C O V E R S H E E T
for
AUDITED FINANCIAL STATEMENTS

SEC Registration Number

A F 0 9 5 - 1 2 7

COMPANY NAME

AUSTRALIA AND NEW ZEALAND
BANKING GROUP LIMITED
Philippine Branch

PRINCIPAL OFFICE (No. / Street / Barangay / City / Town / Province)

14th Floor, Solaris One
Building, 130 Dela Rosa St.
Legaspi Village
Makati City

Form Type	Department requiring the report	Secondary License Type, If Applicable
AAFS	SEC	GSED

COMPANY INFORMATION

Company's email Address	Company's Telephone Number/s	Mobile Number
N/A	8841-7777	N/A

No. of Stockholders	Annual Meeting (Month / Day)	Fiscal Year (Month / Day)
N/A	N/A	September 30

CONTACT PERSON INFORMATION

Name of Contact Person	Email Address	Telephone Number/s	Mobile Number
Maria Bernadette Samonte	N/A	841-7777	N/A

CONTACT PERSON's ADDRESS

14F Solaris One Bldg. 130 Dela Rosa St. Legaspi Village, Makati City

Note 1: In case of death, resignation or cessation of office of the officer designated as contact person, such incident shall be reported to the Commission within thirty (30) calendar days from the occurrence thereof with information and complete contact details of the new contact person designated.

2: All Boxes must be properly and completely filled-up. Failure to do so shall cause the delay in updating the corporation's records with the Commission and/or non-receipt of Notice of Deficiencies. Further, non-receipt of Notice of Deficiencies shall not excuse the corporation from liability for its deficiencies.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED

Philippine Branch

FINANCIAL STATEMENTS
September 30, 2023 and 2022

With Independent Auditors' Report

REPORT OF INDEPENDENT AUDITORS

The Chief Executive Officer
Australia and New Zealand Banking Group Limited - Philippine Branch
14th Floor, Solaris One Building
130 Dela Rosa St., Legaspi Village
Makati City, 1229

Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of Australia and New Zealand Banking Group Limited - Philippine Branch (the Philippine Branch), which comprise the statements of financial position as at September 30, 2023 and 2022, and the statements of income and expenses, statements of comprehensive income, statements of changes in assigned capital funds and statements of cash flows for the years then ended, and notes, comprising significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of the Philippine Branch as at September 30, 2023 and 2022, and its financial performance and its cash flows for the years then ended in accordance with Philippine Financial Reporting Standards.

Basis for Opinion

We conducted our audits in accordance with Philippine Standards on Auditing. Our responsibilities under those standards are further described in the *Auditors' Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Philippine 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 and Those Charged with Governance for the Financial Statements

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

In preparing the financial statements, management is responsible for assessing the Philippine 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 Philippine Branch or to cease operations, or has no realistic alternative but to do so.

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

Auditors' Responsibilities for the Audit of the Financial Statements

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

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

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

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Philippine 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 Philippine 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 auditors' report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Philippine Branch to cease to continue as a going concern.

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

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

Report on the Supplementary Information Required under Bangko Sentral ng Pilipinas (BSP) Circular No. 1074 and Revenue Regulations 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 Note 35 and Revenue Regulations 15-2010 in Note 37 to the financial statements is presented for purposes of filing with the BSP and Bureau of Internal Revenue, respectively, and is not a required part of the basic financial statements. Such information is the responsibility of the management of the Philippine Branch. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

R.G. MANABAT & CO.

Vanessa P. Macamos

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  covering the audit of 2019 to 2023 financial statements
Tax Identification No. 920-961-311
BIR Accreditation No. 08-001987-038-2022
  Issued June 27, 2022; valid until June 27, 2025
PTR No. MKT 10075185
  Issued January 2, 2024 at Makati City

January 26, 2024
Makati City, Metro Manila

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Philippine Branch
STATEMENTS OF FINANCIAL POSITION

		September 30	
	Note	**2023**	2022
ASSETS			
Cash and Other Cash Items	*5*	**P20,660,061**	P22,519,651
Loans and Advances to Banks	*5, 8*	**11,000,580,852**	23,952,576,595
Financial Assets at Fair Value through Profit or Loss (FVPL)	*5, 9*	**1,464,181,222**	2,942,149,589
Financial Assets at Fair Value through Other Comprehensive Income (FVOCI)	*5, 6, 10*	**9,568,256,715**	10,673,654,870
Loans and Receivables	*5, 11*	**8,611,741,713**	7,645,389,164
Property and Equipment	*13*	**23,935,890**	20,604,597
Deferred Tax Assets - net	*25*	**142,404,319**	39,796,662
Other Assets	*5, 14*	**63,172,748**	139,300,448
		P30,894,933,520	P45,435,991,576
LIABILITIES AND ASSIGNED CAPITAL FUNDS			
Deposits from Customers	*5, 15, 32,*	**P21,180,362,192**	P15,133,603,442
Deposits and Borrowings from Banks	*5, 15, 32*	**350,151,503**	130,604,404
Financial Liabilities at FVPL	*5, 6, 9, 32*	**1,087,483,510**	2,846,992,190
Liabilities for Acceptances	*5, 11, 32*	**-**	313,351,198
Net Due to Head Office and Other Branches	*5, 18, 32*	**367,584,380**	19,692,176,415
Accrued Interest Payable	*5, 15*	**13,676,811**	30,062,346
Income Tax Payable		**100,358,891**	18,797,533
Other Liabilities	*5, 16*	**282,668,417**	179,985,699
Total Liabilities		**23,382,285,704**	38,345,573,227
ASSIGNED CAPITAL FUNDS			
Assigned Capital Funds	*17*	**4,225,189,506**	4,225,189,506
Unremitted Profits		**3,357,309,342**	3,036,976,654
Reserves	*19*	**(140,568,626)**	(217,100,124)
Appropriation for General Loan Loss Provision	*7*	**70,717,594**	45,352,313
Remeasurement Gain (Loss) on Retirement Plan	*26*	**-**	-
Total Assigned Capital Funds		**7,512,647,816**	7,090,418,349
		P30,894,933,520	P45,435,991,576

See Notes to the Financial Statements.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Philippine Branch

STATEMENTS OF INCOME AND EXPENSES

		Years Ended September 30	
	Note	**2023**	2022
INTEREST INCOME CALCULATED USING THE EFFECTIVE INTEREST METHOD	*20*	**P1,244,318,721**	P563,916,256
INTEREST INCOME ON FINANCIAL ASSETS AT FVPL	*9, 20*	**301,390,917**	12,644,120
		1,545,709,638	576,560,376
INTEREST EXPENSE	*21*	**604,638,829**	108,414,079
NET INTEREST INCOME		**941,070,809**	468,146,297
OTHER INCOME - Net			
Trading and securities gain - net	*23*	**502,138,514**	1,840,591,601
Foreign exchange gains (losses) - net	*24*	**(229,658,000)**	(1,346,595,534)
Fees and commission income	*22*	**57,768,675**	70,438,081
Gain (loss) on sale of debt financial assets at FVOCI	*10*	**(1,237,310)**	4,918,504
Miscellaneous income		**40,000**	57,000
		329,051,879	569,409,652
PROVISION FOR (REVERSAL OF) CREDIT AND IMPAIRMENT LOSSES	*12*	**(21,741,200)**	6,398,447
OTHER EXPENSES			
Salaries, bonuses and allowances	*26*	**292,970,748**	270,424,519
Taxes and licenses	*25*	**132,885,216**	101,705,658
General office expenses	*27*	**120,073,896**	98,935,056
Allocated Head Office expenses	*18*	**86,690,967**	79,954,462
Deposit insurance and supervisory fees	*28*	**46,995,223**	42,147,902
Occupancy costs	*29*	**31,666,117**	27,757,174
Brokerage expenses		**25,194,838**	20,969,857
Depreciation and amortization	*13*	**14,943,840**	9,421,538
Professional fees		**10,901,580**	6,779,254
Advertising expense		**-**	270,062
Miscellaneous		**4,544,953**	8,040,874
		766,867,378	666,406,356
INCOME BEFORE INCOME TAX EXPENSE		**524,996,510**	364,751,146
INCOME TAX EXPENSE	*25*	**186,326,016**	47,405,098
NET INCOME		**P338,670,494**	P317,346,048

See Notes to the Financial Statements.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Philippine Branch

STATEMENTS OF COMPREHENSIVE INCOME

		Years Ended September 30	
	Note	**2023**	2022
NET INCOME		**P338,670,494**	P317,346,048
OTHER COMPREHENSIVE INCOME (LOSS)			
Items that may not be reclassified to statements of income and expenses			
Net remeasurement gain (loss) on retirement plan, net of tax	*26*	**7,027,475**	677,967
		7,027,475	677,967
Items that may be reclassified to statements of income and expenses			
Net change in unrealized gain (loss) on debt financial assets at FVOCI, net of tax and allowance for credit loss	*19, 10*	**75,390,600**	(276,199,288)
Translation adjustment for the year	*19*	**1,140,898**	1,949,901
		76,531,498	(274,249,387)
		83,558,973	(273,571,420)
TOTAL COMPREHENSIVE INCOME		**P422,229,467**	P43,774,628

See Notes to the Financial Statements.

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Philippine Branch
STATEMENTS OF CHANGES IN ASSIGNED CAPITAL FUNDS

Years Ended September 30

		Reserves						
	Assigned Capital Funds (Note 17)	**Cumulative Translation Adjustment** (Note 19)	**Net Unrealized Loss on Financial Assets at FVOCI** (Notes 10,19)	**Total Reserves**	**Remeasurement Gain (Loss) on Retirement Plan** (Note 26)	**Appropriation for General Loan Loss Provision** (Note 7)	**Unremitted Profits**	**Total**
Balance as at October 1, 2022	**P4,225,189,506**	**P33,963,760**	**(P251,063,884)**	**(P217,100,124)**	**P -**	**P45,352,313**	**P3,036,976,654**	**P7,090,418,349**
Net income for the year	-	-	-	-	-	-	338,670,494	338,670,494
Other Comprehensive Income (Loss) for the Year								
Items that may not be reclassified to statements of income and expenses								
Net remeasurement gain on retirement plan, net of tax	-	-	-	-	7,027,475	-	-	7,027,475
Net change in unrealized gain on equity financial assets at FVOCI, net of tax	-	-	-	-	-	-	-	-
Items that may be reclassified to statements of income and expenses								
Net change in unrealized gain on debt financial assets at FVOCI, net of tax	-	-	75,390,600	75,390,600	-	-	-	75,390,600
Translation adjustment for the year	-	1,140,898	-	1,140,898	-	-	-	1,140,898
Total other comprehensive income (loss) for the year	-	1,140,898	75,390,600	76,531,498	7,027,475	-	-	83,558,973
Total comprehensive income (loss) for the year	-	1,140,898	75,390,600	76,531,498	7,027,475	-	338,670,494	422,229,467
Appropriation for general loan loss provision	-	-	-	-	-	25,365,281	(25,365,281)	-
Remeasurement gain on retirement plan transferred to unremitted profits (Notes 26)	-	-	-	-	(7,027,475)	-	7,027,475	-
Balance as at September 30, 2023	**P4,225,189,506**	**P35,104,658**	**(P175,673,284)**	**(P140,568,626)**	**P -**	**P70,717,594**	**P3,357,309,342**	**P7,512,647,816**

Forward

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Philippine Branch

STATEMENTS OF CHANGES IN ASSIGNED CAPITAL FUNDS

Years Ended September 30

	Assigned Capital Funds (Note 17)	Reserves: Cumulative Translation Adjustment (Note 19)	Reserves: Net Unrealized Gain on Financial Assets at FVOCI (Notes 10,19)	Reserves: Total Reserves	Remeasurement Gain (Loss) on Retirement Plan (Note 26)	Appropriation for General Loan Loss Provision (Note 7)	Unremitted Profits	Total
Balance as at October 1, 2021	P4,225,189,506	P32,013,859	P25,135,404	P57,149,263	P -	P31,355,074	P3,191,749,878	P7,505,443,721
Net income for the year	-	-	-	-	-	-	317,346,048	317,346,048
Other Comprehensive Income (Loss) for the Year								
Items that may not be reclassified to statements of income and expenses								
Net remeasurement gain on retirement plan, net of tax	-	-	-	-	677,967	-	-	677,967
Net change in unrealized gain on equity financial assets at FVOCI, net of tax	-	-	-	-	-	-	-	-
Items that may be reclassified to statements of income and expenses								
Net change in unrealized gain on debt financial assets at FVOCI, net of tax	-	-	(276,199,288)	(276,199,288)	-	-	-	(276,199,288)
Translation adjustment for the year	-	1,949,901	-	1,949,901	-	-	-	1,949,901
Total other comprehensive income (loss) for the year	-	1,949,901	(276,199,288)	(274,249,387)	677,967	-	-	(273,571,420)
Total comprehensive income (loss) for the year	-	1,949,901	(276,199,288)	(274,249,387)	677,967	-	317,346,048	43,774,628
Reversal of appropriation for general loan loss provision	-	-	-	-	-	13,997,239	(13,997,239)	-
Remittance of profit	-	-	-	-	-	-	(458,800,000)	(458,800,000)
Remeasurement gain on retirement plan transferred to unremitted profits (Notes 26)	-	-	-	-	(677,967)	-	677,967	-
Balance as at September 30, 2022	P4,225,189,506	P33,963,760	(P251,063,884)	(P217,100,124)	P -	P45,352,313	P3,036,976,654	P7,090,418,349

AUSTRALIA AND NEW ZEALAND BANKING GROUP LIMITED
Philippine Branch

STATEMENTS OF CASH FLOWS

	Note	Years Ended September 30 2023	2022
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax expense		**P524,996,510**	P364,751,146
Adjustments for:			
Interest income	*20*	**(1,545,709,638)**	(576,560,376)
Interest expense	*21*	**604,638,829**	108,414,079
Unrealized trading and securities gain - net	*23*	**(421,353,410)**	(439,599,679)
Provision for (reversal of) credit and impairment losses	*12*	**(21,741,200)**	6,398,447
Retirement expense	*26*	**16,762,994**	5,742,810
Depreciation and amortization expense	*13*	**14,943,840**	9,421,538
Loss (gain) on sale of financial assets at FVOCI	*10*	**1,237,310**	(4,918,504)
Leases written-off	*29*	**-**	1,603,831
Operating loss before changes in operating assets and liabilities		**(826,224,765)**	(524,746,708)
Decrease (increase) in:			
Financial assets at FVPL		**1,899,321,777**	(931,273,433)
Loans and receivables		**(951,877,274)**	(2,127,753,816)
Other assets		**68,192,487**	1,112,181,522
Increase (decrease) in:			
Financial liabilities at FVPL	*9*	**(1,759,508,680)**	1,743,993,513
Deposits and borrowings from banks	*15*	**219,547,099**	16,212,249
Deposits from customers	*15*	**6,046,758,750**	418,598,027
Liabilities for acceptances		**(313,351,198)**	(4,269,980)
Other liabilities		**114,469,250**	(49,830,935)
Cash generated (absorbed) by operations		**4,497,327,446**	(346,889,561)
Interest received		**1,546,153,798**	495,052,399
Interest paid		**(621,024,364)**	(83,672,542)
Income taxes paid		**(199,437,102)**	(61,369,527)
Contributions paid	*26*	**(16,182,068)**	(15,318,655)
Net cash provided by (used in) operating activities		**5,206,837,710**	(12,197,886)
CASH FLOWS FROM INVESTING ACTIVITIES			
Net proceeds from debt financial assets at FVOCI		**1,184,482,423**	3,436,243,934
Additions to property and equipment	*13*	**(21,116,008)**	(9,818,409)
Net cash provided by investing activities		**1,163,366,415**	3,426,425,525

Forward

	Note	Years Ended September 30 **2023**	2022
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from (payment to) Head Office and other branches	*18*	**(P19,324,590,216)**	P8,459,605,052
Principal payments of lease liabilities	*29*	**(610,140)**	(3,758,965)
Profit remittance	*7*	**-**	(458,800,000)
Net cash provided by (used in) financing activities		**(19,325,200,356)**	7,997,046,087
EFFECT OF EXCHANGE RATE DIFFERENCES ON CASH AND CASH EQUIVALENTS	*19*	**1,140,898**	1,949,901
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**(12,953,855,333)**	11,413,223,627
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	*5*	**22,519,651**	21,399,918
Loans and advances to banks	*8*	**23,952,576,595**	12,540,472,701
		23,975,096,246	12,561,872,619
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	*5*	**20,660,061**	22,519,651
Loans and advances to banks	*8*	**11,000,580,852**	23,952,576,595
		P11,021,240,913	P23,975,096,246

See Notes to the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

1. Reporting Entity

Australia and New Zealand Banking Group Limited - Philippine Branch (referred to herein as the "Philippine Branch") is the local branch of Australia and New Zealand Banking Group Limited (referred to herein as the "Head Office"), a foreign corporation existing under the laws of the Commonwealth of Australia. The Philippine Branch was authorized by the Bangko Sentral ng Pilipinas (BSP) to operate as a full commercial bank on September 25, 1995. The Philippine Branch started commercial banking operations on October 2, 1995. The Monetary Board of the BSP, in its Resolution No. 111 dated January 29, 2010, approved the upgrading of the Philippine Branch's license to a universal bank and the Philippine Branch subsequently started its operations as a universal bank on March 19, 2010.

The Philippine Branch was also granted an Expanded Foreign Currency Deposit Unit Authority and an Expanded Financial Derivative License by the Monetary Board on October 18, 1995 and August 23, 2001, respectively. The Philippine Branch was granted a Type I Limited Expanded Dealer Authority by the BSP on November 13, 2008.

The Philippine Branch was registered with the Philippine Securities and Exchange Commission on September 28, 1995.

The Head Office guarantees the payment of all liabilities of the Philippine Branch, as embodied in its Deed of Guarantee executed on August 17, 1995.

The Philippine Branch's principal place of business is at 14th Floor, Solaris One Building, 130 Dela Rosa St., Legaspi Village, Makati City.

2. Basis of Preparation

Statement of Compliance
The financial statements have been prepared in compliance with Philippine Financial Reporting Standards (PFRSs). PFRSs are based on International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB). PFRSs which are issued by the Philippine Financial Reporting Standards Council (FRSC) consist of PFRSs, Philippine Accounting Standards (PAS) and Philippine Interpretations.

The Philippine Branch's financial statements as at and for the year ended September 30, 2023 were authorized for issue by the Chief Executive Officer on January 25, 2024.

Basis of Measurement
These financial statements include the accounts maintained in the Regular Banking Unit (RBU) and the Foreign Currency Deposit Unit (FCDU). The financial statements of these units are combined after eliminating inter-unit accounts.

These financial statements have been prepared using the historical cost basis, except for the following items:

Items	Measurement Bases
Financial instruments at FVPL	Fair value
Financial assets at FVOCI	Fair value
Defined benefit liability	Present value of the defined benefit obligation less fair value of plan assets
Lease liability	Present value of lease payments discounted using the interest rate implicit in the lease or if cannot be readily determined, incremental borrowing rate

Functional and Presentation Currency

The functional currencies of the RBU and the FCDU are the Philippine Peso (PHP) and the United States Dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency denominated accounts in the RBU are translated into their equivalents in PHP (see Note 3 for accounting policy on Foreign Currency Transactions and Translation).

The financial statements of the Philippine Branch are presented in PHP. All financial information presented in PHP has been rounded off to the nearest peso, except as otherwise indicated.

Presentation of Financial Statements

The Philippine Branch presents its statements of financial position broadly in order of liquidity. An analysis regarding recovery of assets or settlement of liabilities within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in Note 32.

3. Summary of Significant Accounting Policies

The accounting policies set out below have been applied consistently to all years presented in these financial statements and have been applied consistently by the Philippine Branch, except for the changes in accounting policies as explained below.

Adoption of Amendments to Standards

The Company has adopted the following amendments to standards starting October 1, 2022 and accordingly, changed its accounting policies. Except as otherwise indicated, the adoption of these amendments to standards did not have any significant impact on the Company's financial statements.

- *Property, Plant and Equipment - Proceeds before Intended Use (Amendments to PAS 16, Property, Plant and Equipment).* The amendments prohibit an entity from deducting from the cost of an item of property, plant and equipment the proceeds from selling items produced before that asset is available for use. The proceeds before intended use should be recognized in profit or loss, together with the costs of producing those items which are identified and measured in accordance with PAS 2, *Inventories*.

  The amendments also clarify that testing whether an item of property, plant and equipment is functioning properly means assessing its technical and physical performance rather than assessing its financial performance.

For the sale of items that are not part of a company's ordinary activities, the amendments require the company to disclose separately the sales proceeds and related production cost recognized in profit or loss and specify the line items in which such proceeds and costs are included in the statement of comprehensive income. This disclosure is not required if such proceeds and cost are presented separately in the statement of income.

The amendments are effective for annual reporting periods beginning on or after January 1, 2022. The amendments apply retrospectively, but only to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented in the financial statements in which the company first applies the amendments.

- *Onerous Contracts - Cost of Fulfilling a Contract (Amendments to PAS 37, Provisions, Contingent Liabilities and Contingent Assets).* The amendments clarify that the cost of fulfilling a contract when assessing whether a contract is onerous includes all costs that relate directly to a contract - i.e., it comprises both incremental costs and an allocation of other direct costs.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2022, to contracts existing at the date when the amendments are first applied. At the date of initial application, the cumulative effect of applying the amendments is recognized as an opening balance adjustment to retained earnings or other component of equity, as appropriate. The comparatives are not restated.

- *Annual Improvements to PFRS Standards 2018-2020.*

  - *Fees in the '10 per cent' Test for Derecognition of Financial Liabilities (Amendment to PFRS 9).* The amendment clarifies that for the purpose of performing the '10 per cent' test for derecognition of financial liabilities, the fees paid net of fees received included in the discounted cash flows include only fees paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf.

  - *Lease Incentives (Amendment to Illustrative Examples accompanying PFRS 16, Leases).* The amendment deletes from the Illustrative Example 13 the reimbursement relating to leasehold improvements to remove the potential for confusion because the example had not explained clearly enough the conclusion as to whether the reimbursement would meet the definition of a lease incentive in PFRS 16.

  The amendments are effective for business combinations occurring in reporting periods starting on or after January 1, 2022.

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

RBU
The books of accounts of the RBU of the Philippine Branch are maintained in PHP with various foreign currency transactions. The foreign currency income and expenses in the books of accounts are translated into its equivalent in PHP based on the functional rate exchange at the date of transaction. The foreign currency monetary assets and monetary liabilities at the reporting date are translated into PHP using the Bankers Association of the Philippines (BAP) closing rate as at the reporting date. Foreign exchange differences arising from remeasurement of foreign currency-denominated monetary assets and liabilities in the RBU are credited or charged to "Foreign exchange gains (losses) - net" account in the statements of income and expenses in the year in which the rates change.

Non-monetary assets and liabilities that are measured at historical cost in foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary assets and liabilities measured at fair value in foreign currency are translated using the exchange rates at the date when the fair value was determined.

FCDU
The books of accounts of the FCDU with various foreign currency transactions are maintained in USD. The foreign currency income and expenses in the books of accounts are translated into their USD equivalents based on the functional rate of exchange at the date of transaction. The foreign currency-denominated monetary assets and liabilities at the reporting date are translated into USD using the BAP closing rate as at the reporting date.

Foreign exchange differences arising from remeasurement of foreign currency-denominated monetary assets and liabilities in the FCDU are credited or charged to "Foreign exchange gains (losses) - net" account in the statements of income and expenses in the year in which the rates change.

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

As at the reporting date, the assets and liabilities of the FCDU are translated from their functional currency (in USD) into their equivalent presentation currency (in PHP) using the BAP closing rate prevailing at the financial reporting date, and the income and expenses are translated using the BAP weighted average rate for the year. Foreign exchange differences arising from translation of the FCDU accounts to PHP as presentation currency are recognized directly as a separate component of equity as "Cumulative translation adjustment" under "Reserves" in the statements of financial position.

Financial Instruments
Financial assets and financial liabilities are accounted for as follows:

Initial Recognition

The Philippine Branch recognizes a financial asset or a financial liability on the trade date when it becomes a party to the contractual provisions of the financial instrument. Purchases or sales of financial assets that require delivery of the asset within the time frame established by regulation or convention in the marketplace are recognized on the trade date. Derivatives are recognized on trade date basis (i.e., the date that the Philippine Branch commits to purchase or sell the asset).

Loans and advances to banks, loans and receivables, deposits from customers and deposits and borrowings from other banks and liabilities for acceptances are recognized on the date of origination, when cash is received by the Philippine Branch or when it is advanced to the borrower. Purchases and sales of financial assets and financial liabilities held at FVPL and FVOCI financial assets are initially recognized on trade date.

All financial instruments, whether financial assets or financial liabilities are initially measured at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial assets or financial liabilities includes transaction costs, except for those financial assets and liabilities at FVPL where the transaction costs are charged to expense in the period incurred.

Classification and Subsequent Measurement

Business Model Assessment

The Philippine Branch's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective.

The Philippine Branch's business model does not depend on management's intentions for an individual instrument (i.e., it is not an instrument-by-instrument assessment). This assessment is performed at a higher level of aggregation. The level of aggregation is at a level which is reviewed by key management personnel, enabling them to make strategic decisions for the business. The Philippine Branch has more than one business model for managing its financial instruments.

The assessment of the business model requires judgment based on facts and circumstances, considering quantitative and qualitative factors. The Philippine Branch considers all relevant evidence that is available at the date of the assessment.

Assessment of whether the Contractual Cash Flows represents Solely Payments of Principal and Interest (SPPI)

If an instrument is held in either a hold to collect or hold to collect and sell business model, then an assessment to determine whether contractual cash flows are SPPI on the principal outstanding is required to determine classification. For SPPI, interest is defined as consideration for the time value of money and the credit risk associated with the principal amount outstanding during a period of time. It can also include consideration for other basic lending risks (for example, liquidity risk) and costs (e.g., administrative costs) associated with holding the financial asset for a particular period of time and a profit margin that is consistent with a basic lending arrangement. Other contractual features that result in cash flows that are not payments of principal and interest result in the instrument being measured at FVPL. Other features considered in the assessment include effect of subordination, non-recourse terms, leverage and existence of embedded derivatives.

Contractual terms that introduce exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement, such as exposure to changes in equity prices or commodity prices, do not give rise to contractual cash flows that meet the SPPI criteria.

The contractual cash flows test must be performed at initial recognition of the financial asset and, if applicable, as at the date of any subsequent changes to the contractual provisions of the instrument.

Financial Assets
The Philippine Branch classifies its financial assets in the following categories: financial assets at amortized cost, financial assets at FVOCI or financial assets at FVPL.

Where assets are measured at fair value, gains and losses are either recognized entirely in statements of income and expenses (fair value through profit or loss, FVPL), or recognized in other comprehensive income (fair value through other comprehensive income, FVOCI).

For debt instruments, the FVOCI classification is mandatory for certain assets unless the fair value option is elected. Whilst for equity investments, the FVOCI classification is an election. Furthermore, the requirements for reclassifying gains or losses recognized in other comprehensive income are different for debt instruments and equity investments.

The classification of a financial asset is made at the time it is initially recognized, namely when the Philippine Branch becomes a party to the contractual provisions of the instrument, if certain conditions are met, the classification of an asset may subsequently need to be reclassified.

In March 2023, within the trading book of the Philippine Branch's Markets business, a component of the Institutional division, the Philippine Branch commenced the management of repurchase agreements and associated reverse repurchase agreements on a fair value basis. This resulted in repurchase and associated reverse repurchase agreements being recognized and measured at fair value through profit and loss.

Debt Instruments
Financial Assets at Amortized Cost
A debt instrument that meets the following two conditions must be measured at amortized cost (net of any write down for impairment) unless the asset is designated at FVPL under the fair value option.

Business model: hold the financial asset to collect the contractual cash flows (rather than to sell the instrument prior to its contractual maturity to realize its fair value changes).

Cash flow characteristics: give rise on specified dates to cash flows that are solely payments of principal and interest.

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 loss allowance. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is recognized under “Interest income calculated using the effective interest method” in the statements of income and expenses. The losses arising from impairment of financial assets at amortized cost are recognized in “Provision for (reversal of) credit and impairment losses” in the statements of income and expenses.

The Philippine Branch’s financial assets at amortized cost include loans and advances to banks, loans and receivables, due from head office and other branches presented under “Net due to Head Office and other branches” account, accounts receivable, deposits for lease contracts and unsettled trade assets presented under “Other assets” account in the statements of financial position as at September 30, 2023 and 2022 (see Notes 8, 11, 14 and 18).

Financial Assets at FVOCI
A debt instrument that meets the following two conditions must be measured at FVOCI unless the asset is designated at FVPL under the fair value option:

Business model: hold the financial asset within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets.

Cash flow characteristics: give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt financial assets meeting these criteria are measured initially at fair value plus transaction costs. These instruments are subsequently measured at fair value with gains and losses due to changes in fair value recognized under “Net change in unrealized gain (loss) on financial assets at FVOCI” in the statements of comprehensive income. Interest earned on these instruments is recognized under “Interest income calculated using the effective interest method” in the statements of income and expenses.

Financial Assets at FVPL
All other debt instruments not measured at amortized cost or at FVOCI are classified as financial assets at FVPL. The Philippine Branch’s financial assets at FVPL consist of Held-for-trading (HFT) securities and derivative assets.

a. HFT Securities
   HFT investments are recorded in the statements of financial position at fair value. Changes in fair value relating to the held-for-trading positions are recognized in “Trading and securities gain - net” in the statements of income and expenses. Interest earned is recorded under “Interest income on financial assets at FVPL” in the statements of income and expenses.

b. Derivative Assets
   The Philippine 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 Philippine 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 recognizing fair value gains and losses depends on whether derivatives are held-for-trading or are designated as hedging instruments, and if the latter, the nature of the risks being hedged. When derivatives are designated as hedges, the Philippine Branch classifies them as either: (a) hedges of the change in fair value of recognized assets or liabilities or firm commitments ('fair value hedges'); (b) hedges of the variability in highly probable future cash flows attributable to a recognized asset or liability or a forecast transaction ('cash flow hedges'); or (c) a hedge of a net investment in a foreign operation ('net investment hedges'). Hedge accounting is applied to derivatives designated as hedging instruments in a fair value, cash flow or net investment hedge provided certain criteria are met.

In 2023 and 2022, the Philippine Branch did not apply hedge accounting treatment for any of its derivative transactions since the derivatives are held-for-trading and not designated as hedging instruments.

The Philippine Branch's derivative transactions include forward exchange contracts, options, interest rate, currency and cross-currency swaps.

Even if an instrument meets the two requirements to be measured at amortized cost or FVOCI, the Philippine Branch has an option to designate, at initial recognition, a financial asset at FVPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise from measuring assets or liabilities or recognizing the gains and losses on them on different bases or the liability is part or a group of financial liabilities or financial assets and financial liabilities that is managed and its performance is evaluated on a fair value basis, in accordance with a documented risk management or investment strategy, and information about the group is provided internally on that basis to the Philippine Branch's key management personnel.

Equity Instruments
Financial assets that are equity instruments shall be classified under any of the following categories:

a. Financial assets measured at FVPL which shall include financial assets HFT; or

b. Financial assets at FVOCI which shall consist of:

   - Equity instruments that are irrevocably designated at FVOCI at initial recognition that are neither held for trading nor contingent consideration recognized by an acquirer in a business combination to which PFRS 3, *Business Combinations* applies; or

   - Financial assets mandatorily measured at fair value. This includes investment in equity instruments, previously accounted at cost under PAS 39, which do not have quoted price in an active market for an identical instrument. There is no 'cost exception' for unquoted equities.

Dividends earned from equity instruments are recognized in "Miscellaneous income" in the statements of income and expenses when the Philippine Branch's right to receive payment has been established.

All equity investments in scope of PFRS 9 are measured at fair value in the statements of financial position, with value changes recognized in statements of income and expenses, except for those equity investments for which the Philippine Branch has elected to present value changes in OCI.

If an equity investment is not held for trading, the Philippine Branch can make an irrevocable election at initial recognition to measure it at FVOCI with only dividend income recognized in statements of income and expenses.

Financial Liabilities
The Philippine Branch classifies its financial liabilities, other than financial guarantees and loan commitments, as measured at amortized cost or at FVPL.

Financial liabilities are classified and subsequently measured at amortized cost using the effective interest method, except for financial liabilities measured at FVPL. Financial liabilities measured at FVPL consists of: (a) financial liabilities HFT, including derivative liabilities that are not accounted for as hedging instruments; and (b) financial liabilities designated at FVPL.

The Philippine Branch may, at Initial recognition, irrevocably designate financial liabilities at FVPL.

The Philippine Branch’s financial liabilities at amortized cost include deposits from customers, deposits and borrowings from banks, liabilities for acceptances, accrued interest payable, due to Head Office and other branches presented under “Net due to Head Office and other branches” account and certain financial liabilities presented under “Other liabilities” account, except for provisions, statutory liabilities, unclaimed monies, defined benefit liability and miscellaneous liabilities (see Notes 15, 16 and 18).

Financial liabilities at FVPL include derivative liabilities held-for-trading arising from interest rate swaps, cross-currency swaps and forward contracts. Similar to derivative assets, any gains or losses arising from changes in fair values of derivative liabilities are taken directly to “Foreign exchange gains (losses) - net” and “Trading and Securities Gain - net” in the statements of income and expenses. Derivatives are carried as liabilities when the fair value is negative.

Impairment
The Philippine Branch recognizes allowance for expected credit losses (ECL) using the ECL method which incorporates forward-looking information and does not require an actual loss event to have occurred for an impairment provision to be recognized. The ECL model was applied to all financial assets measured at amortized cost, debt instruments measured at FVOCI, certain loan commitments and financial guarantees not measured at FVPL. Under the ECL model, the following three-stage approach is applied to measuring ECL based on credit migration between the stages since origination:

Stage 1: At the origination of a financial asset, and where there has not been a significant increase in credit risk since origination, a provision equivalent to 12-month ECL is recognized.

Stage 2: Where there has been a significant increase in credit risk was origination, a provision equivalent to lifetime ECL is recognized. If credit risk was to improve in a subsequent period such that the increase in credit risk since origination is no longer considered significant, the exposure returns to a Stage 1 classification and a 12- month ECL.

Stage 3: Similar to the current PAS 39 requirements for individual impairment provisions, lifetime ECL is recognized for financial assets at amortized cost and debt instruments at FVOCI where there is objective evidence of impairment.

12-month ECL are the portion of lifetime ECL that result from default events on a financial instrument that are possible within the 12 months after the reporting date. Financial instruments allocated to Stage 1 have not undergone a significant increase in credit risk since initial recognition and are not credit-impaired.

Lifetime ECL are the ECL that result from all possible defaults events over the expected life of the financial instrument or the maximum contractual period of exposure. Financial statements allocated to Stage 2 are those that have experienced a significant increase in credit risk since initial recognition but are not credit-impaired.

Expected credit losses are estimated at the facility level by using a PD reflecting a probability weighted range of possible future economic scenarios, and applying this to the estimated exposure of the Philippine Branch at the point of default (exposure at default) after taking into account the value of any collateral held or other mitigants of loss (loss given default), while allowing for the impact of discounting for the time value of money.

Significant Increase in Credit Risk
The Philippine Branch considers both qualitative and quantitative information. For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination. The Philippine Branch will also use secondary indicators, such as 30 days past due arrears, as backstops to these primary indicators.

Credit-impaired Financial Assets (Stage 3)
Financial assets are considered credit impaired when they default. The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. Evidence of credit-impairment includes arrears of over 90 days on any material credit obligation, indications that the borrower is experiencing significant financial difficulty, a breach of contract, bankruptcy or distressed restructuring.

When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Philippine Branch’s internal process and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to the “Provision for (reversal of) credit and impairment losses” account in the statements of income and expenses.

An asset that is in Stage 3 will move back to Stage 2 when, as at the reporting date, it is no longer considered to be credit-impaired. The asset will migrate back to Stage 1 when its credit risk at the reporting date is no longer considered to have increased significantly since initial recognition.

Definition of Default
The definition of default used in measuring ECL is aligned to the definition used for internal credit risk management purposes across all portfolios. This definition is also in line with the regulatory definition of default.

Default occurs when there are indicators that a debtor is unlikely to meet contractual credit obligations to the Philippine Branch in full, or the exposure is 90 days past due (DPD). When there is no realistic probability of recovery, loans are written off against the related impairment allowance on completion of the Philippine Branch’s internal process and when all reasonably expected recoveries have been collected. In subsequent periods, any recoveries of amounts previously written-off are credited to the “Provision for (reversal of) credit and impairment losses” account in the statements of income and expenses.

Presentation of Allowance for ECL in the Statements of Financial Position
Loss allowances for ECL are presented in the statements of financial position as follows:

- Financial assets measured at amortized cost: as a deduction form the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision recorded as "Provision for liability" under "Other liabilities" account in the statements of financial position;
- Where a financial instrument includes both a drawn and an undrawn component, and the Philippine Branch cannot identify the ECL on the loan commitment component separately from those on the drawn component, the Philippine Branch presents a combined loss allowance for both components. The combined amount is presented as a deduction from the gross carrying amount of the drawn component. Any excess of the loss allowance over the gross amount of the drawn component is presented as a provision; and
- Debt instruments measured at FVOCI: no loss allowance is recognized in the statements of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognized in "Reserves" account presented under "Assigned capital funds" in the statements of financial position.

Components of ECL Measurement
The measurement of ECL involves degrees of complexity and judgment, including estimation of probabilities of default (PD), loss given default (LGD), exposures at default (EAD), a range of future economic scenarios, application of probability weightings, estimation of expected lives and assessing significant increases in credit risk. Impairment charges will tend to be more volatile and will be recognised earlier.

Unsecured products with longer expected lives, such as revolving credit cards, are the most impacted. Management exercises credit judgment in assessing probability weights to attach to scenarios and in determining the amount of impairment provisions at each reporting date.

Purchase or Originated Credit Impaired (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 EIR. In subsequent periods, any changes to the estimated lifetime ECL are recognized in 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.

Write-off
Loans and debt securities are written off (either partially or in full) when there is no reasonable expectation of recovering a financial asset in its entirety or a portion thereof. This is generally the case when the Philippine Branch determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Recoveries of amounts previously written off are included in "Provision for (reversal of) credit and impairment losses" account in the statements of income and expenses.

Financial assets that are written off could still be subject to enforcement activities in order to comply with the Philippine Branch’s procedures for recovery of amounts due.

Determination of Fair Value
‘Fair value’ is the price that would be received to sell a financial asset or paid to transfer a financial liability in an orderly transaction between market participants at the measurement date in the principal or, in its absence, the most advantageous market to which the Philippine Branch has access at that date. The fair value of a financial liability reflects its non-performance risk.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

Portfolios of financial assets and financial liabilities that are exposed to market risk and credit risk that are managed by the Philippine Branch on the basis of the net exposure to either market or credit risk are measured on the basis of a price that would be received to sell a net long position (or paid to transfer a net short position) for a particular risk exposure.

The Philippine Branch recognizes transfers between levels of the fair value hierarchy as at the end of the reporting period during which the change has occurred.

Fair Value Adjustments
When establishing the exit price of a financial instrument using a valuation technique, the Australia and New Zealand Banking Group (the “Group”) considers adjustments to the modeled price which market participants would make when pricing that instrument. The Philippine Branch has made valuation adjustments in determining the fair value of financial assets and financial liabilities classified as Level 2 financial instruments.

Bid-offer Valuation Adjustment
The existing financial reporting framework makes use of mid-market prices as basis for establishing the fair value of financial instruments. The adjustment to fair value is made to incorporate the bid-offer spread and where there are offsetting market risks, this adjustment is made to the net open risk position. Bid-offer calculation methodology uses official market risk data from Market Risk Reporting System (MaRRS).

The bid-offer spread is independently sourced from third party rate providers and vetted by market risk and valuation control. Netting between maturity buckets is limited to the extent that risk sensitivities sourced from MaRRS would have the same pillars as the daily market risk report. This is to ensure that the risks used for bid-offer calculation are aligned to how the risks are viewed and managed by market risk.

Credit Valuation Adjustment (CVA)
The Group makes CVA against fair value of derivative instruments. The recognition and measurement require a derivative to be accounted for at full fair value where the credit quality of the counterparty must be reflected in the calculation of its fair value. In determining the fair value of a derivative, the Group recognizes CVA to reflect the probability that the counterparty may default at some point over the life of the transaction.

It is calculated by applying a probability of default (PD) on the potential estimated future positive exposure of the counterparty after taking into account the impact of collateral arrangements. As the Group's source derivative valuation systems value off a mid-swap curve being an interbank pricing (effectively disregarding credit quality), the CVA adjustment is required to reflect the difference in fair value attributable to the creditworthiness of the counterparty. The combination of the Group source system valuation and the CVA adjustment together meet the definition of fair value required under the standard. The Group makes greater use of market information for determining the PD and enhanced exposure modelling for estimating CVA.

Funding Valuation Adjustment (FVA)
The Group makes an FVA against derivative instruments. FVA reflects an estimate of the adjustment to its fair value that a market participant would make to incorporate funding costs that could arise in relation to the exposure. FVA is calculated by determining the net expected exposure at a counterparty level and then applying a funding rate to those exposures that reflect the market cost of funding. The FVA for collateralized derivatives are based on discounting the expected future cash flows at the relevant overnight indexed swap (OIS) rate after taking into consideration the terms of the underlying collateral agreement with the counterparty.

The FVA for uncollateralized (including partially collateralized) derivatives incorporates the estimated present value of the market funding cost or benefit associated with funding these transactions.

"Day 1" Difference
Where the transaction price in a non-active market is different from the fair value of other observable current market transactions in the same financial instrument or based on a valuation technique whose variables include only data from observable markets, the Philippine Branch recognizes the difference between the transaction price and fair value (a "Day 1" Difference) as part of current operations in the period when the financial asset is acquired or the financial liability is incurred.

In cases where the transaction price used is based on inputs which are not observable, the difference between the transaction price and model value is only recognized in the statement of income and expenses or when the financial instrument is derecognized. For each transaction, the Philippine Branch determines the appropriate method of recognizing the "Day 1" difference.

Reclassification of Financial Assets
For financial assets, reclassification is required between FVPL, FVOCI and amortized cost if and only if the Philippine Branch's business model objective for its financial asset changes so its previous business assessment would no longer apply.

PFRS 9 does not allow reclassification:

- When the fair value option has been elected in any circumstance for a financial asset;
- Or equity investments (measured at FVPL or FVOCI); or
- For financial liabilities.

If an entity reclassifies a financial asset, it is required to apply the reclassification prospectively from the reclassification date, defined as the first day of the first reporting period following the change in business model that results in the entity reclassifying financial assets. Previously recognized gains, losses (including impairment gains or losses) or interest are not restated.

Derecognition of Financial Assets and Financial Liabilities
Financial Assets
Any cumulative gain/loss recognized in OCI in respect of equity investment securities designated as at FVOCI is not recognized in statements of income and expenses on derecognition of such securities. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Philippine Branch is recognized as separate asset or liability.

The Philippine Branch enters Into transactions whereby it transfers assets recognized on its statements of financial position but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognized. Examples of such transactions are securities lending and sale-and-repurchase transactions.

When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transactions are accounted for as a secured financing transaction similar to sale-and-repurchase transactions, because the Philippine Branch retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Philippine Branch neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Philippine Branch continues to recognize the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Philippine Branch retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognized if it meets the derecognition criteria. An asset or liability is recognized for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial Liabilities
The Philippine Branch derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

Modifications of Financial Assets and Financial Liabilities
Financial Assets
If the terms of a financial asset are modified, then the Philippine Branch evaluates whether the cash flows of the modified asset are substantially different.

If the cash flows are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expire. In this case, the original financial asset is derecognized and a new financial asset is recognized at fair value plus any eligible transaction costs. Any fees received as part of the modification are accounted as follows:

- fees that are considered in determining the fair value of the new asset and fees that represent reimbursement of eligible transaction costs are included in the initial measurement of the asset; and
- other fees are included in statements of income and expenses as part of the gain or loss on derecognition.

If cash flows are modified when the borrower is in financial difficulties, then the objective of the modification is usually to maximize recovery of the original contractual terms rather than to originate a new asset with substantially different terms. If the Philippine Branch plans to modify a financial asset in a way that would result in forgiveness of cash flows, then it first considers whether a portion of the asset should be written off before the modification takes place. This approach impacts the result of the quantitative evaluation and means that the derecognition criteria are not usually met in such cases.

To determine whether a modification of a financial asset is substantial or non-substantial, the guidance set out in this policy should be applied. Where it is not clear whether a “substantial modification” has occurred based on the application of this guidance, a 10% net present value change (equivalent to the IFRS 9 - test for financial liabilities) should be applied as a backstop.

In some cases, whether or not a modification is substantial will be clear with little or no analysis while in others a high degree of judgment may be required.

The modification of a financial asset could involve one or both of the following:

a) Changes in contractual terms that have a direct impact on the contractual cash flows. For example: changes to limit, tenor (maturity), interest rate, currency, or introduction or removal of features that give rise to cash flows other than payments of principal and interest on the principal amount outstanding;

b) Changes in contractual terms that do not have a direct impact on the contractual cash flows. For example: changes in security, collateral or other credit enhancements that change the credit risk associated with the loan.

Based on the Philippine Branch’s policy, the delineation between substantial and non-substantial modifications should focus on category (a) modifications, specifically changes in credit limit, tenor, currency or SPPI characteristics.

If the modification of a financial asset measured at amortized cost or FVOCI does not result in derecognition of the financial asset, then the Philippine Branch first recalculates the gross carrying amount of the financial asset using the original effective interest rate of the asset and recognizes the resulting adjustment as a modification gain or loss in statements of income and expenses.

For floating-rate financial assets, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs or fees incurred and fees received as part of the modification adjust the gross carrying amount of the modified financial asset and are amortized over the remaining term of the modified financial asset.

If such modification is carried out because of the financial difficulties of the borrower, then the gain or loss is presented together with impairment losses. In other cases, it is presented as interest income calculated using the effective interest rate method.

Financial Liabilities
The Philippine Branch derecognizes a financial liability when its terms are modified and the cash flows of the modified liability are substantially different. In this case, a new financial liability based on the modified terms is recognized at fair value. The difference between the carrying amount of the financial liability derecognized and consideration paid is recognized in statements of income and expenses. Consideration paid included non-financial assets transferred, if any, and the assumption of liabilities, including the new modified financial liability.

If the modification of a financial liability is not accounted for as derecognition, then the amortized cost of the liability is recalculated by discounting the modified cash flows at the original effective interest rate and the resulting gain or loss is recognized in statements of income and expenses. For floating-rate financial liabilities, the original effective interest rate used to calculate the modification gain or loss is adjusted to reflect current market terms at the time of the modification. Any costs and fees incurred are recognized as an adjustment to the carrying amount of the liability and amortized over the remaining terms of the modified financial liability by re-computing the effective interest rate on the instrument.

Restructured Financial Assets
If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made whether the financial asset should be derecognized and ECL are measured as follows:

- If the expected restructuring will not result in derecognition of the existing asset, then the expected cash flows arising from the modified financial asset are included in calculating the cash shortfalls from the existing asset.

- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new assets is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is included in calculation the cash shortfalls from the existing financial asset that are discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Offsetting of Financial Instruments
Financial assets and financial liabilities are generally not offset. Offsetting in the statements of financial position is allowed when, and only when, the Philippine Branch has a legally enforceable right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously. This is generally not the case with master netting agreements, as related financial assets and financial liabilities are presented gross in the statements of financial position.

As at September 30, 2023 and 2022, the Philippine Branch has identified due from and due to Head Office and other branches accounts as financial instruments qualified for offsetting and accordingly presented the net amount as part of “Net Due to Head Office and Other Branches” account in the statements of financial position.

Cash and Other Cash Items
For purposes of reporting cash flows, cash and other cash items include cash and other cash equivalents, due from BSP, due from other banks and interbank loans receivable that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Cash and cash equivalents are carried at amortized cost in the statements of financial position.

Repurchase and Reverse Repurchase Agreements

Securities purchased under resale agreement (SPURA) to resell at a specified future date (“reverse repos”) are not recognized in the statements of financial position. The corresponding cash paid, including accrued interest, is recognized in the statements of financial position as securities purchased under resale agreement, and is considered as a loan to the counterparty. The Philippine Branch is not permitted to sell or re-pledge the collateral in the absence of default by the owner of the collateral. The difference between the purchase price and resale price is treated as interest income in the statements of income and is amortized over the life of the agreement using the effective interest method. Reverse repos classified as amortized cost are held for basic lending, with the intention to collect principal and interest upon maturity only, as opposed to those classified at fair value through profit or loss which are acquired for short-term profit taking.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization and impairment losses, if any.

Initially, an item of property and equipment, except for right-of-use-assets, is measured at its cost, which comprises its purchase price and any directly attributable costs of bringing the asset to the location and condition for its intended use. Subsequent costs that can be measured reliably are added to the carrying amount of the asset when it is probable that future economic benefits associated with the asset will flow to the Philippine Branch. The costs of day-to-day servicing of an asset are recognized as an expense in the period in which these are incurred.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

Depreciation is computed using the straight-line method over the estimated useful lives of the assets. Leasehold improvements are amortized over the estimated useful life of the improvements or the term of the lease, whichever is shorter.

Right-of-use assets are presented together with property and equipment in the statements of financial position. Right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability, adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred, and estimate of costs to dismantle and remove any improvements, less any incentives received.

Right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the underlying asset or to the end of lease term. Right-of-use asset is stated at cost less accumulated depreciation and accumulated impairment losses, if any.

The Philippine Branch does not recognize right-of-use assets for leases with terms of 12 months or less and low-value leases. The Philippine Branch recognizes the lease payments associated with these leases as an expense on a straight-line basis over the lease term.

The estimated useful lives of the Philippine Branch's property and equipment and right-of-use assets are as follows:

	Number of Years
Computer equipment	3 - 5
Leasehold improvements	3 or lease term, whichever is shorter
Motor vehicles	5
Furniture, fixtures and equipment	10
Right-of-use assets	Lease term

The useful lives and depreciation and amortization method are reviewed at each reporting date to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from those assets.

When an asset is disposed of, or is permanently withdrawn from use and no future economic benefits are expected from its disposal, the cost and accumulated depreciation and amortization and impairment losses, if any, are removed from the accounts and any resulting gain or loss arising from the retirement or disposal is reflected in the statements of income and expenses of the current period.

Intangible Assets

An intangible asset is an identifiable non-monetary asset without physical substance. It shall be recognized if, and only if, it is probable that expected future benefits that are attributable to the asset will flow to the Philippine Branch and the cost of the asset can be measured reliably.

An intangible asset is initially measured at cost and subsequently carried at cost less any accumulated amortization and impairment losses.

This includes goodwill and computer software, presented under "Other assets" account in the statements of financial position.

Goodwill

This represents the excess of the consideration transferred over the fair value of the identifiable net assets acquired at the date of acquisition resulting from a business combination. Goodwill is recognized as an asset and not amortized but assessed for impairment at least annually or more frequently if there is an indication that the goodwill may be impaired. Where the goodwill balance exceeds the assessed value of expected future benefits, the difference is charged to the statements of income and expenses. Any impairment of goodwill is not subsequently reversed.

Impairment of Non-financial Assets

The carrying amounts of the Philippine Branch's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated. An impairment loss equal to the excess of the asset's carrying amount over its recoverable amount is recognized in the statements of income and expenses in the period in which it arises.

For non-financial assets, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. The reversal can be made only to the extent that the resulting carrying amount does not exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized. Such reversal is recognized in statements of income and expenses. After such a reversal, the depreciation is adjusted in future years to allocate the asset's revised carrying amount, less any residual value, on a systematic basis over its remaining life.

Where the carrying amount of an asset (or cash-generating unit) exceeds its recoverable amount, the asset (or cash-generating unit) is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's (or cash-generating unit's) fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is assessed as part of the cash generating unit to which it belongs. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or cash-generating unit).

Equity

Assigned Capital

Assigned capital represents the capital permanently assigned by the Head Office to the Philippine Branch. Assigned capital is measured at the fair value of the cash or other resources received for the initial investment transferred to the Philippine Branch from the Head Office. Assigned capital includes the initial remittance of the Head Office to the Philippine Branch in accordance with the registration requirements of the SEC including any additional contributions to finance the Philippine Branch's working capital requirements.

Unremitted Profits

Unremitted profits represent the accumulated earnings and losses of the Philippine Branch less remittances to Head Office.

Appropriation for General Loan Loss Provision

Appropriation for general loan loss provision pertains to the accumulated amount of appropriation from Unremitted Profits made by the Philippine Branch arising from the excess of the one-percent general loan loss provisions for all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations, as required by the BSP under Circular No. 1011, Guidelines on the Adoption of the Philippine Financial Reporting Standard 9 - Financial Instruments over the computed allowance for ECL.

Revenue Recognition

Revenue from contracts with customers is recognized upon transfer of services to the customer at an amount that reflects the consideration to which the Philippine Branch expects to be entitled in exchange for those services.

The Philippine Branch assesses its revenue arrangements against specific criteria in order to determine if it is acting as a principal or agent. The Philippine Branch concluded that it is acting as a principal in all of its revenue arrangements.

The following specific recognition criteria must also be met before income and expenses are recognized:

Within the Scope of PFRS 15
The following table 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 policies.

Type of Income	**Nature and Timing of Satisfaction of Performance Obligations**	**Revenue Recognition under PFRS15**
Lending fees and commission	Fee for every trade-related transaction. This also includes fees charged for providing customers a distinct good or service that are recognized separately from the underlying lending product.	*Guarantee Fees* Revenue is recognized upon execution of the trade finance products (e.g., loan commitments, LCs, import/export bills, etc.). *Arrangement Fees* Revenue is recognized when service (i.e. arrangement) is provided. If there are contract milestones, these arrangement fees are recognized upon completion of such milestones. *Structuring Fees* Revenue is recognized upon rendering of advice or during provision of service. Revenue is recognized over the term of loan syndication.
Non-lending fees and commission	Non-lending fees and commission pertain to service transfer pricing income allocated by Head Office, outward telegraphic transfer fees, import and export fees and guarantee fees and other non-lending services costs. Fees or components of fees that are linked to a certain performance are recognized after fulfilling the corresponding criteria.	*Account, Transactions and Service Fees* Revenue is recognized at point in time that the associated service is provided as non-interest income (fees and commission) *Service Transfer Fees* Revenue is recognized monthly based on an accrual computation made by the Head Office.

A contract with customer that results in a recognized financial instrument in the Philippine Branch's financial statements may be partially in the scope of PFRS 9 and partially in the scope of PFRS 15. If this is the case, then the Philippine Branch first applies PFRS 9 to separate and measure the part of the contract that is in the scope of PFRS 9 and then applies PFRS 15 to the residual.

Lending and non-lending fees are recorded as part of “Fees and commission income” account in the statements of income and expenses.

Outside the Scope of PFRS 15
Interest income and expense are recognized in statements of income and expenses using the effective interest rate method. The “effective interest rate’’ is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument to:

- the gross carrying amount of the financial asset; or
- the amortized cost of the financial liability.

When calculating the effective interest rate for financial instruments other than purchased or originated credit-impaired assets, the Philippine Branch estimates future cash flows considering all the contractual terms of the financial instrument, but not ECL. For purchased or originated credit-impaired financial assets, a credit-adjusted EIR is calculated using estimated future cash flows including ECL. The calculation of the effective interest rate includes all fees and points paid or received that are an integral part of the EIR, transactions costs and all other premiums or discounts. Transaction costs include incremental costs that are directly attributable to the acquisition or issuance of a financial asset or financial liability.

Amortized Cost and Gross Carrying Account
The amortized cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured on initial recognition minus the principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount and the maturity amount and, for financial assets, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortized cost of a financial asset before adjusting for any expected credit loss allowance.

Calculation of Interest Income
The effective interest rate of a financial asset is calculated on initial recognition. In calculating interest income, the effective interest rate is applied to the gross carrying amount of the asset. However, for financial assets that have become credit-impaired subsequent to initial recognition, interest income is calculated by applying the effective interest rate to the amortized cost of the financial asset. If the asset is no longer credit-impaired, then the calculation of interest income reverts to gross basis.

For financial assets that were credit-impaired on initial recognition, interest income is calculated by applying the credit-adjusted effective interest rate to the amortized cost of the asset. The calculation of interest income does not revert to a gross basis, even if the credit risk of the asset improves.

Presentation
Interest income presented under “Interest income calculated using the effective interest method” in the statements of income and expenses includes interest earned on financial assets at amortized cost and at FVOCI - debt. Interest income on financial assets at FVPL is presented under “Interest income on financial assets at FVPL” in the statements of income and expenses.

Trading and Securities Gain - net
This consists of income from trading activities, including all gains and losses from changes in fair value of financial assets and financial liabilities at FVPL and gains and losses from disposal of financial assets at FVPL, except for gains and losses arising from foreign exchange differences.

Foreign Exchange Gains (Losses) - net
Trading gains and losses on spot foreign exchange contracts, forward foreign exchange contracts, over-the-counter foreign exchange options and exchange differences from translating transaction currency to functional currency are presented in "Foreign exchange gains (losses) - net" account in the statements of income and expenses.

Expense Recognition
Expense is recognized when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen to the Philippine Branch that can be measured reliably.

These financial statements are prepared on the accrual basis of accounting. Under this basis, costs and expenses are recognized when they occur and are reported in the financial statements in the periods to which they relate.

Offsetting of Income and Expenses
Income and expenses are generally not offset unless required or permitted by an accounting standard. This generally arises in the following circumstances:

- where transaction costs form an integral part of the effective interest rate (EIR) of a financial instrument which is measured at amortized cost, these are offset against the interest income generated by the financial instrument; and
- where gains and losses arise from a group of similar transactions such as gains/losses from financial assets and financial liabilities at FVPL and foreign exchange gains and losses.

Income and expenses are presented on a net basis only when permitted by the accounting standards, or for gains and losses arising from a group of similar transactions such as the Philippine Branch's trading activities.

Interest Expense
Interest expense is recognized in the statements of income and expenses using the effective interest method. The effective interest is a method of calculating the amortized cost of a financial liability and of allocating the interest expense over relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial instruments or, when appropriate, a shorter period, to the net carrying amount of the financial liability.

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

A liability is recognized for the amount expected to be paid under short-term cash bonus if the Philippine 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.

Post-employment Benefits
Under the defined contribution plan, the Philippine Branch pays fixed contributions based on the employees' monthly salaries. The Philippine Branch, however, is covered under Republic Act (RA) No. 7641, *The Philippine Retirement Law*, which provides for its qualified employees a defined benefits (DB) minimum guarantee. The DB minimum guarantee is equivalent to a certain percentage of the monthly salary payable to an employee at normal retirement age with the required credited years of service based on the provisions of R.A. No. 7641.

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation relating to the minimum guarantee at the end of the reporting period, or if higher, the sum of the defined contribution (DC) liability and the present value of the excess of the projected DB obligation over projected DC obligation, reduced by the fair value of the plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan. The DC liability is measured at the fair value of the DC assets upon which the DC benefits depend, with an adjustment for margin on asset returns, if any, where this is reflected in the DC benefits.

The calculation of defined benefit obligation is performed on a periodic basis by a qualified actuary using the projected unit credit method. When the calculation results in a potential asset for the Philippine Branch, the recognized asset is limited to the present value of economic benefits available in the form of any future refunds from the plan or reductions in future contributions to the plan.

Remeasurements of the net defined liability or asset, which comprise actuarial gains and losses, the return on plan assets (excluding interest) and the effect of the asset ceiling (if any, excluding interest), are recognized as “Remeasurement gain (loss) on retirement plan” which is transferred to “Unremitted profits” in the statements of financial position. This is in accordance with PAS 19-R, *Employee Benefits* which states that remeasurements of the net defined benefit liability or asset recognized in other comprehensive income shall not be reclassified to statements of income and expenses in a subsequent period. However, the Philippine Branch may transfer those amounts recognized in other comprehensive income within equity.

The Philippine Branch determines the net interest expense (income) on the net defined benefit liability or asset for the period by applying the discount rate used to measure the defined benefit obligation at the beginning of the annual period to the then net defined benefit liability or asset, taking into account any changes in the net defined liability or asset during the period as a result of contributions and benefit payments. Net interest expense and other expenses related to the defined benefit plan are recognized in the statements of income and expenses.

When the benefits of a plan are changed or when a plan is curtailed, the resulting change in benefit that relates to past service or the gain or loss on curtailment is recognized immediately in the statements of income and expenses.

The Philippine Branch recognizes gains and losses on the settlement of a defined benefit plan when the settlement occurs.

Obligations for contributions to defined contribution plan are expensed as the related service is provided and recognized as part of “Salaries, bonuses and allowances” account in the statements of income and expenses. Prepaid contributions, if any, are recognized as an asset to the extent that a cash refund or a reduction in future payments is available.

The net defined benefit is presented as liability under “Other liabilities” or asset under “Other assets” account in the statements of financial position.

Share-based Compensation

The Philippine Branch has share-based compensation plans. The shares are not issued by the Philippine Branch but by the Head Office, the cost of which is being charged back to the Philippine Branch via the Service Transfer Pricing mechanism that is included in the allocated head office expenses (see Note 18).

Expenses related to equity-settled share-based compensation are included in long-term benefits under "Salaries, bonuses and allowances" account (see Note 26).

At a date approved by the Board of Directors (BOD), the shares are issued to all eligible employees using the ANZ share price calculated by applying the one week weighted average price of ANZ shares sold on the Australian Stock Exchange, up to and including the date of issue of the shares.

If an employee is not required to complete a specified period of service before becoming unconditionally entitled to ANZ's equity instruments, then ANZ is required to recognize the services received in full, with a corresponding increase in ANZ's equity. ANZ accrues the expense for the shares that may be issued (note that the accrual does not necessarily mean that the shares will in fact be granted) in relation to a financial year. The accrual is recognized on a monthly basis as employees render the service in a particular financial year that may give rise to the granting of the shares to eligible staff. In the event that the shares are not granted, the accrual is reversed.

The fair value of equity instruments granted to employees is determined at grant date by the Head Office's share plan administrator based on the latest weighted average and closing price of ANZ shares as shown in Australian Dollars (AUD).

In 2023 and 2022, the Philippine Branch recognized equity-settled share-based compensation, as part of "Salaries, bonuses and allowances" account in the statements of income and expenses, with a corresponding increase in "Net Due to Head Office and Other Branches" account in the statements of financial position.

Leases

At inception of a contract, the Philippine Branch assesses whether a contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. To assess whether a contract conveys the right to control the use of an asset, the Philippine Branch assesses whether:

- the contract involves the use of an identified asset - this may be specified explicitly or implicitly, and should be physically distinct or represent substantially all of the capacity of a physically distinct asset. If the supplier has a substantive substitution right, then the asset is not identified;
- the Philippine Branch has the right to obtain substantially all of the economic benefits from use of the asset throughout the period of use; and
- the Philippine Branch has the right to direct the use of the asset. The Philippine Branch has the right when it has the decision-making rights that are most relevant to changing how and for what purpose the asset is used.

Philippine Branch as a Lessee

At inception or on reassessment of a contract that contains a lease component, the Philippine Branch allocates the consideration in the contract to each lease component on the basis of their relative stand-alone prices. However, for the leases of land and buildings in which it is a lessee, the Philippine Branch recognizes a right-of-use asset and a lease liability at the lease commencement date.

The right-of-use asset is initially measured at cost, which comprises the initial amount of the lease liability adjusted for any lease payments made at or before the commencement date, plus any initial direct costs incurred and an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, less any lease incentives received.

The right-of-use asset is subsequently depreciated using the straight-line method from the commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The estimated useful lives of right-of-use assets are determined on the same basis as those of property and equipment. In addition, the right-of-use asset is periodically reduced by impairment losses, if any, and adjusted for certain remeasurements of the lease liability.

The lease liability is initially measured at the present value of the lease payments that are not paid at the commencement date, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, the Philippine Branch's incremental borrowing rate. Generally, the Philippine Branch uses its incremental borrowing rate as the discount rate.

The lease liability is measured at amortized cost using the effective interest method. It is remeasured when there is a change in future lease payments arising from a change in an index or rate, if there is a change in the Philippine Branch's estimate of the amount expected to be payable under a residual value guarantee, or if the Philippine Branch changes its assessment of whether it will exercise a purchase, extension or termination option.

When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in the statements of income and expenses if the carrying amount of the right-of-use asset has been reduced to zero.

The Philippine Branch presents right-of-use assets as part of "Property and equipment" account and lease liabilities in "Other liabilities" account in the statements of financial position.

Short-term Leases and Leases of Low-value Assets
The Philippine Branch has elected not to recognize right-of-use assets and lease liabilities for leases of low-value assets (e.g., IT equipment and short-term leases of parking). The Philippine Branch recognizes the lease payments associated with these leases as expense under "Occupancy costs" account in the statements of income and expenses recognized on a straight-line basis over the lease term.

<u>Income Taxes</u>
Income tax comprises current and deferred tax. Income tax is determined in accordance with Philippine tax law. Income tax is recognized in the statements of income and expenses, except to the extent that it relates to items recognized directly in equity. Taxes on these items are recognized in other comprehensive income (OCI).

Current Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantially enacted at the reporting date.

Final Tax
Final tax is a kind of withholding tax which is prescribed on certain income payments and is not creditable against the income tax due of the payee on other income subject to regular rates of tax for the taxable year. Tax withheld constitutes the full and final payment of the tax due from the payee on the particular income subjected to final withholding tax.

Deferred Tax
Deferred tax is provided on all temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax assets are recognized for all deductible temporary differences, carryforward benefit of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that sufficient future taxable income will be available against which the deductible temporary differences and carryforward benefit of unused tax credits from MCIT and unused NOLCO can be utilized.

The carrying amount of deferred tax assets are reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient future taxable income will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantially enacted at the reporting date. Unrecognized deferred tax assets, if any, are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to offset current tax assets against current tax liabilities and deferred taxes are related to the same taxable entity and the same taxation authority.

Current tax and deferred tax relating to items recognized directly in equity are also recognized in equity and not in the statements of income and expenses.

<u>Provisions</u>
Provisions are recognized when the Philippine Branch has a present obligation (legal or constructive) as a result of a past event and it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Where the Philippine Branch expects some or all of a provision to be reimbursed, for example, under an insurance contract, the reimbursement is recognized as a separate asset but only when the reimbursement is virtually certain. The expense relating to any provision is charged to current operations, net of any reimbursement. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense.

<u>Contingent Liabilities and Contingent Assets</u>
Contingent assets are not recognized in the statements of financial position but are disclosed in the notes to the financial statements when an inflow of economic benefits is probable.

Contingent liabilities are not recognized in the statements of financial position but are disclosed in the notes to the financial statements unless the possibility of an outflow of assets embodying economic benefits is remote.

<u>Guarantees</u>
In the ordinary course of business, the Philippine Branch issues financial guarantees, consisting of letters of credit, guarantees and acceptances. Financial guarantees are initially recognized in the financial statements under the "Liabilities for acceptances" account at fair value, being the premium received. Subsequent to initial recognition, the Philippine Branch's liability under each guarantee is measured at the higher of the loss allowance determined in accordance with PFRS 9 and the amount initially recognized less, when appropriate, the cumulative amount of income recognized in accordance with the principles of PFRS 15.

<u>Events After the Reporting Date</u>
Post year-end events that provide additional information about the Philippine Branch's financial position at reporting date (adjusting events) are reflected in the financial statements when material. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

<u>Amendments to Standards Issued but Not Yet Adopted</u>
Amendments to standards are effective for annual periods beginning after October 1, 2023. However, the Philippine Branch has not applied the following amended standards in preparing these financial statements. Unless otherwise stated, none of these are expected to have a significant impact on the Company's financial statements.

Effective January 1, 2023

- *Definition of Accounting Estimates (Amendments to PAS 8 Accounting Policies, Changes in Accounting Estimates and Errors).* To clarify the distinction between changes in accounting policies and changes in accounting estimates, the amendments introduce a new definition for accounting estimates, clarifying that they are monetary amounts in the financial statements that are subject to measurement uncertainty. The amendments also clarify the relationship between accounting policies and accounting estimates by specifying that an accounting estimate is developed to achieve the objective set out by an accounting policy. Developing an accounting estimate includes both selecting a measurement technique and choosing the inputs to be used when applying the chosen measurement technique. The effects of changes in such inputs or measurement techniques are changes in accounting estimates. The definition of accounting policies remain unchanged. The amendments also provide examples on the application of the new definition.

  The amendments are effective for annual reporting periods beginning on or after January 1, 2023, with earlier application permitted, and will apply prospectively to changes in accounting estimates and changes in accounting policies occurring on or after the beginning of the first annual reporting period in which the amendments are applied. The amendments do not have a material impact on the financial statements of the Philippine Branch.

- *Disclosure of Accounting Policies (Amendments to PAS 1 Presentation of Financial Statements and PFRS Practice Statement 2 Making Materiality Judgements).* The amendments are intended to help companies provide useful accounting policy disclosures. The key amendments to PAS 1 include:

  - requiring companies to disclose their *material* accounting policies rather than their *significant* accounting policies;
  - clarifying that accounting policies related to immaterial transactions, other events or conditions are themselves immaterial and as such need not be disclosed; and

- clarifying that not all accounting policies that relate to material transactions, other events or conditions are themselves material to a company's financial statements.

The amendments to PFRS Practice Statement 2 includes guidance and additional examples on the application of materiality to accounting policy disclosures.

The amendments are effective from January 1, 2023. Earlier application is permitted. The amendments do not have a material impact on the financial statements of the Philippine Branch.

Effective January 1, 2024

- *Classification of Liabilities as Current or Noncurrent - 2020 amendments and Non-Current Liabilities with Covenants - 2022 amendments (Amendments to PAS 1, Presentation of Financial Statements).* To promote consistency in application and clarify the requirements on determining whether a liability is current or noncurrent, the amendments:

  - removed the requirement for a right to defer settlement of a liability for at least twelve months after the reporting period to be unconditional and instead requires that the right must have substance and exist at the end of the reporting period;
  - clarified that only covenants with which a company must comply on or before the reporting date affect the classification of a liability as current or non-current and covenants with which the entity must comply after the reporting date do not affect a liability's classification at that date;
  - provided additional disclosure requirements for non-current liabilities subject to conditions within twelve months after the reporting period to enable the assessment of the risk that the liability could become repayable within twelve months; and
  - clarified that settlement of a liability includes transferring an entity's own equity instruments to the counterparty, but conversion options that are classified as equity do not affect classification of the liability as current or noncurrent.

  The amendments will apply retrospectively for annual reporting periods beginning on or after January 1, 2024, with earlier application permitted. Entities that have early applied the 2020 amendments may retain application until the 2022 amendments are applied. Entities that will early apply the 2020 amendments after issue of the 2022 amendments must apply both amendments at the same time.

  The amendments do not have a material impact on the interim financial statements of the Philippine Branch.

4. Significant Accounting Judgments and Estimates

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

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

The following are the critical judgments, key estimates and assumptions that may have a risk of material adjustment to the carrying amounts of assets, liabilities, income, expenses, and disclosures of contingent assets and contingent liabilities in the next financial year.

Judgments
In the process of applying the Philippine Branch's accounting policies, management has made the following judgments, apart from those involving estimations, which may have the most significant effect on amounts recognized in the financial statements.

Identifying Leases - Philippine Branch as Lessee
The Philippine Branch uses its judgment in assessing that a contract is, or contains, a lease when the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Philippine Branch has the right to control the asset if it has the right to obtain substantially all of the economic right to obtain substantially all of the economic benefits from use of the asset and the right to direct the use of the asset. The Philippine Branch reassesses whether a contract is, or contains, a lease only if the terms and conditions of the contract are changed.

The Philippine Branch has entered into a contract for the lease of vehicles and properties for the domicile of the CEO and COO. The Philippine Branch has determined that it has the right to control the use of the identified assets over their respective lease terms.

The Philippine Branch applies judgment in evaluating whether it is reasonably certain whether or not to exercise the option to renew or terminate the lease. That is, it considers all relevant factors that create an economic incentive for it to exercise either the renewal or termination. After the commencement date, the Philippine Branch reassesses the lease term if there is a significant event or change in circumstances that is within its control and affects its ability to exercise or not to exercise the option to renew or to terminate.

Functional Currency
PAS 21, *The Effect of Changes in Foreign Exchange Rates*, requires management to use its judgment to determine the Philippine Branch functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the Philippine Branch.

In making this judgment, the Philippine Branch considers the following:

(a) 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);
(b) the currency in which funds from financing activities are generated; and
(c) the currency in which receipts from operating activities are usually retained.

Based on the economic substance of the underlying circumstance relevant to the Philippine Branch, the functional currency of the Philippine Branch's RBU book of accounts and FCDU book of accounts have been determined to be PHP and USD, respectively.

PHP and USD are the currencies of the primary economic environment on which the Philippine Branch operates. These are the currencies that mainly influence the income and costs arising from the Philippine Branch operations.

Classification of Financial Assets
The Philippine Branch exercises judgment in classifying a financial asset on initial recognition in accordance with the substance of the contractual arrangement and the definition of the types of financial assets. The substance of a financial asset, rather than its legal form, governs its classification in the statements of financial position.

Business Model Assessment
The Philippine Branch determines its business model at the level that best reflects how it manages groups of financial assets to achieve its business objective:

- the risks that affect the performance of the business model (and the financial assets held within that business model) and, in particular, the way those risks are managed; and
- how managers of the business are compensated.

The expected frequency, value and timing of sales are also important aspects of the Philippine Branch's assessment. The business model assessment is based on reasonably expected scenarios without taking ''worst case'' or ''stress case" scenarios into account.

If cash flows after initial recognition are realized in a way that is different from the Philippine Branch's original expectations, the Philippine 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.

Considering the realization of cash flows for repurchase agreements and reverse repurchase agreements are different from expectations, the Philippine Branch accounted for new repurchase agreements and reverse repurchase agreements as FVPL starting March 29, 2023. These products were classified as Level 2 within the fair value hierarchy. Interest income and expenses arising from these instruments are classified under interest income (expense) on financial assets (liabilities) at FVPL in the statement of income and expenses.

The SPPI Test
As a second step of its classification process, the Philippine Branch assesses the contractual terms of the financial asset to identify whether they meet the SPPI test.

'Principal' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset.

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make the SPPI assessment, the Philippine Branch applies judgment and considers relevant factors such as the currency in which the financial asset is denominated, and the period for which the interest rate is set.

In contrast, contractual terms that introduce a more than de minimis exposure to risks or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely payments of principal and interest on the amount outstanding. In such cases, the financial asset is required to be measured at FVPL.

Significant Increase in Credit Risk (SICR)
Stage 2 assets are those that have experienced a SICR since initial recognition. In determining what constitutes a SICR, the Philippine Branch considers both qualitative and quantitative information. For the majority of portfolios, the primary indicator of a SICR is a significant deterioration in the internal credit rating grade of a facility since origination. The Philippine Branch will also use secondary indicators, such as 30 days past due arrears, as backstops to these primary indicators.

The determination of trigger points in relation to the deterioration of rating grades, combined with secondary risk indicators where used, requires judgment. In determining the Philippine Branch's policy, alternative indicators have been considered and assessed, and these will be subject to regular review to ensure they remain appropriate. Analysis of the sensitivity associated with the assessment of significant increase in credit risk is presented in Note 5.

Forward Looking Information
The measurement of ECLs reflects an unbiased probability-weighted range of possible future outcomes.

In applying forward looking information in the Philippine Branch's PFRS 9 credit models, the Philippine Branch uses four alternative economic scenarios in estimating ECL. A base case scenario reflects management's base case assumptions used for medium term planning purposes. Additional upside and downside scenarios are determined together with a severe downside scenario.

The Philippine Branch's Credit and Market Risk Committee (CMRC) is responsible for reviewing and approving forecast economic scenarios and the associated probability weights applied to each scenario.

Where applicable, adjustments may be made to account for situations where known or expected risks have not been adequately addressed in the modelling process. CMRC will be responsible for recommending such adjustments.

<u>Estimates</u>
The key assumptions concerning the future and other key sources of estimation uncertainty at the reporting date that may have a risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial period are discussed below:

Determining the Incremental Borrowing Rate
Significant management judgment was exercised by the Philippine Branch in determining the discount rate, whether the implicit rate, if readily available, or the incremental borrowing rate, to be used in calculating the present value of right-of-use assets and lease liabilities.

The Philippine Branch takes into account the following factors when determining the incremental borrowing rate for each lease:

- for the term of the lease
- the amount of the funds borrowed
- the economic conditions (e.g. take into account the current interest rate environment and currency / country the lease payments are in)
- the nature of the underlying asset as security/collateral (e.g. commercial property, IT equipment, motor vehicle)

The weighted average incremental borrowing rate (IBR) applied to lease liabilities recognized in the statements of financial position is 2.9548% which is based on the two (2) - year fund transfer pricing loan rate.

Fair Value of Financial Instruments
The Philippine Branch evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgment and estimation in determining the carrying values of financial assets and financial liabilities at the reporting date.

Credit and Impairment Loses
The measurement of impairment losses under PFRS 9 across all categories of financial assets requires judgment, in particular, the estimation of the amount and timing of future cash flows when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Philippine Branch's expected credit loss (ECL) calculations are outputs of complex models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Elements of the ECL models that are considered accounting judgments and estimates include:

- the Philippine Branch's internal credit grading model, which assigns the probability of defaults to individual grades;
- the Philippine Branch's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a lifetime ECL basis and the qualitative assessment;
- the segmentation of financial assets when their ECL is assessed on a collective basis;
- development of ECL models, including the various formulas and the choice of inputs;
- determination of associations between macroeconomic scenarios and economic inputs, such as unemployment levels and collateral values, and the effect on probability of defaults, exposure at defaults and loss given defaults; and
- selection of forward-looking macroeconomic scenarios and their probability weightings, to derive the economic inputs into the ECL models.

Financial Assets at Amortized Cost
As at September 30, 2023 and 2022, allowance for credit and impairment losses on financial assets at amortized cost amounted to P23.66 million and P38.63 million, respectively (see Note 12).

Financial Assets at FVOCI
As at September 30, 2023 and 2022, the allowance for credit and impairment losses of financial assets at FVOCI, amounted to P13.04 million and P18.84 million, respectively (see Note 12).

Off-balance Sheet Items
As at September 30, 2023 and 2022, the allowance for credit and impairment losses of commitments and other financial guarantees amounting to P0.57 million and P2.46 million, respectively, is presented under "Other liabilities" as provision for liability (see Notes 12 and 16).

Impairment of Non-financial Assets
The Philippine Branch assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable, except for goodwill acquired in a business combination which is tested for impairment annually. The factors that the Philippine Branch considers important, which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Philippine Branch recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair values less costs to sell and value in use.

Management performs business strategic review and assesses if there are impairment indicators affecting the carrying amount of property and equipment and intangible assets to warrant an impairment analysis. There were no impaired property and equipment and intangible assets as at September 30, 2023 and 2022.

Estimated Useful Lives of Property and Equipment
The useful lives and depreciation and amortization method are reviewed periodically to ensure that the period and method of depreciation and amortization are consistent with the expected pattern of economic benefits from property and equipment.

The estimated useful lives of property and equipment are disclosed in Note 3.

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

Management assessed that there are deferred tax assets that can be realized by applying against future taxable income. The estimates of future taxable income indicate that certain temporary differences will be realized in the future. The Philippine Branch recognized deferred tax assets amounting to P149.83 million and P45.62 million as at September 30, 2023 and 2022, respectively (see Note 25).

Present Value of Retirement Obligation
The present value of retirement obligation depends on number of factors that are determined on an actuarial basis using a number of assumptions. The assumptions used in determining retirement cost include future salary increases, mortality rates, future pension increases and the discount rate. Any change in these assumptions will impact the carrying amount of the retirement obligation.

The assumed discount rates were determined using the prevailing market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as at reporting date. Retirement benefit asset (liability) amounting to P5.16 million and (P3.63 million) as at September 30, 2023 and 2022, respectively (see Notes 14, 16 and 26).

Provisions and Contingencies
The Philippine Branch, in the ordinary course of business, sets up appropriate provisions for its present legal or constructive obligations in accordance with its policies on provisions and contingences. Judgment is exercised by management to distinguish between provisions and contingencies.

5. Financial Risk Management Objectives and Policies

<u>Introduction and Overview</u>
Strategy in Using Financial Instruments
Financial instruments are fundamental to the Philippine Branch's business, constituting the core element of its operations. Accordingly, the risks associated with financial instruments are a significant component of the risks faced by the Philippine Branch. Financial instruments create, modify or reduce the credit, market (including traded or fair value risks and non-traded or interest and foreign currency related risks) and liquidity risks of the Philippine Branch. These risks and the Philippine Branch's policies and objectives for managing such risks are outlined below.

The Philippine Branch's overall risk management program based on the policy of the Group focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on its financial performance.

The Philippine Branch has exposure to the following risks from its use of financial instruments:

- Credit Risk
- Liquidity Risk
- Market Risk

<u>Credit Risk</u>
Credit risk is the risk of financial loss from counterparties being unable to fulfill their contractual loan or other credit obligations. The Philippine Branch has an overall lending objective of sound growth for appropriate returns. The credit risk management framework exists to provide a structured and disciplined process to support this objective.

The Philippine Branch assumes credit risk in a wide range of lending and other activities in diverse markets and many jurisdictions. Credit risks arise not only from traditional lending to customers, but also from inter-bank, treasury, international trade and capital market activities around the world.

Credit Risk Management
A credit risk management framework is in place across the Philippine Branch with the aim of ensuring that a structured and disciplined approach is maintained in achieving the objectives set at the Group level. The framework focuses on policies, people, skills, vision, values, controls, risk concentrations and portfolio quality. It is supported by portfolio analysis and asset-writing strategies which guide lending decisions and identify segments of the portfolio requiring attention. The effectiveness of the framework is monitored through a series of compliance and reporting processes.

The Philippine Branch sets limits at an acceptable level of credit risk. Acceptance of credit risk is initially based on the counterparty's assessed capacity to meet contractual obligations (i.e., interest and capital repayments). Obtaining collateral supports this. An independent Risk Management function, at Group, Divisional and Business Unit levels, are staffed by risk specialists. Risk Management objectives on credit risk management include developing robust credit policies, making independent credit decisions and providing strong support to front line staff in the application of sound credit practices.

In addition to providing independent credit assessment and lending decisions, Risk Management also perform key roles in portfolio management, credit risk measurement system development and validation, loan asset quality reporting, and development of credit standards and policies. All credit decisions greater than predetermined thresholds require the approval from both business writers and independent risk personnel. These credit approval discretions (CADs) are delegated to individuals, at progressively diminishing levels, thus forming a credit approval hierarchy ensuring that larger and more complex credits are given greater analysis. The approval limits of each CADs-holder are contained in a CADs schedule.

Credit Risk Governance
CAD applicable to the Philippine Branch is exercised or delegated by the Group's CMRC to senior executives who further delegate to senior officers of the head office, regional office or in-country office. CMRC is an executive management committee comprising senior risk, business and group executives, chaired by the Chief Risk Officer of each of the countries. CMRC receives a delegated discretion from the Board Risk Committee to set credit policies, review divisional credit risk appetite and make credit decisions within set limits.

CMRC further delegates credit responsibilities to the broader organization, based on a combination of factors, including size of risk, level of risk, nature of counterparty, collateral support, risk concentration limits, location of risk and expertise of special credit points.

Each country's CMRC also oversees credit portfolio composition including large exposures, risk grade migration and risk concentration, changes to credit policy, Value-at-Risk (VaR) limits setting, new products and regulatory compliance, as well as recommendations for approval by the Board Risk Committee at a group level.

Country Risk Measurement
Some customer credit risks involve country risk whereby actions or events at a national or international level could disrupt servicing of commitments. Country risk arises when payment or discharge of an obligation will, or could, involve the flow of funds from one country to another or involve transactions in a currency other than the domestic currency of the relevant country. Country ratings are assigned to each country where the Philippine Branch incurs country risk and have a direct bearing on the Philippine Branch's risk appetite for each country.

The country rating is determined through a defined methodology based on external rating agencies' ratings and internal specialist opinion. It is also a key risk consideration in the Philippine Branch's capital pricing model for cross border flows. The recording of country limits provides the Group with a means to identify and control country risk. Country limits ensure that there is a country-by-country ceiling on exposures that involve country risk. They are recorded by time to maturity and purpose of exposure (e.g., trade, markets and project finance). Country limits are managed centrally for the Group, through a global country risk exposure management system managed by a specialist unit.

Concentration of Credit Risk
Concentrations of credit risk arise when a number of customers are engaged in similar business activities or activities within the same geographical region, or when they have similar risk characteristics that would cause their ability to meet contractual obligations to be similarly affected by changes in economic or other conditions.

The Philippine Branch monitors its portfolios, to identify and assess risk concentrations. The Philippine Branch's strategy is to maintain well-diversified credit portfolios focused on achieving an acceptable risk-return balance. Credit risk portfolios are actively monitored and frequently reviewed to identify, assess and guard against unacceptable risk concentrations. Concentration analysis will typically include geography, industry, credit product and risk grade. The Philippine Branch also applies single customer counterparty limits to protect against unacceptably large exposures to single name risk. These limits are established based on a combination of factors including the nature of the counterparty, probability of default and collateral provided.

Portfolio Stress Testing
Stress testing is integral to strengthening the predictive approach to risk management and is a key component to managing risk appetite, asset writing strategies and business strategies. It creates greater understanding of impacts on financial performance through modeling relationships and sensitivities between geographic, industry and business unit exposures under a range of macro-economic scenarios. The Group has a dedicated stress testing team within Risk Management that models and reports periodically to the management and the Board Risk Committee on a range of scenarios and stress tests. The Philippine Branch's Market Risk Team and CMRC also use the reports to monitor risk levels.

Portfolio Analysis and Reporting
Global credit portfolios are analyzed by the Risk Committees, Senior Business and Board Risk Management. While these include Philippine-related exposures already, Philippine Branch credit portfolios are additionally analyzed by the Philippine Branch CRO and discussed in CMRC. A central risk reporting area produces credit portfolio analysis at both Group and Country (i.e., Philippine) levels which is distributed to senior Risk and Business executives through monthly, half yearly and ad hoc reporting, or as set agenda reports to the various Risk Committees.

This area provides an independent mechanism to ensure that significant and emerging credit risks are proactively identified and communicated to Group Risk and Business Units executives, including the Executive Management and Board Risk Committee.

Credit Risk Assurance
The credit risk objectives of the Group are set by the CMRC and are implemented and monitored within a tiered structure of delegated authority, designed to oversee multiple facets of credit risk, including asset writing strategies, credit policies/controls, single exposures, portfolio monitoring and risk concentrations. The integrity of the credit risk function is maintained by the independence of the credit chain and is supported by comprehensive risk analysis, risk tools, monitoring processes and policies.

The Group manages its credit risk within its credit risk management framework by dealing with creditworthy counterparties, setting credit limits on exposures to counterparties, and obtaining collateral where appropriate. To provide specialist management of impaired loans, Portfolio Management Department performs a role as workout specialist for identified sub-standard assets.

The credit risk review function within Group Audit provides further independent checks and balances on the quality of credit decisions.

This includes providing an independent periodic check on asset quality and compliance with agreed standards and policies across the Group.

Collateral Management
The Philippine Branch credit principles specify to only lend when the counterparty has the capacity and ability to repay, and the Group sets limits on the acceptable level of credit risk. Obtaining collateral is only used to mitigate credit risk. Procedures are designed to ensure collateral is managed, legally enforceable, conservatively valued and adequately insured. The Group's policy as implemented by the Philippine Branch sets out the types of acceptable collateral, including: cash; mortgages over property; charges over business assets (e.g., premises, stock and debtors); charges over financial instruments (e.g., debt securities and equities in support of trading facilities); and financial guarantees. In the event of customer default, any loan security is usually held as mortgagee in possession and therefore the Group usually holds any real estate or other assets acquired through the enforcement of security.

The Philippine Branch uses International Swaps and Derivatives Association (ISDA) Master Agreements to document derivatives activities to limit exposure to credit losses. The credit risk is reduced by a master agreement to the extent that if an event of default occurs, all contracts with the counterparty are terminated and settled on a net basis.

Further, it is the Group's preferred practice to include all products covered by the ISDA in the Credit Support Annex (CSA) in order to achieve the objective of further credit exposure reduction. Under a CSA, collateral is passed between the parties, depending on the aggregate fair value (positive or negative) of derivatives trades between the two entities to mitigate the market contingent counterparty risk inherent in the outstanding positions.

Credit Quality
For financial assets recognized in the statements of financial position, the maximum exposure to credit risk is the carrying amount. For contingent exposures, the maximum exposure to credit risk is the maximum amount the Philippine Branch would have to pay if the instrument is called upon. For undrawn facilities, the maximum exposure to credit risk is the full amount of the committed facilities.

A core component of the Group's credit risk management capability is the risk grading framework used across all major Business Units and geographic areas. A set of risk grading principles and policies are supported by a complementary risk grading methodology. Pronouncements by the Basel Committee on Banking Supervision have been encapsulated in these principles and policies including governance, validation and modeling requirements.

The Group's risk grade profile changes dynamically through new counterparty lending acquisitions and/or existing counterparty movements in either risk or volume. All counterparty risk grades are subject to regular reviews.

The Group uses a two-dimensional risk grading system, which measures both the customer's ability to repay - PD, and the loss given default (LGD), a factor of the security taken to support the lending. The Group also uses financial and statistical tools to assist in the risk grading of customers. Customer risk grades are actively reviewed and monitored to ensure the risk grade accurately reflects the credit risk of the customer and the prevailing economic conditions. Similarly, the performance of risk grading tools used in the risk grading process is reviewed regularly to ensure the tools remain statistically valid.

The Group applies a master scale to the key outputs of the risk grading process, the PD and LGD, to consistently report on the Group's lending portfolios. The credit quality of financial assets is managed by the Group using internal ratings which aim to reflect the relative ability of counterparties to fulfill, on time, their credit-related obligations, and is based on their current probability of default.

Internal Credit Risk Rating

CCR Grade		Description
Strong credit profile	0+ 1+ 1= 1- 2+ 2= 2-	Customers that have demonstrated superior stability in their operating and financial performance over the long-term, and whose debt servicing capacity is not significantly vulnerable to foreseeable events.
Satisfactory risk	3+ 3= 3- 4+ 4= 4- 5+ 5= 5-	Customers that have consistently demonstrated sound operational and financial stability over the medium to long term, even though some may be susceptible to cyclical trends or variability in earnings.
Sub-standard but not past due or impaired	6+ 6= 6- 7+ 7=	Customers that have demonstrated some operational and financial instability, with variability and uncertainty in profitability and liquidity projected to continue over the short and possibly medium term.
Past due but not impaired	7- 8+ 8=	Customers where contractual interest or principal payments are past due but impairment is not appropriate base on the level of security/collateral available and/or the stage of collections of amounts owed.
Specifically impaired	8- 9 10	Customers where there is the expectation of partial or total loss of principal, total loss of interest and fees and a time value loss measured through the estimation of discounted expected future cash flows.

Definitions of stages for financial assets are as follows:

<table>
<tr><th></th><th>Impairment Stage</th><th>Staging Criteria</th><th>Loss Period</th></tr>
<tr><td>Stage 1</td><td>No significant increase in credit risk</td><td>▪ Low credit risk
▪ On origination all facilities attract a collectively assessed provision equivalent to 12 months ECL
▪ Facilities remain Stage 1 unless they are determined to have experienced a significant increase in credit risk (SICR)
▪ Previously under-performing facilities that are determined to be performing are able to migrate back to Stage 1</td><td>12- month ECL</td></tr>
<tr><td>Stage 2</td><td>Significant increase in credit risk</td><td>▪ Stage 2 facilities attract a collectively assessed provision equivalent to lifetime ECL Facilities that are Stage 2 include:

• Previously performing facilities that have experienced SICR

Previously non-performing facilities that are determined to no longer be credit impaired and hence have migrated back to Stage 2
•
<table><tr><th>Origination CCR</th><th>Significant Increase</th></tr><tr><td>0+ to 3-</td><td>To CCR 4- and beyond</td></tr><tr><td>4+ to 5-</td><td>3 notches (1 full grade)</td></tr><tr><td>6+ to 6-</td><td>2 notches</td></tr><tr><td>7+ to 8=</td><td>1 notch (any downgrade)</td></tr></table></td><td>Lifetime ECL</td></tr>
<tr><td>Stage 3</td><td>Credit impaired</td><td>▪ NPL definition during model development pre-BSP Circular 941
  ▪ 91+ days past due
  ▪ items in litigation
  ▪ matured with balance
▪ Restructured
▪ Rescheduled</td><td>Lifetime ECL</td></tr>
</table>

The table below shows the internal risk rating of the Philippine Branch's financial assets as at September 30, 2023 and 2022 (amounts in thousands):

	September 30, 2023					
	Neither Past Due nor Impaired					
	Strong Credit Profile	**Satisfactory Risk**	**Sub-standard but not Past Due or Impaired**	**Past Due but not Impaired**	**Specifically Impaired**	**Total**
Loans and Advances to Banks (Gross)						
Due from BSP	**P1,851,903**	**P -**	**P -**	**P -**	**P -**	**P1,851,903**
Due from other banks	**5,454,384**	**1,194,294**	**-**	**-**	**-**	**6,648,678**
Interbank loans receivable	**2,500,000**	**-**	**-**	**-**	**-**	**2,500,000**
Total	**P9,806,287**	**P1,194,294**	**P -**	**P -**	**P -**	**P11,000,581**
Financial Assets at FVPL						
Reverse repurchase agreement	**P 279,944**	**P -**	**P -**	**P -**	**P -**	**P279,944**
Debt securities held-for-trading	**-**	**577,278**	**-**	**-**	**-**	**577,278**
Derivative financial assets	**-**	**606,960**	**-**	**-**	**-**	**606,960**
Total	**P279,944**	**P1,184,238**	**P -**	**P -**	**P -**	**P1,464,182**
Financial Assets at FVOCI (Gross)						
US Treasury bills	**P -**	**P3,370,649**	**P -**	**P -**	**P -**	**P3,370,649**
Republic of the Philippines (ROP) PHP bonds	**-**	**6,194,028**	**-**	**-**	**-**	**6,194,028**
Equity securities	**-**	**3,580**	**-**	**-**	**-**	**3,580**
Total	**P -**	**P9,568,257**	**P -**	**P -**	**P -**	**P9,568,257**
Loans and Receivables (Gross)						
Term loans*	**P4,557,181**	**P3,955,229**	**P -**	**P -**	**P -**	**P8,512,410**
Customers' liabilities on acceptances	**-**	**-**	**-**	**-**	**-**	**-**
Accrued interest receivable	**-**	**122,991**	**-**	**-**	**-**	**122,991**
Total	**P4,557,181**	**P4,078,220**	**P -**	**P -**	**P -**	**P8,635,401**
Due from Head Office and Other Branches (Gross)	**P367,584**	**P -**	**P -**	**P -**	**P -**	**P367,584**
Other Assets**	**P -**	**P14,422**	**P -**	**P -**	**P -**	**P14,422**

**This account includes receivables financed, import bills under trust receipts and bills purchased.*
***This account includes accounts receivable, deposits on lease contracts and unsettled trade assets.*

	September 30, 2022					
	Neither Past Due nor Impaired					
	Strong Credit Profile	Satisfactory Risk	Sub-standard but not Past Due or Impaired	Past Due but not Impaired	Specifically Impaired	Total
Loans and Advances to Banks (Gross)						
Due from BSP	P1,668,267	P -	P -	P -	P -	P1,668,267
Due from other banks	1,423,032	85,964	-	-	-	1,508,996
Reverse repurchase agreement	-	20,518,962	-	-	-	20,518,962
Interbank loans receivable	256,350	-	-	-	-	256,350
Total	P3,347,649	P20,604,926	P -	P -	P -	P23,952,575
Financial Assets at FVPL						
Debt securities held-for-trading	P -	P149,339	P -	P -	P -	P149,339
Derivative financial assets	648,698	2,144,113	-	-	-	2,792,811
Total	P648,698	P2,293,452	P -	P -	P -	P2,942,150
Financial Assets at FVOCI						
US Treasury bills	P -	P3,508,002	P -	P -	P -	P3,508,002
Republic of the Philippines (ROP) PHP bonds	-	7,162,073	-	-	-	7,162,073
Equity securities	-	3,580	-	-	-	3,580
Total	P -	P10,673,655	P -	P -	P -	P10,673,655
Loans and Receivables (Gross)						
Term loans*	P5,880,061	P1,367,169	P -	P -	P -	P7,247,230
Customers' liabilities on acceptances		313,351	-	-	-	313,351
Accrued interest receivable	28	123,407	-	-	-	123,435
Total	P5,880,089	P1,803,927	P -	P -	P -	P7,684,016
Due from Head Office and Other Branches (Gross)	P598,326	P -	P -	P -	P -	P598,326
Other Assets**	P97,766	P -	P -	P -	P -	P97,766

**This account includes receivables financed, import bills under trust receipts and bills purchased.*
***This account includes accounts receivable, deposits on lease contracts and unsettled trade assets.*

The following table shows the credit quality by class of the Philippine Branch's financial assets including loans and receivables (gross of allowance for credit and impairment losses) as at September 30, 2023 and 2022 (amounts in thousands).

		September 30, 2023			
	Note	**Stage 1**	**Stage 2**	**Stage 3**	**Total**
Loans and Advances to Banks	*8*				
Neither past due nor impaired:					
Strong credit profile		**P9,806,287**	**P -**	**P -**	**P9,806,287**
Satisfactory risk		**1,194,294**	**-**	**-**	**1,194,294**
Sub-standard but not past due or impaired		**-**	**-**	**-**	**-**
Past due but not impaired		**-**	**-**	**-**	**-**
Impaired		**-**	**-**	**-**	**-**
		11,000,581	**-**	**-**	**11,000,581**
Financial Assets at FVPL	*9*				
Neither past due nor impaired:					
Strong credit profile		**279,944**	**-**	**-**	**279,944**
Satisfactory risk		**1,184,238**	**-**	**-**	**1,184,238**
Sub-standard but not past due or impaired		**-**	**-**	**-**	**-**
Past due but not impaired		**-**	**-**	**-**	**-**
Impaired		**-**	**-**	**-**	**-**
		1,464,182	**-**	**-**	**1,464,182**
Financial Assets at FVOCI	*10*				
Neither past due nor impaired:					
Strong credit profile		**-**	**-**	**-**	**-**
Satisfactory risk		**9,581,302**	**-**	**-**	**9,581,302**
Sub-standard but not past due or impaired		**-**	**-**	**-**	**-**
Past due but not impaired		**-**	**-**	**-**	**-**
Impaired		**-**	**-**	**-**	**-**
		9,581,302	**-**	**-**	**9,581,302**
Loans and Receivables (Gross)	*11*				
Neither past due nor impaired:					
Strong credit profile		**4,557,181**	**-**	**-**	**4,557,181**
Satisfactory risk		**3,980,220**	**98,000**	**-**	**4,078,220**
Sub-standard but not past due or impaired		**-**	**-**	**-**	**-**
Past due but not impaired		**-**	**-**	**-**	**-**
Impaired		**-**	**-**	**-**	**-**
		8,537,401	**98,000**	**-**	**8,635,401**
Due from Head Office and Other Branches	*18*				
Neither past due nor impaired:					
Strong credit profile		**367,584**	**-**	**-**	**367,584**
Satisfactory risk		**-**	**-**	**-**	**-**
Sub-standard but not past due or impaired		**-**	**-**	**-**	**-**
Past due but not impaired		**-**	**-**	**-**	**-**
Impaired		**-**	**-**	**-**	**-**
		367,584	**-**	**-**	**367,584**
Total		**P30,951,050**	**P98,000**	**P -**	**P31,049,050**

		September 30, 2022			
	Note	Stage 1	Stage 2	Stage 3	Total
Loans and Advances to Banks	*8*				
Neither past due nor impaired:					
Strong credit profile		P3,347,650	P -	P -	P3,347,650
Satisfactory risk		20,604,926	-	-	20,604,926
Sub-standard but not past due or impaired		-	-	-	-
Past due but not impaired		-	-	-	-
Impaired		-	-	-	-
		23,952,576	-	-	23,952,576
Financial Assets at FVPL	*9*				
Neither past due nor impaired:					
Strong credit profile		648,698	-	-	648,698
Satisfactory risk		2,293,452	-	-	2,293,452
Sub-standard but not past due or impaired		-	-	-	-
Past due but not impaired		-	-	-	-
Impaired		-	-	-	-
		2,942,150	-	-	2,942,150

Forward

		September 30, 2022			
	Note	Stage 1	Stage 2	Stage 3	Total
Financial Assets at FVOCI	*10*				
Neither past due nor impaired:					
Strong credit profile		P -	P -	P -	P -
Satisfactory risk		10,673,655	-	-	10,673,655
Sub-standard but not past due or impaired		-	-	-	-
Past due but not impaired		-	-	-	-
Impaired		-	-	-	-
		10,673,655	-	-	10,673,655
Loans and Receivables (Gross)	*11*				
Neither past due nor impaired:					
Strong credit profile		5,880,060	-	-	5,880,060
Satisfactory risk		1,516,997	163,524	-	1,680,521
Sub-standard but not past due or impaired		-	-	-	-
Past due but not impaired		-	-	-	-
Impaired		-	-	-	-
		7,397,057	163,524	-	7,560,581
Due from Head Office and Other Branches	*18*				
Neither past due nor impaired:					
Strong credit profile		598,326	-	-	598,326
Satisfactory risk		-	-	-	-
Sub-standard but not past due or impaired		-	-	-	-
Past due but not impaired		-	-	-	-
Impaired		-	-	-	-
		598,326	-	-	598,326
Total		P45,563,764	P163,524	P -	P45,727,288

Concentration of Credit Risk Analysis

Composition of financial assets that give rise to credit risk by industry (excluding accrued interest receivable but gross of allowance for impairment and credit losses) (in thousands):

	September 30, 2023						
Industry	**Loans and Advances to Banks**	**Financial Assets at FVPL**	**Financial Assets at FVOCI**	**Loans and Receivables**	**Due from Head Office and Other Branches**	**Other Assets***	**Total**
Government and official institutions	**P1,851,903**	**P577,277**	**P9,581,302**	**P -**	**P -**	**P -**	**P12,010,482**
Financial institutions	**9,148,678**	**821,977**	**-**	**1,660,000**	**367,584**	**-**	**11,998,239**
Manufacturing	**-**	**3**	**-**	**4,547,257**	**-**	**-**	**4,547,260**
Real estate, renting and business activities	**-**	**-**	**-**	**30,261**	**-**	**-**	**30,261**
Wholesale and retail trade	**-**	**85**	**-**	**-**	**-**	**-**	**85**
Electricity, gas and water supply	**-**	**-**	**-**	**589,971**	**-**	**-**	**589,971**
Agriculture and forestry	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Transportation and storage	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Telecommunication	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Professional, scientific and technical services	**-**	**-**	**-**	**1,226,000**	**-**	**-**	**1,226,000**
Mining and Quarrying	**-**	**-**	**-**	**450,000**	**-**	**-**	**450,000**
Others	**-**	**64,839**	**-**	**8,921**	**-**	**14,422**	**88,182**
	P11,000,581	**P1,464,181**	**P9,581,302**	**P8,512,410**	**P367,584**	**P14,422**	**P30,940,480**

**This account includes accounts receivable, deposits from lease contracts and unsettled trade assets.*

	September 30, 2022						
Industry	Loans and Advances to Banks	Financial Assets at FVPL	Financial Assets at FVOCI	Loans and Receivables	Due from Head Office and Other Branches	Other Assets*	Total
Government and official institutions	P1,668,383	P149,578	P10,673,655	P -	P -	P -	P12,491,616
Financial institutions	22,284,193	2,768,215	-	1,853,000	598,326	-	27,503,734
Manufacturing	-	7,852	-	3,448,516	-	-	3,456,368
Real estate, renting and business activities	-	-	-	28,427	-	-	28,427
Wholesale and retail trade	-	17,109	-	-	-	-	17,109
Electricity, gas and water supply	-	-	-	-	-	-	-
Agriculture and forestry	-	399	-	600,000	-	-	600,399
Transportation and storage	-	3,997	-	-	-	-	3,997
Telecommunication	-	-	-	350,000	-	-	350,000
Professional, scientific and technical services	-	-	-	628,000	-	-	628,000
Mining and Quarrying	-	-	-	650,000	-	-	650,000
Others	-	-	-	2,638	-	97,766	100,404
	P23,952,576	P2,947,150	P10,673,655	P7,560,581	P598,326	P97,766	P45,830,054

**This account includes accounts receivable, deposits from lease contracts and unsettled trade assets.*

Past Due but not Impaired Loans
Loans and securities where contractual interest or principal payments are past due but the Philippine Branch believes that impairment is not appropriate on the basis of the level of security/collateral available and/or the stage of collection of amounts owed to the Philippine Branch is considered past due but not impaired loans. All loans regardless of delinquency are provisioned for losses based on ANZ Group Portfolio Impairment Provision policies.

Loan Loss Provisioning
The Philippine Branch uses the PFRS 9 loan loss provisioning. Loan loss provisions are booked given expected losses and incorporate forward-looking information based on the macroeconomic outlook, amongst other factors. Furthermore, loan loss provisioning is calculated on the lifetime expected losses for assets that have experienced a significant deterioration in credit quality. As a result of these elements, loan loss provisioning in statements of income and expenses could become more volatile.

More information on the impairment methodology for financial assets under PFRS 9 can be found in Note 3 under "Impairment" policy.

Of the total Philippine Branch portfolio, 99% of total outstanding is classified as Stage 1, while Stage 2 make up 1% or equivalent to P98.0 million of total outstanding balance as at year end. The outstanding loans under Stage 2 pertain to loans receivable that has been fully provided and has increased its CCR to 5+.

As at September 30, 2023 and 2022, despite of the stage 2 loan mentioned above, the Philippine Branch has no past due but not impaired financial assets.

Sensitivity Analysis of Key Sources of Estimation Uncertainty
The inherent complexities and potential impact on the carrying amounts of assets and liabilities under PFRS 9 represents a key source of estimation uncertainty. In particular, the Group's reportable ECL numbers are most sensitive to the forward-looking macroeconomic forecasts used as model inputs, the probability-weights applied to each of the four scenarios, and the criteria for identifying a significant increase in credit risk. As such, these crucial components require consultation and management judgment, and are subject to extensive governance.

- *Forward-looking Macroeconomics Used as Model Inputs*

  As a baseline for PFRS 9, ANZ Group uses the consensus outlook for economic variables. For Australia and New Zealand, the ANZ Group uses the individual countries macroeconomic forecasts respectively whereas the Rest of the World, which includes the Philippine Branch, utilizes US as a proxy. The Philippine Branch uses the US model plus any local management adjustment, as applicable, to align with the current Philippine economic status. The Philippine Branch uses the gross domestic product (GDP) as the base economic forecast being the only applicable measure for the Philippines.

  Base Case Economic Forecast Assumptions

  Continuing uncertainties described above increase the risk of the economic forecast resulting in an understatement or overstatement of the ECL balance. The economic drivers of the base case economic forecasts, reflective of ANZ Economics view of future macroeconomics condition used at September 30, 2023 are set out below. For the years following the near-term forecasts below, the ECL models project future year economic conditions which include an assumption of eventual reversion to mid-cycle economic conditions.

Rest of the world (excluding Australia and New Zealand) Forecast

	2023	**2024**	**2025**
GDP	**1.8%**	**0.9%**	**2.0%**
CPI	**3.9%**	**2.9%**	**2.2%**

The base case economic forecasts as at September 30, 2023 are for continuing slowdowns in economic activity. Continued high inflation globally is expected to keep interest rates high and dampen growth over the forecast period.

- *Probability Weights Applied to Each of the Four Economic Scenarios*

Probability weighting of each scenario is determined by management considering the risks and uncertainties surrounding the base case economic scenario.

The base case scenario represents an overall deterioration in the forecasts since September 2023, given uncertainties associated with how the economy may respond to rapidly moving factors including inflation and lower economic growth globally, the base case weighting has been remained at 45% (2022:45%), the downside case weighting remained at 40% (2022:40%), and the severe downside scenario remained at 15% (2022:15%).

The assigned probability weightings have a high degree of inherent uncertainty and therefore the actual outcomes may be significantly different to those projected. The Group considers these weightings to provide the best estimate of the possible loss outcomes and has analyzed inter-relationships and correlations (over both the short and long term) within the Group's credit portfolios in determining them. The average weightings applied are set out below:

Rest of the world (excluding Australia and New Zealand) Forecast.

	2023	2022
Base	**45.0%**	45.0%
Upside	**0.0%**	0.0%
Downside	**40.0%**	40.0%
Stress	**15.0%**	15.0%

Sensitivity Analysis of Expected Credit Loss
The table below illustrates the sensitivity of collectively assessed ECL to key factors used in determining it as at September 30, 2023 and 2022:

	September 30, 2023	
	ECL (PHP)	**Impact (PHP)**
If 1% of Stage 1 facilities were included in Stage 2	**P38,032,586**	**P748,610**
100% Upside scenario	**11,780,701**	**(25,503,275)**
100% Base scenario	**16,552,162**	**(20,731,814)**
100% Downside scenario	**28,878,437**	**(8,405,539)**
100% Stress scenario	**85,544,163**	**48,260,186**

	September 30, 2022	
	ECL (PHP)	Impact (PHP)
If 1% of Stage 1 facilities were included in Stage 2	P60,516,987	P588,028
100% Upside scenario	22,504,090	(37,424,869)
100% Base scenario	27,496,594	(32,432,365)
100% Downside scenario	51,040,789	(8,888,170)
100% Stress scenario	108,265,475	48,336,516

- *Criteria for Identifying a Significant Increase in Credit Risk*

  All assets in scope of PFRS 9 impairment and which are subject to collective ECL assessment are allocated a 12-month ECL if deemed to belong in Stage 1, or a lifetime ECL if deemed to belong in Stages 2 and 3. An asset belongs in Stage 2 if it is considered to have experienced a significant increase in credit risk since initial origination or purchase. The stage allocation process involves an asset's derived PD being assessed against a set of PD threshold bandings, which determines the appropriate staging and ECL. The Philippine Branch recorded total collective ECL amounting to P37.28 million and P59.93 million as at September 30, 2023 and 2022, respectively (see Note 12).

  For the wholesale portfolio, SICR is assessed by comparing the current CCR (i.e., CCR at reporting date) to the origination CCR (i.e., CCR when the facility was first written) where any facility that has had a significant increase in credit risk will be allocated to Stage 2 with everything else allocated to Stage 1.

  The Philippine Branch holds collateral against loans and receivables in the form of parent guarantees and real estate mortgage. There are no collaterals held for past due loans in 2023 and 2022. The fair value of real estate mortgage held by the Philippine Branch as at September 30, 2023 and 2022 amounted to P28.60 million and P28.18 million, respectively.

  In 2023 and 2022, the Philippine Branch has no restructured loans.

<u>Liquidity Risk</u>
Liquidity risk is the risk that the Philippine Branch has insufficient capacity to fund increases in assets and is unable to meet its payment obligations as they fall due, including repaying depositors or maturing debt. The timing mismatch of cash flows and the related liquidity risk is inherent in all banking operations and is closely monitored by the Philippine Branch.

To effectively manage liquidity risk, the Philippine Branch has arranged diversified funding sources. The objective of the Philippine Branch's liquidity and funding risk management framework is to ensure that it has sufficient liquidity to meet obligations as they fall due without incurring unacceptable losses.

Key principles of the Philippine Branch's approach to liquidity risk management include:

- Maintaining the ability to meet all the payment obligations in the immediate term.
- Maintaining strength in the balance sheet structure to ensure long-term resilience in the liquidity and funding risk profile.
- Limiting the potential earnings at risk implications associated with unexpected increases in funding costs or the liquidation of assets under stress.
- Ensuring the liquidity management framework is compatible with local regulatory requirements.

- Preparation and review of daily liquidity reports quantifying the Philippine Branch's position.
- Targeting a diversified funding base, avoiding undue concentrations by investor type, maturity, market source and currency.
- Holding a portfolio of high-quality liquid assets to protect against adverse funding conditions and to support day-to-day operations.
- Management of liquidity and funding risks are overseen by the Asset and Liability Committee (ALCO).

A key component of the Philippine Branch's liquidity management framework is scenario modeling to assess liquidity under different scenarios, including 'going-concern' and 'name-crisis'.

"Going-concern": reflects the normal behavior of cash flows in the ordinary course of business. The Philippine Branch must be able to meet all commitments and obligations under a going concern scenario, within the normal funding capacity over at least the following 30 calendar days. In estimating the funding requirement, the ANZ Group models expected cash flows by reference to historical behavior and contractual maturity data.

"Name-crisis": refers to a potential name-specific liquidity crisis which models the behavior of cash flows where there is a problem (real or perceived) which may include, but is not limited to, operational issues, doubts about the solvency of the ANZ Group or adverse rating changes. Under this scenario the Philippine Branch may have significant difficulty rolling over or replacing funding. Under a name crisis, cash flow must be positive over a five business day period.

The Philippine Branch must be able to meet all commitments and obligations under a going concern scenario over at least the following 30 calendar days and required to be cash flow positive over a five business day period.

The table below shows the contractual financial assets and liabilities of the Philippine Branch based on contractual undiscounted cashflows (amounts in thousands):

		2023					
	Note	**Less than 1 Month**	**1 - 3 Months**	**3 - 12 Months**	**1 - 5 Years**	**More than 5 Years**	**Total**
Financial Assets							
Cash and other cash items		**P20,660**	**P -**	**P -**	**P -**	**P -**	**P20,660**
Loans and advances to banks	*8*	**11,000,581**	**-**	**-**	**-**	**-**	**11,000,581**
Financial assets at FVPL	*9*	**1,001,757**	**175,963**	**286,461**	**-**	**-**	**1,464,181**
Financial assets at FVOCI (Gross)	*10*	**-**	**3,375,244**	**2,727,567**	**3,478,491**	**-**	**9,581,302**
Loans and receivables	*11*	**4,257,145**	**2,837,046**	**825,085**	**691,250**	**24,875**	**8,635,401**
Other assets*	*14*	**14,422**	**-**	**-**	**-**	**-**	**14,422**
		16,294,565	**6,388,253**	**3,839,113**	**4,169,741**	**24,875**	**30,716,547**
Financial Liabilities							
Deposits from customers	*15*	**20,433,840**	**746,522**	**-**	**-**	**-**	**21,180,362**
Deposits and borrowings from banks	*15*	**219,556**	**130,310**	**286**	**-**	**-**	**350,152**
Financial liabilities at FVPL	*9*	**418,184**	**155,095**	**514,205**	**-**	**-**	**1,087,484**
Liabilities for acceptances		**-**	**-**	**-**	**-**	**-**	**-**
Net due to Head Office and other branches		**-**	**-**	**367,584**	**-**	**-**	**367,584**
Accrued interest payable	*15*	**8,618**	**5,059**	**-**	**-**	**-**	**13,677**
Other liabilities**	*16*	**152,245**	**-**	**-**	**-**	**-**	**152,245**
		21,232,443	**1,036,986**	**882,075**	**-**	**-**	**23,151,504**
Net Liquidity (Gap) Surplus		**(P4,937,878)**	**P5,351,267**	**P2,957,038**	**P4,169,741**	**P24,875**	**P7,565,043**

**This account includes accounts receivable, deposits from lease contracts and unsettled trade assets.*
***This account includes accruals and unsettled trade payables.*

		2022					
	Note	Less than 1 Month	1 - 3 Months	3 - 12 Months	1 - 5 Years	More than 5 Years	Total
Financial Assets							
Cash and other cash items		P22,520	P -	P -	P -	P -	P22,520
Loans and advances to banks	*8*	23,952,577	-	-	-	-	23,952,577
Financial assets at FVPL	*9*	794,628	1,188,285	959,237	-	-	2,942,150
Financial assets at FVOCI	*10*	1,170,285	3,336,994	1,844,913	4,321,463	-	10,673,655
Loans and receivables	*11*	2,805,711	2,654,624	693,055	1,506,196	24,430	7,684,016
Other assets*	*14*	-	22,273	75,493	-	-	97,766
		28,745,721	7,202,176	3,572,698	5,827,659	24,430	45,372,684
Financial Liabilities							
Deposits from customers	*15*	14,245,509	784,265	103,829	-	-	15,133,603
Deposits and borrowings from banks	*15*	130,604	-	-	-	-	130,604
Financial liabilities at FVPL	*9*	681,780	1,003,175	1,162,037	-	-	2,846,992
Liabilities for acceptances		313,351	-	-	-	-	313,351
Net due to Head Office and other branches		-	-	19,692,176	-	-	19,692,176
Accrued interest payable		28,984	1,041	37	-	-	30,062
Other liabilities**	*16*	-	86,325	8,193	-	-	94,518
		15,400,228	1,874,806	20,966,272	-	-	38,241,306
Net Liquidity (Gap) Surplus		P13,345,493	P5,327,370	(P17,393,574)	P5,827,659	P24,430	P7,131,378

**This account includes accounts receivable, deposits from lease contracts and unsettled trade assets.*
***This account excludes withholding taxes payable, government payables, provision for liability, unclaimed monies, defined benefit liability, interoffice clearing accounts and miscellaneous liabilities.*

Market Risk

Market risk is the risk to the Philippine Branch's earnings arising from changes in interest rates, currency exchange rates, credit spreads, or from fluctuations in bond, commodity or equity prices. Market risk arises when changes in market rates, prices and volatilities lead to a decline in the value of assets and liabilities including financial derivatives. The Philippine Branch has a detailed risk management and control framework to support its trading and balance sheet activities. The framework incorporates a risk measurement approach to quantify the magnitude of market risk within trading and balance sheet portfolios. This approach and related analysis identify the range of possible outcomes that can be expected over a given period of time, establish the relative likelihood of those outcomes and allocate an appropriate amount of capital to support these activities.

The management of market risk is supported by a comprehensive limit and policy framework to control the amount of risk that the Philippine Branch may accept. The framework allocates individual limits to manage and control asset classes, risk factors and profit and loss limits.

Market Risk Management

To facilitate the management, control, measurement and reporting of market risk, the Philippine Branch has grouped market risk into 2 categories:

a) Traded Market Risk

This is the risk of loss from changes in the value of financial instruments due to movement in price factors for both physical and derivative trading positions. They arise in trading transactions where the Philippine Branch acts as principal with customers or interbank counterparties.

The principal risk categories monitored are:

- *Interest Rate Risk.* This is the potential loss arising from the change in the value of a financial instrument due to changes in market interest rates or their implied volatilities.
- *Foreign Currency Risk*. This is the potential loss arising from the decline in the value of a financial instrument due to changes in foreign exchange rates or their implied volatilities.

b) Non-traded Market Risk (or Balance Sheet Risk)
This comprises the management of non-traded interest rate risk, liquidity, and the risk to the foreign currency-denominated value of the Philippine Branch's earnings as a result of foreign exchange rate movements.

Value-at-Risk (VaR) Measure
A key measure of market risk is VaR. VaR is a statistical estimate of the possible one-day loss and is based on historical market movements of risk factors. The Philippine Branch measures VaR at a 99% confidence interval. This means that there is a 99% chance that the loss will not exceed the VaR estimate on any given day.

The Head Office's standard VaR approach for both traded and non-traded risk, as applied by the Philippine Branch, is historical simulation. The Head Office calculates VaR using historical changes in market rates, prices and volatilities over the previous 500 business days.

Traded and non-traded VaR is calculated using a one-day holding period. VaR is not an estimate of the maximum loss that the Head Office could experience from an extreme market event because it is driven by actual historical observations. As a result of this limitation, the Head Office utilizes a number of other risk measures (e.g., stress testing) and risk sensitivity limits to measure and manage market risk.

To supplement the VaR measure, the Head Office applies a wide range of stress tests. The Head Office's stress testing regime provides senior management with an assessment of the financial impact of identified extreme events on market risk exposures. Standard stress tests are applied on a daily basis and measure the potential loss arising from applying extreme market movements to individual and groups of individual price factors. Extraordinary stress tests are applied monthly and measure the potential loss arising as a result of scenarios generated from major financial market events.

The Philippine Branch's exposure to market risk is related to both traded and non-traded market risk (balance sheet risk). The principal objectives of balance sheet management are to manage interest income sensitivity while maintaining acceptable levels of interest rate and liquidity risk and to manage the market value of the Philippine Branch's capital.

Traded Market Risk
Below are the aggregate VaR exposures covering trading positions for the Philippine Branch (in thousands):

	September 30, 2023				September 30, 2022			
	As at	**High for Year**	**Low for Year**	**Average for Year**	As at	High for Year	Low for Year	Average for Year
Value at Risk at 99% Confidence								
Foreign exchange	**P2,206**	**P13,814**	**P646**	**P4,029**	P10,759	P13,591	P5,662	P7,943
Interest rates	**2,692**	**19,645**	**2,599**	**5,566**	3,889	19,275	2,798	5,857
Consolidated VaR	**P3,731**	**P23,372**	**P3,020**	**P7,230**	P10,888	P23,082	P6,418	P9,989

Non-Traded Interest Rate Risk - VaR
For interest rate risk modeling, assumptions are made about the interest rate sensitivity of non-bearing interest (NBI) accounts. Previously some of these accounts were profiled at zero duration but are now profiled based on independently validated statistical analysis where this was deemed appropriate. NBI without statistical evidence or justification have remained at zero duration (including PHP non-maturity deposits, which comprise the majority of the Branch total deposits).

The extent of mismatching between the repricing characteristics and timing of interest-bearing assets and liabilities at any point has implications on future net interest income. On a global basis, the ANZ Group quantifies the potential variation in future net interest income as a result of these repricing mismatches each month using a static gap model. The repricing gaps themselves are constructed based on contractual repricing information. However, for those assets and liabilities where the contractual term to repricing is not considered to be reflective of the actual interest rate sensitivity, a profile based on historically observed and/or anticipated rate sensitivity is used.

This treatment excludes the effect of basis risk between customer pricing and wholesale market pricing. The repricing assumptions used to determine the VaR and 1% rate shock have been independently validated. Below are aggregate VaR figures (in thousands) covering non-traded interest rate risk.

	September 30, 2023				September 30, 2022			
	As at	**High for Year**	**Low for Year**	**Average for Year**	As at	High for Year	Low for Year	Average for Year
Value at Risk at 99% Confidence								
Interest rates	**P16,948**	**P22,742**	**P9,300**	**P14,911**	P22,788	P35,076	P22,788	P28,680

Non-Traded Interest Rate Risk - Earnings-at-Risk (EaR)
Earnings at Risk (EaR) is an estimate of the amount of the next 12 months' income that is at risk from interest rate movements over a 1 month holding period, expressed to a 97.5% level of statistical confidence. It is calculated by applying a statistically derived interest rate shock to static repricing gaps. This calculation is performed using DV01 based approach. As of 30 September 2023, EaR of the Philippine Branch is P33.5 million.

Interest Rate Risk Sensitivity Analysis
Interest rate risk is the risk that the Philippine Branch will experience gains or losses in its financial position brought about by movements in the absolute level of interest rates. The Philippine Branch employs dollar value of a basis point (DV01) to measure the potential impact of interest rate risk in the financial positions.

The impact does not reflect any unrealized gains or losses on financial assets at FVOCI and fixed income instrument measured at financial assets at FVOCI. Changes in the market value of these assets may provide a natural economic offset to the interest rate risk arising from the Philippine Branch's liabilities.

The table below demonstrates the potential impact of the Philippine Branch's income before income tax and other comprehensive income attributed from a 100-basis point parallel move in interest rates, with all other variables held constant, as at September 30, 2023 and 2022. The impact from non-parallel movements may be materially different from the estimated impact of parallel movements.

	Effect on Income before Income Tax Increase (Decrease)	
Change in Interest Rate	**2023**	2022
+100 basis point	**(P6.49 million)**	(P24.75 million)
-100 basis point	**P6.49 million**	24.75 million

	Effect on Other Comprehensive Income Increase (Decrease)	
Change in Interest Rate	**2023**	2022
+100 basis point	**(P57.9 million)**	(P104.78 million)
-100 basis point	**P57.9 million**	104.78 million

Foreign Currency Risk
Foreign exchange trading exposure relates to foreign exchange dealing within Global Markets (GM) Philippines and currency exposures originating from the banking business within the Philippine Branch. The latter are transferred to GM where they are managed together with exposures which result from Treasury activities, within risk appetite agreed with the board risk committee and respective delegate as per policy. The Philippine Branch's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Philippine Branch believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for the type of business the Philippine Branch is engaged.

The Philippine Branch had the following net exposures, arising from the use of financial instruments, denominated in foreign currency as at September 30, 2023 and 2022 (equivalent amounts in PHP thousands):

	September 30, 2023			
	USD	**AUD**	**Others**	**Total**
Financial Assets				
Cash and other cash items	**P10**	**P487**	**P15**	**P512**
Loans and advances to banks	**1,351,170**	**-**	**1,188,033**	**2,539,203**
Financial assets at FVPL	**479,038**	**-**	**-**	**479,038**
Financial assets at FVOCI	**3,370,649**	**-**	**-**	**3,370,649**
Loans and receivables	**62,134**	**-**	**-**	**62,134**
	5,263,001	**487**	**1,188,048**	**6,451,536**
Financial Liabilities				
Deposits from customers	**3,898,922**	**28,226**	**1,184,384**	**5,111,532**
Deposits and borrowings from banks	**130,309**	**219,556**	**4**	**349,869**
Accrued interest payable	**36,024**	**197**	**786**	**37,007**
Other liabilities	**31**	**117**	**7**	**155**
	4,065,286	**248,096**	**1,185,181**	**5,498,563**
Net On-balance Sheet Position	**P1,197,715**	**(P247,609)**	**P2,867**	**P952,973**

	September 30, 2022			
	USD	AUD	Others	Total
Financial Assets				
Cash and other cash items	P26	P488	P15	P529
Loans and advances to banks	1,017,543	-	308,036	1,325,579
Financial assets at FVPL	487,538	-	80,785	568,323
Financial assets at FVOCI	3,508,002	-	-	3,508,002
Loans and receivables	116,390	-	-	116,390
	5,129,499	488	388,836	5,518,823
Financial Liabilities				
Deposits from customers	1,377,688	-	317,291	1,694,979
Deposits and borrowings from banks	956	4,923	2,651	8,530
Accrued interest payable	-	-	-	-
Other liabilities	18,474	186,686	-	205,160
	1,397,118	191,609	319,942	1,908,669
Net On-balance Sheet Position	P3,732,381	(P191,121)	P68,894	P3,610,154

Operational Risk
In addition to managing financial risk exposures, the Philippine Branch also manages the operational risk arising from the use of financial instrument.

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, and the risk of reputational loss or damage arising from inadequate or failed internal processes, people and systems, but excludes strategic risk.

The authority for operational risk oversight is delegated by the BOD to the Board Risk Committee. The Operational Risk Executive Committee (OREC) supports the Board Risk Committee in respect of operational risk oversight including compliance.

Business unit staff and line management have first line accountability for the day-to-day management of operational risk. This includes implementation of the operational risk framework and involvement in decision making processes concerning all material operational risk matters. Divisional risk governance functions provide oversight of operational risk undertaken in the business units.

A Country Risk Management Sub-Committee (RMC) in the Philippine Branch is in place for monitoring, reviewing and overseeing all aspects of operational risk. The Philippine Branch has established adequate procedures for accurate, regular and timely escalation and reporting on the on-going management of operational risk to Divisional Risk Management Committees, based on the reporting thresholds specified by the Group Operational Risk Framework as adopted by the Philippine Branch. This includes reporting on key risk profile, material risk events and key risk indicators (KRIs).

The Head Office's Operational Risk Framework outlines the approach to managing operational risk and the minimum requirements in the management of operational risk, supported by specific policies, guidelines and templates. Effectiveness of the framework is assessed through a series of assurance reviews and related processes. This is supported by an independent review program by Internal Audit.

The Head Office's operational risk management process consists of a staged approach involving establishing the context, identification, analysis, treatment and monitoring of current, new and emerging operational risks based on the Risk Management Standard issued by Standards Australia/New Zealand (AS/NZS 4360).

In line with industry practice, the Philippine Branch obtains insurance coverage from third party and captive providers to cover those operational risks where cost-effective premiums can be obtained. In conducting their business, business units are advised to act as if uninsured and not to use insurance as a guaranteed mitigation for operational risk. Business disruption is a critical risk to a bank's ability to operate, so the Philippine Branch has comprehensive business continuity, recovery and crisis management plans. The intention of the business continuity and recovery plans is to ensure critical business functions can be maintained, or restored in a timely fashion, in the event of material disruptions arising from internal or external events.

6. Categories and Fair Value Measurement of Financial Instruments

The methods and assumptions used by the Philippine Branch in estimating the fair values of financial instruments are as follows:

Cash and Other Cash Items
Fair values approximate carrying amounts given that these instruments are subject to an insignificant risk of change in value due to its short-term in nature.

Loans and Advances to Banks
Fair values approximate carrying amounts given the short-term nature of these instruments.

Financial Assets at FVPL
Financial assets at FVPL, excluding derivatives, are generally based on quoted market rates or prices. For derivative instruments, fair values are determined based on published quotes or price valuations provided by counterparties or calculations using market-accepted valuation techniques.

Financial Assets at FVOCI
Fair values of financial assets at FVOCI excluding unquoted equity securities, are generally based on quoted market rates or prices. Unquoted equity securities are also measured at fair value. However, due to the lack of suitable methods of arriving at a reliable fair value, the cost is determined to be an appropriate estimate of fair value. The unquoted equity securities are instead measured at their carrying amounts. These are interests in Philippine Dealing System, Philippine Clearing House Corporation and Bankers Association of the Philippines held as per membership requirement.

If an equity investment is not held for trading, an entity can make an irrevocable election at initial recognition to measure it at FVOCI with only dividend income recognized in statements of income and expenses.

Loans and Receivables and Due from Head Office and Other Branches
Loans and receivables and due from Head Office and other branches are carried net of allowance for credit and impairment losses. For loans and receivables maturing within one (1) year and instruments that are repriced, the carrying values approximate the fair values in view of the relatively insignificant impact of discounting due to short term nature of these instruments.

For loans and receivables maturing beyond one (1) year, the fair values of loans and receivables are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date commensurate to the credit risk borne by the Philippine Branch for each of the borrower.

Deposits and Borrowings from Banks and Deposits from Customers (Time, Demand and Savings), Due to Head Office and Other Branches, Liabilities for Acceptances, Accrued Interest Payable and Lease Liabilities
Fair values of time deposits and lease liabilities are estimated using discounted cash flow methodology, using current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the maturity being valued. For demand and savings deposits, accrued interest payable, due to Head Office and other branches, and liabilities for acceptances, carrying amounts approximate fair values considering that these are due and demandable or short-term in nature.

Other Assets
Other assets, excluding documentary stamp tax, unused creditable withholding tax, prepaid expenses, goodwill, defined benefit asset and miscellaneous assets, maturing within one (1) year, the carrying value approximates the fair values in view of the relatively insignificant impact of discounting due to short term nature of these instruments.

For instruments maturing beyond one (1) year, the fair values are estimated as the present value of future cash flows, discounted at the market rate of interest at the reporting date commensurate to the credit risk borne by the Philippine Branch for each of the borrower.

Other Liabilities
The carrying values of other liabilities, excluding withholding tax payable, provision for liability, unclaimed monies, government payables, uncleared drafts, defined benefit liability and interoffice clearing account approximate their fair values due to the relatively short-term maturities of these liabilities. For other liabilities maturing beyond one (1) year, the difference between the fair value and the carrying value is deemed insignificant.

Fair Value Hierarchy
The majority of valuation models deploy only observable market data as inputs. The Philippine Branch continuously monitors the assumptions and the appropriateness of valuation inputs on the classification of exposures in the fair value hierarchy.

Fair Value Estimates
The Philippine Branch evaluates the material accuracy of the valuations incorporated in the financial statements as they can involve a high degree of judgment and estimation in determining the carrying values of financial assets and financial liabilities at the balance sheet date.

The majority of valuation models the ANZ Group, including the Philippine Branch, uses employ only observable market data as inputs. This has not changed as a result of COVID-19, however the ANZ Group has considered the impact of related economic and market disruptions on fair value measurement assumptions and the appropriateness of valuation inputs, notably valuation adjustments, as well as the impact of COVID-19 on the classification of exposures in the fair value hierarchy.

For certain financial instruments, we may use data that is not readily observable in current markets. If we use unobservable market data, then we need to exercise more judgment to determine fair value depending on the significance of the unobservable input to the overall valuation. Generally, we derive unobservable inputs from other relevant market data and compare them to observed transaction prices where available.

When establishing the fair value of a financial instrument using a valuation technique, the Philippine Branch considers valuation adjustments in determining the fair value. We may apply adjustments (such as bid/offer spreads, credit valuation adjustments and funding valuation adjustments) to reflect the Philippine Branch's assessment of factors that market participants would consider in setting fair value.

The following table presents an analysis of financial instruments carried at fair value, by valuation method or level. The different fair valuation levels are defined as follows:

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

	Note	Level 1	Level 2	Level 3	Total
		September 30, 2023			
		(In Thousands)			
Financial Assets					
Financial assets at FVPL:	9				
Reverse repurchase agreements		**P279,944**	**P -**	**P -**	**P279,944**
Debt securities held-for-trading		**577,278**	**-**	**-**	**577,278**
Derivative financial assets		**-**	**606,959**	**-**	**606,959**
Financial assets at FVOCI	10	**9,564,677**	**-**	**3,580**	**9,568,257**
Financial Liabilities					
Financial liabilities at FVPL	9	**-**	**1,087,484**	**-**	**1,087,484**

	Note	Level 1	Level 2	Level 3	Total
		September 30, 2022			
		(In Thousands)			
Financial Assets					
Financial assets at FVPL:	9				
Debt securities held-for-trading		P149,339	P -	P -	P149,339
Derivative financial assets		-	2,792,811	-	2,792,811
Financial assets at FVOCI	10	10,670,075	-	3,580	10,673,655
Financial Liabilities					
Financial liabilities at FVPL	9	-	2,846,992	-	2,846,992

Level 3 Fair Value Measurements

The assets which incorporate significant unobservable inputs primarily include:

- equities for which there is no active market or traded prices cannot be observed;
- structured credit products for which credit spreads and default probabilities relating to the reference assets and derivative counterparties cannot be observed;
- net loans and advances that are required to be measured at fair value for which there is no observable market data; and
- other derivatives referencing market rates that cannot be observed primarily due to lack of market activity.

Sensitivity to Level 3 Data Inputs

When the Philippine Branch makes assumptions due to significant inputs not being directly observable in the marketplace (Level 3 inputs), then changing these assumptions changes the Philippine Branch's estimate of the instrument's fair value. Favorable and unfavorable changes are determined by changing the primary unobservable parameter used to derive the valuation.

As at September 30, 2023 and 2022, there have been no transfers into and out of each of the levels of the fair value hierarchy.

7. Capital Management

The primary objective of the Philippine Branch's capital management is to ensure that it complies with externally imposed capital requirements. The Philippine Branch manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Capital

The BSP sets and monitors capital requirements for the Philippine Branch as a whole. The Philippine Branch's capital position presented as at September 30, 2023 and 2022 is based on the combined amounts of the RBU and the FCDU.

On July 6, 2022, the Philippine Branch has remitted its accumulated profits to the Head Office amounting to P458.80 million which has been approved by the BSP in its letter dated 14 June 2022. The BSP has interpose no objection to the Philippine Branch's plan to repatriate said accumulated profits to the Head Office, subject to the condition that the Philippine Branch shall comply with the guidelines of repatriation and reporting, as well as the minimum documentary requirements provided under Appendices 1.4, and 10.A of the *Manual of Regulations on Foreign Exchange Transactions*.

BASEL III

BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, came into effect on January 1, 2014 to implement the guidelines on the revised risk-based capital adequacy framework for the Philippine banking system in accordance with the Basel III standards.

This contains the following revised minimum capital requirements for universal banks (uBs) and commercial banks (KBs) and their subsidiary banks and quasi-banks (QBs):

- 6.00% Common Equity Tier 1 (CET1)/Risk-Weighted Assets (RWAs);
- 7.50% Tier 1 Capital/RWAs; and
- 10.00% Total Qualifying Capital (Tier 1 plus Tier 2)/RWAs.

The Qualifying Capital must consist of the sum of the following elements, net of required deductions: Tier 1 - 'going concern' [Common Equity Tier 1 (CET1) plus Additional Tier 1 (AT1)] and Tier 2 - 'gone concern'. A bank must ensure that any component of capital included in qualifying capital complies with all the eligibility criteria for the particular category of capital in which it is included. The Circular further describes the elements/criteria that a domestic bank should meet for each capital category.

In conformity with the Basel III standards, a Capital Conservation Buffer (CCB) of 2.50% of RWAs, comprised of CET1 capital, has been required of U/KBs and their subsidiary banks and QBs. This buffer is meant to promote the conservation of capital and build-up of adequate cushion that can be drawn down by banks to absorb losses during financial and economic stress.

The restrictions on distribution that a bank must meet at various levels of CET1 capital ratios are established, as shown in below table.

Restrictions will be imposed if a bank has no positive earnings, has CET1 of not more than 8.50% (CET Ratio of 6.00% plus conservation buffer of 2.50%) and has not complied with the minimum 10.00% capital adequacy ratio (CAR).

Level of CET 1 Capital	**Restriction on Distributions**
<6.00%	No distribution
6.00%-7.25%	No distribution until more than 7.25% CET1 capital is met
>7.25%-8.50%	50.00% of earnings may be distributed
>8.50%	No restriction on the distribution

The BSP issued preliminary information through Circular No. 822, *Amendment to the Capital Framework of Foreign Branches to Branches of Foreign Banks (BFB)*, last December 13, 2013 of the planned alignment of capital requirements with local banks of the same category.

On March 21, 2014, the Head Office infused additional capital in the Philippine Branch amounting to $19.14 million (equivalent to P865.11 million) to comply with minimum capital required under its universal banking authority.

On October 29, 2014, the BSP issued Circular No. 854, *Minimum Capitalization of Banks*, which implemented the minimum capitalization requirements for banks, as approved by the Monetary Board in its Resolution No. 1607 dated October 9, 2014. The revision requires a minimum capital of P6.00 billion for universal banks that have up to 10 branches, including the Head Office.

On November 12, 2014, the Head Office infused additional capital in the Philippine Branch amounting to $25.63 million (equivalent to P1.15 billion) to comply with minimum capital required under its universal banking authority which was also prompted by BASEL III requirements.

On November 21, 2014, the BSP issued Circular No. 858, *Amendments to Relevant Provisions of the MORB Implementing Republic Act No. 10641*, *“An Act Allowing the Full Entry of Foreign Banks in the Philippines amending for the purpose Republic Act No. 7721.”*

Included in the amendments is the implementation of the new minimum capital requirements and definition of capital composition for Philippine branches of foreign banks, as follows:

1) Assigned capital
2) Undivided profits
3) Trust Department retained earnings
4) Any Net Due from Head Office Branches/Agencies abroad
5) Accumulated net earnings comprising of:
    i. Unremitted profits not yet approved by the BSP for outward remittance.
    ii. Unrealized losses in operations
    iii. Capital adjustments in accordance with MORB Section X111 paragraph a - g as follows:
        a. Unbooked valuation reserve and other capital adjustments as maybe required by the BSP
        b. Total outstanding unsecured credit accommodations, both direct and indirect to directors, officers, stockholders and their related interests (DOSRI) granted by the bank proper
        c. Unsecured loans and other credit accommodations and guarantees granted to subsidiaries and affiliates
        d. Deferred income tax

e. Appraisal increment reserve as a result of appreciation or an increase in the book value of bank assets
f. Equity investment of a bank in another bank or enterprise, whether foreign or domestic, if the other bank or enterprise has a reciprocal equity investment in the investing bank in which case the investment of the bank or the reciprocal investment of other bank or enterprise whichever is lower
g. In the case of Rural banks/Cooperative banks, the government counterpart equity, except those arising from conversion of arrearages under the BSP rehabilitation program

On June 9, 2015, BSP issued the implementing guidelines on the Basel III Leverage ratio framework under Circular No. 881. It is computed as the level of a bank's Tier 1 capital against its total on-book and off-book exposures. The leverage ratio shall not be less than 5%. The BSP assesses the calibration as well as the treatment of the components of the leverage ratio during the 2-year monitoring period from 01 January 2015 to 31 December 2016, in view of migrating to a Pillar 1 requirement starting 2017. On January 22, 2018, BSP issued Circular No. 990 approving the extension of the monitoring period of the Basel III Leverage ratio framework under Circular No. 881. The monitoring of the leverage ratio shall be implemented as a Pillar 1 minimum requirement effective on July 1, 2018.

On March 10, 2016, the BSP adopted Basel II''s Liquidity Coverage Ratio (LCR) under Circular No. 905. The new liquidity rule requires banks to have available High Quality Liquid Assets (HQLA) to meet anticipated net cash outflow for a 30-day period under stress conditions. The standard, which initially covers universal and commercial banks, prescribes that, under a normal situation, the value of the liquidity ratio be no lower than 100% on a daily basis because the stock of unencumbered HQLA is intended to serve as a defense against potential onset of liquidity stress. The guidelines provide for an observation period from July 1, 2016 to end-2017. During the observation period, no minimum ratio has to be complied with.

However, to encourage transitioning internally to the new standard and to monitor level of compliance, banks are required to submit quarterly reports to the BSP.

The Philippine Branch's Basel III Leverage Ratio Report as at September 30, 2023 and 2022 is as follows (amounts in millions):

	2023	2022
On balance sheet exposure	**P30,245**	P22,442
Derivative exposures:		
Replacement cost associated with all derivatives transactions	**618**	2,798
Add-on amounts for potential future exposure associated with all derivative transactions	**868**	1,670
Securities financing transaction exposures	**280**	20,775
Off-balance sheet exposures	**4,024**	4,957
Total exposures (a)	**36,035**	52,642
Tier 1 Capital (b)	**7,277**	6,963
Basel III: Leverage Ratio (b)/(a)	**20.19%**	13.23%

Amounts presented in the table above are in accordance with the financial reporting package submitted by Philippine Branch to BSP.

The Philippine Branch's regulatory capital position as at September 30, 2023 and 2022 based on Basel III requirements as reported to the BSP is as follows (amounts in millions):

	2023	2022
CET 1 capital	**P7,277**	P6,963
Tier 1 capital	**7,277**	6,963
Tier 2 capital	**94**	84
Gross qualifying capital	**7,371**	7,047
Less: required deductions	**-**	-
Total qualifying capital	**P7,371**	P7,047
Risk weighted assets	**P16,638**	P19,756
CET 1 ratio	**43.74%**	35.24%
Tier 1 capital ratio	**43.74%**	35.24%
Risk-based capital adequacy ratio	**44.30%**	35.67%

The capital requirements as of September 30, 2023 and 2022 for each risk type are shown below (amounts in millions):

	2023	2022
Credit risk	**P13,172**	P15,391
Market risk	**1,582**	2,426
Operational risk	**1,884**	1,938
	P16,638	P19,755

The Philippine Branch is required to maintain a prescribed risk-based capital adequacy ratio (expressed as a percentage of qualifying capital to risk weighted assets) of not less than 10% at all times, which is computed and monitored using the rules and ratios established by the Basel Committee on Banking Supervision ("BIS rules/ratios"), based on the Basel III framework. The increase in CAR ratio was mainly due to the decline in credit risk offset by the increase in market risk which resulted to an increase in qualifying capital.

The Philippine Branch has complied with all externally imposed capital requirements throughout the year.

Appropriation of General Loan Loss Provisions (GLLP)

BSP Circular No. 1011, *Guidelines on the Adoption of the Philippine Financial Reporting Standard 9 - Financial Instruments,* requires banks to set up GLLP equivalent to 1.0% of all outstanding Stage 1 on-balance sheet loans, except for accounts considered as credit risk-free under existing regulations. In cases when the computed loss allowance on such Stage 1 accounts is less than the 1.0% general provision required, the deficiency shall be recognized by appropriating the retained earnings in compliance with existing BSP regulations. The Philippine Branch appropriated a portion of unremitted profits amounting to P70.72 million and P45.35 million as at September 30, 2023 and 2022, respectively, to comply with such requirement.

Liquidity Coverage Ratio (LCR)

Based on the LCR report submitted to the BSP as at September 30, 2023 and 2022, the Philippine Branch's LCR is 156.8% and 334.61%, respectively, which is above the prescribed minimum requirement initially set at 100.0% (amounts in millions):

	2023	2022
High-quality Liquid Assets (After Cap) (a)	**P14,837**	P37,396
Net Cash Outflows (b)	**9,506**	11,176
Liquidity Coverage Ratio (a/b)	**156.08%**	334.61%

Net Stable Funding Ratio (NSFR)

Based on the NSFR report submitted to the BSP as at September 30, 2023 and 2022, the Philippine Branch's NSFR is 182% and 229% which is above the prescribed minimum requirement initially set at 100.0%. As at September 30, 2023, NFSR is computed by dividing the Available Stable Funding amounting to P16.57 billion by the Required Stable Funding amounting to P9.13 billion, while as at September 30, 2022, NSFR is computed by dividing the Available Stable Funding of P24.51 billion by Required Stable Funding of P10.706 billion.

This applies to U/KBs as well as their subsidiary banks and quasi-banks with the framework anchored on the international standards issued by the Basel Committee on Banking Supervision known as the Basel III reforms.

Internal Capital Adequacy Assessment Process (ICAAP)

Circular No. 731 was issued on July 28, 2011 providing supplemental guidelines in relation to the adoption of the ICAAP and the related Supervisory Review Process (SRP) for foreign branches under Circular No. 639 dated January 15, 2009. For branches of foreign banks, the regulation provides that BSP's evaluation of ICAAP will refer to the ICAAP developed at the level of the head office/ parent bank, and the home supervisor's assessment thereof.

However, BSP expects that there will be variation in the ICAAP prepared by the branches of foreign banks operating in the Philippines in accordance with the nature, size and complexity of its business in the Philippines, risks faced arising from the occurrence of domestically-oriented scenarios and specific circumstances.

The ICAAP document submitted by the Philippine Branch included discussions on stress scenarios and the amount of capital requirements both under base case and stress scenarios. The Philippine Branch submitted its latest ICAAP document on March 30, 2022 Provisions of Circular No. 822, Circular No. 854, Circular No. 856, and Circular No. 858 are considered by the Philippine Branch in the ICAAP documentation.

8. Loans and Advances to Banks

This account consists of the following:

	Note	**2023**	2022
Due from BSP - demand deposit account	*15*	**P1,851,902,571**	P1,668,267,052
Reverse repurchase agreement		**-**	20,518,962,404
Due from other banks		**6,648,678,281**	1,508,996,867
Interbank loans receivable		**2,500,000,000**	256,350,272
	5	**P11,000,580,852**	P23,952,576,595

All accounts in the table above are included under the “Cash and other cash items” account for purposes of reporting cash flows since these have maturities of three (3) months or less from dates of placement.

Considering the realization of cash flows for repurchase agreements and reverse repurchase agreements are different from expectations, the Philippine Branch accounted for new repurchase agreements and reverse repurchase agreements as FVPL starting March 29, 2023.

Summary of reduction in reserve requirements which took effect during the comparative years, is as follows:

	Rate	**Effectivity Date**
100 basis points	17.00%	31 May 2019
50 basis points	16.50%	28 June 2019
50 basis points	16.00%	26 July 2019
100 basis points	15.00%	1 November 2019
100 basis points	14.00%	6 December 2019
200 basis points	12.00%	3 April 2020
250 basis points	9.50%	30 June 2023

The reduction applied to those reserve liabilities of universal and commercial banks (U/KBs) that are currently subject to a reserve requirement on deposits and deposit substitute of 9.50%.

For the years ended September 30, 2023 and 2022, the Philippine Branch is compliant with the reserve requirements of the BSP.

Due from BSP pertains to demand deposit account (DDA) with the BSP. Accrued interest income on Due from BSP amounted to nil for the years ended September 30, 2023 and 2022.

Accrued interest income on interbank loans receivable amounted to P2.41 million and P0.03 million as at September 30, 2023 and 2022, respectively (see Note 11). Interest rates per annum of interbank loans receivable ranged from 3.18% to 5.33% in 2023 and 0.81% to 1.55% in 2022 for foreign currency-denominated transactions.

Interest income earned is as follows:

	Note	**2023**	2022
Reverse repurchase agreement		**P145,673,375**	P107,987,016
Interbank loans receivable		**61,873,640**	8,442,697
Due from other banks		**57,425,437**	1,897,514
	20	**P264,972,452**	P118,327,227

As at September 30, 2023 and 2022, there were no loans and advances to banks pledged as collateral for liabilities.

9. Financial Assets and Financial Liabilities at FVPL

Financial Assets

	Note	2023	2022
Reverse repurchase agreement		**P279,944,160**	P -
Debt securities held-for-trading		**577,278,486**	149,338,579
Fair values of derivative financial instruments:			
Forward foreign exchange contracts		**317,532,349**	2,268,905,430
Currency swaps		**258,488,065**	349,365,511
Interest rate swaps		**42,271,174**	171,679,921
Forward foreign exchange options		**-**	7,621,065
Credit valuation adjustment		**(103,034)**	(329,204)
Bid offer adjustment		**(11,229,978)**	(4,431,713)
	5	**P1,464,181,222**	P2,942,149,589

Debt securities pertain to government securities held-for-trading.

The Philippine Branch also entered into reverse repurchase agreements (RPPs) with the BSP and others. Accrued interest income on reverse repurchase agreement amounted to nil and P41.10 million as at September 30, 2023 and 2022, respectively (see Note 11). Interest rates per annum of RRPs with other banks ranged from 4.25% to 6.25% in 2023.

Accrued interest income on debt securities held-for-trading, shown as part of accrued interest receivable presented under “Loans and receivables - net” account amounted to P7.35 million and P0.93 million as at September 30, 2023 and 2022, respectively (see Note 11). The interest rates on debt securities held-for-trading in 2023 and 2022 ranged from 2.625% to 8.125% and 2.98% to 7.93%, respectively.

Interest income relating to debt securities held-for-trading presented as “Interest income on financial assets at FVPL” account in the statements of income and expenses amounted to P301.39 million and P12.64 million in 2023 and 2022, respectively (see Note 20).

Financial Liabilities

	Note	2023	2022
Fair values of derivative financial instruments:			
Currency swaps		**P488,344,147**	P1,294,964,468
Forward foreign exchange contracts		**378,088,297**	660,255,927
Interest rate swaps		**221,051,066**	367,515,648
Forward foreign exchange options		**-**	524,256,147
	5	**P1,087,483,510**	P2,846,992,190

The realized and unrealized market valuation gain or loss of financial assets at FVPL and derivative financial instruments are presented as part of “Trading and securities gain - net” account (see Note 23) excluding trading gains and losses on spot foreign exchange contracts, forward foreign exchange contracts and over-the-counter foreign exchange options which are presented in “Foreign exchange gains (losses) - net” account in the statements of income and expenses (see Note 24).

The following table shows the positive and negative fair values of the Philippine Branch’s derivative transactions, together with the notional amounts analyzed by the term of maturity. The notional amount is the amount of a derivative’s underlying asset, reference rate or index and is the basis upon which changes in the value of derivatives are measured.

The notional amounts indicate the volume of transactions outstanding as at September 30, 2023 and 2022 and are neither indicative of the market risk nor the credit risk.

	September 30, 2023 (In Thousands)						
				Notional Amounts by Term to Maturity			
	Positive Fair Value	**Negative Fair Value**	**Notional Amount Total**	**Within 3 Months**	**Over 3 Months but not More 12 Months**	**Over 1 Year but not More than 5 Years**	**Over 5 Years**
Interest rate swaps	**P42,271**	**P221,051**	**P9,697,701**	**P2,182,250**	**P1,948,625**	**P5,566,825**	**P -**
Forward foreign exchange contracts	**317,532**	**378,088**	**59,557,832**	**59,557,832**	**-**	**-**	**-**
Cross currency swaps	**258,488**	**488,344**	**6,969,305**	**2,545,875**	**45,260**	**4,378,170**	**-**
Foreign exchange options contracts	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Credit valuation adjustments	**(103)**	**-**	**-**	**-**	**-**	**-**	**-**
Bid offer adjustments	**(11,230)**	**-**	**-**	**-**	**-**	**-**	**-**
Funding valuation adjustments	**-**	**-**	**-**	**-**	**-**	**-**	**-**
	P606,958	**P1,087,483**	**P76,224,838**	**P64,285,957**	**P1,993,885**	**P9,944,995**	**P -**

	September 30, 2022 (In Thousands)						
				Notional Amounts by Term to Maturity			
	Positive Fair Value	Negative Fair Value	Notional Amount Total	Within 3 Months	Over 3 Months but not More 12 Months	Over 1 Year but not More than 5 Years	Over 5 Years
Interest rate swaps	P171,680	P367,516	P19,172,225	P9,492,300	P -	P9,679,925	P -
Forward foreign exchange contracts	2,268,905	660,256	87,891,603	87,891,603	-	-	-
Cross currency swaps	349,366	1,294,964	24,658,261	18,726,173	-	5,908,638	23,450
Foreign exchange options contracts	7,621	524,256	25,794,999	25,794,999	-	-	-
Credit valuation adjustments	(329)	-	-	-	-	-	-
Bid offer adjustments	(4,432)	-	-	-	-	-	-
Funding valuation adjustments	-	-	-	-	-	-	-
	P2,792,811	P2,846,992	P157,517,088	P141,905,075	P -	P15,588,563	P23,450

As at September 30, 2023 and 2022, there were no financial assets at FVPL pledged as collateral for liabilities.

10. Financial Assets at FVOCI

Financial assets at FVOCI consist of:

	Note	**2023**	2022
US treasury bills		**P3,370,648,827**	P3,508,002,328
ROP PHP bonds		**6,194,028,038**	7,162,072,692
Equity securities		**3,579,850**	3,579,850
	5	**P9,568,256,715**	P10,673,654,870

Equity securities pertains unquoted investments with the Philippine Clearing House Corporation and Philippine Dealing System Holdings Corporation as part of membership requirements amounting to P3.58 million.

Accrued interest income on financial assets at FVOCI, shown as part of accrued interest receivable presented under “Loans and receivables - net” account amounted to P29.87 million and P50.47 million as at September 30, 2023 and 2022, respectively (see Note 11). The interest rates of financial assets at FVOCI ranged from 2.38% to 6.25% in 2023 and 2.18% to 6.12% in 2022.

Interest income earned from financial assets at FVOCI amounted to P403.96 million and P205.55 million in 2023 and 2022, respectively (see Note 20).

As at September 30, 2023 and 2022, there were no financial assets at FVOCI pledged as collateral for liabilities.

The movements in net unrealized gain (loss) on financial assets at FVOCI are as follows:

	Note	**2023**	2022
Balance as at beginning of year	*19*	**(P251,063,884)**	P25,135,404
Movements in OCI:			
Net realized gains (loss) from sale of debt securities at FVOCI reclassified to statements of income and expenses		**(1,237,310)**	4,918,504
Reversal of (allowance for) credit and impairment losses	*12*	**5,793,423**	3,225,089
Net unrealized gains (losses) from changes in fair value during the year		**70,834,487**	(284,342,881)
	19	**75,390,600**	(276,199,288)
Realized gain on sale of equity financial asset at FVOCI transferred to unremitted profits	*19*	**-**	-
		75,390,600	(276,199,288)
Balance at end of year		**(P175,673,284)**	(P251,063,884)

11. Loans and Receivables

	Note	2023	2022
Loans and receivables:			
Term loans		**P8,485,384,966**	P6,596,915,382
Bills purchased		**27,024,828**	33,882,221
Customers' liabilities under acceptances		**-**	313,351,198
Import bills under trust receipts		**-**	616,432,553
		8,512,409,794	7,560,581,354
Allowance for credit and impairment losses	12	**(23,659,317)**	(38,627,586)
		8,488,750,477	7,521,953,768
Accrued interest receivable:			
Loans and receivables		**83,196,720**	30,884,274
Financial assets at FVOCI	10	**29,869,897**	50,471,471
Financial assets at FVPL	9	**7,349,629**	925,112
Interbank loans receivable	8	**2,407,639**	30,264
Due from Head Office and other branches	18	**167,351**	28,278
Reverse repurchase agreement	9	**-**	41,095,997
		122,991,236	123,435,396
		P8,611,741,713	P7,645,389,164

Interest rates per annum on loans and receivables range from 8.65% in 2023 and 5.35% to 5.85% in 2022 for USD denominated transactions, and from 3.75% to 7.85% and 0.72% to 6.10% for PHP denominated transactions for the years ended September 30, 2023 and 2022, respectively.

Interest income earned is as follows:

	Note	2023	2022
Term loans		**P534,114,738**	P221,004,887
Import bills under trust receipts		**7,017,962**	17,096,790
	20	**P541,132,700**	P238,101,677

Regulatory Reporting

Effective January 24, 2013, BSP Circular No. 779 amended the regulations on Single Borrower's Limit (SBL). Per amendment, the total amount of loans, credit accommodations and guarantees may be increased by an additional twenty-five percent (25%) of the Philippine 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 Philippine Brach to any borrower pertaining to the above-mentioned projects shall not exceed 25% of the Philippine 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 the 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.

The Monetary Board of the BSP, on its Resolution No.1708 dated December 28, 2020, approved the grant of regulatory relief to branches of foreign banks established in the Philippines prior to R.A. No.10641 as part of the initiatives of the BSP to support the country's economic recovery.

In view of the lapse of the transitory period for SBL pursuant to Section 103 of the Manual of Regulations for Banks (MORB), the existing foreign bank branches prior to R.A. No. 10641 that breached the SBL shall not be subject to sanctions until December 31, 2021. Provided that the amount of the new loan, credit accommodation, or guarantee extended as well as the restructured, renewed, and refinanced existing credit exposures beginning January 1, 2021 to December 31, 2021, shall not exceed the prescribed percentage limit using as reference point twice the level of capital as defined under Section 103 of the MORB.

On January 17, 2022, the BSP issued Memorandum No M-2022-004 regarding the Extension of BSP Prudential Relief Measures. Section 3 indicates the Amendment to the Relief Measure on the Single Borrower's Limit. Increase in the SBL under Section 362 of the Manual of Regulations for Banks (MORB)/Section 342-Q of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) from 25 percent to 30 percent until December 31, 2022, pursuant to national interest. While Section 4 indicates the In view of the lapse of the transitory period for the Single Borrower's Limit (SBL) pursuant to Section 103 of the Manual of Regulations for Banks (MORB), as amended by Circular No. 1073 dated February 10, 2020, existing foreign bank branches established in the Philippines prior to Republic Act No. 10641 that breach the SBL shall not be subject to sanctions prescribed under Section 362 of the MORB until December 31, 2022: Provided, That the amount of the new loan, credit accommodation, or guarantee extended as well as the restructured, renewed, and refinanced existing credit exposures, beginning January 1, 2021 until December 31, 2022, shall not exceed the prescribed percentage limit using as reference point twice the level of capital as defined under Section 103 of the MORB (Capital requirements of foreign bank).

As at September 30, 2023 and 2022, there were no loans and receivables pledged as collateral for liabilities.

12. Allowance for Credit and Impairment Losses

	2023				
	Financial Assets at FVOCI (Note 10)	**Loans and Receivables** (Note 11)	**Due from Head Office and Other Branches** (Note 18)	**Commitments and Financial Guarantee Contracts** (Note 16)	**Total**
Balance at September 30, 2022	**P18,838,342**	**P38,627,586**	**P5,924**	**P2,457,107**	**P59,928,959**
Provision for (reversal of) credit and impairment losses	**(4,930,978)**	**(14,919,435)**	**(1,818)**	**(1,888,969)**	**(21,741,200)**
Effect of foreign exchange rate difference	**(862,445)**	**(48,834)**	**(228)**	**-**	**(911,507)**
Balance at September 30, 2023	**P13,044,919**	**P23,659,317**	**P3,878**	**P568,138**	**P37,276,252**

	2022				
	Financial Assets at FVOCI (Note 10)	Loans and Receivables (Note 11)	Due from Head Office and Other Branches (Note 18)	Commitments and Financial Guarantee Contracts (Note 16)	Total
Balance at September 30, 2021	P22,063,431	P26,683,874	P -	P2,002,256	P50,749,561
Provision for (reversal of) credit and impairment losses	(5,877,056)	11,815,317	5,335	454,851	6,398,447
Effect of foreign exchange rate difference	2,651,967	128,395	589	-	2,780,951
Balance at September 30, 2022	P18,838,342	P38,627,586	P5,924	P2,457,107	P59,928,959

The tables show reconciliation from the opening balance to the closing balance of the allowance for credit and impairment losses by class of financial instruments (amounts in thousands).

	2023			
	Stage 1	**Stage 2**	**Stage 3**	**Total**
Financial Assets at FVOCI				
Balance at October 1, 2022	**P18,838**	**P -**	**P -**	**P18,838**
Provision of credit and impairment losses	**(4,931)**	**-**	**-**	**(4,931)**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Foreign exchange differences	**(862)**	**-**	**-**	**(862)**
Balance at September 30, 2023	**P13,045**	**P -**	**P -**	**P13,045**
Loans and Receivables				
Balance at October 1, 2022	**P38,618**	**P9**	**P -**	**P38,627**
Provision for credit and impairment losses	**(15,147)**	**228**	**-**	**(14,919)**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Foreign exchange differences	**(49)**	**-**	**-**	**(49)**
Balance at September 30, 2023	**P23,422**	**P237**	**P -**	**P23,659**
Due from Head Office and Other Branches				
Balance at October 1, 2022	**P6**	**P -**	**P -**	**P6**
Reversal of credit and impairment losses	**(2)**	**-**	**-**	**(2)**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Foreign exchange differences	**-**	**-**	**-**	**-**
Balance at September 30, 2023	**P4**	**P -**	**P -**	**P4**
Commitments and Financial Guarantee Contracts				
Balance at October 1, 2022	**P2,457**	**P -**	**P -**	**P2,457**
Reversal of credit and impairment losses	**(1,889)**	**-**	**-**	**(1,889)**
Transfer to Stage 1	**-**	**-**	**-**	**-**
Transfer to Stage 2	**-**	**-**	**-**	**-**
Transfer to Stage 3	**-**	**-**	**-**	**-**
Foreign exchange differences	**-**	**-**	**-**	**-**
Balance at September 30, 2023	**P568**	**P -**	**P -**	**P568**

	2022			
	Stage 1	Stage 2	Stage 3	Total
Financial Assets at FVOCI				
Balance at October 1, 2021	P22,063	P -	P -	P22,063
Provision of credit and impairment losses	(5,877)	-	-	(5,877)
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange differences	2,652	-	-	2,652
Balance at September 30, 2022	P18,838	P -	P -	P18,838
Loans and Receivables				
Balance at October 1, 2021	P26,488	P196	P -	P26,684
Provision for credit and impairment losses	12,002	(187)	-	11,815
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange differences	128	-	-	128
Balance at September 30, 2022	P38,618	P9	P -	P38,627
Due from Head Office and Other Branches				
Balance at October 1, 2021	P -	P -	P -	P -
Reversal of credit and impairment losses	5			5
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange differences	1	-	-	1
Balance at September 30, 2022	P6	P -	P -	P6
Commitments and Financial Guarantee Contracts				
Balance at October 1, 2021	P2,002	P -	P -	P2,002
Reversal of credit and impairment losses	455	-	-	455
Transfer to Stage 1	-	-	-	-
Transfer to Stage 2	-	-	-	-
Transfer to Stage 3	-	-	-	-
Foreign exchange differences	-	-	-	-
Balance at September 30, 2022	P2,457	P -	P -	P2,457

13. Property and Equipment

The movements in property and equipment are as follows:

	September 30, 2023					
	Computer Equipment	**Leasehold Improvements**	**Motor Vehicles**	**Furniture, Fixtures and Equipment**	**Right-of-Use Assets** (see Note 29)	**Total**
Cost						
Balance at beginning of year	**P86,800,121**	**P30,339,457**	**P -**	**P5,326,533**	**P7,021,217**	**P129,487,328**
Additions	**21,116,008**	**-**	**-**	**-**	**-**	**21,116,008**
Disposals	**-**	**-**	**-**	**-**	**(4,180,342)**	**(4,180,342)**
Write off	**-**	**-**	**-**	**-**	**(2,840,875)**	**(2,840,875)**
Balance at end of year	**107,916,129**	**30,339,457**	**-**	**5,326,533**	**-**	**143,582,119**
Accumulated Depreciation and Amortization						
Balance at beginning of year	**75,466,380**	**30,021,404**	**-**	**2,809,848**	**585,099**	**108,882,731**
Depreciation and amortization	**10,587,254**	**318,053**	**-**	**443,290**	**3,595,243**	**14,943,840**
Disposals	**-**	**-**	**-**	**-**	**(4,180,342)**	**(4,180,342)**
Balance at end of year	**86,053,634**	**30,339,457**	**-**	**3,253,138**	**-**	**119,646,229**
Carrying Amount						
Balance at beginning of year	**P11,333,741**	**P318,053**	**P -**	**P2,516,685**	**P6,436,118**	**P20,604,597**
Balance at end of year	**P21,862,495**	**P -**	**P -**	**P2,073,395**	**P -**	**P23,935,890**

	September 30, 2022					
	Computer Equipment	Leasehold Improvements	Motor Vehicles	Furniture, Fixtures and Equipment	Right-of-Use Assets (see Note 29)	Total
Cost						
Balance at beginning of year	P76,981,712	P30,339,457	P -	P5,326,533	P16,321,141	P128,968,843
Additions	9,818,409	-	-	-	7,021,217	16,839,626
Disposals	-	-	-	-	(16,321,141)	(16,321,141)
Balance at end of year	86,800,121	30,339,457	-	5,326,533	7,021,217	129,487,328
Accumulated Depreciation and Amortization						
Balance at beginning of year	69,671,881	29,476,169	-	2,358,550	12,671,903	114,178,503
Depreciation and amortization	5,794,499	545,235	-	451,298	2,630,506	9,421,538
Disposals	-	-	-	-	(14,717,310)	(14,717,310)
Balance at end of year	75,466,380	30,021,404	-	2,809,848	585,099	108,882,731
Carrying Amount						
Balance at beginning of year	P7,309,831	P863,288	P -	P2,967,983	P3,649,238	P14,790,340
Balance at end of year	P11,333,741	P318,053	P -	P2,516,685	P6,436,118	P20,604,597

Depreciation and amortization, which is presented under “Depreciation and amortization” and included in “Other expenses” account in the statements of income and expenses, amounted to P14.94 million and P9.42 million in 2023 and 2022, respectively.

Fully depreciated assets which are still in use amounted to P102.77 million and P92.37 million as at September 30, 2023 and 2022, respectively.

As at September 30, 2023 and 2022, there were no property and equipment pledged as collateral for liabilities.

14. Other Assets

The table below shows the composition of other assets.

	Note	**2023**	2022
Unsettled trade assets	*5*	**P10,035,813**	P74,553,126
Documentary stamp tax		**15,996,480**	5,427,581
Goodwill		**13,834,833**	13,834,833
Unused creditable withholding tax		**10,414,831**	18,323,341
Prepaid expenses		**3,309,987**	3,875,883
Defined benefit asset	*26*	**5,159,329**	-
Accounts receivable	*5*	**3,785,984**	22,273,301
Deposits on lease contracts	*5, 29*	**600,000**	940,000
Miscellaneous		**35,491**	72,383
		P63,172,748	P139,300,448

Unsettled trade assets pertain to trade securities sold during the year but have yet to be delivered over the next banking days of the following year amounting to P10.04 million and P75.55 million as at September 30, 2023 and 2022, respectively.

Documentary stamp tax includes prepayments for stamp duties that will be utilized in levying documents, loan agreements and other instruments.

Goodwill amounting to P13.83 million was recognized as a result of the acquisition by ANZ of the Royal Bank of Scotland (RBS) Philippines business on November 20, 2009, which includes the entire balance sheet and all existing customers and accounts at completion date for the entities ABN AMRO Bank N.V. (Philippines) Offshore Branch and The Royal Bank of Scotland (Philippines), Inc. Such goodwill is assessed to have an indefinite useful life.

Unused creditable withholding taxes pertain to withheld taxes which will be used for the payment of income and other taxes.

Accounts receivable primarily include receivables from Metrobank for advances made by the Philippine Branch for its separated employees.

Prepaid expenses include advances for software maintenance, BSP supervisory fees and advance payments of taxes.

As at September 30, 2023 and 2022, there were no other assets pledged as collateral for liabilities.

15. Deposits and Other Borrowings

Deposits from Customers

	Note	**2023**	2022
Time		**P10,445,256,927**	P6,088,032,119
Demand		**8,021,254,395**	6,401,856,347
Savings		**2,713,850,870**	2,643,714,976
	5	**P21,180,362,192**	P15,133,603,442

Deposits and Borrowings from Banks

	Note	**2023**	2022
Interbank loans payable to other banks		**P349,865,431**	P130,604,404
Time		**286,072**	-
	5	**P350,151,503**	P130,604,404

Accrued interest payable on deposits and other borrowings, shown as part of accrued interest payable presented under "Accrued interest payable" account in the statements of financial position, amounted to P13.68 million and P22.23 million as at September 30, 2023 and 2022, respectively. The interest rates on deposit from customers ranged from in 0.01% to 4.60% in 2023 and 0.50% to 2.01% in 2022. On the other hand, interest rates on deposits from banks ranged from 1.75% to 6.28% in 2023 and ranged from 0.01% to 2.90% in 2022.

Accrued interest payable consists of:

	Note	**2023**	2022
Deposits from customers		**P13,508,658**	P11,207,407
Due to Head Office and other branches	*18*	**168,153**	18,854,939
	5	**P13,676,811**	P30,062,346

Interest expense on deposits from customers consists of:

	Note	**2023**	2022
Time		**P202,240,367**	P22,664,677
Demand		**22,402,878**	6,081,060
	21	**P224,643,245**	P28,745,737

Interest expense on deposits and borrowings from banks amounted to P20.46 million and P3.72 million in 2023 and 2022, respectively (see Note 21).

Under the existing BSP regulations (Section 253 of the MORB and BSP Circular No. 1004), all local currency deposits and deposit substitute liabilities of universal banks are subject to reserve requirements of 18%. The required reserves of the Philippine Branch are comprised of demand deposit accounts with the BSP.

On March 31, 2020 the BSP issued Circular 1082. Reduction in Reserve Requirements, which decrease reserve requirement by 400 basis points (or 4 percentage points) which is equivalent to 12%, effective reserve week April 3, 2020.

On June 8, 2023, the BSP issued Circular 1175 Reduction in Reserve Requirements, which decreased reserve requirement by 250 basis points (or 2.5 percentage points) which is equivalent to 9.5%, effective reserve week June 30, 2023. As at September 30, 2023 and 2022, the demand deposit set aside in compliance with the reserve requirements amounted to P1.85 billion and P1.67 billion, respectively (see Note 8).

16. Other Liabilities

This account consists of the following:

	Note	**2023**	2022
Unsettled trades	*5*	**P95,973,137**	P743
Accruals for employee-related expenses		**42,515,572**	39,836,185
Government payables	*5*	**36,580,306**	36,910,407
Settlement exchange clearing	*5*	**27,024,828**	27,578,515
Accrual for deposit insurance	*5*	**26,261,254**	8,193,163
Interoffice clearing accounts	*5*	**14,407,515**	10,600,150
Accrued and other expenses		**13,756,571**	2,885,313
Unclaimed monies	*5*	**9,833,392**	5,445,797
Uncleared drafts	*5*	**6,577,028**	12,572,930
Provision for liability	*5,12*	**568,137**	2,457,107
Withholding taxes payable		**-**	14,705,617
Defined benefit liability	*26*	**-**	3,629,713
Lease liabilities	*29*	**-**	3,451,015
Miscellaneous		**9,170,677**	11,719,044
		P282,668,417	P179,985,699

Unsettled trades represent receivable from counterparties for the proceeds of sale of debt securities recorded on trade date. This receivable is usually settled within two days from trade date. These debt securities include Philippine Government securities such as treasury bills, retail treasury bonds and fixed rate treasury notes.

Accruals for employee-related expenses pertains to provision for bonus which includes cash and share-based payments for employee incentives.

Government payables amounting to P36.58 million and P36.91 million as at September 30, 2023 and 2022, respectively, pertain to accrual of penalty for under-compliance of the agri-agra and micro, small and medium enterprise credit allocation per BSP regulation, and accrual of gross receipts tax.

Settlement exchange clearing account pertains to uncleared cheques as at cut-off date for customers with domestic bills purchase facility. This facility is granted by the Philippine Branch to its customers in which the Philippine Branch would purchase the bill or dated checks, with recourse. These were cleared subsequent to year-end.

Accrued and other expenses amounting to P13.76 million and P2.89 million as at September 30, 2023 and 2022, respectively, pertain to accrual of outsourced services, software licenses and other charges.

Provision for liability pertains to loss allowance on off-balance sheet items (see Note 12).

Miscellaneous liabilities pertain to sundry liabilities which consist of utilities and communications payable and settlement or clearing accounts.

17. Assigned Capital Funds and Due from and to Head Office and Other Branches

Under R.A. No. 7721, *An Act Liberalizing the Entry and Scope of Operations of Foreign Banks in the Philippines*, (the "Act") which took effect on June 5, 1994, a foreign bank with existing branch or branches in the Philippines is required to inwardly remit and convert into Philippine currency, as permanently assigned capital, the U.S. dollar equivalent of P210.00 million computed at P26.98 to US$1, which is the exchange rate on the effectivity date of the Act. Under the same Act, a foreign bank is entitled to establish up to 6 branches [the first 3 additional branches in locations of its choice and the next 3 additional branches in locations designated by the Monetary Board (MB) in addition to its branch or branches existing as at the effectivity date of the Act]. The P210.00 million referred to above shall be the capital for a foreign bank's first three branches. For each of the next 3 additional branches to be established in locations designated by the MB, a foreign bank is required to inwardly remit and convert into Philippine currency, as additional permanently assigned capital, the U.S. dollar equivalent of P35.00 million computed at the same exchange rate of P26.98 to US$1.

Under BSP Circular No. 51 *Rules and Regulations Implementing R.A. No. 7721*, the capital of a branch may consist of its permanently assigned capital plus the "Net due to Head office and other Branches" account, which should not exceed the equivalent of four times the amount of permanently assigned capital. The "Net due to Head office and other Branches" account shall include all net due to Head Office, other branches, subsidiaries (more than 50% owned by the foreign bank) and offices outside the Philippines. Additionally, at least 15% of the "Net due to Head office and other Branches" should be inwardly remitted and converted into Philippine currency, provided that amounts invested in productive enterprises or utilized by the Philippine companies for export activities, including foreign currency denominated loans granted to Philippine exporters and loans for productive purposes such as agriculture, fisheries and forestry, manufacturing, mining, public utilities, construction and home building, need not be subject to conversion into Philippine currency.

On August 9, 2001, the BSP approved the Philippine Branch's request to transfer its cumulative unremitted income amounting to about P193.98 million to the previously permanently assigned capital of P250.34 million. On July 24, 2008, unremitted FCDU income amounting to P651.15 million was also approved by BSP to be transferred to assigned capital.

Additionally, BSP approved the transfer of P274.00 million and P840.00 million unremitted income to assigned capital on November 10, 2009 and June 18, 2010, respectively.

On March 21, 2014, the Head Office infused additional capital in the Philippine Branch amounting to $19.14 million (equivalent to P865.11 million) to comply with minimum capital required under its universal banking authority.

On October 29, 2014, the BSP issued Circular 854, which implemented the new minimum capitalization requirements for banks. For the Philippine Branch, having a universal banking license with Head Office only, the minimum capitalization required is P3 billion. To comply with the revised minimum capital requirements, the Philippine Branch received additional capital of $25.63 million (equivalent to P1.15 billion) from the Head Office on November 13, 2014 as part of the permanently assigned capital.

Effective January 24, 2013, BSP Circular No. 779 amended the regulations on Single Borrower’s Limit (SBL). Per amendment, the total amount of loans, credit accommodations and guarantees may be increased by an additional twenty-five percent (25%) of the Philippine 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 Philippine Brach to any borrower pertaining to the above-mentioned projects shall not exceed 25% of the Philippine Branch’s net worth and that it shall only be allowed for a period of six (6) years from 28 December 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 the effectivity of Republic Act (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 Circular as net worth, as reference point for purposes of determining the appropriate SBL.

On February 10, 2020, the BSP issued Circular No. 1073. The Monetary Board, in its Resolution No. 123 dated 23 January 2020, approved the extension of the transitory period until 31 December 2020 for existing foreign bank branches to use twice the level of capital as basis for determining the Single Borrower's Limit (SBL).

Pursuant to BSP Memorandum No. M-2020-057 dated 21 July 2020 on Amendments to the Operational Relief Measures for BSFI, The Single Borrower’s Limit (SBL) is increase from 25 percent to 30 percent until 31 March 2021, pursuant to national interest.

On January 4, 2021, the BSP issued Memorandum No. M-2021-002 for Regulatory Relief on the Non-imposition of Sanction for Breach in Single Borrower's Limit by Certain Foreign Bank Branches.

In view of the lapse of the transitory period for SBL pursuant to Section 103 of the Manual of Regulations for Banks (MORB), the existing foreign bank branches prior to R.A. No. 10641 that breached the SBL shall not be subject to sanctions until December 31, 2021. Provided that the amount of the new loan, credit accommodation, or guarantee extended as well as the restructured, renewed, and refinanced existing credit exposures beginning January 1, 2021 to December 31, 2021, shall not exceed the prescribed percentage limit using as reference point twice the level of capital as defined under Section 103 of the MORB.

On April 26, 2021, the BSP issued Memorandum No. M-2021-026 on the Amendments to the Relief Measure on the Single Borrower's Limit (SBL) where there is an increase in the SBL under Section 362 of the Manual of Regulations for Banks (MORB)/Section 342-Q of the Manual of Regulations for Non-Bank Financial Institutions (MORNBFI) from 25 percent to 30 percent until 31 December 2021, pursuant to national interest.

The Monetary Board of the BSP, on its Memorandum No M-2022-004 dated January 17, 2022, extended the BSP Prudential Relief Measures and increased the SBL (Single Borrower's limit) from 25 percent to 30 percent until December 31, 2022, pursuant to national interest.

In view of the lapse of the transitory period for the SBL pursuant to Section 103 of the Manual of Regulations for Banks (MORB), as amended by Circular No. 1073 dated February 10, 2020, existing foreign bank branches established in the Philippines prior to Republic Act No. 10641 that breach the SBL shall not be subject to sanctions until December 31, 2022. Provided, That the amount of the new loan, credit accommodation, or guarantee extended as well as the restructured, renewed, and refinanced existing credit exposures, beginning January 1, 2021 until December 31, 2022, shall not exceed the prescribed percentage limit using as reference point twice the level of capital as defined under Section 103 of the MORB.

The Philippine Branch's regulatory capital position as at September 30, 2023 and 2022 based on Basel III requirements as reported to the BSP is as follows (amounts in thousands):

	2023	2022
Tier 1 Capital		
Permanently assigned capital	**P4,225,190**	P4,225,190
Unremitted profits	**3,000,603**	2,716,962
Undivided profits	**350,897**	291,409
Cumulative other comprehensive income	**(141,927)**	(219,050)
Less: Required deductions from Tier 1 Capital		
Deferred income tax	**142,399**	37,941
Unsecured DOSRI	**1,494**	-
Goodwill	**13,835**	13,835
Total Tier 1 Capital	**7,277,035**	6,962,735
Add: Tier 2 Capital		
General loan loss provisioning (maximum 1% of Credit RWA)	**94,144**	83,976
	P7,371,179	P7,046,711

Amounts presented in the table above are based on the financial reporting package submitted by the Philippine Branch to the BSP.

18. Related Parties

Related Parties and Transactions

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

The Philippine Branch has transactions with its Head Office, other branches and with certain DOSRI. Banking law and regulations, the aggregate amount of loans to DOSRI should not exceed the total net worth or 15% of the total loan portfolio of the Philippine Branch, whichever is lower.

In addition, the amount of direct credit accommodations to DOSRI, of which 70% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Philippine Branch. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

BSP also prescribed separate lending limits to subsidiaries and/or affiliates of banks which shall not exceed 10% of the net worth of the lending bank. Aggregate ceiling is 20% of net worth and unsecured exposure should not exceed 5% of the net worth of the lending bank.

This also excludes exposures that are considered non-risk during existing regulations. The Philippine Branch is in compliance with such regulations in 2023 and 2022.

The significant account balances with respect to related parties included in the financial statements are as follows (in thousands):

Related Party/Transactions	*Note*	Year	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Parent					
Due from Head Office					
Due from banks					
Deposits	*18a*	**2023**	**P2,183,233,641**	**P70,513**	Working fund with Head office; short term, no impairment, unsecured, non-interest bearing
Withdrawal			**(2,183,303,193)**	**-**	
Deposits		2022	2,284,156,551	140,065	
Withdrawal			(2,284,282,542)	-	
Due to Head Office					
Allocated head office expense	*18c*	**2023**	**86,691**	**-**	Share in Head Office expenses
		2022	79,954	-	
Entities under Common Control					
Due from Branches					
Interbank loans	*18a*				
Drawdown		**2023**	**5,983,872**	**256,149**	Short-term, no impairment; unsecured; interest rates are disclosed in 18a below
Collection			**(6,184,224)**	**-**	
Drawdown		2022	5,161,353	456,501	
Collection			(4,704,852)	-	
Due from banks					
Deposits	*18a*	**2023**	**377,551,898**	**449**	Short-term, no impairment; unsecured; non-interest bearing
Withdrawal			**(377,553,010)**	**-**	
Deposits		2022	415,523,079	1,561	
Withdrawal			(415,521,518)	-	
Intercompany receivable/payable	*18a*	**2023**	**(2,196)**	**(1,970)**	Payable from intercompany transactions
		2022	156	199	
Interest income	*18a, 20*	**2023**	**34,254**	**167**	Interest accrued on interbank placement; short-term; no impairment; unsecured
		2022	1,934	28	

Forward

Related Party/Transactions	Note	Year	Amount/ Volume	Outstanding Balance	Nature, Terms and Conditions
Due to Branches					
Short-term borrowings	*18b*				Short-term; interest rates on these short-term borrowings are disclosed in 18b below
Proceeds		**2023**	**P141,868,160**	**(P565,750)**	
Withdrawal			**(122,325,536)**	**-**	
Proceeds		2022	121,386,479	(20,108,374)	
Withdrawal			(130,172,851)	-	
Interest expense	*15, 18b*	**2023**	**(359,535)**	**168**	Interest accrued on interbank placements
		2022	(75,916)	(18,855)	
Others	*18b*	**2023**	**55,151**	**(126,971)**	Deposits to Head Office and other branches and liabilities incurred for services provided by ANZ Manila Hub
		2022	(5,459)	(182,122)	
Key Management Personnel	*18d*	**2023**	(19,971)	**10,342**	Lending to key management personnel
		2022	(11,922)	30,313	
Allowance for Credit and Impairment Losses	*12*	**2023**	**2**	**(4)**	
		2022	(6)	(6)	
Total Net Due to Head Office and Other Branches		**2023**		**(367,584)**	
		2022		(P19,692,176)	

The balance presented in the statements of financial position is net of Due from Head Office and other branches account and Due to Head office and other branches account.

All outstanding balances with related parties are to be settled in cash.

As at September 30, 2023 and 2022, all related party transactions pertaining to short-term lending and interbank loans are unsecured with impairment and due and demandable within one (1) year.

18a Due from Head Office and Other Branches

Loans and advances represent deposit with and short-term lending to Head Office and other branches. Deposits with Head Office and other branches are accounts maintained with them for inter-branch transactions. Interest rates on these short-term lending booked under RBU range from 3.18% to 5.33% and 1.23% to 1.58%, while interest rates on short-term lending booked under FCDU range from 2.23% to 3.92% and 0.10% to 0.90% as at September 30, 2023 and 2022, respectively.

Interest was accrued for these short-term lending and are shown under "Loans and receivables" account in the statements of financial position. As at September 30, 2023 and 2022, accrued interest income from these short-term lending amounted to P0.17 million and P0.03 million (see Note 11), while interest income earned amounted to P34.25 million and P1.93 million, respectively (see Note 20).

18b Due to Head Office and Other Branches

These represent short-term borrowings from the Head Office and other branches. These borrowings have interest rates benchmarked to the Federal Funds Rates and LIBOR Rates for 2023 and 2022, respectively. Interest rates booked under RBU range from 2.9% to 5.35% in 2023 and 0.10% to 0.44% in 2022, while interest rates booked under FCDU range from 0.0001% to 5.35% in 2023 and 0.06% to 0.30% in 2022.

Interest was accrued for these short-term borrowings and is, shown as part of "Accrued interest payable" account in the statements of financial position amounting to P0.17 million and P18.85 million as at September 30, 2023 and 2022, respectively (see Note 15). Interest expense on these short-term borrowings for the years ended September 30, 2023 and 2022 amounted to P359.54 million and P75.92 million, respectively (see Note 21).

Others represent deposits to Head Office and other branches and payables incurred for accounting and operations services outsourced by the Philippine Branch to the ANZ Manila Hub.

18c Allocated Head Office Expenses

Head Office expenses allocated to the Philippine Branch pertain to the: (1) cost for use and maintenance of global or centralized technology or processing system; (2) share in the manpower expenses related to the employment of regional staff/officers; and (3) share in the cost incurred for the operation and administration of the Hyperion, the group financial reporting computer system; (4) payments made to Philippine Branch for the share-based compensation; and, (5) plan relationship banking charges for the income that is booked locally but is originated by offshore Relationship Manager.

18d Key Management Personnel

These represent long-term, secured, with no impairment, lending to key management personnel, who are members of the Executive Committee (EXCO) of the Philippine Branch. As at September 30, 2023 and 2022, interest rates on these loans are at 5.59% and 4.67%, respectively, with a term of five (5) to ten (10) years. These loans are presented under “Loans and receivables” account in the statements of financial position.

Compensation of Key Management Personnel

The Philippine Branch’s compensation to key management personnel shown as part of “Salaries, bonuses and allowances” account in the statements of income and expenses is as follows:

	2023	2022
Short-term employee benefits	**P92,658,186**	P104,711,546
Post-employment benefits	**7,457,878**	7,929,994
	P100,116,064	P112,641,540

<u>Interest Arbitrage (INTARBI) Transactions</u>

INTARBI transactions are internal deals usually between the Foreign Exchange (FX) and Money Market (MM) desks to shift funding or risk exposure from one currency to another and from banking to trading book and vice-versa. The INTARBI transactions involve an FX swap (which comprises FX spot and forward legs), a loan involving one of the currency pair in the FX swap transaction and a deposit involving the other currency of the FX swap transaction. INTARBI transactions are only book entries. There are no net physical cash flows involved for the Philippine Branch as a whole because all the transactions cancel themselves out. Because INTARBI deals are only internal, there cannot be any profits or losses recognized in the statements of income and expenses made from these transactions on an overall site basis. However, there may be impact on the statements of income and expenses at the desk level or a timing difference, which should be calculated by the Back Office and agreed by the Treasurer and Chief Dealer and reported to local ALCO.

All INTARBI deals should be executed at fair market value, i.e. rates that are current and at the market. The current Philippines Interbank Bid Rates (PHIBID) - Philippines Interbank Offered Rate (PHIBOR) from Reuters page PHIBOR shall be the independent market rate information to determine current or at the market all in swap rates for USD/PHP trades. Market swap points provided by Prebon and Investment Company Association of the Philippines (ICAP) will be the basis for determining if dealt rates are within market.

19. Reserves

This account consists of the following:

	Note	**2023**	2022
Cumulative Foreign Currency Translation Adjustments			
Balance at beginning of the year		**P33,963,760**	P32,013,859
Translation adjustment for the year		**1,140,898**	1,949,901
		35,104,658	33,963,760
Net Unrealized Gains (Losses) on Financial Assets at FVOCI			
Balance at beginning of the year		**(251,063,884)**	25,135,404
Net unrealized gain (loss) from changes in fair value during the year	*10*	**75,390,600**	(276,199,288)
		(175,673,284)	(251,063,884)
Total Reserves		**(P140,568,626)**	(P217,100,124)

20. Interest Income

This account consists of the following:

	Note	**2023**	2022
Interest Income Calculated Using the Effective Interest Method			
Loans and receivables	*11*	**P541,132,700**	P238,101,677
Financial assets at FVOCI	*10*	**403,959,891**	205,553,475
Loans and advances to banks	*8*	**264,972,452**	118,327,227
Due from Head Office and other branches	*18*	**34,253,678**	1,933,877
		1,244,318,721	563,916,256
Interest Income Financial Assets at FVPL	*9*	**301,390,917**	12,644,120
		P1,545,709,638	P576,560,376

21. Interest Expense

This account consists of the following:

	Note	**2023**	2022
Deposits from customers	*15*	**P224,643,245**	P28,745,737
Deposits and borrowings from:			
Head Office and other branches	*18*	**359,535,145**	75,915,573
Other banks	*15*	**20,460,439**	3,718,361
Interest expense on lease liabilities	*29*	**-**	34,408
		P604,638,829	P108,414,079

22. Fees and Commission Income

This account consists of the following:

	2023	2022
Non-lending fees and commission	**P53,170,080**	P62,708,728
Lending fees and commission	**4,598,595**	7,729,353
	P57,768,675	P70,438,081

Non-lending fees and commission pertain to service transfer pricing income allocated by Head Office, outward telegraphic transfer fees, import and export fees and guarantee fees and other non-lending services costs.

In the table below, fees and commission income from contracts with customers within the scope of PFRS 15 is disaggregated by major type of services as follows:

	2023	2022
Account, transactive and service fees	**P33,388,687**	P22,030,852
STP income	**19,781,393**	40,677,876
Guarantee fee	**3,799,712**	7,629,595
Dividend income	**560,000**	-
Other lending fees	**238,883**	99,758
	P57,768,675	P70,438,081

23. Trading and Securities Gain - net

This account consists of the following:

	2023	2022
Debt instruments:		
Realized	**P20,238,353**	(P23,105,559)
Unrealized	**1,581,750**	11,336,581
	21,820,103	(11,768,978)
Derivative financial instruments:		
Realized	**60,546,751**	1,424,097,481
Unrealized	**419,771,660**	428,263,098
	480,318,411	1,852,360,579
	P502,138,514	P1,840,591,601

Trading and securities gain - net on derivative financial instruments include realized gains and losses on currency swaps and interest rate swaps.

Trading gains or losses on spot foreign exchange contracts, forward foreign exchange contracts and over the counter foreign exchange options are presented in "Foreign exchange gains (losses) - net" account in the statements of income and expenses.

24. Foreign Exchange (Losses) Gains - net

Foreign exchange gains and losses on spot foreign exchange contracts, forward foreign exchange contracts, foreign exchange swaps and over the counter foreign exchange options and on balance sheet revaluation are presented in “Foreign exchange losses - net” account in the statements of income and expenses. Foreign exchange losses - net amounted to P229.66 million and P1.35 billion for the years ended September 30, 2023 and 2022, respectively.

25. Income and Other Taxes

Under Philippine tax laws, income from operations of the RBU of the Philippine Branch is subject to percentage and other taxes (presented as “Taxes and licenses” account in the statements of income and expenses) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamp tax. Income taxes paid consist of corporate income tax and a final withholding tax of 20% on gross interest income from government securities, deposits and other deposit substitutes. These income taxes are presented in the statements of income and expenses as income tax expense.

Branch profits remitted by the Philippine Branch to its Head Office are subject to 15% profit remittance tax.

The corporate income tax rate for RBU is 25%. Interest allowed as a deductible expense is reduced by an amount equivalent to 20% of interest income subjected to final tax. The regulations also provide for MCIT of 1% (2% beginning 1 July 2023) on modified gross income and allow NOLCO. The Philippine Branch incurred NOLCO amounting to nil and P1.72 million as at September 30, 2023 and 2022, respectively, and MCIT amounting to P0.06 and P.02 million as at September 30, 2023 and 2022, respectively. The MCIT and NOLCO before the year 2020 may be applied against the Philippine Branch’s income tax liability and taxable income, respectively, over a three-year period from the year of incurrence. The NOLCO incurred in 2020 and 2021, it can be applied for a five-year period.

Moreover, the Philippine Branch has available creditable withholding taxes amounting to P10.39 million and P18.32 million as September 30, 2023 and 2022, respectively, recorded as part of “Other assets” account in the statements of financial position (Note 14).

FCDU offshore income (income from nonresidents) of the FCDU is tax-exempt. Onshore income (income from residents) of the FCDU is subject to 10% gross income tax.

On April 28, 2004, R.A. No. 9294 was enacted into law, titled as “An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and FCDUs.” This law restored the tax exemption of OBUs and FCDUs. Income derived by FCDUs and OBUs from foreign currency transactions with nonresidents, OBUs, local commercial banks including foreign banks that may be authorized by the BSP to transact business with foreign currency deposit system units and other depository banks under foreign currency deposit system shall be exempt from all taxes, except net income from such transaction as may be specified by the Secretary of Finance, upon recommendation by the Monetary Board to be subject to the regular income tax payable by banks. Provided, however, that interest income from foreign currency loans granted by other FCDUs to residents under the offshore units in the Philippines or other depository banks under the expanded system shall be subject to a final tax at the rate of 10%.

The income tax expense consists of:

	2023	2022
Current:		
RBU	**P149,116,488**	P23,258,527
FCDU	**63,069**	23,644
Final taxes	**142,096,607**	57,039,332
Deferred	**(104,950,148)**	(32,916,405)
	P186,326,016	P47,405,098

The reconciliation between statutory income tax and effective income tax is as follows:

	2023	2022
Income before income tax	**P524,996,510**	P364,751,146
Income tax expense computed at statutory income tax rate at 25% in 2023 and 2022	**P131,249,128**	P91,187,787
Additions to (reductions from) income taxes resulting from the tax effects of:		
Tax-exempt/tax-paid income	**(256,918,281)**	(85,061,441)
Final taxes	**142,096,607**	57,039,332
Nondeductible interest and other expenses	**170,502,717**	33,179,110
Recognition of previously unrecognized DTA on NOLCO	**(466,320)**	(23,663,542)
Others	**(200,904)**	(695,234)
Unrecognized deferred tax asset on MCIT	**63,069**	23,644
Recognition of previously unrecognized DTA on MCIT	**-**	(25,035,905)
Unrecognized deferred tax on NOLCO	**-**	431,347
Effective income tax	**P186,326,016**	P47,405,098

The components of deferred tax assets and liabilities are as follows:

	2023				
	Beginning Balance (Tax Effect)	**Amount (Charged) Credited to Statements of Income and Expenses**	**Write off**	**Amount Recognized in OCI**	**Ending Balance (Tax Effect)**
Deferred Tax Assets Included in Statements of Income and Expenses					
NOLCO	**P -**	**P -**	**P -**	**P -**	**P -**
Allowance for credit and impairment losses	**14,982,215**	**(5,207,400)**	**-**	**-**	**9,774,815**
Accruals and provision for employee benefits	**8,540,267**	**2,680,125**	**-**	**-**	**11,220,392**
Accrued retirement benefits	**8,556,788**	**145,231**	**-**	**-**	**8,702,019**
Unrealized mark-to-market gain and foreign exchange transactions	**13,545,317**	**106,585,916**	**-**	**-**	**120,131,233**
	45,624,587	**104,203,872**	**-**	**-**	**149,828,459**
Deferred Tax Liabilities Included in Statement of Income and Expenses					
PFRS 16	**(1,031,670)**	**746,276**	**-**	**-**	**(285,394)**
	(1,031,670)	**746,276**	**-**	**-**	**(285,394)**
Deferred Tax Liabilities Included in OCI					
Unrealized gain on FV increase of FVOCI	**-**	**-**	**-**	**-**	**-**
Remeasurement gain on retirement plan	**(4,796,255)**	**-**	**-**	**(2,342,491)**	**(7,138,746)**
	(4,796,255)	**-**	**-**	**(2,342,491)**	**(7,138,746)**
	P39,796,662	**P104,950,148**	**P -**	**(P2,342,491)**	**P142,404,319**

	2022				
	Beginning Balance (Tax Effect)	Amount (Charged) Credited to Statements of Income and Expenses	Write off	Amount Recognized in OCI	Ending Balance (Tax Effect)
Deferred Tax Assets Included in Statements of Income and Expenses					
NOLCO	P71,117,356	(P71,117,356)	P -	P -	P -
Allowance for credit and impairment losses	12,687,391	2,294,824	-	-	14,982,215
Accruals and provision for employee benefits	8,542,008	(1,741)	-	-	8,540,267
Accrued retirement benefits	10,950,749	(2,393,961)	-	-	8,556,788
Unrealized mark-to-market gain and foreign exchange transactions	(90,823,094)	104,368,411	-	-	13,545,317
	12,474,410	33,150,177	-	-	45,624,587
Deferred Tax Liabilities Included in Statement of Income and Expenses					
PFRS 16	(797,898)	(233,772)	-	-	(1,031,670)
	(797,898)	(233,772)	-	-	(1,031,670)
Deferred Tax Liabilities Included in OCI					
Unrealized gain on FV increase of FVOCI	-	-	-	-	-
Remeasurement gain on retirement plan	(4,570,266)	-	-	(225,989)	(4,796,255)
	(4,570,266)	-	-	(225,989)	(4,796,255)
	P7,106,246	P32,916,405	P -	(P225,989)	**P39,796,662**

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 Philippine Branch did not recognize deferred tax assets on the following:

	2023		2022	
	Deductible Temporary Differences	**Unrecognized Deferred Tax Asset**	Deductible Temporary Differences	Unrecognized Deferred Tax Asset
NOLCO	**P27,414,743**	**P6,853,686**	P29,280,023	P7,320,006
MCIT	**86,713**	**86,713**	822,861	822,861
	P27,501,456	**P6,940,399**	P30,102,884	P8,142,867

Details of the Philippine Branch's NOLCO and MCIT as at September 30, 2023 and 2022 are as follow:

NOLCO

On September 30, 2020, the Bureau of Internal Revenue issued Revenue Regulations (RR) No. 25-2020 which provides that businesses or enterprises which incurred net operating loss for taxable years 2020 and 2021 shall be allowed to carry over the same as a deduction from gross income for the next five (5) consecutive taxable years, immediately following the year of such loss, unless otherwise disqualified. The net operating loss for the said taxable years may be carried over as a deduction even after the expiration of RA No. 11494, provided that the same is claimed within the next five (5) consecutive taxable years following the year such loss was incurred. Such RR took effect immediately.

Inception Year	Expiry Year	October 1, 2022	Addition	Application	Expiration	**September 30, 2023**
2023	2026	P -	P -	P -	P -	**P -**
2022	2025	1,725,387	-	-	-	**1,725,387**
2021	2026	9,277,628	-	-	-	**9,277,628**
2020	2025	18,277,008	-	(1,865,280)		**16,411,728**
		P29,280,023	P -	(P1,865,280)	P -	**P27,414,743**

MCIT

Inception Year	Expiry Year	October 1, 2022	Addition	Expiration/ Application	**September 30, 2023**
2023	2026	P -	P63,069	P -	**P63,069**
2022	2025	23,644	-	-	**23,644**
		P23,644	P63,069	P -	**P86,713**

The breakdown of "Taxes and licenses" account presented in the statements of income and expenses follows:

	2023	2022
Gross receipts tax	**P90,335,856**	P70,754,259
Documentary stamp expenses	**35,910,307**	24,208,044
Fringe benefit taxes	**5,114,596**	5,050,196
License and permit fees	**1,524,457**	1,693,159
	P132,885,216	P101,705,658

26. Employee Benefits

Expenses recognized for salaries and employee benefits under "Salaries, bonuses and allowances" in the statements of income and expenses are presented below:

	2023	2022
Short-term benefits	**P276,207,754**	P264,681,709
Post-employment benefits	**16,762,994**	5,742,810
	P292,970,748	P270,424,519

Post-employment benefits consist of the following:

	2023	2022
Contributions paid to the trust fund	**P16,182,068**	P15,318,655
Defined benefit cost	**580,926**	(9,575,845)
	P16,762,994	P5,742,810

Total amount paid by the Philippine Branch to Metrobank Trust Fund for the defined contribution plan amounted to P16.18 million and P15.32 million for the years ended September 30, 2023 and 2022, respectively.

During the year ended September 30, 2023, the Philippine Branch's retirement plan had forfeitures amounting to P0.95 million, which were contributed to the retirement plan and consequently reduced the retirement expense for the year. Forfeitures applied as contributions are recognized as reversal of retirement expense for the year.

The Philippine Branch's retirement plan is treated as a defined contribution plan with a minimum defined benefit in line with the adoption of the Philippine Interpretations Committee Questions and Answers (PIC Q&A) No. 2013-03 relating to PAS 19, *Accounting for Employee Benefits under a Defined Contribution Plan,* subject to requirements of R.A. No. 7641, *Retirement Pay Law*. The valuation method, which only analyzed the minimum defined benefit, used in determining retirement cost is the projected unit credit method.

The benefits valued hereunder pertain to the expected excess of the minimum defined benefit over the projected accumulated contributions under DC Plan.

The retirement benefit expense presented under “Salaries, bonuses and allowances” account in the statements of income and expenses are on top of the required contributions of the Philippine Branch to the DC Plan. In the event that retirement benefits to be paid to employees, hired starting January 1, 2009, are less than that required under R.A. No. 7641, the Philippine Branch shall pay the difference to comply with the said legislation. The retirement fund is being managed and administered by Metropolitan Bank and Trust Company which is covered by a Trust Agreement.

The following table shows the reconciliation from the opening balances to closing balances for defined benefit liability and its component that were calculated based on the minimum defined retirement benefit required by R.A. No. 7641.

	Defined Benefit Obligation		Fair Value of Plan Assets		Defined Benefit Liability (Asset) (Notes 14 and 16)	
	2023	2022	**2023**	2022	**2023**	2022
Balance at October 1	**P21,257,133**	P38,092,350	**P17,627,420**	P23,982,836	**P3,629,713**	P14,109,514
Included in Statements of Income and Expenses						
Current service cost	**1,270,079**	2,844,444	**-**	-	**1,270,079**	2,844,444
Net interest income	**1,551,771**	1,790,340	**1,286,802**	1,127,193	**264,969**	663,147
Contribution from forfeitures	**-**	-	**954,123**	13,083,436	**(954,123)**	(13,083,436)
	2,821,850	4,634,784	**2,240,925**	14,210,629	**580,925**	(9,575,845)
Included in OCI						
Remeasurements (gain) loss	**(9,899,642)**	(3,298,961)	**-**	-	**(9,899,642)**	(3,298,961)
Return on plan asset excluding interest income	**-**	-	**(529,675)**	(2,395,005)	**529,675**	2,395,005
	(9,899,642)	(3,298,961)	**(529,675)**	(2,395,005)	**(9,369,967)**	(903,956)
Benefits paid	**12,300,878**	(18,171,040)	**12,300,878**	(18,171,040)	**-**	-
Balance at September 30	**P26,480,219**	P21,257,133	**P31,639,548**	P17,627,420	**(P5,159,329)**	P3,629,713

As at September 30, 2023 and 2022, the retirement plan asset amounted to P161.81 million and P173.70 million, respectively. The Philippine Branch has allocated and unallocated funds to employees covered by the defined benefit plan amounting to P130.17 million and P31.64 million, and P156.07 million and P17.63 million for the years ended September 30, 2023 and 2022, respectively.

The Philippine Branch made P16.18 million and P15.32 million contributions to its DC plan for the years ended September 30, 2023 and 2022, respectively.

As at September 30, 2023 and 2022, the carrying amount of defined benefit asset (liability) amounted to P5.16 million and (P3.63) million, respectively.

The fair value of the plan assets consists of the following:

	2023	2022
Government securities	**97.93%**	80.59%
Cash in bank	**1.46%**	18.86%
Other assets	**0.61%**	0.55%

The movement of net remeasurement gain (loss) on retirement plan arising from the fair value of plan assets and present value of the obligation follows:

	2023	2022
Remeasurement loss (gain) on retirement plan at beginning of year	**P -**	P -
Net change in remeasurement loss (gain) on retirement plan during the year gross of tax	**(9,369,967)**	(903,956)
Deferred tax effect	**2,342,492**	225,989
Transferred to unremitted profits	**7,027,475**	677,967
Remeasurement gain (loss) on retirement plan at end of year	**P -**	P -

As at September 30, 2023 and 2022, the net remeasurement gain on retirement plan recorded as part of Unremitted profit amounted to P26.21 million and P19.18 million, respectively.

For the years ended September 30, 2023 and 2022, the Philippine Branch has taken the option available under PAS 19-R to transfer remeasurement gain (loss) on retirement plan within unremitted profits.

The loss on plan assets included in the other comprehensive income amounted to P0.53 million and P2.40 million in 2023 and 2022, respectively.

Principal actuarial assumptions used to determine pension expense are as follows:

Annual Rates	**2023**	2022
Average working life	**13**	13
Discount rate	**6.50%**	7.30%
Future salary increases	**5.00%**	5.00%

Assumptions for mortality and disability rate are based on the adjusted 1985 Unisex Annuity Table and the 1952 Disability of Study of the Society for Actuaries reflecting improvement in Philippine disability experience, respectively.

Discount Rate Sensitivity

The following illustrates the sensitivity to a reasonably possible change in each key assumption, with all other variable held constant, of the Branch's retirement benefit obligation. A 100bps increase or decrease is used when reporting this risk internally to key management personnel and represents management's assessment of the reasonably possible change in discount rate and salary increase.

The impact on the Philippine Branch's retirement benefit obligation as at September 30, 2023 and 2022 is as follows:

	2023		
	Increase (Decrease)	**Present Value of Obligation**	**Increase (Decrease) on Present Value of Obligation**
Discount rate	**+1%**	**P23,319,264**	**P28,478,583**
	-1%	**31,314,751**	**36,474,080**
Salary rate	**+1%**	**31,055,380**	**36,214,709**
	-1%	**23,487,936**	**28,647,265**

	2022		
	Increase (Decrease)	Present Value of Obligation	Increase (Decrease) on Present Value of Obligation
Discount rate	+1%	P1,095,627	(P2,534,086)
	-1%	7,327,670	3,697,957
Salary rate	+1%	7,109,453	3,479,740
	-1%	1,229,248	(2,400,465)

Maturity Analysis of Expected Future Benefit Payments

The maturity analysis of the undiscounted benefit payments as at September 31, 2023 and 2022 is as follows:

	2023			
	1 to 5 Years	**6 to 10 Years**	**11 to 15 Years**	**16 Years and Up**
Normal retirement	**P13,055,521**	**P18,737,060**	**P1,776,821**	**P38,473,562**

	2022			
	1 to 5 Years	6 to 10 Years	11 to 15 Years	16 Years and Up
Normal retirement	P12,296,725	P17,707,094	P1,799,228	P40,405,131

The weighted average duration of the defined benefit obligations is equal to the expected remaining working lives as at September 30, 2023 and 2022.

27. General Office Expenses

This account consists of the following:

	2023	2022
Software development and license fee	**P51,802,343**	P20,544,752
Outsourced and other service costs	**40,549,140**	48,700,225
Agent bank charges	**8,665,462**	5,076,736
Other service charges	**6,890,580**	10,341,384
Telecommunication	**4,583,910**	5,337,999
Other bureau costs	**1,548,788**	1,191,675
Security guards and patrol	**681,936**	1,709,980
Stationery printing	**491,322**	282,497
Other brokerage fee	**281,346**	494,886
Travel and transportation	**252,281**	20,981
Repairs and maintenance	**95,450**	948,899
IT contractors	**-**	35,000
Others	**4,231,338**	4,250,042
	P120,073,896	P98,935,056

Software development expenses include software maintenance and distribution of computer software and system costs. Other service charges include installation costs for computer hardware and payments.

Outsourced and other service costs pertain to hub support expenses, outsourced logistics service costs, payroll processing fees, courier services, logistics services, and administrative fees.

Agent bank charges include PhilPaSS fees, bank interest charges, service fees, activity fees, and account analysis fees among others.

Other service charges consist of expenses for the manpower supply and other service fees.

Others consist of stationery printing, client representation expenses, courier expenses and other general office expenses.

28. Deposit Insurance and Supervisory Fees

The accounts consists of fees paid by the Philippine Branch to the Philippine Deposit Insurance Corporation for the insurance of its deposits amounting to P10.83 million and P12.38 million and annual supervisory fee paid to the Bangko Sentral ng Pilipinas amounting to P36.17 million and P29.77 million in 2023 and 2022, respectively.

29. Leases

Leases Within Scope of PFRS 16
The Philippine Branch has one outstanding contract as at September 30, 2022. On July 29, 2022, the Philippine Branch entered into a contract of lease for employee housing for a period of twenty-four (24) months and renewable under terms and conditions agreeable to both the Philippine Branch and the lessor. The lease was pre-terminated on May 11, 2023. The Philippine Branch has no outstanding lease contracts as at September 30, 2023.

Information about leases for which the Philippine Branch is a lessee is presented below:

a. *Right-of-Use Assets*

Right-of-use assets related to leased properties are presented net and part of property and equipment (see Note 13).

	September 30, 2023		
	Property Leases	**Vehicle Leases**	**Total**
Balance at October 1, 2022	**P6,436,118**	**P -**	**P6,436,118**
Additions	**-**	**-**	**-**
Write off	**(2,840,875)**	**-**	**(2,840,875)**
Amortization expense	**(3,595,243)**	**-**	**(3,595,243)**
Balance at end of year	**P -**	**P -**	**P -**

	September 30, 2022		
	Property Leases	Vehicle Leases	Total
Balance at October 1, 2021	P3,469,488	P179,750	P3,649,238
Additions	7,021,217	-	7,021,217
Write off	(1,603,831)	-	(1,603,831)
Amortization expense	(2,450,756)	(179,750)	(2,630,506)
Balance at end of year	P6,436,118	P -	P6,436,118

b. Lease Liabilities

The table below shows the movement of lease liabilities for the years ended September 30, 2023 and 2022 (see Note 16):

	2023	2022
Balance at October 1	**P3,451,015**	P188,762
Additional lease liabilities for new contracts entered during the year	**-**	7,021,217
Lease payments during the year	**(610,140)**	(3,793,372)
Write off	**(2,840,875)**	-
Accretion of interest expense	**-**	34,408
	P -	P3,451,015
Current portion	**P -**	P3,451,015
Noncurrent portion	**-**	-

c. Amounts Recognized in the Statements of Income and Expenses

	2023	2022
Expenses relating to short-term and low-value leases	**P -**	P27,757,174
Amortization of right-of-use assets	**3,595,243**	2,630,506
Interest on lease liabilities	**-**	34,408
	P3,595,243	P30,422,088

d. Amounts Recognized in the Statements of Cash Flows

	2023	2022
Payment of lease liabilities	**P610,140**	P3,758,965
Payment of interest on lease liabilities	**-**	34,408
Payments for short-term leases and leases of low-value assets	**-**	27,757,174
	P610,140	P31,550,547

Leases Outside the Scope of PFRS 16
On October 14, 2019, the Philippine Branch renewed the contract of sublease with ANZ Global Services and Operations (Manila), Inc. for a period of sixty-seven (67) months, the term of which shall take effect on May 1, 2020 and expire on April 30, 2025 and renewable under terms and conditions agreeable to both the Philippine Branch and the sub lessor. Either party may terminate the sublease contract as amended and supplemented upon 30 days’ notice. The monthly rental will have an escalation per annum based on the cost per sqm.

In January 2018, the Philippine Branch entered into a contract of sublease for its new office premise for a period of twenty-four (24) months and renewable under terms and conditions agreeable to both the Philippine Branch and the sublessor. The leased premise is located on the 14th Floor of Solaris One with 5% escalation per annum starting on the second year. The Philippine Branch subleases its new office from ANZ Global Services and Operations (Manila), Inc., the business processing center of the Head Office.

Rental deposit paid to the lessor which is refundable to the Philippine Branch after the expiration or termination of the lease is presented as part of "Other assets" under "Deposits on lease contracts" amounting to P0.60 million and P0.94 million as at September 30, 2023 and 2022, respectively (see Note 14).

Rent expense pertaining to this sublease is recorded as part of “Occupancy cost” account in the statements of income and expenses amounting to P31.67 million and P27.76 million for the years ended September 30, 2023 and 2022, respectively.

30. Share-based Compensation

ANZ operates a number of employee share and option scheme under ANZ Employee Share and Acquisition Plan and ANZ Share Option Plan.

Employee Share and Acquisition Plan - Equity Settled
The Philippine Branch scheme that operated in years 2022 and 2021 year was the Deferred Share Plan.

Under ANZ’s standard Short Term Incentive arrangements equity deferral into shares applies to half of all incentive amounts above a specified threshold. Half the deferred portion is deferred for one (1) year and half deferred for two years.

Under the Institutional Total Incentives Performance Plan mandatory deferral into shares also applies to 60% of incentive amounts above a specified threshold, deferred evenly over three (3) years.

Selected employees may be granted Long Term Incentive deferred shares which vest to the employee three (3) years from the date of grant.

In exceptional circumstances, deferred shares may be granted to certain employees upon commencement with ANZ to compensate for remuneration forgone from their previous employer. The vesting period generally aligns with the remaining vesting period of remuneration forgone, and therefore varies between grants.

Retention deferred shares may also be granted occasionally to high performing employees who are regarded as a significant retention risk to ANZ.

Unless the Board decides otherwise, unvested deferred shares are forfeited on resignation, termination on notice or dismissal for serious misconduct. Deferred shares remain at risk and can be adjusted downwards at any time prior to the vesting date. The deferred shares may be held in trust beyond the deferral period.

The employee receives dividends on deferred shares while those shares are held in trust (cash or dividend reinvestment plan). Deferred share rights may be granted instead of deferred shares. The issue price for deferred shares is based on the volume weighted average price (VWAP) of the shares traded on the Australian Securities Exchange (ASX) in the week leading up to and including the date of grant.

Deferred shares and rights granted by the ANZ Management Board to officers and employees of ANZ and outstanding as of September 30, 2023 are shown below:

Grant Date	Vesting Period (Years)	Type of Securities	No. of Shares	Issue Price Per Share on the Date of Grant
December 7, 2020	3	Deferred Shares	2,771	20.06
November 22, 2021	2	Deferred Shares	3,180	24.04
November 22, 2021	3	Deferred Shares	3,354	22.79
November 22, 2022	1	Deferred Shares	1,119	23.22
November 22, 2022	2	Deferred Shares	1,190	21.85
November 22, 2022	3	Deferred Shares	1,264	20.57

Expenses related to equity-settled share-based compensation are included in long-term benefits under the "Salaries, bonuses and allowances" account (see Note 26).

31. Commitments and Contingencies

In the normal course of the Philippine Branch's operations, there are various outstanding commitments, which are not reflected in the financial statements. The Philippine Branch does not anticipate material losses as a result of these transactions.

The following is a summary of the Philippine Branch's commitments as at September 30, 2023 and 2022 (amounts in thousands):

	2023	2022
Derivatives	**P76,224,838**	P157,517,087
Revocable commitments	**33,655,020**	41,451,541
Spot FX contracts	**3,342,223**	6,111,398
Financial standby letters of credit	**247,627**	1,752
Outstanding guarantees issued	**193,293**	192,472
Commercial letters of credit	**31,014**	33,650
	P113,694,015	P205,307,900

The Philippine Branch has suits, claims and regulatory examinations that remain unsettled or outstanding. It is not practicable to estimate the potential financial impact of these contingencies.

As at September 30, 2023 and 2022, off-balance sheet commitments and contingent liabilities with credit risk exposure (i.e. Revocable commitments, Financial standby letters of credit, Outstanding guarantees issued, and Commercial letters of credit) amounted to P34.13 million and P41.68 million, respectively. These include commitments and other financial guarantees which are subject to ECL.

On 24 October 2023, the Philippine Branch received a Letter of Authority from the Bureau of Internal Revenue covering the taxable year 2021. The Philippine Branch has no outstanding tax assessments or pending tax cases as of September 30, 2023.

32. Maturity Analysis of Assets and Liabilities

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

	2023			2022		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Assets - at gross						
Cash and other cash items	**P20,660**	**P -**	**P20,660**	P22,520	P -	P22,520
Loans and advances to banks	**11,000,581**	**-**	**11,000,581**	23,952,577	-	23,952,577
Financial assets at FVPL	**1,464,181**	**-**	**1,464,181**	2,942,150	-	2,942,150
Financial assets at FVOCI	**6,102,811**	**3,478,491**	**9,581,302**	6,352,192	4,321,463	10,673,655
Loans and receivables	**7,919,275**	**716,126**	**8,635,401**	5,829,661	1,730,920	7,560,581
Other assets	**14,422**	**-**	**14,422**	97,766	-	97,766
	26,521,930	**4,194,617**	**30,716,547**	39,196,866	6,052,383	45,249,249
Non-financial Assets - at gross						
Property and equipment	**-**	**143,582**	**143,582**	-	129,487	129,487
Deferred tax assets	**-**	**142,404**	**142,404**	-	39,797	39,797
Other assets	**34,916**	**13,835**	**48,751**	27,699	13,835	41,534
	34, 916	**299,821**	**334,737**	27,699	183,119	210,818
	26,556,846	**4,494,438**	**31,051,284**	39,224,565	6,235,502	45,460,067
Less:						
Allowance for credit and impairment losses	**-**	**-**	**36,704**	-	-	38,628
Accumulated depreciation and amortization	**-**	**-**	**119,646**	-	-	108,883
	P26,556,846	**P4,494,438**	**P30,894,934**	P39,224,565	P6,235,502	P45,312,556
Financial Liabilities						
Deposit from customers	**P21,180,362**	**P -**	**P21,180,362**	P15,133,603	P -	P15,133,603
Deposit and borrowing from banks	**350,152**	**-**	**350,152**	130,604	-	130,604
Financial liabilities at FVPL	**1,087,484**	**-**	**1,087,484**	2,846,992	-	2,846,992
Liabilities for acceptances	**-**	**-**	**-**	313,351	-	313,351
Accrued interest payable	**13,677**	**-**	**13,677**	30,062	-	30,062
Other liabilities	**152,245**	**-**	**152,245**	94,518	-	94,518
Net due to Head office and other branches	**367,584**	**-**	**367,584**	19,692,176	-	19,692,176
	23,151,504	**-**	**23,151,504**	38,241,306	-	38,241,306
Non-financial Liabilities						
Income tax payable	**100,359**	**-**	**100,359**	18,798	-	18,798
Other liabilities	**130,423**	**-**	**130,423**	81,838	3,630	85,468
	230,782	**-**	**230,782**	100,636	3,630	104,266
	P23,382,286	**P -**	**P23,382,286**	P38,341,942	P3,630	P38,345,572

33. Audit Fees

The Philippine Branch's fee for the audit of the annual financial statements for the year ended September 30, 2022 and September 30, 2022 recorded under ‘Professional fees’ in the statements of income and expenses is P1.87 million and P2.64 million, respectively. The Philippine Branch’s policy allows KPMG Philippines to provide assurance and other audit-related services that, while outside the scope of the statutory audit, are consistent with the role of an external auditor. These include regulatory and prudential reviews requested by regulators. Any other services that are not audit or audit-related services are non-audit services. The Philippine Branch’s policy allows certain non-audit services to be provided where the service would not contravene auditor independence requirements. KPMG Philippines may not provide services that are perceived to be in conflict with the role of an external auditor or breach auditor independence. These include consulting advice and subcontracting of operational activities normally undertaken by management, and engagements where the external auditor may ultimately be required to express an opinion on its own work.

34. Financial Performance

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

	2023	2022
Return on average assets	**0.89%**	0.94%
Return on average equity	**8.24%**	7.38%
Net interest margin	**3.40%**	1.75%

35. Supplementary Information Required under BSP Circular No. 1074

The following supplementary information is required by Appendix 55 - Disclosure Requirements to the Audited Financial Statements (AFS) to Section 174 of the MORB of the BSP, as amended by BSP Circular No. 1074, *Amendments to Regulations on Financial Audit of Banks*.

a. *Description of Capital Instruments Issued*

The Philippine Branch considers its assigned capital from the Head Office as capital instrument for purposes of calculating its capital adequacy ratio as at September 30, 2023 and 2022.

b. *Significant Credit Exposures*

As at September 30, 2023 and 2022, the information on the concentration of credit as to industry of loans and receivables (gross of allowance for credit and impairment losses) is as follows (amount in thousands, except percentages):

	2023		2022	
	Amount	**%**	Amount	%
Manufacturing	**P4,547,257**	**53.42**	P3,448,515	45.61
Financial institutions	**1,660,000**	**19.50**	1,853,000	24.51
Professional, scientific and technical services	**1,226,000**	**14.40**	628,000	8.30
Wholesale and retail trade	**589,971**	**6.93**	-	-
Mining and Quarrying	**450,000**	**5.29**	650,000	8.60
Real estate, renting and business activities	**30,261**	**0.36**	28,427	0.38
Agriculture and forestry	**-**	**-**	600,000	7.94
Information and communication	**-**	**-**	350,000	4.63
Others	**8,921**	**0.10**	2,639	0.03
	P8,512,410	**100.00**	P7,560,581	100.00

BSP considers that concentration of credit risk exists when the total loan exposure to a particular industry or economic sector exceeds 30.0% of total loan portfolio or 10% of Tier 1 capital.

The Philippine Branch has credit concentration in the manufacturing industry as at September 30, 2023 and 2022. Management believes this should not be a cause for concern because the main target market of the Philippine Branch as mandated by the Head Office are low risk institutional clients, most of which are engaged locally in the manufacturing sectors.

As at September 30, 2023, 10% of Tier 1 capital amounted to P728.00 million and the table above includes the three industry groups exceeding this level as of that date. On the other hand, two industry groups exceeded the 10% of Tier 1 capital P696.00 million as at September 30, 2022. The CMRC constantly monitors the credit concentration risk of the Philippine Branch.

c. *Breakdown of Total Loans as to Security and Status*

<u>As to Security</u>
As at September 30, 2023 and 2022, the breakdown of loans and receivables as to collateral (gross amounts in thousands) is as follows:

	2023		2022	
	Amount	**%**	Amount	%
Secured loans:				
Real estate	**P28,601**	**0.34**	P28,180	0.37
Chattel	**8,898**	**0.10**	2,579	0.03
Others	**-**	**-**	16,432	0.22
	37,499	**0.44**	47,191	0.62
Unsecured	**8,474,911**	**99.56**	7,513,390	99.38
	P8,512,410	**100.00**	P7,560,581	100.00

Other secured loans are composed of trade financing loans secured by trust receipts, while unsecured loans are composed of clean obligations of private corporations.

<u>As to Status</u>
Under Section 304 of MORB, those loans, investments, receivables, or any financial asset 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 90 days from contractual due date, or accrued interests for more than 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.

As at September 30, 2022 and 2021, the gross and net NPLs, as defined under Section 304 of MORB, of the Philippine Branch amounted to nil.

Banks that have no unbooked valuation reserves and capital adjustments as required by the BSP are authorized to exclude loans from non-performing classification, loans and advances classified as “Loss” in the latest examination of the BSP which are fully covered by allowance for impairment losses, provided, that interest on said loans shall not be accrued and that such loans shall also be deducted from total loan portfolio for purposes of computation.

d. Information on Related Party Loans

The following table shows information relating to related party loans related party (in thousands):

	DOSRI Loans	**2023 Related Party Loans (inclusive of DOSRI Loans)**	DOSRI Loans	2022 Related Party Loans (inclusive of DOSRI Loans)
Outstanding loans	**P38,993**	**P38,993**	P30,313	P30,313
Percentage of DOSRI/ related party loans to total loan portfolio	**0.46%**	**0.46%**	0.46%	0.46%
Percentage of unsecured DOSRI/ related party loans to total DOSRI loans	**3.83%**	**3.83%**	0%	0%
Percentage of past due DOSRI/ related party loans to total DOSRI loans	**0%**	**0%**	0%	0%
Percentage of non-performing DOSRI/related party loans to total DOSRI/related party loans	**0%**	**0%**	0%	0%

e. Secured Liabilities and Assets Pledged as Security

The Philippine Branch does not have secure liabilities and assets pledged as security.

Other disclosures required by BSP Circular 1074 are disclosed in Notes 7, 31 and 34.

36. Sustainable Finance Framework

Environment Social Governance and Risk Management

The Board is responsible for the oversight of the bank and its sound and prudent management. There are six principal Board Committees: the Ethics, Environment, Social and Governance (EESG) Committee; the Audit Committee; the Risk Committee; the Human Resources Committee; the Digital Business and Technology Committee; and the Nomination and Board Operations Committee. Each Committee has its own charter setting out its roles and responsibilities. At management level, the Group Executive Committee comprises ANZ’s most senior executives. There is a delegations of authority framework that clearly outlines those matters delegated to the CEO and other members of senior management. In addition, there are a number of formally established management committees that deal with particular sets of ongoing issues.

The ANZ Group’s ESG governance processes are overseen by the Board and management through our Board EESG Committee and management Ethics and Responsible Business Committee.

The ANZ Group’s roadmap has five focus areas: Culture; Governance and Accountability; Management of Operational Risk; Remediation; and Simplification. Executive Committee members have ‘ownership’ of each focus area.

Delivering on the ANZ Group’s roadmap will give it confidence that the lessons of the Royal Commission and the themes raised in our Self-Assessment report have been acted on.

Through the ANZ Group's annual materiality assessment, the ANZ Group engages with internal and external stakeholders to inform the ANZ Group's identification of ESG risks and opportunities. The ANZ Group seeks to identify those issues that have the most potential to impact to the ANZ Group's ability to operate successfully and create value for the ANZ Group's shareholders and other stakeholders.

Most material issues:

- *Customer Experience*
  Offering affordable, accessible and responsible financial products and services that meet customer needs. This includes clear and transparent communications, selling practices, lending practices, and hardship and collections policies.

- *Environmental sustainability*
  Managing the business risks, opportunities and impact of our financing activities on climate change, nature including biodiversity, which includes supporting our customers to transition to a low carbon economy and supporting them to protect, restore and mitigate biodiversity loss.

- *Ethics, conduct and culture*
  Maintaining a strong corporate culture known for ethics, integrity and conducting our business responsibly, and aligned to our purpose and values.

- *Financial wellbeing*
  Building financial knowledge and resilience through our products, services and partnerships to help our people, customers and communities meet their current financial commitments and future goals.

- *Housing*
  Improving the availability of and access to suitable and affordable housing for all Australians and New Zealanders.

- *Information security*
  Responding and continually adapting to scams, fraud and cyberattacks that threaten the confidentiality and security of systems and data.

<u>Ethics, Environment, Social and Governance (EESG) Committee</u>
The Board EESG Committee, led by ANZ's Chairman, is responsible for assisting the Board by overseeing measures to advance ANZ's purpose, focusing on ethical and ESG matters. This includes the oversight, review and/or approval of ESG reporting and objectives, corporate governance policies and principles, customer complaints and other conduct-related matters. The Committee also oversees the ethical and ESG risks and opportunities relevant to the bank's ability to advance our purpose and operate as a fair, responsible and sustainable business. The Board EESG Committee meets quarterly, and each meeting opens with an overview of the ESG operating environment, covering current and emerging issues, including regulatory and parliamentary inquiries, community sentiment, competitor activity, relevant international developments and our stakeholder engagement activities.

<u>Ethics and Responsible Business Committee (ERBC)</u>
The ERBC, chaired by the CEO, comprises Senior Executives and members from business divisions and Group functions. Independent ethics adviser Dr. Simon Longstaff participates as an observer every second meeting.

The Committee is a leadership and decision-making body to advance ANZ's purpose and ensure ANZ operates responsibly and achieves fair, ethical and balanced stakeholder outcomes.

The Committee considers the social and environmental impacts of the industries, customers and communities ANZ serves. It also considers our products and services and how they are provided, as well as stakeholder and community expectations.

The ERBC is accountable to the Board EESG Committee in the effective discharge of its responsibilities. It operationalizes Board objectives and makes decisions on issues and policies. It also approves the bank's ESG targets and monitors performance against them quarterly.

Risk Management

The evolving macroeconomic and geopolitical conditions have continued to challenge our operating environment. Our Risk Management Framework (RMF) has remained robust in the face of these challenges, enabling the sound management of our business.

Over the last year we have continued to work towards a stronger and simpler risk and governance framework. Our ability to respond to changes in existing risks, and to deal with emerging risks as they arise has been strengthened, including those discussed below.

Macroeconomic and Geopolitical environment

The rising geopolitical tensions including the conflict in Ukraine, trade tensions, energy security issues in the European Union accompanied with economic challenges relating to rising interest rates, inflation and real cost of living pressures, are creating uncertainty for many of our customers. The Board and management continually monitor these developing conditions, and maintain provisions and strong capital levels for a range of potential scenarios.

Risk Culture

Risk culture is an important component of our organizational culture and underpins the shared values, behaviours and practices that drive how risk is considered in decisions.

We have made progress in strengthening risk culture through achieving greater awareness of the approach to risk culture and establishing strong leadership to deliver on our risk culture plans. This will allow us to achieve our defined target state.

We have defined key risk culture principles that form the foundation of our risk culture approach and have embedded a framework for assessing each risk culture principle across the organization. This framework incorporates desired risk behaviours and business and risk outcomes. We are monitoring risk culture through our Risk Culture Dashboard which captures risk management and business-related information. Our annual Risk Culture Survey informs us on the perceived and actual effectiveness of our risk behaviours, policies and processes, and decision making. Our Board Risk Committee receives half-yearly updates from management to assist the Board in forming a view on risk culture and the effectiveness of plans and actions.

Risk culture is included as a performance objective for all Group Executives and risk is a key element of the balanced scorecard for our people's performance and remuneration. Behaviours supporting the target risk culture are reinforced through the Enterprise Accountability Group.

We acknowledge individuals who role model outstanding risk behaviours for their work to manage and mitigate the organization's risks.

Conduct Risk

The interests of our customers and community are fundamental to our strategy. We continue to responsibly manage our Conduct Risk, including by identifying, managing, and mitigating instances where our activities, products and/or services may result in unfair customer outcomes and/or damage to market integrity. The articulation of Conduct Risk as a Risk Theme under the new Compliance and Operational Risk model will help manage Conduct Risk as a key material risk for ANZ. To support this, we have developed a global Conduct Risk Framework and Conduct Risk taxonomy which facilitate a clear and consistent way of managing and monitoring the risk, in conjunction with the Compliance and Operational Risk Framework.

Non-financial Risk

We have made further inroads in our non-financial risk management. We continue to uplift our non-financial RMF (the I.AM - Identify, Act, Monitor framework) to provide a holistic approach to risk management with insights that enable us to anticipate and navigate a changing environment and protect our customers, shareholders and the community from harm.

We are improving how we management our non-financial risk by updating our approach to be more standardized, integrated, dynamic and automated, so that it is both more effective and efficient.

Financial Crime

We continue to maintain an effective financial crime risk management program that anticipates and navigates criminal threats supported by the right people with the right tools. The Financial Crime team continues to be responsible for the delivery of enhanced detection, investigative and/or intelligence capability that is focused on identifying, mitigating and managing financial crime risk and protecting the community via:

- Partnering with AUSTRAC's Fintel Alliance, and similar programs globally.

- The development and maintenance of a central data repository, intelligence systems and tools.

- The creation and delivery of Dynamic Algorithms to meet new threats.

Emerging Risk

Risks that continue to evolve and that we are paying particular attention to are:

Cyber security risk - We take the security of our bank, our customers and our customers' information very seriously. Cyber security threats continue to be significant and our approach to mitigating cyber security risk involves a range of controls relying on people, technology and process. We are continually testing our defences internally and through independent third parties. We have a very sophisticated cyber security protection capability and have invested heavily in a range of recognized industry practices and technologies, processes and defences. We maintain a 24/7 sophisticated internal Security Operations Centre, analyzing millions of data events daily including unusual or infrequently seen activities identified by our security team. In addition, we are cooperating with our counterparts, governments, and associated entities around the world to protect against cyber security threats, which have increased since COVID-19 and the consequent shift to digital banking and remote working.

We provide continuing staff education and run customer focused campaigns. We have developed threat intelligence newsletters and a ‘Simplifying Cyber for Business’ guide. We have continued to sponsor the Australian Computing Academy’s Schools Cyber Security Challenges, contributing to content and co-producing cyber security modules for students and teachers as part of the digital curriculum.

Climate change risk - The financial risks associated with climate change remain a key focus. Climate-related events can include severe storms, drought, fires, cyclones, hurricanes, floods and rising sea levels. The impact of these events can be widespread. The impact of these losses on the Group may be exacerbated by a decline in the value and liquidity of assets held as collateral, which may impact the Group’s ability to recover its funds when loans default.

We continue to improve our management of climate risks through workstreams focused on regulatory monitoring, policy governance, risk appetite, data and analytics. We have set a public ESG target to develop an enhanced RMF that anticipates potential climate-related impacts, and associated regulatory requirements, by the end of 2022.

Biodiversity risk - Risks associated with biodiversity loss, including as a result of species extinction or decline, ecosystem degradation and nature loss, are emerging risks that we are seeking to understand further. We acknowledge biodiversity risks are closely linked to climate-related risks. In relation to biodiversity, risks can arise from lending to customers that are significantly dependent on biodiversity and ecosystem services, or who may have negative impacts on biodiversity. In addition to physical risks associated with biodiversity loss, risks can also arise from changing societal preferences and regulatory or policy changes (including potential reforms to halt and reverse forest loss, species extinctions and land degradation). These changes may impact the bank directly, but the greater impact is likely to be through the impact of these changes on some of the bank's customers. We understand that failure to manage these risks may lead to financial and non-financial risks and adverse impacts to the Group’s Position.

Biodiversity and natural capital loss are addressed in various ways by ANZ's risk policies and processes. In line with our Social and Environmental Risk Policy, we expect our business customers to use internationally accepted industry practices to manage social, environmental and economic impacts, including potential results on biodiversity. This year we also broadened our engagement with 100 of our largest emitting business customers to include a focus on biodiversity, encouraging and supporting them to identify and manage their potential impacts.

We welcome the establishment of the Taskforce on Nature-related Financial Disclosures (TNFD) and have joined the TNFD Forum to support their work. We recognize their important role in driving widespread and improved disclosures of biodiversity impacts.

Our Risk Management Framework

The Board is ultimately responsible for establishing and overseeing the Group’s Risk Management Framework (RMF) which is supported by the Group’s underlying systems, structures, policies, procedures, processes and people. The Board has delegated authority to the Board Risk Committee (BRC) to develop and monitor compliance with the Group’s risk management policies. The Committee reports regularly to the Board on its activities. The key pillars of the Group’s RMF include:

The Risk Management Statement (RMS), which describes the approach for managing risks arising from the Group's purpose and strategy and the key elements of the RMF that give effect to that strategy. The RMS includes: how the risk function is structured to support the Group's purpose and strategy, and the execution of the Group Chief Risk Officer's prescribed responsibilities as an Accountable Person for the Group under the Banking Executive Accountability Regime; the values, attitudes and behaviours required of employees in delivering on strategic priorities; a description of each material risk; and an overview of how the RMF addresses each risk, with reference to the relevant policies, standards and procedures. It also includes information on how the Group identifies, measures, evaluates, monitors, reports and then either controls or mitigates material risks.

The Risk Appetite Statement (RAS), which sets out the Board's expectations regarding, for each material risk, the maximum level of risk that the Group is willing to accept in pursuing its strategic objectives and its operating plans considering its stakeholders', depositors' and customers' interests.

The Risk Culture, an important component of the Group's organizational culture and an intrinsic part of the Group's RMF.

The Group operates a Three Lines-of-Defence Model in regard to risk management, helping to embed a culture where risk is everyone's responsibility.

The business has first line of defence responsibility for day-to-day ownership of risks and controls and accountability for implementation and ongoing maintenance of the RMF.

The Group Risk (including Compliance) teams form the second line of defence, providing independent oversight of the Group's risk profile and RMF.

Internal Audit is the final line of defence, providing independent evaluation and assurance on the appropriateness, effectiveness and adequacy of the Group's RMF.

The governance and oversight of risk management, while embedded in day-to-day activities, is also the focus of committees and regular forums across the bank (see diagram below). The committees and forums discuss and monitor known and emerging risks, review management plans and monitor progress to address known issues.

<u>Strengthening the ANZ Group's Supplier Code of Practice (SCOP)</u>
Our Supplier Code of Practice (SCOP) outlines our minimum requirements for suppliers including in relation to human rights and workplace relations, occupational health and safety, ethical business practices, information management and confidentiality, accessibility, environmental management and supplier diversity.

We endeavour to include SCOP clauses in new and renewed supplier contracts with 85% of all live supply contracts including the SCOP clause. Since 2021 our usual practice is to include separate contractual clauses covering human rights and modern slavery in ANZ standard contract templates and where we are using the supplier's standard contract. We endeavour to ensure suppliers conduct their business in accordance with our expectations. While not a contractual requirement, we seek an annual attestation of adherence to the SCOP from major suppliers1 managed under our Operational Contract Management Framework (OCMF).

In 2023, 79% of suppliers provided an attestation of adherence to our SCOP. We also seek attestations from a sample of suppliers each year in countries such as India, China, the Philippines, Vietnam, Papua New Guinea and Pacific nations. We continue to encourage suppliers to attest to the SCOP.

Supplier Payments

As a signatory to the Business Council of Australia's Supplier Payment Code, we are committed to paying Australian small business suppliers within a maximum of 30 days of receiving a correct invoice or otherwise in accordance with the Code, unless the contract stipulates a shorter term. However, our aim is to pay small businesses and all Aboriginal and Torres Strait Islander businesses regardless of size as promptly as possible upon approval of the invoice. On average, payment to small business is made within approximately 14 days of receipt of the invoice. In the latest Australian Government's Payment Term Reporting Scheme (June 2023) we reported payment to 91% of all small business supplier invoices within 30 days.

Supporting Social Enterprise

We are a member of Social Traders, an organisation helping to create jobs for disadvantaged Australians by linking business and government to social enterprises. This year, we spent $7.1 million 1 with social enterprises.

In New Zealand, we are a member of Ākina, a buyer group to access a wide range of certified social enterprise suppliers. We spent NZ$144,000 with social enterprises in 2023 and seek to influence our suppliers to also use social enterprises in their own supply chain

The ANZ Group's Progress to Date	Focus Areas 2023	Beyond 2023 Vision
Governance ▪ Board Risk Committee oversees management of climate-related risks ▪ Board Ethics, Environment, Social and Governance (EESG) Committee approves climate-related objectives, policy and targets ▪ Ethics and Responsible Business Committee (executive management) oversees our approach to environment, social and governance (ESG) risks and opportunities, and reviews climate-related risks ▪ Climate Advisory Forum, oversees implementation of our Climate Change Commitment - including progress of our Environmental Sustainability Strategy focus areas and sectoral pathways. ▪ This year, the Board EESG Committee and management ERBC received updates on biodiversity, including a progress update on the TNFD	▪ Align with regulatory guidance on climate-related risk governance, including stress testing of selected portfolios	▪ An enhanced risk management framework that anticipates potential climate-related impacts, and associated regulatory requirements

<table>
<tr><td>Strategy
▪ Our Climate Change Commitment provides the framework to achieve our strategy of transitioning our lending with the goals of the Paris Agreement and our Environmental Sustainability Strategy identifies focus areas, technologies and financing opportunities to help achieve our climate ambition.
▪ Continuing to enhance the capability of our bankers to identify risks and opportunities for climate and nature, including biodiversity.
▪ We will begin a new phase of engagement with our largest emitting business customers in 2024. Triggered in part by the Safeguard Mechanism reforms in Australia, this new phase means upgrading and expanding the scope of our existing work through a new Large Emitters Engagement Program (LEEP).
▪ During the year we continued our engagement with 100 of our largest emitting business customers, to encourage them to strengthen their low carbon transition plans and enhance their efforts to protect biodiversity by the end of 2024. We are now ‘closing off’ this phase of engagement as we focus on our new LEEP program.
▪ We will continue to engage on nature, including biodiversity in our new phase of engagement with our largest emitting customers in 2024.
▪ Participated in TNFD pilot studies and provided feedback on the learnings and existing barriers to adopting and implementing the TNFD Framework.
▪ Joined the United Nations Principles for Responsible Banking - Nature Target Setting Working Group - which is developing guidelines on nature target setting.</td><td>▪ Extending analysis of flood-related risks to incorporate bushfire and other risks relating to retail customers through the CVA
▪ Include climate risk reference in lending guidance documents for relevant industry sectors used by our front line bankers</td><td>▪ ANZ business strategy to grow in a way that is more closely aligned to a resilient and sustainable economy that supports the Paris Agreement goals and Sustainable Development</td></tr>
<tr><td>Risk Management
▪ Assessed regulatory expectations across seven jurisdictions in which we operate, which will help inform the integration of climate risk standards and obligations into our Non-Financial Risk Framework commencing from 2024.
▪ Expanded the Climate Change Risk Assessment starting with certain energy sector customers and customers in our LEEP. It also incorporates consideration of customers nature-related risks, including biodiversity loss.
▪ An Environmental Sustainability data strategy has been developed to inform our approach to sourcing and integrating climate data in priority use cases.</td><td>▪ Encouraging and supporting 100 of our largest emitting business customers to implement and, where appropriate, strengthen their low carbon transition plans and enhance their efforts to protect biodiversity, by end 2024
▪ Customer engagement to identify customer or sector-specific transition or physical risks, focused on corporate and Institutional customers
▪ Further develop an enhanced climate risk management framework that strengthens our governance and anticipates potential climate-related impacts and associated regulatory requirements</td><td>▪ Further integrate assessment of climate-related risks into our Group risk management framework
▪ Standard discussions with business customers include climate-related risks and opportunities
▪ Assessment of customer transition plans part of standard lending decisions and portfolio analysis</td></tr>
</table>

Metrics and Targets ▪ Commenced a new social and environmental sustainability target on 1 April 2023, to fund and facilitate at least $100 billion by end 2030, in social and environmental outcomes through customer activities and direct investments by ANZ. ▪ Continued to develop metrics, pathways and targets to enable progress tracking as we reduce our financed emissions. We have set eight pathway targets over the past three years in line with our commitment to the NZBA. ▪ Progressed towards our target to procure 100% renewable electricity for the Group's operations by 2025, and to reduce our operational emissions in line with Paris Agreement goals. ▪ Our Remuneration Report within the Annual Report details how remuneration outcomes are determined for our most senior employees. In general, remuneration outcomes for the CEO and Disclosed Executives take into consideration performance against ANZ's Group Performance Framework which include sustainability objectives and measures. For example the 2023 Group Performance Framework includes making meaningful progress on environmental sustainability strategies	▪ Complete transition plan engagement with high emitting customers and consider how to integrate into our regular customer assessments ▪ Implement targets to reduce metrics for 'financed emissions' in key sectors by 2030 towards a long-term net zero goal by 2050 ▪ Consider expanding new metrics for measuring impact of our progress on environmental sustainability to other key sectors	▪ Continue to evolve our reporting with leading practices to measure the alignment of our lending with the Paris Agreement goals ▪ Reduce ANZ's operational emissions ▪ in line with the decarbonisation trajectory of the Paris Agreement goals

The ANZ Group's ESG Targets

Each year, the ANZ Group sets public targets that reflect the ANZ Group's ESG priorities, support the delivery of the ANZ Group's business strategy and respond to the most material issues.

Progress against the ANZ Group's targets is reviewed by the Ethics and Responsible Business Committee and twice a year by the Board Ethics, Environment, Social and Governance Committee. Performance against our 2020 targets, many of which are aligned with the United Nations Sustainable Development Goals (UN SDGs), is discussed throughout this report.

As a founding signatory to the UN Principles for Responsible Banking, the ANZ Group has set targets that address the most significant potential impacts; and are aligned with the UN SDGs and the Paris Climate Agreement.

Fair and Responsible Banking

Keeping pace with the expectations of the ANZ Group's customers, employees and the community, behaving fairly and responsibly and maintaining high standards of conduct.

Targets:

- Implement ANZ's new Customer Extra Care Framework, including enhanced training of 5,000 employees to build their capabilities with respect to identifying, supporting and referring impacted customers, by end 2023 (Australia).
- Implement ANZ's new human rights grievance mechanism, and publicly report on complaints received under the mechanism, by end 2023.
- Achieve the 17 actions in our Reconciliation Action Plan, by end 2024. (Australia)

Environmental Sustainability
Supporting household, business and financial practices that improve environmental sustainability.

Targets:

- Fund and facilitate at least $50 billion by 2025 towards sustainable solutions for our customers, including initiatives that help improve environmental sustainability, support disaster resilience, increase access to affordable housing and promote financial wellbeing.

- Engage with 100 of our largest emitting business customers to encourage them o by end 2024, strengthen their low carbon transition plans so that more customers achieve a ‘well developed’ or ‘advanced’ rating and enhanced their efforts to protect biodiversity.
- Develop an enhanced climate risk management framework that strengthens the ANZ Group’s governance and is responsive to climate change, by end 2023.

Housing
Improving the availability of suitable and affordable housing options for all Australians and New Zealanders.

Targets:

- Fund and facilitate $10 billion of investment by 2030 to deliver more affordable, accessible and sustainable homes to buy and rent. (Australia/New Zealand)
- Support more customers into healthier homes with our Healthy Home Loan Package and Interest-free Insulation Loans - through a 2% increase of funds under management and a 4% increase in customer numbers by 2025. (New Zealand)

Financial Well-being
Improving the financial wellbeing of our people, customers and communities by helping them make the most of their money throughout their lives.

Targets:

- Support 1.3 million customers to save regularly, by end 2023. (Australia and New Zealand)
- Publish Adult Financial Wellbeing Research to inform our product design and financial literacy program delivery, by end 2023.
- Establish seven new partnerships to expand the reach and improve impact of MoneyMinded for disadvantaged communities, by end 2023.

37. Supplementary Information Required by the Bureau of Internal Revenue (BIR) 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. The following tax information required for the taxable year ended September 30, 2023 are based on the combined amounts of the RBU and the FCDU.

A. Documentary Stamp Affixed

Debt instruments	**P104,688,445**
Other transactions	**10,244,305**
	P114,932,750

This includes amounts assumed by customers.

B. Withholding Taxes

Tax on compensation and benefits	**P68,542,803**
Final withholding taxes	**36,136,300**
Creditable withholding taxes	**6,246,101**
VAT Withholding taxes	**1,291,203**
	P112,216,407

The above withholding taxes pertain to total remittances to tax authority for the year from October 2022 to September 2023.

C. All Other Taxes (Local and National)

Other taxes paid during the year recognized under "Taxes and Licenses" account under Other Expenses	
Gross receipts tax	**P90,405,697**
Documentary stamp expenses	**35,910,306**
Fringe benefit taxes	**5,865,318**
License and permit fees	**1,391,571**
	P133,572,892

D. Tax Cases and Assessments

As of September 30, 2023, the Philippine Branch has no final tax assessments and pending tax cases.