COVER SHEET

6030

SEC Registration Number

SECURITY BANK CORPORATION

(Company's Full Name)

Security Bank Centre, 6776 Ayala Avenue, Makati City

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

Joselito E. Mape

(Contact Person)

867-6788

(Company Telephone Number)

0 3 **3 1**

Month *Day*

(Fiscal Year)

1 7 - Q

(Form Type)

0 4 **3 0**

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

CFD

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

2,176

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

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SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended **March 31, 2019**

2. Commission identification number **6030**   3. BIR Tax Identification No. **000-498-020**

4. Exact name of issuer as specified in its charter - **SECURITY BANK CORPORATION**

....

5. Province, country or other jurisdiction of incorporation or organization - **Philippines**

6. Industry Classification Code: [ ] (SEC Use Only)

7. **Security Bank Centre, 6776 Ayala Avenue, Makati City**   **0719**
   Address of issuer's principal office   Postal Code

8. **(632) 867-67-88**
   Issuer's telephone number, including area code

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

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

Title of each Class	Number of shares of common stock outstanding and amount of debt outstanding
Common Shares (PhP 10 par)	**Total: 753,538,887 shares**
Preferred Shares (PhP 0.10 par) (Unregistered)	**Total: 1,000,000,000 shares**

11. Are any or all of the securities listed on a Stock Exchange?

    Yes [√] No [ ]

    Preferred Shares are not listed

    If yes, state the name of such Stock Exchange and the class/es of securities listed therein:

    Philippine Stock Exchange   **Common Stock**

12. Check whether the registrant:

    (a) has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

    Yes [√] No [ ]

    (b) has been subject to such filing requirements for the past ninety (90) days.

    Yes [√] No [ ]

PART 1 - FINANCIAL INFORMATION

Item 1. Financial Statements.

Attached are the following:

Unaudited Interim Statements of Financial Position	- Annex "1"
Unaudited Interim Statements of Income	- Annex "2"
Unaudited Interim Statements of Comprehensive Income	- Annex "3"
Unaudited Interim Statements of Changes in Equity	- Annex "4"
Unaudited Interim Statements of Cash Flows	- Annex "5"
Notes to Unaudited Interim Condensed Financial Statements	- Annex "6"
Aging of Loans and Receivables	- Annex "7"
Financial Soundness Indicators	- Annex "8"

Item 2. Management's Discussion and Analysis of Financial Position and Statement of Income - Annex "9"

PART 11 – OTHER INFORMATION

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

SIGNATURES

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

JOSELITO E. MAPE
Chief Financial Officer

Date: May 14, 2019

Annex 1

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

	March 31, 2019	December 31, 2018
	(Amounts in Thousands)	
ASSETS		
Cash and Other Cash Items	**₱10,473,121**	₱11,926,373
Due from Bangko Sentral ng Pilipinas	**54,542,262**	63,605,386
Due from Other Banks	**6,919,120**	9,017,042
Interbank Loans Receivable and Securities Purchased Under Resale Agreements with the Bangko Sentral ng Pilipinas	**2,100,000**	210,001
Financial Assets at Fair Value through Profit or Loss (Note 7)	**3,973,064**	4,948,775
Financial Assets at Fair Value through Other Comprehensive Income (Note 9)	**40,768,932**	34,303,569
Investment Securities at Amortized Cost (Note 10)	**213,454,520**	212,148,115
Loans and Receivables	**411,820,865**	416,317,690
Investment in a Joint Venture	**305,466**	293,316
Property and Equipment (Note 2)	**6,000,371**	4,119,187
Investment Properties	**834,923**	812,794
Deferred Tax Assets	**1,931,779**	1,876,566
Goodwill (Note 3)	**841,602**	841,602
Intangible Assets	**2,364,939**	2,344,445
Other Assets	**7,101,151**	4,096,077
TOTAL ASSETS	**₱763,432,115**	₱766,860,938

LIABILITIES AND EQUITY		
LIABILITIES		
Deposit Liabilities		
Demand	**₱123,907,709**	₱124,920,436
Savings	**81,040,364**	114,736,362
Time	**236,839,807**	224,952,249
Long-term Negotiable Certificates of Deposit (Note 11)	**19,288,023**	24,281,130
	461,075,903	488,890,177
Financial Liabilities at Fair Value through Profit or Loss (Note 7)	**1,468,854**	1,773,591
Derivative Liabilities Designated as Hedges (Note 8)	**3,184,667**	1,536,816
Bills Payable and Securities Sold Under Repurchase Agreements (Note 12)	**121,122,418**	103,180,029
Acceptances Payable	**1,255,012**	618,831
Margin Deposits and Cash Letters of Credit	**704,492**	938,659
Manager's and Certified Checks Outstanding	**4,859,605**	3,275,753
Income Tax Payable	**576,840**	30,334
Notes Payable (Note 13)	**31,370,446**	31,408,760
Subordinated Note (Note 14)	**9,958,528**	9,957,248
Accrued Interest, Taxes and Other Expenses	**5,047,150**	5,417,807
Other Liabilities (Note 2)	**11,471,070**	10,350,791
TOTAL LIABILITIES	**652,094,985**	657,378,796
EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY		
Capital stock (Note 15)	**7,635,389**	7,635,389
Additional paid-in capital (Note 15)	**38,524,323**	38,524,323
Surplus reserves (Note 15)	**2,524,531**	2,523,245
Surplus	**62,455,393**	61,224,974
Net unrealized gain (loss) on financial assets at fair value through other comprehensive income	**180,844**	(429,428)
Net unrealized gain on subsidiaries' financial assets at fair value through other comprehensive income	**10,695**	14,742
Cumulative foreign currency translation	**(889)**	(17,686)
	111,330,286	109,475,559
NON-CONTROLLING INTEREST	**6,844**	6,583
TOTAL EQUITY	**111,337,130**	109,482,142
TOTAL LIABILITIES AND EQUITY	**₱763,432,115**	₱766,860,938

See accompanying Notes to Interim Condensed Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF INCOME

	Quarter Ended March 31	
	2019	2018
	(Amounts in Thousands)	
INTEREST INCOME ON		
Loans and receivables	**₱7,731,416**	₱5,148,644
Financial assets at fair value through other comprehensive income and investment securities at amortized cost	**2,298,415**	2,216,462
Financial assets at fair value through profit or loss	**327,601**	139,774
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	**27,392**	46,041
Deposits with banks and others	**17,443**	38,114
	10,402,267	7,589,035
INTEREST EXPENSE ON		
Deposit liabilities (Note 12)	**3,059,202**	1,520,746
Subordinated note, notes payable, bills payable and securities sold under repurchase agreements and other borrowings (Notes 12, 13 and 14)	**1,325,526**	919,353
Derivative instruments	**262,986**	124,726
Lease liabilities	**35,361**	–
	4,683,075	2,564,825
NET INTEREST INCOME	**5,719,192**	5,024,210
Service charges, fees and commissions	**857,060**	682,898
Trading and securities gain - net	**671,331**	415,572
Rent	**129,354**	98,594
Foreign exchange gain (loss) - net	**55,186**	(29,096)
Share in net income of a joint venture	**12,150**	5,893
Profit (loss) from assets sold/exchanged	**(16,228)**	17,791
Miscellaneous	**100,748**	106,410
TOTAL OPERATING INCOME	**7,528,793**	6,322,272
OPERATING EXPENSES		
Compensation and fringe benefits	**1,363,992**	1,126,172
Taxes and licenses	**762,906**	412,965
Depreciation and amortization	**298,612**	277,883
Provision for credit losses	**295,279**	5,661
Occupancy costs	**254,280**	248,401
Amortization of software costs	**62,597**	36,855
Miscellaneous	**1,286,708**	1,239,290
TOTAL OPERATING EXPENSES	**4,324,374**	3,347,227
INCOME BEFORE INCOME TAX	**3,204,419**	2,975,045
PROVISION FOR INCOME TAX	**822,604**	628,315
NET INCOME	**₱2,381,815**	₱2,346,730
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	**₱2,381,467**	₱2,346,511
Non-controlling interest	**348**	219
NET INCOME	**₱2,381,815**	₱2,346,730
Weighted average number of outstanding common shares*	**753,538,887**	753,538,887
Basic/Diluted Earnings Per Share* (Note 18)	**₱3.15**	₱3.11

*In absolute amounts

See accompanying Notes to Interim Condensed Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

	Quarter Ended March 31	
	2019	2018
	(Amounts in Thousands)	
NET INCOME FOR THE PERIOD	**₱2,381,815**	₱2,346,730
OTHER COMPREHENSIVE INCOME (LOSS)		
Other Comprehensive Income (Loss) to be Reclassified to Profit or Loss in Subsequent Periods:		
Cumulative translation adjustments	**16,797**	60,718
Change in net unrealized gain (loss) on debt instruments at fair value through other comprehensive income	**613,804**	(1,186,964)
	630,601	(1,126,246)
Other Comprehensive Income (Loss) Not to be Reclassified to Profit or Loss in Subsequent Periods:		
Revaluation gains (losses) on equity instruments at fair value through other comprehensive income	**(7,579)**	13,282
OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD	**623,022**	(1,112,964)
TOTAL COMPREHENSIVE INCOME	**₱3,004,837**	₱1,233,766
ATTRIBUTABLE TO:		
Equity holders of the Parent Company	**₱3,004,489**	₱1,233,547
Non-controlling interest	**348**	219
	₱3,004,837	₱1,233,766

See accompanying Notes to Interim Condensed Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES

INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY

For the Period Ended March 31, 2019 and 2018

	Equity Attributable to Equity Holders of the Parent Company									
	Capital Stock (Note 15)	**Additional Paid-In Capital** (Note 15)	**Surplus Reserves** (Note 15	**Surplus**	**Net Unrealized Gain on Financial Assets at Fair Value through Other Comprehensive Income**	**Net Unrealized Gain on a Subsidiary's Financial Assets at Fair Value through Other Comprehensive Income**	**Cumulative Foreign Currency Translation**	**Total**	**Non-controlling Interest**	**Total Equity**
	(Amounts in Thousands)									
Balance at January 1, 2019, as previously reported	**₱7,635,389**	**₱38,524,323**	**₱2,523,245**	**₱61,224,974**	**(₱429,428)**	**₱14,742**	**(₱17,686)**	**₱109,475,559**	**₱6,583**	**₱109,482,142**
Effect of adopting Philippine Financial Reporting Standard (PFRS) 16 (Note 2)	**–**	**–**	**–**	**(15,194)**	**–**	**–**	**–**	**(15,194)**	**(87)**	**(15,281)**
Balance at January 1, 2019, as restated	**7,635,389**	**38,524,323**	**2,523,245**	**61,209,780**	**(429,428)**	**14,742**	**(17,686)**	**109,460,365**	**6,496**	**109,466,861**
Total comprehensive income for the period	**–**	**–**	**–**	**2,381,467**	**610,272**	**(4,047)**	**16,797**	**3,004,489**	**348**	**3,004,837**
Transfers from surplus reserves	**–**	**–**	**1,286**	**(1,286)**	**–**	**–**	**–**	**–**	**–**	**–**
Declaration of cash dividends	**–**	**–**	**–**	**(1,134,568)**	**–**	**–**	**–**	**(1,134,568)**	**–**	**(1,134,568)**
Balance at March 31, 2019	**₱7,635,389**	**₱38,524,323**	**₱2,524,531**	**₱62,455,393**	**₱180,844**	**₱10,695**	**(₱889)**	**₱111,330,286**	**₱6,844**	**₱111,337,130**
Balance at January 1, 2018, as previously reported	₱7,635,389	₱38,524,323	₱1,332,985	₱57,520,438	₱90,968	₱21,423	(₱52,638)	₱105,072,888	₱5,541	105,078,429
Effect of adopting PFRS 9	–	–	–	(216,184)	779,549	–	–	563,365	70	563,435
Balance at January 1, 2018, as restated	7,635,389	38,524,323	1,332,985	57,304,254	870,517	21,423	(52,638)	105,636,253	5,611	105,641,864
Total comprehensive income for the period	–	–	–	2,346,511	(1,167,426)	(6,256)	60,718	1,233,547	219	1,233,766
Transfers from surplus reserves	–	–	60	(60)	–	–	–	–	–	–
Declaration of cash dividends	–	–	–	(1,134,568)	–	–	–	(1,134,568)	–	(1,134,568)
Balance at March 31, 2018	₱7,635,389	₱38,524,323	₱1,333,045	₱58,516,137	(₱296,909)	₱15,167	₱8,080	₱105,735,232	₱5,830	₱105,741,062

See accompanying Notes to Interim Condensed Financial Statements.

Annex 5

SECURITY BANK CORPORATION AND SUBSIDIARIES

INTERIM CONDENSED STATEMENTS OF CASH FLOWS

	For the Periods Ended March 31	
	2019	2018
	(Amounts in Thousands)	
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	**₱3,204,419**	₱2,975,045
Adjustments for:		
Depreciation and amortization	**298,612**	277,883
Provision for credit losses	**295,279**	5,661
Depreciation - right-of-use of asset	**172,068**	–
Amortization of software costs	**62,597**	36,855
Loss (profit) from assets sold/exchanged	**16,228**	(17,791)
Amortization of transaction costs on notes payable (Note 13)	**9,405**	3,610
Amortization of transaction costs on long-term negotiable certificates of deposit (Note 11)	**6,893**	5,197
Amortization of transaction costs on subordinated note (Note 14)	**1,280**	1,553
Hedge ineffectiveness	**1,248**	(14,468)
Share in net income of a joint venture	**(12,150)**	(5,893)
Unrealized market valuation gain on financial instruments at fair value through profit or loss (FVTPL)	**(333,888)**	(620,544)
Gain on disposal of financial assets at fair value through other comprehensive income (FVTOCI)	**(485,826)**	(488,531)
Changes in operating assets and liabilities:		
Decrease (increase) in the amounts of:		
Due from other banks (Note 19)	**(144)**	–
Interbank loans receivable (Note 19)	**319**	–
Loans and receivables	**4,075,255**	3,346,520
Financial assets at FVTPL	**1,004,862**	1,253,576
Other assets	**(3,120,850)**	(4,119,718)
Increase (decrease) in the amounts of:		
Deposit liabilities	**(22,821,167)**	6,879,685
Manager's and certified checks outstanding	**1,583,852**	(259,266)
Accrued interest, taxes and other expenses	**(275,642)**	496,049
Margin deposits and cash letters of credit	**(234,167)**	12,128
Acceptances payable	**636,181**	(238,957)
Other liabilities	**(1,933,550)**	2,831,802
Net cash generated from (used in) operations	**(17,848,886)**	12,360,396
Income taxes paid	**(309,712)**	(854,704)
Net cash provided by (used in) operating activities	**(18,158,598)**	11,505,692
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Financial assets at FVTOCI	**(45,771,669)**	(18,179,882)
Investment securities at amortized cost	**(96,278)**	(346,429)
Property and equipment	**(272,267)**	(422,302)
Intangible assets	**(83,091)**	(87,140)
Proceeds from:		
Disposals/maturities of financial assets at FVTOCI	**40,063,045**	9,811,561
Maturities of investment securities at amortized cost (Note 10)	**58,080**	350,000
Disposal of property and equipment	**12,885**	13,129
Disposal of investment properties	**99,976**	24,251
Net cash used in investing activities	**(5,989,319)**	(8,836,812)

(Forward)

	For the Periods Ended March 31	
	2019	2018
	(Amounts in Thousands)	
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills payable and securities sold under repurchase agreements	**₱780,905,777**	₱715,924,037
Settlements of bills payable and securities sold under repurchase agreements	**(762,884,727)**	(724,548,166)
Maturity of long term negotiable certificates of deposits	**(5,000,000)**	–
Cash dividends paid	**(1,918)**	(2,941)
Payments of lease liabilities	**(232,236)**	–
Net cash provided by (used in) financing activities	**12,786,896**	(8,627,070)
Effect of change in foreign exchange rates	**636,722**	(1,487,573)
NET DECREASE IN CASH AND CASH EQUIVALENTS	**(10,724,299)**	(7,445,763)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD		
Cash and other cash items	**11,926,373**	7,956,367
Due from Bangko Sentral ng Pilipinas	**63,605,386**	56,592,042
Due from other banks	**9,017,042**	6,822,992
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	**210,001**	5,688,647
	84,758,802	77,060,048
CASH AND CASH EQUIVALENTS AT END OF PERIOD		
Cash and other cash items	**10,473,121**	7,344,466
Due from BSP	**54,542,262**	55,206,785
Due from other banks	**6,919,120**	5,900,455
Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas	**2,100,000**	1,162,579
	₱74,034,503	₱69,614,285
OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS		
Interest received	**₱10,920,100**	₱8,672,157
Interest paid	**5,251,142**	2,592,752
Dividends received	**–**	1,605

See accompanying Notes to Interim Condensed Financial Statements.

Annex 6

SECURITY BANK CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

1. Corporate Information

Security Bank Corporation (the Parent Company) is a domestic corporation registered with the Securities and Exchange Commission (SEC) in 1951 and was listed in the Philippine Stock Exchange (PSE) in 1995. The Parent Company's head office is located at Security Bank Centre, 6776 Ayala Avenue, Makati City.

The Parent Company was incorporated on May 8, 1951 and started its operations as a commercial bank on June 18, 1951. On May 30, 2000, the Board of Directors (BOD) of the Parent Company approved its Amended Articles of Incorporation to extend the corporate term of the Parent Company, which expired on May 8, 2001, for another 50 years. On February 19, 2001, the SEC approved such amendment.

In 1994, it was approved by the Bangko Sentral ng Pilipinas (BSP) to operate as a universal bank, allowing it to expand its financial services and revenue sources.

The Parent Company provides expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to engage in financial derivatives to service the requirements of its customers and as a means of reducing and managing the Parent Company's foreign exchange and interest rate exposures.

The Parent Company's subsidiaries (collectively referred to as the "Group"), which are all incorporated in the Philippines, are engaged in the following businesses:

			Effective Percentage of Ownership	
Subsidiaries and Joint Venture	Principal place of business	Line of Business	**March 31, 2019**	December 31, 2018
SB Capital Investment Corporation (SBCIC)	18th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Investment house	**100.00**	100.00
SB Equities, Inc. (SBEI)	18th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Stock brokerage	**100.00**	100.00
SB International Services, Inc. (SISI) (pre-operating stage)	17th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City	Marketing services	**100.00**	100.00
SB Rental Corporation (SBRC)	11th floor, Pacific Star Building, Sen. Gil Puyat Ave. corner Makati Ave. Makati City	Rental / leasing	**100.00**	100.00
SB Cards Corporation (SBCC)	Security Bank Centre, 6776 Ayala Avenue, Makati City	Credit card operations	**100.00**	100.00
Landlink Property Investments (SPV-AMC), Inc. (LPII) (pre-operating stage)	Security Bank Centre, 6776 Ayala Avenue, Makati City	Asset management	**100.00**	100.00
SB Forex, Incorporated (SBFI) (suspended operation)	Security Bank Centre, 6776 Ayala Avenue, Makati City	Foreign exchange services	**100.00**	100.00
SB Finance Company, Inc. (SBFCI) (formerly Security Bank Savings Corporation (SBS))	6797 Ayala Avenue corner Rufino St., Makati City	Financing	**99.54**	99.54
SBM Leasing, Inc. (SBML)	11th floor, Pacific Star Building, Sen. Gil Puyat Ave. corner Makati Ave. Makati City	Financing	**60.0**	60.0

The Parent Company is the Ultimate Parent Company of the Group.

2. Summary of Significant Accounting Policies

Basis of Preparation

The accompanying interim condensed financial statements include the financial statements of the Parent Company and its subsidiaries.

The accompanying interim condensed financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL), financial assets at fair value through other comprehensive income (FVTOCI) and derivative liabilities designated as hedges that have been measured at fair value. The carrying values of recognized loans and receivables that are hedged items in fair value hedges, and otherwise carried at amortized cost, are adjusted to record changes in fair value attributable to the risks that are being hedged. The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand peso (₱000) except when otherwise indicated.

The financial statements of the Parent Company include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and the FCDU is the Philippine peso and United States dollar (USD), respectively. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalents in Philippine peso, which is the Parent Company's presentation currency. The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

The interim condensed financial statements provide comparative information in respect of the previous period.

Each entity in the Group determines its own functional currency and the items included in the financial statements of each entity are measured using that functional currency. The functional currency of each of the Parent Company's subsidiaries is the Philippine peso.

Explanatory Comments about the Seasonality or Cyclicality of Interim Operations

Seasonality or cyclicality of interim operations is not applicable to the Group's type of business.

Statement of Compliance

The accompanying interim condensed financial statements as of and for the three months ended March 31, 2019 have been prepared in compliance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the interim condensed financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of and for the year ended December 31, 2018.

Basis of Consolidation

The consolidated financial statements of the Group are prepared for the same reporting period as the subsidiaries, using consistent accounting policies.

Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Specifically, the Group controls an investee if and only if the Group has:

- Power over the investee (i.e., existing rights that give it the current ability to direct the relevant activities of the investee);
- Exposure, or rights, to variable returns from its involvement with the investee; and
- The ability to use its power over the investee to affect its returns.

When the Group has less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

- The contractual arrangement with the other vote holders of the investee;
- Rights arising from other contractual arrangements; and
- The Group's voting rights and potential voting rights.

The Group re-assesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control. Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Assets, liabilities, income and expenses of a subsidiary acquired or disposed of during the year are included in the statement of comprehensive income from the date the Group gains control until the date the Group ceases to control the subsidiary.

Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies used in line with those used by the Group. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- derecognizes the assets (including goodwill) and liabilities of the subsidiary;
- derecognizes the carrying amount of any non-controlling interests;
- derecognizes the cumulative translation differences recorded in equity;
- recognizes the fair value of the consideration received;
- recognizes the fair value of any investment retained;
- recognizes any surplus or deficit in profit or loss; and
- reclassifies the Parent Company's share of components previously recognized in OCI to profit or loss or surplus, as appropriate, as would be required if the Group had directly disposed of the related assets or liabilities.

<u>Non-controlling Interest</u>
Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Company.

Non-controlling interests are presented separately in the consolidated statement of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of financial position, separately from equity attributable to the Parent Company. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognized as an equity transaction and attributed to the owners of the Parent Company.

Changes in Accounting Policies

Except for the following standards and amended PFRS which were adopted as of January 1, 2019, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year. These new and revised accounting standards have no impact to the Group, except for PFRS 16.

New Standards and Interpretations

- PFRS 16, *Leases*

Amendments to Standards

- Amendments to PAS 19, *Plan Amendment, Curtailment or Settlement*
- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
- *Annual Improvements 2015-2017 Cycle (issued in December 2017)*
  - Amendments to PFRS 3 and PFRS 11 - *Previously held interest in a joint operation*
  - Amendments to PAS 12, *Income tax consequences of payments on financial instruments classified as equity*
  - Amendments to PAS 23, *Borrowing costs eligible for capitalization*

PFRS 16 Adoption

PFRS 16 supersedes PAS 17 *Leases*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for most leases under a single on-balance sheet model. Lessor accounting under PFRS 16 is substantially unchanged from PAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in PAS 17. Therefore, PFRS 16 has no material impact for leases where the Group is the lessor.

The Group adopted PFRS 16 using the modified retrospective approach with the date of initial application at January 1, 2019. Under this method, the standard is applied retrospectively with the cumulative effect of initially applying the standard recognized at the date of initial application. The Group elected to use the recognition exemptions for lease contracts that, at the commencement date, have a lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and lease contracts for which the underlying asset is of low value ('low-value assets').

The effect of adopting PFRS 16 on the statement of financial position (increase/(decrease)) as at January 1, 2019 follow:

	Amount
Right-of-use assets - net*	₱2,070,227
Lease liability**	2,191,874
Deferred tax asset	8,992
Retained earnings	(15,194)

** Presented under property and equipment*
*** Presented under other liabilities*

The Group has applied its existing governance framework to ensure that appropriate controls and validations are in place over key processes and judgments in implementing PFRS 16. The Group is continuously testing and refining the new accounting processes, internal controls and governance framework necessitated by the adoption of PFRS 16. Therefore, the estimation of impacts remain subject to change until finalization of the financial statements for the year ending December 31, 2019.

3. Goodwill

Impairment Testing of Goodwill
In 2012, goodwill acquired through business combination has been allocated to SBS as the cash generating unit (CGU). In 2015, the entire goodwill was reallocated to the 23 branches of SBS which were transferred to the Parent Company as a single CGU. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. As of March 31, 2019 and December 31, 2018, the carrying amount of goodwill amounted to ₱841.6 million and there was no impairment loss recognized for the period ended of March 31, 2019 and in 2018. The last impairment test was carried out as of December 31, 2018.

The recoverable amount of the CGU has been determined based on a VIU calculation using cash flow projections from financial budgets approved by senior management covering a four-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows. Future cash flows and growth rates were based on experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to comparable entity. In 2018, the post-tax discount rate applied to cash flow projections is 14.31% and the growth rate used to extrapolate cash flows beyond the four-year period is 3.00%.

Management believes that no reasonably possible change in any of the above key assumptions would cause the carrying value of the goodwill to materially exceed its recoverable amount.

4. Significant Accounting Judgments and Estimates

Judgements
The preparation of the financial statements in compliance with PFRS requires the Group to make judgments, estimates and assumptions 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.

5. Financial Risk Management

Compared with the December 31, 2018 financial statements, there have been no changes in the financial risk exposures that materially affect the financial statements of the Group as of March 31, 2019. The Group has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; and (c) market risks. Related discussions follow below, which should be read in conjunction with Note 5, *Financial Risk Management Objectives and Policies,* of the Group's 2018 financial statements.

Introduction
Integral to the Parent Company's value creation process is risk management. It therefore operates an integrated risk management system to address the risks it faces in its banking activities, including credit, market, liquidity and operational risks. Exposures across these risk areas are regularly identified, measured, controlled, monitored and reported to both Senior Management and the BOD.

The independent risk control process does not include business risks such as changes in the environment, technology and industry. These risks are monitored through the Parent Company's strategic planning process.

Risk Management Structure

Board of Directors

The BOD directs the Parent Company's over-all risk management strategy. The risk management processes of the subsidiaries are the separate responsibilities of their respective BOD. The BOD performs an oversight function on the Parent Company's implementation of its risk policies through various committees that it has created, as follows:

Risk Oversight Committee

The Risk Oversight Committee (ROC) reviews, approves, and ensures effective implementation of the risk management framework. It approves risk-related policies, oversees limits to discretionary authority that the BOD delegates to management, and evaluates the magnitude, distribution and direction of risks in the Parent Company.

Corporate Governance Committee

The Corporate Governance Committee oversees the compliance function and assists the BOD in fulfilling its corporate governance responsibilities. It is responsible for ensuring the Board's effectiveness and due observance of corporate governance principles and guidelines.

Audit Committee

The Audit Committee through the Internal Audit Department provides the independent assessment of the overall effectiveness of, and compliance with the Parent Company's risk management policies and processes.

Executive Committee

The Executive Committee approves credit risk limit for large exposures except for directors, officers, stockholders and related interests (DOSRI) loans, which are approved by the BOD regardless of amount.

Restructuring Committee

The Loan Restructuring Committee focuses on substandard or non-performing loans (NPLs) and approves the remedial strategy and action plan for these exposures.

Related Party Transaction Committee

The Related Party Transaction Committee ensures that transactions with related parties are handled in a sound and prudent manner, with integrity, and in compliance with applicable laws and regulations to protect the interest of depositors, creditors and other stakeholders.

Nominations and Renumerations Committee

The Nominations and Renumerations Committee oversight over Board nominees and other appointments requiring Board approval, as well as their remuneration commensurate with corporate and individual performance.

Finance Committee

The Finance Committee oversight of the financial management of the group, including capital and liquidity management, reviewing financial performance ensuring that it is compliance with regulatory requirements.

Trust Committee

The Trust Committee ensures that funds and properties held in trust or in any fiduciary capacity shall be administered with the skill, care, prudence and diligence necessary under the circumstances then prevailing that a prudent man, acting in like capacity and familiar matters, would exercise in the conduct of an enterprise of like character and with similar aims.

Technology Steering Committee
The Technology Steering Committee oversees the development, implementation and performance of information technology systems in the Group.

The Parent Company's organizational structure includes the Risk Management Group (RMG), which is responsible for driving the following risk management processes of the Group:

- Independent assessment, measurement, monitoring and reporting of the Group's risk-taking activities; and
- Formulation, review and recommendation of risk related policies.

Nevertheless, the Group's risk management framework adopts the basic tenet that risks are owned by the respective business and process owners. Everyone in the organization is therefore expected to proactively manage the risks inherent to their respective area by complying with the Group's risk management framework, policies and standards.

The Parent Company and its subsidiaries manage their respective financial risks separately. The subsidiaries have their own risk management procedures but are structured similar to that of the Parent Company. To a certain extent, the respective risk management programs and objectives are the same across the Group.

Risk Measurement and Reporting
The Parent Company's risks are measured using various methods compliant with Basel III standards. The Parent Company also runs worst case scenarios that would arise in the event that extreme events which are unlikely to occur do, in fact, occur.

Monitoring and controlling risks are primarily performed based on limits established by the Parent Company. These limits reflect the business strategy and market environment of the Parent Company as well as the level of risk that the Parent Company is willing to accept. In addition, the Parent Company monitors and measures the overall risk-bearing capacity in relation to the aggregate risk exposure across all risk types and activities.

For all levels throughout the Parent Company, specifically tailored risk reports are prepared and distributed in order to ensure that all business divisions have access to extensive, necessary and up-to-date information. These reports include aggregate credit exposure, credit metric forecasts, limit exceptions, Value-at-Risk (VaR), liquidity ratios and risk profile changes.

Credit Risk Management prepares detailed reporting of risks per industry, customer risk rating and classification. Senior management assesses the appropriateness of allowance for credit losses on a yearly basis or as the need arises. The ROC and the heads of the concerned business units receive a comprehensive credit risk report monthly which is designed to provide all the necessary information to assess and conclude on the credit risks of the Parent Company.

In the case of market risk, a monthly report is presented to the ROC on the utilization of market limits and liquidity, plus any other risk developments.

Information compiled from all the businesses is examined and processed in order to analyze, control and identify early risks. This information is presented and explained to the BOD, the ROC, and the head of each business unit.

Risk Mitigation
As part of its market risk management, the Parent Company uses derivatives and other instruments to manage exposures resulting from changes in interest rates and foreign currencies. For interest rate risk from HTC securities (fair value hedge), the Bank entered into Interest Rate Swaps. The risk management objective is to protect the fair value of the HTC securities against adverse movements in

interest rates, specifically due to an aggressive rate hike cycle in the identified hedge period. This objective also allows the Parent Company to safeguard its net interest margin and keep its pool of high-quality liquid assets.

In accordance with the Parent Company's policy, the risk profile of the Parent Company is assessed before entering into hedge transactions, which are authorized by the appropriate committees. The effectiveness of hedges is assessed by the RMG. The effectiveness of all the hedge relationships is monitored by the RMG monthly. In situations of ineffectiveness, the Parent Company will enter into a new hedge relationship to mitigate risk on a continuous basis.

The Parent Company actively uses collateral to reduce its credit risks.

Excessive Risk Concentration

Concentrations arise when a number of counterparties are engaged in similar business activities or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Parent Company's performance to developments affecting a particular industry or geographic location.

The Parent Company manages concentration risks by setting exposure limits to borrowing groups, industries, and where appropriate, on products and facilities. These limits are reviewed as the need arises but at least annually.

In order to avoid excessive concentrations of risk, the Parent Company's policies and procedures include specific guidelines to focus on maintaining a diversified portfolio. Identified concentrations of risks are controlled and managed accordingly.

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to perform its obligations during the life of the transaction. This includes risk of non-payment by borrowers or issuers, failed settlement of transactions and default on contracts.

The Parent Company drives credit risk management fundamentally via its Credit Policy Manual (CPM), the provisions of which are regularly reviewed and updated to reflect changing risk conditions. The CPM defines the principles and parameters governing credit activities, ensuring that each account's creditworthiness is thoroughly understood and regularly reviewed. Relationship Managers assume overall responsibility for the management of credit exposures while middle and back office functions are clearly defined to provide independent checks and balance to credit risk-taking activities. A system of approving and signing limits ensures adequate senior management involvement for bigger and more complex transactions. Large exposures of the Group are kept under rigorous review as these are subjected to stress testing and scenario analysis to assess the impact of changes in market conditions or key risk factors (examples are economic cycles, interest rate, liquidity conditions or other market movements) on its profile and earnings.

The risk management structure of policies, accountabilities and responsibilities, controls and senior management involvement is similarly in place for nonperforming assets.

Liquidity Risk

Liquidity risk is defined as the risk that the Group will encounter difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Liquidity risk arises because of the possibility that the Group might be unable to meet its payment obligations when they fall due under both normal and stress circumstances. Liquidity risk is monitored and managed using Maximum Cumulative Outflows (MCO) limits. A Contingency Funding Plan is likewise in place to ensure readiness for identified liquidity crisis situation.

The Parent Company's Asset and Liability Committee (ALCO) is directly responsible for market and liquidity risk exposures. ALCO regularly monitors the Parent Company's positions and sets the appropriate transfer pricing rate to effectively manage movements of funds across business activities.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading or non-trading portfolios and manages those portfolios separately.

The Group manages its market risk exposures through various established structures, processes and measurement tools.

- Treasury Group, the unit in charge of managing customer flows, liquidity and interest rate risk in the banking book, and that which handles most of the proprietary trading of the Group, is assigned with risk limits by the ROC. Similarly, limits are assigned to the equities trading arm of the Group, Equities Investment Unit.
- The Risk Management Group performs daily monitoring of compliance with policies, procedures and risk limits and accordingly makes recommendations, where appropriate.
- The ALCO is the senior decision making body for the management of all market risks related to asset and liability management, and the trading and accrual books.
- VaR is the statistical model used by the Group to measure the market risk of its trading portfolio, with the confidence level set at 99.0%. On top of VaR and to account for market liquidity, the Group applies various liquidity factors per product type as approved by the ROC.

The market risk measurement models are subjected to periodic back testing to ensure validity of market assumptions used.

Other risk management tools utilized by the Parent Company are as follows:

- Loss limits
- Position and duration limits, where appropriate
- Mark-to-market valuation
- VaR limits
- Earnings-at-Risk (EaR) limits

Additional risk monitoring tools were likewise adopted to better cope with the fluid market environment. This came mainly in the form of sensitivity analyses to pinpoint vulnerabilities in terms of profit or loss and capital erosion.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

Interest rate risk exposures are reported via the weekly repricing gap schedule. The repricing gap report highlights mismatches in the repricing tenors of assets and liabilities. Repricing gaps are calculated by distributing the statements of financial position accounts into time buckets based on the next repricing dates of individual items. For non-maturing deposits, distinction is made between the core (i.e. stable) and non-core portions, where the former is spread in time buckets aligned with Basel's IRRBB Document while the latter is bucketed in short-term tenors. The resulting difference between the amount of the assets and the amount of the liabilities that will reprice within a particular time bucket constitutes a repricing gap.

The Group employs gap analysis to measure the sensitivity of its assets and liabilities to fluctuations in market interest rates for any given period. A positive gap occurs when the amount of interest rate-sensitive assets exceeds the amount of interest rate-sensitive liabilities and is favorable to the Group during a period of rising interest rates since it is in a better position to invest in higher yielding assets more quickly than it would need to refinance its interest bearing liabilities. Conversely, during a period of falling interest rates, a positively gapped position could result in a restrained growth or even a declining net interest income.

Market Risk in the Trading Book

The Parent Company needs to measure VaR in order to have an idea on how the market value of an asset or of a portfolio of assets is likely to decrease over a certain time period as market factors randomly change.

VaR computation is actually a two-step process which involves calculation of the change in the Risk Factor then computing for the corresponding impact on profit or loss. The Risk Factor is defined as a variable that causes a change in the value of a financial instruments or a portfolio of financial instruments.

VaR Methodology

The Parent Company uses two different approaches - Variance-Covariance and Historical Model.

Variance-Covariance approach is based on the assumption that the market factors have a multivariate Normal distribution. Using this assumption, portfolio profits and losses follow a conditional normal distribution, i.e., the standardized return which is the return divided by the forecasted deviation follow the characteristic of the normal curve whilst the returns themselves do not necessarily follow a normal distribution. Due to this assumption, it is possible to have an explicit formula for the quantile, since a relationship exists between standard deviation and confidence level, which will be used for the VaR computation.

Historical model assumes that asset returns in the future will have the same distribution that they had in the past. It estimates VaR by reliving history, which involves using historical changes in market factors to construct a distribution of potential profits and losses, and then reading off the loss that is exceeded at a specified confidence level and period. The Parent Company employs Historical model in two forms: one is a full revaluation while the other is a Taylor expansion composed of sensitivities (“Greeks”) characterizing market behavior.

The Group uses the Historical model in calculating the VaR of most fixed income securities (except government securities), foreign exchange outrights, forwards and swaps, and other derivative instruments. For equities, the Variance-Covariance approach is used.

VaR Parameters

The Group uses a 99.0% confidence level which translates to 2.326 standard deviations. To give a better picture, a 99.0% VaR can be taken as the 10th lowest of 1,000 profit and loss observations.

Since VaR is computed based on the volatility of market factors irrespective of market liquidity, the Parent Company has assigned liquidity factors to account for the market’s ability to absorb the bank’s positions if it were to unload it the next day. The liquidity-adjusted 1-day VaR replaces the use of various defeasance assumption, meant to represent the length of time it takes to fully close positions on a specific product/portfolio. While the Parent Company uses a fixed 1 day defeasance assumption across all products, liquidity factors is subject to a periodic review.

The VaR figures are backtested against actual and hypothetical profit and loss to validate the robustness of the VaR model. Likewise, to complement the VaR measure, the Parent Company performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the VaR model.

Since VaR is an integral part of the Parent Company's market risk management, VaR limits are set annually for all financial trading activities based on its risk appetite level. Exposures are then monitored daily against the established VaR limits.

Equity price risk
Equity price risk is the risk that the fair values of equities decrease as a result of changes in the levels of equity indices and the value of individual stocks.

Market Risk in the Non-Trading Book
The accrual book pertains to the assets and liabilities that make up the Parent Company's balance sheet. Such accrual positions are sensitive to changes in interest rates. The Parent Company monitors the exposure of non-trading assets and liabilities to fluctuations in interest rates by measuring the impact of interest rate movements on its interest income.

Earnings-at-Risk (EAR) or the sensitivity of the statement of income is the effect of the assumed changes in interest rates on the net interest income for one year, based on the floating rate non-trading financial assets and financial liabilities held at each statement of financial position date. This approach focuses on the impact in profit or loss of holding on to the gaps over a 1-year time frame.

To control the interest rate repricing risk in the banking books, the Parent Company sets a limit on the Earnings at Risk (EAR) measure.

The Parent Company recognizes, however, that this metric assumes a "business-as-usual" scenario and, therefore, do not show potential losses under a "stress" scenario. To address this limitation, the Parent Company performs regular stress testing to test its ability to cope with adverse changes in interest rates under different stress scenarios. This process involves applying one-time interest rate shocks of different magnitudes to the current repricing gap positions in the balance sheet.

Currency risk
Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates.

Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency-denominated liabilities with the foreign currency-denominated assets held under the FCDU books.

Effective January 1, 2018, the liquid asset cover requirements for FCDU and Expanded FCDU (EFCDU) liabilities shall be as follows: (a) for universal and commercial banks, 0% liquid asset cover, and (b) for thrift, rural and cooperative banks, 30.0% liquid asset cover. Further, beginning on 1 January 2018, the liquid asset cover requirement for FCDU and EFCDU liabilities for all banks shall be 0%. FCDUs and EFCDUs of universal banks and commercial banks may maintain its foreign currency cover in any foreign currency acceptable with the BSP. However, FCDUs and EFCDUs of thrift banks and rural banks are required to maintain foreign currency cover in the same currency as that of the corresponding foreign currency deposit liability until 31 December 2018. Beginning 1 January 2018, FCDUs and EFCDUs of thrift banks and rural banks may maintain its foreign currency cover in any foreign currency acceptable with the BSP. FCDUs and EFCDUs of universal banks, commercial banks, and thrift banks have the option to maintain foreign currency deposits with the BSP equivalent to 15.0% of their foreign currency deposit liabilities as a form of foreign currency cover. The Parent Company adopts this regulation as prescribed by BSP and addresses this on an ongoing basis. As reported to the BSP, the Parent Company is in compliance with the said regulation as of March 31, 2019 and December 31, 2018.

The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

6. Fair Value Measurement

The following show the fair values of the assets and liabilities of the Group:

	March 31, 2019				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	**₱2,145,523**	**₱2,145,523**	**₱2,145,523**	**₱–**	**₱–**
Private bonds	**20,057**	**20,057**	**20,057**	**–**	**–**
Equity securities	**2**	**2**	**2**	**–**	**–**
Total HFT investments	**2,165,582**	**2,165,582**	**2,165,582**	**–**	**–**
Derivative assets:					
Interest rate swaps	**678,612**	**678,612**	**–**	**678,612**	**–**
Currency forwards	**602,429**	**602,429**	**–**	**602,429**	**–**
Cross-currency swaps	**494,179**	**494,179**	**–**	**494,179**	**–**
Interest rate futures	**16,775**	**16,775**		**16,775**	
Bond forwards	**1**	**1**	**–**	**1**	**–**
Total derivative assets	**1,791,996**	**1,791,996**	**–**	**1,791,996**	**–**
Others	**15,486**	**15,486**	**23**	**–**	**15,463**
Total financial assets at FVTPL	**3,973,064**	**3,973,064**	**2,165,605**	**1,791,996**	**15,463**
Financial assets at FVTOCI					
Treasury bonds	**12,058,375**	**12,058,375**	**12,058,375**	**–**	**–**
Private bonds	**4,890,853**	**4,890,853**	**4,890,853**	**–**	**–**
Treasury notes and bills	**23,557,221**	**23,557,221**	**23,557,221**	**–**	**–**
Equity securities	**262,483**	**262,483**	**–**	**262,483**	**–**
	40,768,932	**40,768,932**	**40,506,449**	**262,483**	**–**
	₱44,741,996	**₱44,741,996**	**₱42,672,054**	**₱2,054,479**	**₱15,463**
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost:					
Treasury bonds	**₱170,681,164**	**₱167,356,769**	**₱167,356,769**	**₱–**	**₱–**
Private bonds	**24,974,563**	**23,692,103**	**23,692,103**	**–**	**–**
Treasury notes and bills	**17,798,793**	**16,375,612**	**16,375,612**	**–**	**–**
Total investment securities at amortized cost	**213,454,520**	**207,424,484**	**207,424,484**	**–**	**–**
Loans and receivables - net	**411,820,865**	**414,695,877**	**–**	**–**	**414,695,877**
Other assets	**438,377**	**378,621**	**–**	**–**	**378,621**
Total financial assets at amortized cost	**625,713,762**	**622,498,982**	**207,424,484**	**–**	**415,074,498**
Non-financial Assets					
Investment properties	**834,923**	**1,330,032**	**–**	**–**	**1,330,032**
	₱626,548,685	**₱623,829,014**	**₱207,424,484**	**₱–**	**₱416,404,530**
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Interest rate swaps	**₱744,184**	**₱744,184**	**₱–**	**₱744,184**	**₱–**
Currency forwards	**638,883**	**638,883**	**–**	**638,883**	**–**
Cross-currency swaps	**85,787**	**85,787**	**–**	**85,787**	**–**
Total financial liabilities at FVTPL	**1,468,854**	**1,468,854**	**–**	**1,468,854**	**–**
Derivative assets designated as hedges	**3,184,667**	**3,184,667**	**–**	**3,184,667**	**–**
	₱4,653,521	**₱4,653,521**	**₱–**	**₱4,653,521**	**₱–**
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	**₱441,787,880**	**₱441,941,175**	**₱–**	**₱–**	**₱441,941,175**
LTNCD	**19,288,023**	**18,550,586**	**–**	**–**	**18,550,586**
Subordinated note	**9,958,528**	**9,006,175**	**–**	**–**	**9,006,175**
Notes Payable	**31,370,446**	**32,251,275**	**32,251,275**	**–**	**–**
Bills payable and SSURA	**121,122,418**	**120,790,708**	**–**	**–**	**120,790,708**
	₱623,527,295	**₱622,539,919**	**₱32,251,275**	**₱–**	**₱590,288,644**

	December 31, 2018				
		Fair Value			
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
December 31, 2018					
Assets Measured at Fair Value					
Financial assets at FVTPL:					
HFT investments:					
Government securities	₱2,445,910	₱2,445,910	₱2,445,910	₱–	₱–
Private bonds	29,497	29,497	29,497	–	–
Equity securities	4	4	4	–	–
Total HFT investments	2,475,411	2,475,411	2,475,411	–	–
Derivative assets:					
Interest rate swaps	1,029,830	1,029,830	–	1,029,830	–
Currency forwards	903,470	903,470	–	903,470	–
Cross-currency swaps	524,577	524,577	–	524,577	–
Total derivative assets	2,457,877	2,457,877	–	2,457,877	–
Others	15,487	15,487	23	–	15,464
Total financial assets at FVTPL	4,948,775	4,948,775	2,475,434	2,457,877	15,464
Financial assets at FVTOCI:					
Treasury notes and bills	17,637,261	17,637,261	17,637,261	–	–
Treasury bonds	11,615,697	11,615,697	11,615,697	–	–
Private bonds	4,781,058	4,781,058	4,781,058	–	–
Equity securities	269,553	269,553	–	269,553	–
	34,303,569	34,303,569	34,034,016	269,553	–
	₱39,252,344	₱39,252,344	₱36,509,450	₱2,727,430	₱15,464
Assets for which Fair Values are Disclosed					
Financial Assets					
Financial assets at amortized cost					
Investment securities at amortized cost:					
Treasury bonds	₱169,437,000	₱158,491,355	₱158,491,355	₱–	₱–
Private bonds	25,079,710	22,953,353	22,953,353	–	–
Treasury notes and bills	17,631,405	14,762,225	14,762,225	–	–
Total investment securities at amortized cost	212,148,115	196,206,933	196,206,933	–	–
Loans and receivables	416,317,690	423,063,307	–	–	423,063,307
Other assets	381,969	321,574	–	–	321,574
Total financial assets at amortized cost	628,847,774	619,591,814	196,206,933	–	423,384,881
Non-financial Assets					
Investment properties	812,794	1,130,608	–	–	1,130,608
	₱629,660,568	₱620,722,422	₱196,206,933	₱–	₱424,515,489
Liabilities Measured at Fair Value					
Financial liabilities at FVTPL:					
Derivative liabilities:					
Interest rate swaps	₱1,073,342	₱1,073,342	₱–	₱1,073,342	₱–
Currency forwards	578,457	578,457	–	578,457	–
Cross-currency swaps	121,792	121,792	–	121,792	–
Total financial liabilities at FVTPL	1,773,591	1,773,591	–	1,773,591	–
Derivative Liabilities Designated as Hedges	1,536,816	1,536,816	–	1,536,816	–
	₱3,310,407	₱3,310,407	₱–	₱3,310,407	₱–
Liabilities for which Fair Values are Disclosed					
Deposit liabilities excluding LTNCD	₱464,609,047	₱464,681,748	₱–	₱–	₱464,681,748
LTNCD	24,281,130	23,304,459	–	–	23,304,459
Subordinated note	9,957,248	8,680,099	–	–	8,680,099
Notes payable	31,408,760	31,738,550	31,738,550	–	–
Bills payable and SSURA	103,180,029	103,347,844	–	–	103,347,844
	₱633,436,214	₱631,752,700	₱31,738,550	₱–	₱600,014,150

During the periods ended March 31, 2019 and December 31, 2018, there were no transfers between level 1 and level 2 fair value measurements and no transfers into and out of level 3 fair value measurement.

The Group measures certain financial instruments at fair value at each reporting period. Also, fair values of financial instruments carried at amortized cost and investment properties carried at cost are measured for disclosure purposes.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – Quoted (unadjusted) market prices in active markets for identical assets or liabilities
Level 2 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is directly or indirectly observable
Level 3 – Valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

External appraisers are involved for valuation of significant nonfinancial assets, such as investment properties. Selection criteria include market knowledge, reputation, independence and whether professional standards are maintained.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy.

The methods and assumptions used by the Group in estimating the fair value of its assets and liabilities are:

COCI, due from BSP and other banks and interbank loans receivable and SPURA with the BSP
The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities
Fair values are generally based upon quoted market prices, if available. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities
Fair values of quoted equity securities are based on quoted market prices. Fair values of unquoted equity securities are derived based on the adjusted net asset value method.

Receivable from customers and sales contracts receivable (included under Other receivables)
Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Other receivables - Accounts receivable and accrued interest receivable
Carrying amounts approximate fair values given their short-term nature.

Investment properties
Fair value of investment properties are determined by independent or in-house appraisers using the market data approach. Valuations were derived on the basis of recent sales of similar properties in the same area as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made and comparability of similar properties sold with the property being valued. Significant unobservable inputs in determining fair values include the following:

Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value.
Time element	An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current data is superior to historic data.
Discount	Generally, asking prices in advertisements posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent.

Other financial assets
The carrying amounts approximate fair values due to their short-term nature.

Derivative instruments
Fair values of quoted warrants are based on quoted market prices. Other derivative products are valued using valuation techniques using market observable inputs including foreign exchange rates and interest rate curves prevailing at the statement of financial position date. For interest rate swaps, cross-currency swaps and foreign exchange contracts, discounted cash flow model is applied. This valuation model discounts each cashflow of the derivatives at a rate that is dependent on the tenor of the cashflow.

Deposit liabilities (demand and savings deposits excluding long-term savings deposits)
The carrying amounts approximate fair values considering that these are due and demandable.

Long-term savings deposits and time deposits, and bills payable and SSURA
Fair values of long-term savings and time deposits, and bills payable and SSURA are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

Long-term negotiable certificates of deposit (LTNCD), subordinated note and notes payable
Fair values of LTNCD and subordinated note are estimated using adjusted quoted market prices of comparable investments. The adjustments on market quoted prices are unobservable inputs. Fair values of notes payable are based on quoted market prices.

Other financial liabilities
For accrued interest and other expenses and other financial liabilities, the carrying amounts approximate fair values due to their short-term nature.

7. Financial Assets and Liabilities at Fair Value through Profit or Loss

As of March 31, 2019 and December 31, 2018, financial assets at FVTPL include net unrealized gain of ₱1.8 billion and ₱2.5 billion, respectively, while financial liabilities at FVTPL include net unrealized loss of ₱1.5 billion and ₱1.8 billion, respectively.

Net unrealized gain or loss on financial assets at FVTPL (other than currency forwards) is included in Trading and securities gain - net in the statement of income. For the three months ended March 31, 2019 and 2018, net unrealized gain of ₱0.3 billion and ₱1.1 billion, respectively, on currency forwards is included in Foreign exchange gain (loss) - net in the statement of income.

8. Derivatives Designated as Hedges

The following table sets out the information about the Group's derivative financial instruments designated as hedges and the related fair values:

	March 31, 2019		December 31, 2018	
	Notional Amount	**Derivative Liability**	Notional Amount	Derivative Liability
Interest rate swaps	**USD2,781,571**	**₱3,184,667**	USD2,781,571	₱1,536,816

The change in fair value of the hedging instruments resulted to a loss amounted to ₱1.6 billion and ₱105.7 million for the three months ended March 31, 2019 and 2018, respectively.

9. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

	March 31, 2019	December 31, 2018
Debt instruments		
Treasury notes and bills	**₱23,557,221**	₱17,637,261
Treasury bonds	**12,058,375**	11,615,697
Private bonds	**4,890,853**	4,781,058
	40,506,449	34,034,016
Equity instruments		
Golf shares	**227,180**	237,460
PSE shares	**35,303**	32,093
	262,483	269,553
	₱40,768,932	₱34,303,569

In 2019, debt instruments at FVTOCI were carried at stage 1 and there were no transfers into and out of stage 1.

As of March 31, 2019 and December 31, 2018, ECL allowance related to financial assets at FVTOCI amounted to ₱33.5 million and ₱34.7 million, respectively.

On January 19, 2018, the Parent Company participated in the Republic of the Philippines’ cash tender program and submitted its holdings of eligible ROP bonds classified as FVTOCI securities with face value of USD128.6 million (₱6.6 billion) resulting in gain amounting to USD4.3 million (₱220.0 million) recorded under ‘Trading and securities gain - net’.

As discussed in Note 10, the Parent Company reclassified certain HTC securities to financial assets at FVTOCI due to change in business model in managing its financial assets in accordance with the final version of PFRS 9.

As of March 31, 2019 and December 31, 2018, FVTOCI dollar-denominated securities amounted to ₱38.8 billion and ₱30.4 billion, respectively.

As of March 31, 2019 and December 31, 2018, FVTOCI Peso-denominated securities amounted to ₱2.0 billion and ₱3.9 billion, respectively.

As of March 31, 2019 and December 31, 2018, certain treasury bond securities with a carrying amount of ₱9.3 billion and ₱8.6 billion, respectively, were pledged with foreign and local banks as collateral for SSURA.

PSE shares were obtained by SBEI in 2001 as a result of the demutualization of its membership shares in the stock exchange. These investments were for long-term strategic purpose. SBEI designated these equity securities as financial assets at FVTOCI as management believes that this provides a more meaningful presentation for medium or long-term strategic investments, rather than reflecting changes in fair value immediately in the statements of income. The Group also adopted the same classification for its investments in golf shares.

10. Investment Securities at Amortized Cost

This account consists of investments in:

	March 31, 2019	December 31, 2018
Treasury bonds	**₱170,681,164**	₱169,437,000
Private bonds	**25,078,110**	25,079,711
Treasury notes and bills	**17,798,793**	17,766,283
	₱213,558,067	₱212,282,994
Allowance for credit losses	**103,547**	134,879
	₱213,454,520	₱212,148,115

In 2019, investment securities at amortized cost were carried at stage 1 and there were no transfers into and out of stage 1.

On January 1, 2018, as a result of the change in business model, certain USD-denominated and Peso denominated HTC securities with a carrying amount of USD517.6 million (₱25.8 billion) and ₱1.7 billion, respectively, have been reclassified to the ‘Financial assets at FVTOCI’ category. The reclassification resulted in a valuation gain of ₱812.6 million recorded under ‘Net unrealized gain (loss) on debt instruments at fair value through other comprehensive income’.

As of March 31, 2019 and December 31, 2018, HTC dollar-denominated securities amounted to ₱46.6 billion.

As of March 31, 2019 and December 31, 2018, HTC Peso-denominated securities amounted to ₱167.0 billion and ₱165.7 billion, respectively.

As of March 31, 2019 and December 31, 2018, certain treasury bond securities with a carrying amount of ₱85.3 billion and ₱67.8 billion, respectively, and fair value of ₱85.6 billion and ₱64.1 billion, respectively, were pledged with foreign and local banks as collateral for SSURA.

As of March 31, 2019 and December 31, 2018, government securities included under 'Investment securities at amortized cost' with a total face value of ₱550.0 million and ₱508.1 million, respectively, were deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions.

11. Deposit Liabilities

On May 8, 2014, the BSP, through BSP Circular 832, approved the 1.0% increase in reserve requirements effective May 30, 2014, thereby further increasing the reserve requirements on non-FCDU deposit liabilities of the Parent Company and SBS from 19.0% to 20.0% and from 7.0% to 8.0%, respectively. On February 15, 2018, the BSP, through BSP Circular 997, approved the 1.0% reduction in reserve requirements effective March 2, 2018 thereby reducing the reserve requirements on non-FCDU deposit liabilities of the Parent Company from 20.0% to 19.0%.

As mandated by the Circular, only demand deposit accounts maintained by banks with the BSP are eligible for compliance with reserve requirements, thereby excluding government securities and cash in vault as eligible reserves. Further, deposits maintained with the BSP in compliance with the reserve requirement shall no longer be paid interest.

On May 24, 2018, the BSP, through BSP Circular 1004, approved the 100-basis-point reduction in the reserve requirement ratios of selected reservable liabilities of the Parent Company effective June 1, 2018.

As of March 31, 2019 and December 31, 2018, the Group was in compliance with such regulations.

As of March 31, 2019 and December 31, 2018, the Group has set aside 'Due from BSP' as reserves amounting to ₱59.0 billion and ₱63.6 billion, respectively.

<u>Long Term Negotiable Certificate of Deposits matured on February 17, 2019</u>
On February 17, 2012, the Parent Company issued 5.50% fixed coupon rate (EIR of 5.62%) unsecured LTNCD at par value of ₱5.0 billion.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on November 24, 2011.

<u>Long Term Negotiable Certificate of Deposits maturing on August 16, 2019</u>
On August 15, 2012, the Parent Company issued 5.50% fixed coupon rate (EIR of 5.62%) unsecured LTNCD at par value of ₱5.0 billion.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on April 26, 2012.

<u>Long Term Negotiable Certificate of Deposits maturing on May 8, 2023</u>
On November 8, 2017, the Parent Company issued 3.875% fixed coupon rate (EIR of 4.01%) unsecured LTNCD at par value of ₱8.6 billion.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on October 5, 2017.

Long Term Negotiable Certificate of Deposits maturing on November 2, 2023
On May 2, 2018, the Parent Company issued 4.50% fixed coupon rate (EIR of 4.69%) unsecured LTNCD at par value of ₱5.78 billion.

The issuance of the foregoing LTNCD under the terms approved by the BOD was approved by the BSP on October 5, 2017.

The movement of unamortized debt issue costs on LTNCD follows:

	March 31, 2019	December 31, 2018
Beginning balance	**₱99,870**	₱73,525
Addition	**–**	53,506
Amortization	**(6,893)**	(27,161)
Balance at end of year	**₱92,977**	₱99,870

Interest expense on deposit liabilities consists of:

	For the period ended March 31	
	2019	2018
Demand	**₱31,927**	₱29,153
Savings	**235,778**	417,106
Time	**2,532,367**	848,478
LTNCD	**259,130**	226,009
	₱3,059,202	₱1,520,746

12. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

	March 31, 2019	December 31, 2018
SSURA	**₱76,235,669**	₱59,274,353
Foreign banks	**23,379,053**	25,822,254
Local government banks with relending facilities	**14,190,266**	13,694,071
BSP - rediscounting	**5,105,756**	2,541,491
Local banks	**2,211,674**	1,847,860
	₱121,122,418	₱103,180,029

Certain investment securities were pledged with foreign and local banks as collateral for SSURA (see Notes 9 and 10).

Interest expense on bills payable amounted to ₱846.8 million and ₱626.0 million for the three months ended March 31, 2019 and 2018, respectively.

13. Notes Payable

Senior Unsecured Notes due 2020
In February 2015, the Parent Company issued \$300.0 million senior unsecured notes (“Senior Notes”) due on February 3, 2020. The Senior Notes, which are listed in the Singapore Stock Exchange, were priced at par with a coupon rate of 3.95% (EIR of 4.04%) payable on a semi-annual basis commencing on August 3, 2015. The Parent Company incurred debt issue costs amounting to ₱61.0 million.

Senior Unsecured Notes due 2023
In September 2018, the Parent Company issued $300.0 million senior unsecured notes ("Senior Notes") due on September 25, 2023. The Senior Notes, which are listed in the Singapore Stock Exchange, were priced at a discount, with a coupon rate of 4.50% fixed rate (EIR of 4.67%) payable on a semi-annual basis commencing on March 25, 2019. The Parent Company incurred debt issue costs amounting to ₱57.6 million.

The movements in unamortized discount follow:

	March 31, 2019	December 31, 2018
Discount on issuance of notes	**₱139,240**	₱30,598
Additions	–	132,354
Amortization	**(9,405)**	(21,608)
Translation adjustment	**979**	(2,104)
Balance at end of year	**₱130,814**	₱139,240

Interest expense on notes payable amounted to ₱343.0 million and ₱157.2 million for the three months ended March 31, 2019 and 2018, respectively.

14. Subordinated Note

Tier 2 Unsecured Subordinated Notes due 2024
On July 11, 2014, the Parent Company issued ₱10.0 billion Unsecured Subordinated Notes (2024 Sub Notes) due on July 11, 2024 qualifying as Tier 2 Capital. The Notes will initially bear interest at the rate of 5.375% per annum (EIR of 5.464%) from and including July 11, 2014 to but excluding July 11, 2019. Unless the 2024 Sub Notes are redeemed on July 12, 2019, the initial interest rate will be reset at the equivalent of the five-year PDST-R1 plus a spread of 1.575% per annum, and such interest will be payable commencing on July 12, 2019 up to and including July 11, 2024. The interest of the 2024 Sub Notes for the entire term will be payable quarterly in arrears on the 11th of January, April, July, and October of each year, commencing on October 11, 2014.

The issuance of the 2024 Sub Notes under the terms approved by the BOD was approved by the BSP on May 21, 2014, subject to the Parent Company's compliance with certain conditions.

The movements in unamortized discount follow:

	March 31, 2019	December 31, 2018
Beginning balance	**₱42,752**	₱49,186
Amortization	**(1,280)**	(6,434)
Balance at end of year	**₱41,472**	₱42,752

Interest expense for the subordinated notes amounted to ₱135.7 million and ₱136.0 million for the three months ended March 31, 2019 and 2018, respectively.

15. Equity

As of March 31, 2019 and December 31, 2018, the Parent Company's capital stock consists of:

	Shares*	**Amount**
Common stock - ₱10 par value		
Authorized	1,000,000,000	₱10,000,000
Issued and outstanding		
Balance at the beginning and end of the period	753,538,887	7,535,389

	Shares*	Amount
Preferred stock- ₱0.10 par value		
Authorized	1,000,000,000	100,000
Issued and outstanding		
Balance at the beginning and end of the period	1,000,000,000	100,000
	1,753,538,887	₱7,635,389

Absolute number of shares

On November 26, 2013, the Parent Company's stockholders approved and authorized the following:

1. Creation of 1.0 billion non-cumulative, non-participating, non-convertible voting Preferred Stock with par value of ₱0.1 each and issuance of approximately 602.8 million of such Preferred Stock; and
2. Increase in authorized capital stock from ₱10.0 billion to ₱10.1 billion broken down into ₱10.0 billion Common Stock and ₱100.0 million Preferred Stock.

The Preferred Stock was offered to eligible common stockholders, with each eligible stockholder entitled to subscribe to one voting preferred share for every one common stock held as of the record date, June 16, 2014.

On July 10, 2014, the Parent Company issued 602,831,109 non-cumulative, non-participating, non-convertible Preferred Stock with ₱0.1 par value. The dividend rate is 3.9% repricing every 10 years. The Preferred Stock is redeemable at the sole option of the Parent Company at its issue price. Redemption shall at all times be subject to regulation of the BSP and shall require (i) prior approval of the BSP; (ii) replacement with at least an equivalent amount of newly paid-in-shares; (iii) a lapse of at least five (5) years from the date of issuance; and (iv) solvency of the Parent Company. Redemption shall not be allowed when the Parent Company is insolvent or if such redemption will cause insolvency, impairment of capital or inability of the Parent Company to meet its debts as they mature.

A sinking fund for the redemption of Preferred Shares amounting ₱100.0 million is created upon their issuance, to be effected by the transfer of free surplus to a restricted surplus account and shall not be available for dividend distribution.

On January 14, 2016, the Parent Company's BOD approved the following in its special meeting:

1. The acceptance of the Offer from BTMU to invest in a 20.0% voting interest in the Parent Company;
2. The issuance of 150,707,778 common shares to BTMU from the unissued authorized shares of the Parent Company at a price of ₱245.0 per common share, or a total of ₱36,923,405,610;
3. The listing of these newly issued common shares in the Philippine Stock Exchange, subject to the approval of shareholders (if needed); and
4. The issuance of all unissued authorized voting preferred shares totaling to 397,168,891 at par value of ₱0.1 per share.

The application for investment has been approved by the Monetary Board of the BSP on February 24, 2016. The shares were issued to BTMU on April 1, 2016. Upon ratification of the stockholders of the investment by BTMU on April 26, 2016, shares issued to BTMU were listed with the Philippine Stock Exchange on June 28, 2016. The attributable costs of the issuance of common and preferred shares amounting to ₱102.2 million have been charged directly to equity as a reduction from 'Additional paid-in capital', while costs amounting to ₱41.6 million were charged directly to expense.

The computation of surplus available for dividend declaration in accordance with SEC Memorandum Circular No. 11 issued in December 2008 differs to a certain extent from the computation following BSP guidelines including capital adequacy requirements and other considerations such as general loan loss reserves. The amount declared as dividends is the amount approved by the BSP. However, in September 17, 2015, the BSP through MB Resolution No. 1516, allowed banks to declare and pay dividends without prior BSP verification provided that pre-qualification criteria including capital adequacy requirements are met.

Surplus reserves of the Group consist of:

	March 31, 2019	December 31, 2018
Reserve for self-insurance	**₱2,111,200**	₱2,111,200
Reserve for trust business	**277,500**	277,500
Reserve for redemption of preferred stock	**100,000**	100,000
Others	**35,831**	34,545
	₱2,524,531	₱2,523,245

To comply with Securities Regulation Code Rule 49.1 (B), *Reserve Fund,* requiring broker dealers to annually appropriate a certain minimum percentage of its audited profit after tax as reserve fund, a portion of the Group's surplus corresponding to the net earnings of SBEI amounting to ₱35.8 million ₱34.5 million as of March 31, 2019 and December 31, 2018, respectively, has been appropriated in the consolidated financial statements and is not available for dividend declaration.

Capital Management

The Group considers the equity attributable to the equity holders of the Parent Company as the capital base of the Group. The primary objectives of the Group's capital management are to ensure that it complies with externally imposed capital requirements and that it maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities and assessment of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Group may adjust the amount and mode of dividend payment to shareholders, issue capital securities or undertake a share buy-back. The processes and policies guiding the determination of the sufficiency of capital for the Group relative to its business risks are the very same methodology that have been incorporated into the Group's ICAAP in compliance with the requirements of BSP Circular No. 639 for its adoption. Under this framework, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget; as well as regulatory edicts. BSP requires submission of an ICAAP document every January 31. In 2015 and 2014, while the Group has revised and created additional triggers for its CET I capital, respectively, on top of it 2013 ICAAP to its original capital management process, no changes were made in the objectives and policies from previous years. In 2015, the Group has established the Finance Committee to oversee the Group's ICAAP. It recommends measures to safeguard the capital of the Group.

In March 2016, the BSP issued Circular 904, mandating the development of a recovery plan for Domestic Systemically Important Banks, with the initial submission in June 2016. The Group was able to enhance the 2016 ICAAP document to extend its analysis on capital to cover the guidelines mandated by the BSP.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's 'unimpaired capital' (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory policies. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.0% for both solo basis (head office and branches) and consolidated basis (parent company and subsidiaries engaged in financial allied undertakings). Qualifying capital and risk-weighted assets are computed based on BSP regulations.

The regulatory Gross Qualifying Capital of the Parent Company consists of Tier 1 (core) and Tier 2 (supplementary) capital. Tier 1 capital comprises share capital, retained earnings (including current year profit) and non-controlling interest less required deductions such as deferred tax, intangible assets and unsecured credit accommodations to DOSRI. Tier 2 capital includes unsecured subordinated note, revaluation reserves and general loan loss provision. Certain items are deducted from the regulatory Gross Qualifying Capital, such as but not limited to equity investments in unconsolidated subsidiary banks and other financial allied undertakings, but excluding investments in debt capital instruments of unconsolidated subsidiary banks (for solo basis) and equity investments in subsidiary nonfinancial allied undertakings.

Risk-weighted assets are determined by assigning defined risk weights to statement of financial position exposures and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.0% to 150.0% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors. For the purpose of determining the relevant risk weight, third party credit assessments provided by Standard & Poor's, Moody's, Fitch and PhilRatings were used.

Following is a summary of risk weights and selected exposure types:

Risk weight	Exposure/Asset type*
0%	Cash on hand; claims collateralized by securities issued by the non-government, BSP; loans covered by the Trade and Investment Development Corporation of the Philippines; real estate mortgages covered by the Home Guarantee Corporation
20%	COCI, claims guaranteed by Philippine incorporated banks/quasi-banks with the highest credit quality; claims guaranteed by foreign incorporated banks with the highest credit quality; loans to exporters to the extent guaranteed by Small Business Guarantee and Finance Corporation
50%	Housing loans fully secured by first mortgage on residential property; Local Government Unit (LGU) bonds which are covered by Deed of Assignment of Internal Revenue allotment of the LGU and guaranteed by the LGU Guarantee Corporation
75%	Direct loans of defined Small Medium Enterprise and microfinance loans portfolio; nonperforming housing loans fully secured by first mortgage
100%	All other assets (e.g., real estate assets) excluding those deducted from capital (e.g., deferred tax)
150%	All NPLs (except nonperforming housing loans fully secured by first mortgage) and all nonperforming debt securities

** Not all inclusive*

With respect to off-balance sheet exposures, the exposure amount is multiplied by a credit conversion factor (CCF), ranging from 0.0% to 100.0%, to arrive at the credit equivalent amount, before the risk weight factor is multiplied to arrive at the risk-weighted exposure. Direct credit substitutes (e.g., guarantees) have a CCF of 100.0%, while items not involving credit risk has a CCF of 0.0%.

In the case of derivatives, the credit equivalent amount (against which the risk weight factor is multiplied to arrive at the risk-weighted exposure) is generally the sum of the current credit exposure or replacement cost (the positive fair value or zero if the fair value is negative or zero) and an estimate of the potential future credit exposure or add-on. The add-on ranges from 0.0% to 1.5% (interest rate-related) and from 1.0% to 7.5% (exchange rate-related), depending on the residual maturity of the contract. For CLNs and similar instruments, the risk-weighted exposure is the higher of the exposure based on the risk weight of the issuer's collateral or the reference entity or entities.

As of March 31, 2019 and December 31, 2018, the Group was in compliance with the required capital adequacy ratio (CAR), as follows:

	March 31, 2019	December 31, 2018
Tier 1 capital	**₱109,414,857**	₱107,840,717
Less Required deductions	**6,732,554**	6,836,161
	102,682,303	101,004,556
Excess from Tier 2 deducted to Tier 1 Capital*	**–**	–
Net Tier 1 Capital	**102,682,303**	101,004,556
Tier 2 capital	**15,107,615**	14,174,245
Less: Required deductions	**–**	–
	15,107,615	14,174,245
Excess of Tier 2 deducted to Tier 1 Capital*	**–**	–
Net Tier 2 Capital	**15,107,615**	14,174,245
Total Qualifying Capital	**₱117,789,918**	₱115,178,801
Risk Weighted Assets	**₱620,889,457**	₱615,936,742
Tier 1 CAR	**16.54%**	16.40%
Total CAR	**18.97%**	18.70%

**Deductions to Tier 2 Capital are capped at its total gross amount and any excess shall be deducted from Tier 1 Capital.*

On January 15, 2013, the BSP issued Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The circular is effective on January 1, 2014.

The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.0% and Tier 1 capital ratio of 7.5%. It also introduces a capital conservation buffer of 2.5% comprised of CET1 capital. The BSP's existing requirement for Total CAR remains unchanged at 10% and these ratios shall be maintained at all times.

Further, existing capital instruments as of December 31, 2010 which do not meet the eligibility criteria for capital instruments under the revised capital framework shall no longer be recognized as capital upon the effectivity of Basel III. Capital instruments issued under BSP Circular Nos. 709 and 716 (the circulars amending the definition of qualifying capital particularly on Hybrid Tier 1 and Lower Tier 2 capitals), starting January 1, 2011 and before the effectivity of BSP Circular No. 781, shall be recognized as qualifying capital until December 31, 2015. In addition to changes in minimum capital requirements, this Circular also requires various regulatory adjustments in the calculation of qualifying capital.

On June 27, 2014, the BSP issued Circular No. 839, *REST Limit for Real Estate Exposures*, which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Circular sets out a minimum REST limit of 6.0% CET1 capital ratio and 10.0% risk-based capital adequacy ratio, on a solo and consolidated basis, under a prescribed write-off rate of 25.0% on the Group's real estate exposure. These limits shall be complied with at all times.

On June 9, 2015, the BSP issued Circular No. 881, *Implementing Guidelines on the Basel III Leverage Ratio Framework*, which provides implementing guidelines for universal, commercial, and their subsidiary banks/quasi banks. The circular sets out a minimum leverage ratio of 5.0% on a solo and consolidated basis and shall be complied with at all times.

The Group has taken into consideration the impact of the foregoing requirements to ensure that the appropriate level and quality of capital are maintained on an ongoing basis.

16. Related Party 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. The Group's related parties include:

- key management personnel, close family members of key management personnel and entities which are controlled, significantly influenced by or for which significant voting power is held by key management personnel or their close family members,
- subsidiaries, joint ventures and associates and their respective subsidiaries, and
- post-employment benefit plans for the benefit of the Group's employees.

The Group has several business relationships with related parties. Transactions with such parties are made in the ordinary course of business and on substantially same terms, including interest and collateral, as those prevailing at the time for comparable transactions with other parties. These transactions also did not involve more than the normal risk of collectability or present other unfavorable conditions.

In the ordinary course of business, the Parent Company has loan transactions with subsidiaries and with certain DOSRI. Under the Parent Company's policies, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks.

On January 31, 2007, BSP Circular No. 560 was issued providing the rules and regulations that shall govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates shall not exceed 10.00% of the bank's net worth, the unsecured portion shall not exceed 5.00% of such net worth. Further, the total outstanding exposures shall not exceed 20.00% of the net worth of the lending bank. The said Circular became effective on February 15, 2007.

BSP Circular No. 423, dated March 15, 2004 amended the definition of DOSRI accounts. Further, BSP issued Circular No. 464 dated January 4, 2005 clarifying the definition of DOSRI accounts.

Other related party transactions conducted in the normal course of business includes the following, as detailed in the Memorandum of Agreement (MOA) between the Parent Company and its subsidiaries (except for SBCC):

- Human resource-related services
- Finance/accounting functions including audit
- Collection services (for legal action)
- Preparation of reports
- Processing of credit application (for property appraisal and credit information)
- General services
- Legal documentation
- Information technology related service

The Parent Company has lease agreements with some of its subsidiaries for periods ranging from 1 to 10 years. The lease agreements include the share of the subsidiaries in the maintenance of the building. Transactions of the Parent Company with its subsidiaries were eliminated in the consolidated financial statements of the Group.

For the period ended March 31, 2019 and 2018, SBML sold various loans and lease receivables to the Parent Company. The Parent Company's proportionate share in the gain on sale of loans and lease receivables was eliminated in the consolidated financial statements of the Group.

The Group has transactions with its key management personnel or those persons having authority and responsibility for planning, directing and controlling the activities of the Group, directly or indirectly. The Group considers senior officers to constitute key management personnel.

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group has business relationships with a number of its retirement plans pursuant to which it provides trust and management services to these plans. The Group's retirement funds may hold or trade the Parent Company's shares or securities. Significant transactions of the retirement fund, particularly with related parties, are approved by the Trust Investment Committee. Voting rights over the Parent Company's shares are exercised by an authorized trust officer.

17. Commitments and Contingent Liabilities

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities and bank guarantees that are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its financial position and financial performance as a result of these transactions.
There are several suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Group's financial position and financial performance.

Regulatory Reporting

The following is a summary of the Group's commitments and contingent liabilities at their equivalent peso contractual amounts:

	March 31, 2019	December 31, 2018
Committed loan line	**₱48,697,743**	₱49,556,389
Trust department accounts	**52,846,769**	48,215,276
Unutilized credit limit of credit cardholders	**28,824,835**	22,994,800
Unused commercial letters of credit	**25,667,771**	27,056,034
Outstanding guarantees	**2,212,552**	2,734,035
Inward bills for collection	**974,788**	786,819
Outward bills for collection	**613,901**	488,192
Late deposit/payment received	**421,818**	511,335
Others	**43,248**	98,613

18. Financial Performance

The following basic ratios measure the financial performance of the Group and the Parent Company:

	For the Period Ended March 31	
	2019	2018
Return on average equity	**8.59%**	8.86%
Return on average assets	**1.26**	1.32
Net interest margin	**3.41**	3.25

Basic earnings per share amounts were computed as follows:

	For the Period Ended March 31	
	2019	2018
a. Net income attributable to the equity holders of the Parent Company	**₱2,381,467**	₱2,346,511
b. Weighted average number of outstanding common shares*	**753,538,887**	753,538,887
c. Earnings per share	**₱3.15**	₱3.11

**in absolute amounts*

As of March 31, 2019 and 2018, the Parent Company has no potentially dilutive common shares.

19. Notes to the Statement of Cash Flows

As of March 31, 2019 and December 31, 2018, movements in allowance for credit losses from 'Due from other banks' and 'Interbank loans receivable and securities purchased under agreements to resell' as follows:

	2019	2018
Due from other banks	**₱144**	₱2,307
Interbank loans receivable and SPURA	**(319)**	4,097
	(₱175)	₱6,404

As discussed in Note 10, the Parent Company reclassified certain HTC securities to financial assets at FVTOCI due to change in business model in managing its financial assets in accordance with the final version of PFRS 9.

Significant non-cash transactions of the Group include foreclosures of investment properties and chattels.

Reconciliation of liabilities arising from financing activities follows:

	Consolidated					
		Cashflows		**Non-cash changes**		
	Beginning Balance	**Proceeds/ Availments**	**Payments/ Maturity**	**Foreign exchange movement**	**Amortization of transaction costs**	**Ending Balance**
March 31, 2019						
Bills payable and SSURA	**₱103,180,029**	**₱780,905,777**	**₱762,884,727**	**(₱78,661)**	**₱–**	**₱121,122,418**
Notes payable	**31,408,760**	**–**	**–**	**(47,719)**	**9,405**	**31,370,446**
LTNCD	**24,281,130**	**–**	**5,000,000**	**–**	**6,893**	**19,288,023**
Subordinated note	**9,957,248**	**–**	**–**	**–**	**1,280**	**9,958,528**
	₱168,827,167	**₱780,905,777**	**₱767,884,727**	**(₱126,380)**	**₱17,578**	**₱181,739,415**

	Consolidated					
		Cashflows		Non-cash changes		
	Beginning Balance	Proceeds/ Availments	Payments	Foreign exchange movement	Amortization of transaction costs	Ending Balance
March 31, 2018						
Bills payable and SSURA	₱131,179,238	₱715,924,037	₱724,548,166	₱5,596,454	₱–	₱128,151,563
Notes payable	14,948,402	–	–	667,655	3,610	15,619,667
LTNCD	18,526,475	–	–	–	5,197	18,531,672
Subordinated note	9,950,814	–	–	–	1,553	9,952,367
	₱174,604,929	₱715,924,037	₱724,548,166	₱6,264,109	₱10,360	₱172,255,269

20. Segment Information

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the different markets served with each segment representing a strategic business unit.

The Group derives revenues from the following main operating business segments:

Financial Markets Segment - this segment focuses on providing money market, foreign exchange, financial derivatives, securities distributison, asset management, trust and fiduciary services, as well as the management of the funding operations for the Group.

Wholesale Banking Segment - this segment addresses the top 1,000 corporate, institutional, and public sector markets. Services include relationship management, lending and other credit facilities, trade, cash management, deposit-taking and leasing services provided by the Group. It also provides structured financing and advisory services relating to debt and equity capital raising, project financing, and mergers and acquisitions. The Group's equity brokerage operations are also part of this segment.

Retail Banking Segment - this segment addresses the individual, retail, small-and-medium enterprise and middle markets. It covers deposit-taking and servicing, commercial and consumer loans, credit card facilities and bancassurance. The Group includes SBFCI as part of this segment.

All Other Segments - this segment includes but not limited to branch banking and other support services. Other operations of the Group comprise the operations and financial control groups.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on net income after taxes, which is measured in a manner consistent with PFRS as shown in the statements of income. This is regularly reported to the Group's Chief Operating Decision Maker. The Group's Chief Operating Decision Maker is the Parent Company's President and Chief Executive Officer.

Segment assets are those operating assets that are employed by a segment in its operating activities and that either directly attributable to the segment or can be allocated to the segment on a reasonable basis.

Segment liabilities are those operating liabilities that result from the operating activities of a segment and that either are directly attributable to the segment or can be allocated to the segment on a reasonable basis.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location), therefore, geographical segment information is no longer presented.

The Group has no significant customers which contribute 10.0% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information follows (amounts in millions):

	For the Period Ended March 31, 2019					
	Financial Markets	**Wholesale Banking**	**Retail Banking**	**All Other Segments**	**Elimination**	**Total**
Statement of Income						
Net interest income:						
Third party	**₱1,815**	**₱2,851**	**₱1,213**	**(₱160)**	**₱–**	**₱5,719**
Intersegment	**(1,764)**	**(336)**	**1,255**	**845**	**–**	**–**
	51	**2,515**	**2,468**	**685**	**–**	**5,719**
Noninterest income	**778**	**338**	**747**	**15**	**(69)**	**1,809**
Revenue - net of interest expense	**829**	**2,853**	**3,215**	**700**	**(69)**	**7,528**
Noninterest expense	**643**	**1,806**	**1,561**	**314**	**–**	**4,324**
Income before income tax	**186**	**1,047**	**1,654**	**386**	**(69)**	**3,204**
Provision for income tax	**(144)**	**393**	**258**	**316**		**823**
Non-controlling interest in net income of subsidiaries	**–**	**–**	**–**	**–**	**–**	**–**
Net income for the period attributable to the Parent Company	**₱330**	**₱654**	**₱1,396**	**₱70**	**(₱69)**	**₱2,381**
Other Segment Information						
Capital expenditures	**₱2**	**₱105**	**₱95**	**₱70**	**₱–**	**₱272**
Depreciation and amortization	**₱2**	**₱115**	**₱104**	**₱78**	**₱–**	**₱299**
Provision for (recovery of) credit and impairment losses	**(₱32)**	**₱82**	**₱358**	**(₱113)**	**₱–**	**₱295**

	For the Period Ended March 31, 2018					
	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Elimination	Total
Statement of Income						
Net interest income:						
Third party	₱1,443	₱2,807	₱896	(₱122)	₱–	₱5,024
Intersegment	(424)	(1,100)	531	993	–	–
	1,019	1,707	1,427	871	–	5,024
Noninterest income	307	407	653	7	(76)	1,298
Revenue - net of interest expense	1,326	2,114	2,080	878	(76)	6,322
Noninterest expense	599	1,475	998	275	–	3,347
Income before income tax	727	639	1,082	603	(76)	2,975
Provision for income tax	167	40	85	336	–	628
Non-controlling interest in net income of subsidiaries	–	–	–	–	–	–
Net income for the period attributable to the Parent Company	₱560	₱599	₱997	₱267	(₱76)	₱2,347
Other Segment Information						
Capital expenditures	₱3	₱123	₱168	₱128	₱–	₱422
Depreciation and amortization	₱2	₱81	₱111	₱84	₱–	₱278
Provision for (recovery of) credit and impairment losses	₱–	₱132	₱161	(₱287)	₱–	₱6

Statement of Financial Position as of March 31, 2019

	Financial Markets	**Wholesale Banking**	**Retail Banking**	**All Other Segments**	**Total**
Total assets	**₱303,532**	**₱346,288**	**₱102,684**	**₱10,928**	**₱763,432**
Total liabilities	**₱147,922**	**₱310,332**	**₱175,270**	**₱18,571**	**₱652,095**

Statement of Financial Position as of March 31, 2018

	Financial Markets	Wholesale Banking	Retail Banking	All Other Segments	Total
Total assets	₱287,871	₱333,677	₱70,658	₱10,376	₱702,582
Total liabilities	₱151,316	₱286,706	₱142,696	₱16,123	₱596,841

The Group’s share in net income (loss) of a joint venture is included under All Other Segments.

Annex 7

SECURITY BANK CORPORATION AND SUBSIDIARIES
AGING OF LOANS AND RECEIVABLES
AS OF MARCH 31, 2019
(In thousands)

Type of Loan	Current	90 days or less	91 to 180 days	181 days to 1 year	More than 1 year	Total
Loans and Receivables	₱411,725,122	₱3,177,980	₱778,105	₱715,774	₱975,201	₱417,372,182
Less: Allowance for Probable Losses						5,551,317
TOTAL						₱411,820,865

Annex 8

SECURITY BANK CORPORATION AND SUBSIDIARIES

FINANCIAL SOUNDNESS INDICATORS

	March 31, 2019	December 31, 2018
Liquid to total assets	**43.52**	43.83
Loans (net) to Deposit Ratio	**89.32**	85.16
Non-performing loans ratio*	**0.42**	0.41
Non-performing loan (NPL) cover*	**185.77**	110.90
Debt-to-equity ratio	**5.86**	6.00
Asset-to-equity ratio	**6.86**	7.00

	March 31, 2019	March 31, 2018
Return on assets	**1.26**	1.32
Return on equity	**8.59**	8.86
Net interest margin	**3.41**	3.25
Cost to income ratio	**53.52**	52.85
Interest rate coverage ratio	**1.69**	2.16

** Computed based on BSP Circular 941 and 1011.*

Annex 9

Item 2. Management's Discussion and Detailed Analysis of Financial Condition and Results of Operations

Key Performance Indicators

The Bank monitors its performance and benchmarks itself with the other players in the banking industry in terms of the following indicators:

Key Performance Indicators:	**March 31, 2019**	December 31, 2018
Capital Adequacy		
Capital to Risk Assets Ratio	**18.97%**	18.70%
Asset Quality		
Non-performing Loan (NPL) Ratio	**0.42**	0.41
Non-performing Loan (NPL) Cover	**185.77**	110.90
Liquidity		
Liquid Assets to Total Assets	**43.52**	44.83
	For the Period Ended March 31	
	2019	2018
Profitability		
Return on Average Equity	**8.59**	8.86
Net Interest Margin	**3.41**	3.25

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

Key Performance Indicator	Formula
Capital to Risk Assets Ratio	BSP prescribed formula: Total Qualifying Capital Market, Credit and Operational Risk Weighted Exposures
Non-performing Loan (NPL) Ratio *	Non-performing Loans (net of specific allowance) Gross Loans
Non-performing Loan (NPL) Cover *	Allowance for Probable Losses Loans Non-performing Loans (gross of specific allowance)
Liquid Assets to Total Assets	Total Liquid Assets Total Assets
Return on Average Equity	Annualized Net Income Attributable to Parent Company Average Total Equity Attributable to Parent Company for the Period
Net Interest Margin	Annualized Net Interest Income Average Interest Earning Assets for the Period

** Computed based on BSP Circular 941 and 1011.*

Analysis of Consolidated Statements of Financial Position as of March 31, 2019 and December 31, 2018

Total Assets decreased by 0.4% to ₱763.4 billion on account of decreases in Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, Due from Other Banks, Financial Assets at Fair Value through Profit or Loss, Loans and Receivables tempered by increases in Interbank Loans Receivable and Securities Purchased Under Resale Agreements (SPURA) with the Bangko Sentral ng Pilipinas (BSP), Financial Assets at Fair Value through Other Comprehensive Income, Investment Securities at Amortized Cost, Investment in a Joint Venture, Property and Equipment, Investment Properties, Deferred Tax Assets, Intangible Assets and Other Assets.

Decrease in **Cash and Other Cash Items** by ₱1.4 billion or 12.2% can be attributed to the Bank's daily operations and decrease in **Due from BSP** by ₱9.1 billion or 14.2% is due to asset-liability management. **Due from Other Banks** decreased by 23.3% or P2.1 billion due to decreased level of working balances with counterparty banks. **Interbank Loans Receivable and SPURA with the BSP** increased by 900.0% or ₱1.9 billion due to increased level of placements.

Financial Assets at Fair Value Through Profit or Loss decreased by ₱1.0 billion or 19.7% to ₱4.0 billion due to trading related activities of the Bank. **Financial Assets at Fair Value through Other Comprehensive Income** increased by ₱6.5 billion to ₱40.8 billion due to purchases and increase in market valuation of securities held.

Investment Securities at Amortized Cost increased by 0.6% or ₱1.3 billion due to purchases of securities for the held-to-collect portfolio during the period.

Loans and Receivables decreased by 1.1% to ₱411.8 billion from ₱416.3 billion in 2018.

Property and Equipment increased by 45.7% to ₱6.0 billion due to acquisitions and PFRS 16 implementation, while **Investment Properties** increased by 2.7% to ₱834.9 million due to real and other properties foreclosed during the period.

Deferred Tax Assets increased by 2.9% from ₱1.9 billion as of year-end 2018. **Intangible Assets** grew by 0.9% to ₱2.4 billion with the acquisition of additional software costs during the period.

Other Assets increased by 73.4 % to ₱7.1 billion due to increase in cash collaterals related to Bank's trading activities.

Total Liabilities decreased by 0.8% or ₱5.3 billion to ₱652.1 billion on account of decreases in Deposit Liabilities, Financial Liabilities at Fair Value through Profit or Loss, Margin Deposits and Cash Letters of Credit, Notes Payable, and Accrued Interest, Taxes and Other Expenses tempered by increases in Derivative Liabilities Designated as Hedges, Bills Payable and Securities Sold Under Repurchase Agreements, Acceptances Payable, Manager's and Certified Checks Outstanding, Income Tax Payable, Subordinated Note and Other Liabilities.

Deposit Liabilities went down by 5.7% from ₱488.9 billion as of year-end 2018 to ₱461.1 billion contributed by decreases in Demand, Savings Deposit and Long-term Negotiable Certificates of Deposit partly offset by increase in Time Deposits.

Financial Liabilities at Fair Value through Profit or Loss decreased by 17.2% to ₱1.5 billion attributable to lower valuation of the Bank's derivative liabilities. **Derivative Liabilities Designated as Hedges** increased to ₱3.2 billion from ₱1.5 billion in 2018**. Bills Payable and Securities Sold Under Repurchase Agreements** increased by 17.4% to ₱121.1 billion due to increase in the Bank's repo transactions.

Acceptances Payable increased by 102.8% to ₱1.3 billion. **Margin Deposits and Cash Letters of Credit** decreased by 24.9% to ₱704.5 million. **Manager's and Certified Checks Outstanding** at ₱4.9 billion grew by ₱1.6 billion.

Income Tax Payable increased to ₱576.8 million from year-end 2018's ₱30.3 million due to higher income tax liability for the first quarter of 2019 versus the last quarter of 2018. **Notes Payable** decreased by 0.1%, due to amortization and foreign currency translation adjustment. **Subordinated Note** increased slightly by ₱1.3 million due to amortization of debt issue costs. **Accrued Interest, Taxes and Other Expenses** decreased by 6.8% to ₱5.0 billion. **Other Liabilities** went up by 10.8% to ₱11.5 billion due to recognition of lease liabilities as a result of adopting PFRS 16.

Total Equity grew by 1.7% to ₱111.3 billion on account of net income during the period. **Surplus Reserves** went up by ₱1.3 million. **Surplus** was up by 2.0% due to the net income during the period. **Net Unrealized Gain on Financial Assets at Fair Value through Other Comprehensive Income of the Parent** increased by 142.1% due to increase in market valuation of outstanding debt securities while that **of the Subsidiaries** decreased by 27.5% due to decrease in market valuation of outstanding equity securities. **Cumulative Foreign Currency Translation** went down to ₱0.9 million.

The **Capital Adequacy Ratio (CAR)** is 19.0% in March 2019. This is well above BSP minimum requirement of 10% and international standard of 8%, indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

Analysis of Consolidated Statements of Income for the Periods Ended March 31, 2019 and 2018

Net income attributable to the Bank's equity holders amounted to ₱2.4 billion for the period ended March 31, 2019 from a year ago level of ₱2.3 billion. This translates to earnings per share of ₱3.15 from ₱3.11 for the period ended March 31, 2018.

Interest Income

Interest Income ended higher than prior period by 37.1% or ₱2.8 billion mainly on account of increase in loan-related activities during the period. **Interest Income on Loans and Receivables** grew by 50.2% or ₱2.6 billion due to expansion in Loans & Receivables on a period-on-period basis. **Interest income on Financial assets at fair value through other comprehensive income and investment securities at amortized cost** and **Interest income on Financial assets at fair value through profit or loss** grew by ₱82.0 million or 3.7% and ₱187.8 million or 134.4% , respectively, on account of higher securities portfolio. Decrease in **Interest Income on Interbank Loans Receivables and Securities Purchased under Resale Agreements with the Bangko Sentral ng Pilipinas** by 40.5% or ₱18.6 million was due to the decrease in volume of placements during the period**.** **Interest Income on Deposits with Banks and Others** dropped by 54.2% to ₱17.4 million due to decrease in transactions.

Interest Expense

Interest Expenses went up by 82.6% or ₱2.1 billion from prior period. **Interest Expense on Deposits** increased by 101.2% or ₱1.5 billion due to increase in deposit volume on a period-on-period basis. **Interest Expense on Derivative Instruments** went up by 110.9%. **Interest Expense on Subordinated Note, Bills Payable and Securities Sold under Repurchase Agreements and Other Borrowings** grew by 44.2% or ₱406.2 million due to increase in volume of transactions. **Interest expense on lease liabilities** amounting to ₱35.4 million resulted from adopting PFRS 16 in 2019.

Net Interest Income increased to ₱5.7 billion, a 13.8% or ₱695.0 million growth compared to 2018 on a period-on-period basis.

Other Income

Other Income grew to ₱1.8 billion due to **Service Charges, Fees and Commissions** growth by ₱174.2 million or 25.5% due to higher transaction volumes, **Securities Trading Gain** amounted to ₱671.3 million, up by ₱255.8 million or 61.5%, **Foreign Exchange Gains** reflected an increase of

₱84.3 million, and **Rent Income** increased by 31.2% due to rental of Bank properties. **Profit from Assets Sold/Exchanged** decreased by ₱34.0 million during the period on account of lower gains on acquisition and sale of foreclosed properties. **Miscellaneous Income** decreased by ₱5.7 million or 5.3%. **Share in Net Income of a Joint Venture** of ₱12.2 million is attributable to the Bank's share in the net income of SBM Leasing, Inc. during the period.

Operating Expenses
Operating expenses (excluding provisions for credit and impairment losses) were higher by 20.6% or ₱687.5 million. **Taxes and Licenses** and **Occupancy Costs** increased by 84.7% and 2.4%, respectively. **Compensation and Fringe Benefits** increased by 21.1% while **Provision for Credit Losses** increased by ₱295.3 million. **Depreciation and Amortization, Amortization of Software Costs** and **Miscellaneous Expenses** increased by 7.5%, 69.8% and 3.8%, respectively. **Provision for impairment losses** amounted to ₱5.7 million in 2018.

Provision for Income Tax
Provision for Income Tax amounted to ₱0.8 billion for the period ended March 31, 2019 or 30.9% higher than ₱0.6 billion reported in 2018 on a period-on-period basis.

Comprehensive Income
Total Comprehensive Income for the period ended March 31, 2019 amounted to ₱3.0 billion increased by 143.5% compared to ₱1.2 billion in 2018 on a period-on-period basis on account of higher net income and net unrealized gain on financial assets at fair value through other comprehensive income.

Liquidity

The Group's liquidity is more than adequate with liquid assets to total assets ratio of 43.5% as of March 31, 2019. The Group does not anticipate any cash flow or liquidity problems within the next twelve (12) months, and is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. All payables have been paid by the Group within the stated terms. There are no known trends, demands, commitments, events or uncertainties that will result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way.

Commitments and Contingent Liabilities

The Group has outstanding commitments, contingent liabilities, bank guarantees and tax assessments that arose from the normal course of operations. The Group does not anticipate losses that will materially affect its financial position and results of operations as a result of these transactions.

Material Commitments for Capital Expenditures

The Bank's commitments for capital expenditures will be funded out of cash flows from operations. This covers investments in electronic systems to comply with regulatory requirements (e.g. electronic money laundering monitoring system), investments in other systems (e.g. credit evaluation system), upgrades of existing systems (e.g. telecommunications system), expansion of the Bank's electronic banking channels, ATM installations, renovation or relocation or branch premises, and investments for new branches.

Material Impact on Income from Continuing Operations

In the normal course of operations, the Bank's activities are affected by changes in interest rates, foreign currency exchange rates and other market changes. The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates and foreign currency exchange rates are kept within acceptable limits and within regulatory guidelines.

Significant Elements of Income or Loss that did not arise from Continuing Operations

There are no significant elements of income or loss that did not arise from continuing operations of the Group.

Seasonal aspects that have a material effect on the financial condition or results of operations.

The Group's financial position or results of operations are not affected by seasonal aspects.