Sustainable Finance Framework*, sets out the expectations of the central bank on the integration and disclosure of sustainability principles, including those covering environmental and social (E&S) risk areas, in the corporate governance and risk management frameworks as well as in the strategic objectives and operations of banks.

In compliance with said mandate, the Manila Branch recognizes its role in pursuing sustainable and resilient growth by enabling environmentally and socially responsible business decisions as well as the risks climate change and other E&S issues and events pose to its operations and financial interest.

Under the ICBC group's unified sustainable finance guideline, the Branch aims to incorporate a sustainability lens into long-term strategy and gain the financial and societal benefits of E&S integration, namely by: a) Integrating E&S factors into governance structure, business strategies, internal policies and procedures; b) Shifting to finance areas that would lead to achieving climate goals; c) Developing the capacity to assess and manage E&S-related risks; and d) Including sustainability and climate-related improvements in its disclosures.

ESG-related Business Strategies

The Branch's sustainability objectives include different strategic stages to finance and invest in E&S-friendly activities. In particular, the short-term strategy focuses on complying with regulations of the transition period, the medium-term focuses on the credit market shift towards decarbonization, and the long-term mission will be contributing to the fulfillment of the global goal of net zero emissions.

Aligned with its short-term business strategy for the transition period, the Branch was able to accomplish the following objectives in 2022:

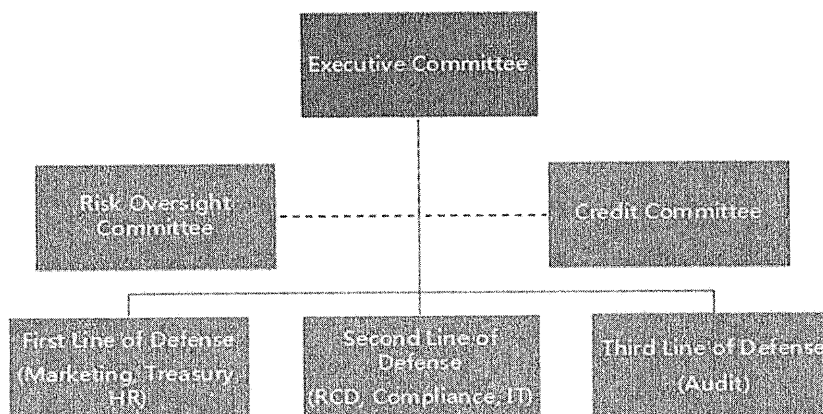
- (i) Establish an E&S risk management framework and update existing policies to take into account E&S factors;
- (ii) Embed E&S risk management into business operations and processing;
- (iii) Support activities aimed at increasing the supply and use of clean or renewable energy sources (i.e., solar energy);
- (iv) Finance entities or projects in GHG emitting industries or sectors that achieve or implement best industry-leading performance in terms of low GHG emissions in line with reputable global or regional standards for the sector or industry;
- (v) Invest in debt instruments that have sustainability functions such as green bonds, social bonds and the like; and
- (vi) Control risk exposure by gradually reducing the proportion of high ESG risk loans.

Governance Structure

The Branch enhanced its governance by fully considering sustainable strategy in its organization structure and risk management frameworks to establish clear duties, responsibilities, practices, culture and roadmaps centered on sustainable development. This includes determining E&S decision making institutions, embedding E&S risk management responsibilities to all levels, incorporating E&S factors into every link of the business process for assessment, control and management, and establishing an effective supervision mechanism.

The Executive Committee (EC) institutionalizes the adoption of sustainability principles by incorporating the same in corporate governance, risk management frameworks, strategic objectives and operations – taking into account the bank's risk appetite and ability to manage risk. It ensures that the structure of the Branch's business and the level of E&S risk it assumes are effectively managed, that appropriate policies and procedures are established to control and limit these risks, and that resources are available and sufficient for evaluating and controlling E&S risk.

Senior management leads the Branch's efforts in achieving sustainable development by spearheading the development and execution of Branch's policies and practices across a broad range of sustainability and ESG matters, including climate change.



E&S organizational structure of the Branch

To effectively implement the direction and objectives set by the Executive Committee and led by the Senior Management, the Branch employs the Three Lines of Defense Model to delineate authority and responsibility among its business units. Each line performs its respective functions (as risk owners, risk managers and auditors) under the oversight and direction of the Executive Committee, Risk Oversight Committee and Credit Committee.

Environmental and Social Risk Management

The Manila Branch defines environmental and social risk as the potential financial, legal, and/or reputational negative effect of E&S issues on the bank. E&S issues include environmental pollution, climate risk, hazards to human health, safety and security, and threats to community, biodiversity and cultural heritage, among others.

The management of E&S risk forms part of the Manila Branch's overall Enterprise-Wide Risk Management Framework which includes policies, supported by appropriate processes and control procedures, designed to ensure that the Branch has sufficient and robust risk identification, mitigation and monitoring capabilities. This framework ensures that exposures to environmental and social risks are kept within the risk appetite and in line with sustainability objectives.

Credit-related Environmental and Social Risk

Based on its existing business model and profile, the Branch identifies credit-related risks as its material E&S risk exposure and as such embeds it in its business strategies and decision-making.

To properly manage its E&S risks on a per borrower level, the Manila Branch utilizes an Environmental, Social and Governance (ESG) scorecard that transparently and objectively measures the client's relative ESG performance based on reported data to assess clients' ESG risk level. Ultimately, it is incorporated in the borrower's credit assessment to determine the Branch's appropriate support level for each borrower or transaction.

On a portfolio level, the Manila Branch implements Green Credit Classification by identifying and categorizing credit clients in four classes according to Head Office policy – namely Friendly Class, Qualified Class, Observation Class and Rectification Class.

The breakdown of the Manila Branch's E&S risk exposures per the ICBC Group Customer Green Credit Classification as of December 31, 2022 is as follows (in PHP thousands):

Customer Green Credit Classification	2022	
	Balance	% of Total
Friendly Class	620,250	11%
Qualified Class	4,351,049	79%
Observation Class	545,005	10%
Rectification Class	0	0%
Total	5,516,304	100%

Per ICBC Group's Customer Green Credit Classification, the (1) Friendly class are green businesses and companies whose environment protections are compliant with laws and regulations, (2) Qualified class are customers mainly involved in non-green fields, but are compliant with laws and regulations on environmental protections, (3) Observation class are customers involved in industries with high inherent E&S risks or clients who have resolved issues or were previously fined due to non-compliance to environmental protection, production safety, etc., and lastly (4) Rectification class are companies who have failed to pass the environmental assessment review or are currently being investigated for non-compliance to environmental protections and safety laws and regulations.

As of December 31, 2022, majority of the Branch's corporate borrowers are classified as friendly or qualified accounts. Borrowers under observation class are those who undertake activities such as electric power generation, transmission and distribution and extraction of crude petroleum.

Operations-related Environmental and Social Risk

E&S risk is also captured by operational risk events such as business disruptions and losses arising from environment-based disasters/events and/or social or human resource issues.

Based on assessments by the Philippine Institute of Volcanology and Seismology (PHIVOLCS), the Manila Branch's primary and secondary worksites are deemed generally safe from volcanic, flood, and severe wind hazards. It can also be noted that from the start of its operations, the Branch has not yet incurred any actual financial losses as a results of these physical risk events.

Additionally, the Manila Branch's has an operational risk management framework, Professional Code of Conduct and Business Continuity Plan that take into account E&S risks and set aside appropriate action plans to manage said risks. Consequently, the Manila Branch conducts BCP testing on an annual basis to ensure the effectiveness and feasibility of controls in place.

Workforce Management

The Branch provides its staff with a wide range of benefits that help mitigate social risks in the workplace such as medicine allowance, Health Maintenance Organization (HMO) assistance, life insurance and extended medical reimbursement.

Health and safe work conditions are recognized as a human right and addressed in authoritative intergovernmental bodies as well as locally by the Philippines' Department of Labor and Employment (DOLE). In line with this, the Branch ensures that it is fully compliant with DOLE's Occupational Safety and Health standards.

The Branch also recognizes that training and education form a vital role in strengthening employee skillsets and supporting professional and personal development. As of December 31, 2022, all regular Branch employees have undertaken internal and/or external training courses as well as annual performance reviews to support career development within the reporting period.

Carbon Footprint

The Manila Branch adapts sustainable practices in its day-to-day operations. Below are climate change mitigation efforts and adaptations the Branch incorporates to optimize consumption and reduce carbon footprint in the workplace:

- i. Implementing a clear waste disposal policy;
- ii. Encouraging shutting down computers and gadgets when not in use;
- iii. Ensuring that air-conditioning units are maintained at suitable temperatures;
- iv. Measuring and reporting the consumption of water, gasoline, electricity, paper, etc. regularly;
- v. Having ICBC's operations in the Philippines based in a green building which incorporates both active sustainability technologies and passive energy-saving strategies which include low-iron insulated glazing units, high-efficiency LED lighting, reduced water consumption, and rain harvesting; and
- vi. Adapting new technologies or shifting to digital platforms that optimize the Branch's performance and/or improves its accessibility of its services to stakeholders.

23. APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the FCDU of the Manila Branch have been authorized for issuance by the General Manager, as authorized by the Head Office on April 28, 2023.

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