



2018 Annual Report



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VISION, MISSION & CORE VALUES

Our Vision

Sterling Bank of Asia, the Bank with a Heart, is the new standard for future generations of bankers, driven by integrity and a deliberate will for excellence — a legacy!

Our Mission

We are committed to exceed customer service expectations. We will actively identify and innovatively respond to their evolving needs.

We are propelled by competent and team-oriented professionals in a respectful, caring, and nurturing environment where everyone can maximize his potential.

We will be responsible stewards of the resources entrusted to us, and we will share the resulting benefits with society.

Our Core Values

We will manifest the Sterling Bank of Asia Philosophy through consistently demonstrating and living the following core values:

Service Excellence

The commitment to continuously challenge ourselves to exceed expectations of our customers by having the genuine concern and interest in their needs and circumstances, and serving them with a deep sense of responsibility.

Professionalism

The dedication to treat all people with respect, fairness, and compassion while continually pursuing the highest levels of knowledge, skills and expertise.

Social Consciousness

The resolve to ensure optimum value on the resources entrusted to us and to share this value with those we serve.

ABOUT THE BANK

Sterling Bank of Asia is a savings bank that was established to provide accessible financial solutions and banking services to both commercial and retail market segments.

Since it opened its first branch in March 2007, through the leadership of a core group of successful businessmen and entrepreneurs, and management of seasoned professional bankers, Sterling Bank of Asia's network has grown to 47 branches located in key areas and cities nationwide.

The Bank offers an array of deposits, loans, investment, asset management and other financial products to service large corporations, small and medium enterprises, as well as retail customers. Products and services are delivered via the Bank's five business groups namely Retail Banking, Commercial Lending, Consumer Lending, Treasury and Trust.

Guided by the philosophy of putting clients' needs first by banking to a different beat, the Bank partners with each client, whether individual or corporate, to increase and manage their wealth and resources that will eventually help them achieve their financial goals.

With its extensive portfolio of products and services, Sterling Bank of Asia creates more opportunities for clients to take hold of their financial future.





MESSAGE FROM THE CHAIRMAN

Sterling Bank of Asia has seen robust growth over the past few years. Despite intense market competition in the banking industry, we see a challenging yet exciting time for the Bank. With the strong and solid support from our shareholders and stakeholders, we have proven that indeed, Sterling Bank of Asia grows through its unparalleled work, close collaboration and singular mindset — that we are more than just a bank, we are a bank that is unafraid to dance to its own beat.

Our consistent delivery of efficient relationship-based service has merited us several awards and has encouraged the growth of the local business sector, and fostered broader financial inclusion.

To encourage a culture of saving at the grassroots level where 52.80 million Filipinos are underserved and not served, we launched the Solo Basic Savings Account, a product that simplifies banking with its straightforward requirements and minimum opening balance of Php100.

Despite the competitive landscape of the past year, the management team has competently steered the Bank to success, with the Bank continually expanding its reach, capacities and network of external partners.

Sterling Bank of Asia has established a history of triumphs and favorable outcomes since its early beginnings in 2007. We have always based our work on transparency and trust, guided by our core values of service excellence, professionalism and social consciousness.

As we continue our journey towards success, we remain committed and steadfast to address the wants and needs of our customers. Although the financial industry is continuously evolving, these core values remain in our hearts and in the hearts of our shareholders and every Sterling Banker. That, by itself, calls for more excellent work.

Despite the current challenges we are facing in our industry and as a nation, we look forward to a future full of promise. Cheers to many more years ahead, and to the future of Sterling Bank of Asia!



RUBEN C. TIW
CHAIRMAN OF THE BOARD

REPORT TO STOCKHOLDERS AND STAKEHOLDERS

The financial ecosystem today is changing rapidly due to the transformation in the banking industry brought about by emerging digital technologies and innovative business models. We at Sterling Bank of Asia recognize that while these changes are inevitable, our shared values and passion remain constant — to provide service excellence to our clients. A service that cannot be surpassed by any technology.

Since our modest beginning in 2007, the Bank has steadily grown. Now, after more than a decade of helping people and servicing communities, I believe that we have made a mark as a leading thrift bank in the Philippines.

The Total Loans increased by 9.68% reaching Php32.01 billion in 2018. Commercial loans surged by 10.26% while consumer loans rose by 9.13%. Deposit Liabilities also experienced a growth of 6.01% or Php2.08 billion. Our Total Equity remained at a healthy Php2.80 billion in 2018.

In support of the Bangko Sentral ng Pilipinas' (BSP) efforts to establish an efficient and reliable payment system that is interoperable in the country, the Bank has steadfastly provided responsive banking services to customers through the Philippine Payments and Settlements System (PhilPaSS), InstaPay and PESONet. In fact, our capability and performance in this aspect have been recognized by the BSP time and time again. The Bank was awarded Outstanding PhilPaSS Participant Servicing Customer ePayments – Thrift Bank Category for 2018 by the BSP due to the frequency, volume and value of electronic payment transactions and remittances coursed through PhilPaSS. The Bank has consistently received this award for six consecutive years and won its first Gold Hall of Fame award in 2017 for the same category.

We also launched the Solo Basic Savings Account to actively promote financial inclusion among our unbanked community. With the simple objective of providing accessible and affordable financial services to untapped Filipinos, anyone can now open an account for as low as Php100 only.

Sterling Bank of Asia also included the Verified by Visa and Visa payWave features in the Sterling Bank Cards line (ShopNPay Debit and Prepaid, Bayani OFW Debit & Neo Debit). Visa payWave allows cardholders to make contactless payments via contactless-enabled point-of-sale (POS) terminals while Verified by Visa is an added security feature exclusively for online purchases.

We thank you, our dear customers, for the trust and support. Your faith in us also drives us to persistently create better products and services to fulfill your banking needs. This indeed is a heartwarming experience and I am honored to be part of this greater work.

I also express my sincerest gratitude to our Board of Directors, to our shareholders and stockholders and of course, our employees, for making 2018 another successful year. I am excited to see what 2019 has in store for us.



CECILIO D. SAN PEDRO
PRESIDENT & CEO



A close-up, high-angle shot of a person's hands reviewing a document on a wooden desk. The document is titled "2018 Performance" and features a circular chart with blue, red, and green segments. The person is holding a yellow pencil over the document. In the background, a silver laptop is open, and a blue pen lies on the desk. The scene is brightly lit, suggesting an office or workspace environment.

HIGHLIGHTS



FINANCIAL HIGHLIGHTS

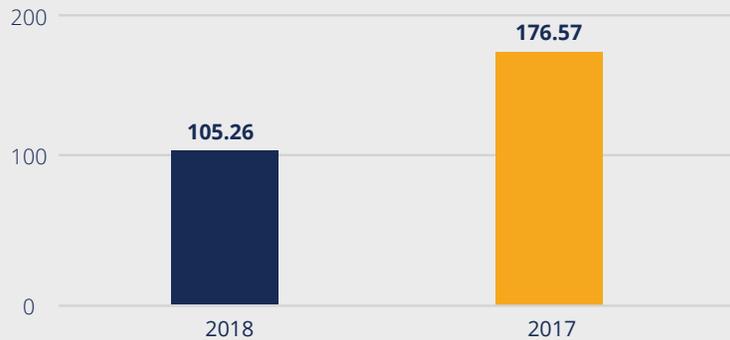
2018 vs. 2017

Financial Position

Sterling Bank of Asia closed 2018 with total resources of Php41.770 billion, up by Php1.925 billion or 4.83% from Php39.845 billion as of December 31, 2017. Said increase was primarily brought about by the growth in total loans by 9.68% or Php2.825 billion as consumer and commercial loans grew by 9% and 10%, respectively. Investment Securities likewise increased by 42.30% or Php564 million.

Total liabilities went up by Php2.041 billion or 5.53% from Php36.928 billion in 2017 to Php38.969 billion as of December 31, 2018. The bulk of the growth came from Deposit Liabilities which grew from Php34.623 billion in 2017 to Php36.704 billion in 2018. The Bank registered moderate success in developing a favorable deposit mix, with low-cost and high-cost deposits amounting to Php13.044 billion and Php23.660 billion, respectively, by end of 2018, thereby effectively managing its weighted cost of funds.

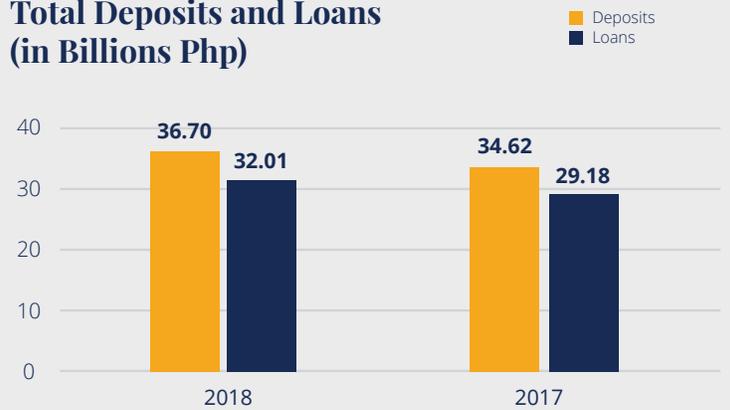
Net Income (in Millions Php)



Balance Sheet Main Items (in Billions Php)



Total Deposits and Loans (in Billions Php)



The Stockholders' Equity decreased by Php116.175 million or 3.98% to Php2.801 billion due to the market value of Available for Sale Securities.

Return on average equity is 3.38% in 2018. The Bank's Basel 1 Capital Adequacy Ratio stood at 11.40% in 2018 compared to 12.46% in 2017, which are both notably higher than the 10% regulatory requirement of the BSP.

Results of Operations

Sterling Bank of Asia posted a net income of Php105.255 million in 2018, compared to Php176.572 million in 2017.

Net revenue from funds increased by Php144.372 million or 9.12% to Php1.727 billion in 2018,

brought about by higher interest income on loans and receivables by Php503.795 million.

Interest expense rose by Php299.511 million or 53.82% due to the higher volume of Deposit Liabilities.

Fee-based income was Php125.941 million, lower than the Php222.078 million posted in 2017 due to a decline in trading and foreign exchange gains and tempered revenues from service fees, charges, commissions and assets held for sale.

With the continued growth of the organization, total operating expenses grew by 9.96% or Php142.345 million from Php1.430 billion in 2017 to Php1.572 billion in 2018 due to Compensation and Fringe Benefits, Taxes and Licenses, Occupancy, and Representation and Entertainment.

	2018	2017
Profitability		
Total Net Interest Income	1,727,263,538	1,582,891,757
Total Non-Interest Income	125,940,777	222,077,929
Total Non-Interest Expenses	1,571,933,671	1,429,588,550
Pre-provision profit	281,270,644	375,381,136
Allowance for credit losses	103,101,227	88,838,080
Net Income	105,255,298	176,572,090
Selected Balance Sheet Data		
Liquid Assets	7,261,136,856	8,095,556,612
Gross Loans	32,247,619,407	29,962,134,701
Total Assets	41,770,114,954	39,845,392,952
Deposits	36,704,417,712	34,622,708,800
Total Equity	2,800,879,213	2,917,054,331
Selected Ratios		
Return on equity	3.38%	6.26%
Return on assets	0.24%	0.48%
Tier 1 Capital Ratio	7.14%	7.65%
Capital Adequacy Ratio	11.40%	12.46%

OPERATIONAL HIGHLIGHTS

Retail Banking Group



RALPH B. CADIZ
Executive Vice President and Retail Banking Group Head

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Maintaining a strong and close client relationship is our battle cry for 2019. By bringing the Bank closer to consumers, we can build sincere relationships with our market that will help us gain their confidence and loyalty when it comes to maintaining their personal and business accounts and growing their hard-earned money.

“

The group's efforts in focusing on current and savings account (CASA) bore fruit as it reached the Php13.044 billion level by end of 2018 and has likewise brought in 26,000 new-to-bank CASA clients. Optima Banking Solutions, the banner product for corporate clients which has cash management features, further contributed to the enhancement of the CASA mix to 36% of Total Deposits by end of 2018.

In support of the Bangko Sentral ng Pilipinas' (BSP) Financial Inclusion Program, RBG introduced the Solo Savings Account or Basic Deposit Account (BDA) in the 2nd half of 2018. The Solo Savings Account enables prospective clients to open a personal account with a minimum initial deposit of only Php100, and potentially earn interest of

0.50% per annum given a minimum balance of Php2,000. Unlike other products, the Solo Savings Account further simplifies banking by requiring only one valid identification card on top of the low-priced initial deposit. Due to the unique features of the Bank's latest basic deposit product, RBG was able to generate 1,750 new accounts from our underserved and unserved countrymen.

To further expand retail operations and deposit-taking, RBG will concentrate with on-the-ground Branch-based Marketing in 2019. This initiative will promote mutually beneficial partnerships with the group's specific target markets where the Bank has presence, and at the same time bridge the gap between the unbanked sector and the financial institution.

Commercial Lending Group



BENSON J. HARI-ONG

Executive Vice President and Commercial Lending Group Head

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New account acquisition will be our core focus in 2019. By offering various credit facilities for our clients' financial needs, we can achieve our targets in terms of both volume and income.

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The Commercial Lending Group had a strong performance in 2018 with its loan portfolio hitting at Php15.599 billion amidst rising interest rates. The group's total net income stood at Php73.981 million.

Commercial Lending continued to gain traction in the past year with the primary driver being the growth of loan portfolio by Php1.452 billion, which generated Php1.027

billion interest income surpassing its budget for the year.

The group's persistent efforts to acquire new accounts and to continuously build strong relationships with existing accounts effectively positioned the Bank as the top-of-mind among customers. With this, Commercial Lending will further intensify its efforts to generate new accounts and utilize its approved credit facilities.

Consumer Lending Group



ISABEL Y. SAN PABLO
Senior Vice President and Consumer Lending Group Head,

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We shall continue to offer financing options tailored fit to each individual's needs or financial goals - whether buying their first home or car, upgrading to accommodate a growing family or getting a vehicle fresh off the assembly line. We will also explore expanding customers' access to credit through building partnerships with fintech companies' digital platform.

“

The Consumer Lending Group posted a modest growth of 9% in its portfolio in 2018 ending at Php16.4 billion despite rising interest rates.

With Palawan as an additional lending desk in 2018, Auto Loans continued to be the primary driver of Consumer Lending Group's success in 2018. Consumer Lending desks now total to 16, to complement the three main lending centers strategically located in NCR, Luzon and VISMIN areas. Furthermore, the growing entrepreneurial demands of small and medium-sized enterprises gave the impetus to offer automotive financing for trucks.

Real Estate Loans, likewise, contributed to the group's overall growth with its strengthened presence in the National Capital Region (NCR) and Southern Luzon. This was further bolstered by the expansion of real estate operations in the Visayas and Mindanao.

The Bank's Personal and Salary Loans, continue to complement the group's portfolio offering it to potential borrowers who need immediate cash to fund important expenses and reach their financial goals.

Treasury Group



CLAYTON T. LEE
Executive Vice President, Treasurer and Treasury Group Head

2018 was one of the toughest years for the banking and financial sector as 90% of asset classes ended in the red — making it the least ideal time for investments in 100 years according to statistics. The last time that such an event occurred was in 1920 when 84% of asset classes had negative returns.

For the Fixed Income Market, prices of US Dollar denominated bonds fell as the US Federal Reserve (Fed) raised interest rates by 25 basis points 4 times, from 1.25/1.50% to 2.25/2.50%. This was due to the monetary policy normalization in response to unemployment falling to 3.70% and inflation moving nearer to its 2% target (1.90% in December) in the US.

In the Philippines, yields of Philippine Peso denominated bonds jumped up in response to rising inflation, with the consumer price index (CPI) going as high as 6.70% in October 2018. This forced the Bangko Sentral ng Pilipinas to respond by raising interest rates 5 times for a total of 175 basis points, from 3.00/3.50% to 4.75/5.25%. The main components of inflation that rose significantly in the Philippines were rice and oil, while the impact of the government's Tax Reform for Acceleration and Inclusion (TRAIN) Act added to the pressure.

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2019 is seen as a better year for fixed income trading but challenging nonetheless. To overcome possible obstacles, we at the Treasury Group will be even more sensitive, agile and perceptive of the Bank's and the market's growing needs. We will concentrate our efforts towards fund generation, fixed income and Forex trading.

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While the spike in Philippine inflation was more cost-push rather than demand-pull, the rate hikes were necessary to prevent second-round effects. Yields of 10-Year Philippine Peso bonds rose from 6.25% to as high as 8.04% before closing the year at 6.99%. The unfavorable market conditions led Treasury to keep its bond positions light while concentrating its resources towards fund generation and Forex trading.

In spite of these challenges, Treasury still managed to contribute Php93.679 million in both interest and realized trading income to the Bank's bottom line, while FX income added Php19.843 million in profits. Treasury also contributed Php2.973 billion to the Bank's total Time Deposits of Php23.660 billion.

2019 will continue to be a challenging year as the trade war between the United States and China is expected to increase market volatility and unpredictability. On the other hand, inflation may have already peaked in 2018, bringing back opportunities in the fixed income market for both the Bank and its clients. Corporates are also expected to continue to issue debt papers which will allow Treasury to offer alternative investments with a higher yield. On the foreign exchange side, the growing trade numbers and more liberal rules will allow Treasury to service more client requirements.

Trust Group



HAZEL M. NAVARRO
Vice President and Trust Officer

In 2019, Trust Group will launch a new Unit Investment Trust Fund (UITF) Feeder Fund that will target investors who have an appetite for a more diversified, high-risk portfolio. The Trust Group also acquired a new Trust system which will be fully operational by 2019. The system will complement the expected growth of the Trust business.

The Trust Group saw Assets Under Management (AUM) decline by 12% year-on-year as investors shifted their preference to traditional bank products to assuage the possible detrimental effects of rising interest rates.

Despite the difficult landscape caused by the volatile market and rising interest rates, the Trust Group continued to build its relationship with existing clients by meticulously overseeing their fund management and investment requirements. The team also strategically strengthened its partnerships with investment counterparts and

distribution channels to create more touchpoints for future business opportunities.

The group's efforts to bolster its performance despite the setback in AUM proved fruitful as Trust was able to post a modest income.

For 2019, Trust is eyeing to launch a Unit Investment Trust Fund (UITF) Feeder Fund to attract prospective investors who are inclined to venture into a more diversified, high-risk portfolio. The group is also poised to introduce a new Trust system that is anticipated to jumpstart growth for 2019.

Human Resources Group



The Human Resources Group is even more determined to develop initiatives that will engage, equip and encourage our workforce so we can all deliver our utmost in terms of people development, employee engagement and service efficiency.

2018 proved to be a landmark year for the Human Resources Group (HRG) as it relentlessly addressed the growing demands of the Bank.

With the continued expansion of Sterling Bank of Asia's reach, the Recruitment team was tasked to source new employees to be placed in various business units, support groups as well as the Bank's network of branches. Using a comprehensive recruitment plan, the Recruitment team was able to attract new talents given its strong relationships with schools, universities and other external partners. The team also launched an open house recruitment program last September 2018 to facilitate faster processing of job applications. These efforts resulted in a total of 220 new hires, 87 of which were officer-level and 133 were rank and file employees. As of December 2018, with the batch of new recruits, the Sterling Bank of Asia family has grown to 883 employees nationwide with 445 officers and 438 staff. Committed to providing excellent

service delivery, the team has lived up to its mandate of providing the bank with a remarkable talent pool who provides the public with the Sterling Bank of Asia trademark of banking services.

To improve the quality of work life and promote the safety and well-being of employees, the Compensation and Benefits Unit continuously embarked on several projects and initiatives, as well as enhanced policies on occupational health and safety. Moreover, as part of HRG's thrust to prioritize employees' core needs and values, working mothers were provided with support structures including a dedicated lactation room at the head office.



As part of the current employee engagement program, Compensation and Benefits team also spearheaded Health & Wellness activities. These included its 9th bloodletting activity, immunization programs, HIV Awareness talks, mobile annual physical check-ups for rank and file staff, executive check up packages for officers, and the issuance of monthly Health and Wellness News Bulletins.

HRG was at the helm of promoting the Bank's organizational culture of service excellence and creating an environment in which employees have the competency, concern and commitment to serve its customers well. One of the main activities in this front was the annual bankwide Sales Rally, where Sterling Bankers from all over the country converged and came out with a single battle cry to deliver the best banking service to the community, driven by a unified beat and common passion. To further create a positive influence, the Bank invited known motivational speakers to provide inspiration and spark stronger engagement during the sales rallies.

Meanwhile, the Center for Learning (CFL) continued to be a strategic partner across all business units by improving the competency of all employees — from staff-level personnel to officers — through relevant and cost-effective developmental programs. It also launched new programs aligned with the Bank's succession plan.

These programs were meticulously designed to address competency gaps based on existing organizational metrics such as Employee Engagement Surveys, Audit Reports and Customer Feedback. These developmental programs are expected to have a direct impact on business outcomes and employee engagement.

CFL relentlessly rolled out Anti-Money Laundering Act (AMLA) courses across the Bank's network, responding to the Bangko Sentral ng Pilipinas' call to be vigilant when it comes to bank transactions. AMLA refresher courses were also conducted to all frontline, middle and backroom personnel through an online learning check.



Digital learning was also employed to ensure the unhampered dissemination of information on products and services, compliance, data privacy, information and security among others. Furthermore, Selling Edge Training, Persuasion Strategies and Branch-based Marketing were likewise given to units with sales functions.

The prestigious Management Training Program

(MTP) also proved to be an effective avenue in grooming talents and attracting external and internal recruits with high potential.

With all these accomplishments in 2018, the Human Resources Group remains single-minded in its quest to sustain a highly-engaged workforce by delivering its utmost in terms of service efficiency.

Informational Technology Group



Security was the main focus area of the Information Technology Group (ITG) in 2018. Forewarned by the upsurge of attempted international security breaches, ITG enhanced the Bank's security measures by employing the Verified By Visa for card not present transactions. It is an added security feature that utilizes a multi-factor authentication system, to ensure that the authorized cardholder is indeed the one making the online purchase. This is the Bank's newest effort in upgrading the security of its systems. The move also safeguards the Bank and its clients from possible fraudulent transactions. Visa payWave, an added feature in Sterling Bank of Asia's ShopNPay Cards, was also implemented to allow cardholders to make contactless payments via contactless-enabled point-of-sale (POS) terminals.

The Enhanced Debt Collection system was implemented by ITG to automate collection procedures. The new system further provides an up-to-date status of loan accounts making the Bank's debt recovery strategy more effective and efficient.

For 2019, the Group aims to push forward with Digitization to have a strong presence in the digital space. In conjunction with this, the Bank is slated to introduce an enhanced internet banking facility with added security features to offer to corporate and institutional banking clients.

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In today's market, the role of Information Technology has become even more crucial in assuring the success of companies. The Bank's IT team will continue to develop vital services and support that will help drive more business for the Bank and implement solutions that will safeguard its assets.

“

The Bank will also integrate InstaPay and PESONet into its online platforms by the second quarter of 2019 to provide more efficient electronic fund transfer and payment capabilities for our clients leveraging on the interoperable system between banks and participating institutions. It will also go live with Trust Trubanker system.

To strengthen the Bank's Anti-Money Laundering controls, ITG included in its 2019 plans the acquisition of the Anti-Money Laundering Software that will provide the platform for better money laundering and terrorist financing risk monitoring.

ITG will invest heavily in hardware and software upgrades to improve the overall IT infrastructure. These advancements will be coupled with improved Disaster Recovery and Business Continuity strategies, server virtualization for better data center efficiency, and continuous support for business-driven projects and initiatives.

Operations Group



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Ensuring process efficiency is the foremost concern for us at the Operations Group. To ensure that bank operations are optimal, we work closely with business units so all their requirements are addressed including compliance to regulations.

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The Operations Group has played an integral role in ensuring the efficient and effective execution of transactions across the organization. The group has collaborated with different units for the enhancement of policies and procedures, designing hassle-free processes that are compliant with existing regulations for the benefit of Sterling Bank of Asia’s customers. Reorganization of the Credit Services Group, Business Support Services Group and RBG Support Group was done to promote synergy and become more responsive in the delivery of services to the customers. To support the growing customer base in the Visayas and Mindanao area, the provincial lending centers, supported by the Operations team, were likewise expanded.

In coordination with Center for Learning, regular training and development courses are conducted to improve technical and leadership skills. The continuous training provides an avenue to integrate

internal control, risk assessment and AML compliance to our processes.

Sterling Bank of Asia was once again awarded the Outstanding PhilPaSS Participant Servicing Customer ePayments award in the Thrift Bank Category by the Bangko Sentral ng Pilipinas (BSP). It is the Bank’s sixth consecutive year to receive this recognition as it has consistently outperformed other thrift banks in terms of volume, frequency, and value of remittances and bulk of electronic payment transactions that went through the BSP’s Philippine Payment and Settlements System (PhilPaSS).

In 2019, the Group, in coordination with the IT Group, will spearhead the integration of InstaPay and PESONet into its platform and all e-channels. This is in support of the National Retail Payment System (NRPS) framework espoused by the BSP to modernize retail payments for the benefit of the consumers and to enhance the overall competitiveness of our economy.



2022-2023 Department Awards
WOMEN WHO INSPIRE - EXCELLENCE AWARDS
Honoring Traditional Participant Supporting Coaches
of Phoenix - The US Bank
From the Library of July 2023
Phoenix, Arizona
H. C. U.S.
HONOR & INSPIRATION



AWARDS AND RECOGNITION





In photo are (from left to right): Monetary Board Member and Chairman of the Board of Judges Antonio S. Abacan Jr., Sterling Bank of Asia President and CEO Cecilio D. San Pedro; Sterling Bank of Asia SVP and Operations Group Head Luisito S. Mayor; and Bangko Sentral ng Pilipinas Deputy Governor Cyd Tuaño-Amador during the awarding ceremony.

Sterling Bank of Asia wins outstanding award from BSP



Sterling Bank of Asia (SBA) has once again been conferred the Outstanding PhilPaSS Participant Servicing Customer ePayments award in the Thrift Bank category by the Bangko Sentral ng Pilipinas (BSP) at the 2018 Awards Ceremony and Appreciation Lunch for BSP Stakeholders.

This is the sixth time the Bank has won the said award. It was likewise given the Gold Hall of Fame award for the same category last year for three consecutive wins.

The recognition was bestowed upon Sterling Bank due to the volume, frequency, and value of remittances, as well as the bulk of electronic payment transactions that go through the BSP’s Philippine Payment and Settlements System (PhilPaSS).

“On behalf of Sterling Bank of Asia, we thank the Bangko Sentral ng Pilipinas for recognizing our efforts to provide excellent service to our consumers,” said Cecilio D. San Pedro, Sterling Bank of Asia President and CEO. “In this competitive and crowded market, we keep our pledge to remain steadfast in offering products and services that will make our clients’ transactions as safe, secure and hassle-free as possible. This award will serve as a reminder to us to remain true to our promise and put weight on what matters most — our clients,” added San Pedro.

The BSP’s PhilPaSS is a real-time gross settlement system for overseas Filipino remittances that ensures safe and immediate transfer and settlement of remittance funds into beneficiary accounts maintained in another bank.

Sterling Bank of Asia receives “Kabalikat Award” from Department of Education

Sterling Bank of Asia (SBA) was given the “Kabalikat Award” by the Department of Education – San Juan for its contribution to the “Brigada Eskwela” campaign last year.

The Brigada Eskwela initiative was one of the many projects done to commemorate the Bank’s 10th Anniversary. Through the generosity of the Sterling Bank of Asia management and its employees, the Bank was able to donate classroom armchairs to San Juan National High School.

The Bank also extended donations to

provincial beneficiaries in Visayas and Mindanao namely, Labangon Elementary School in Cebu, and F. Bustamante National High School in Davao.

Aside from the contributions, Sterling Bank of Asia officers and staff also participated in the extensive efforts to renovate, paint, clean and rehabilitate select classrooms in the said schools.

Sterling Bank of Asia is a strong supporter of education and volunteerism. The Bank continually seeks ways to help uplift the lives of the youth and the community.



Gilbert Tan, Greenhills Branch Head (2nd from left) and Ogie Diño, Area Sales Officer Team Head (middle) received the award from Flordelisa Pereyra, OIC – Asst. Schools Division Superintendent (left); Dr. Joel Torrecampo, OIC – Schools Division Superintendent (2nd from right); and Dr. Felicito Angeo, Chief Education Supervisor (right) last August 8, 2018 at the DepEd Building, San Juan City

**CORPORATE
SOCIAL
RESPONSIBILITY**



In the Spirit of Giving Back

Sterling Bank of Asia (SBA) has continued its advocacy to help extend medical care to indigent patients by donating much needed medical tools, equipment and supplies to the St. Martin de Porres Charity Hospital (SMPCH) in San Juan. This is the fourth year SBA has given donations to the medical facility.

Aside from medical devices, SBA also handed out some Christmas baskets for the volunteer nurses as a token of appreciation for their dedication and selflessness in serving the community.

“When you give, you give with your heart. As Sterling Bank of Asia is the ‘Bank with a Heart’ we want this exemplified in our advocacy. Hence, we have been continuing this work for the past four years,” said SBA President and CEO Cecilio San Pedro.

“We will only walk in this life once, so let’s do good things together and let future generations learn from our tagline — kind heart gives,” he added.

The hospital management of SMPCH acknowledged the Bank’s invaluable contribution. “We are grateful that Sterling Bank of Asia keeps its doors open and reserves a space for us,” Dr. Glicería Manlises, SMPCH Medical Director shared. “Thank you for keeping your presence beside us just like the shepherds who were the first visitors of our Savior,” Manlises added.

SMPCH a non-stock, non-profit Tertiary Hospital operated by the Dominican Family of San Juan and is accredited by the Department of Health. It caters to residents of San Juan and those of nearby cities.





St. Martin de Porres Charity Hospital (SMPCH) receives the donations from Sterling Bank of Asia's officers and staff.





CORPORATE GOVERNANCE

Sterling Bank of Asia understands the value of upholding corporate governance to create a strong and resilient corporate culture that espouses integrity, transparency, excellence, accountability and fairness. It provides a clear road map of the organization's corporate values, priorities, and behavior, and sets clear cut guides on how each Sterling Banker should perform their respective duties and responsibilities. Given this, Sterling Bank of Asia's Board of Directors, management officers and staff remain committed to the principles and best practices stated in the Board-approved Corporate Governance Manual.

Sterling Bank of Asia's governance structure is comprised of the Board of Directors, senior management, organizational and procedural controls, and independent self-assessment functions.

Board of Directors

The Board steers the Bank's success by ensuring that it remains competitive yet aligned with the set corporate objectives and operates at the best interests of its stakeholders. The Board approves and oversees strategic plans, risk appetite, corporate values and the overall performance of the management.

Given these, the members of the Board possess integrity, relevant education and training, physical and mental fitness, competencies, and sufficient time to fully carry out their roles and

responsibilities. Members are carefully selected based on their expertise, strategic skills, leadership and management styles which enable them to undertake a wide range of issues and concerns and propel the Bank forward.

Chairman of the Board

The Chairman provides leadership to the Board and its committees. He consistently adheres to sound decision-making and oversees the discussion of strategic matters including discussions on risk appetite and tolerance levels as well as key governance concerns. He ensures that the Bank's duties to its shareholders are fulfilled and acts as the link between the Board and the management.

Corporate Secretary

The Corporate Secretary primarily assists the Board and its Board-level committees in the conduct of their respective meetings. She issues notices of all meetings, and safekeeps and preserves the integrity of the minutes of the meetings. Likewise, she oversees the drafting of the by-laws and ensures that they conform with the regulatory requirements.

The Bank's Corporate Secretary is Atty. Anna Francesca C. Respicio.

Board Composition & Qualification

The Board of Directors is composed of fourteen (14) directors, four (4) of which are independent directors.

Name of Director	Position / Type of directorship	Number of years of service	Number of direct and indirect shares held	Percentage of shares held to total outstanding shares of the Bank
Ruben C. Tiu	Chairman of the Board	12	19,563,020	7.57%
Gregorio T. Yu	Vice Chairman of the Board	12	50,000	0.02%
Cecilio D. San Pedro	Member, President & CEO	3	1	0.00%
Bansan C. Choa	Member	12	43,422,029	16.81%
William L. Chua	Member – Independent	12	50,000	0.02%
Harris D. Jacildo	Member	12	1	0.00%
Vicente C. Macasaet, Jr.	Member – Independent	1	1	0.00%
Nilo L. Pacheco, Jr.	Member – Independent	8	1	0.00%
Maribel B. Sarino-Lazo	Member – Independent	1	1	0.00%
Atty. A. Bayani K. Tan	Member	12	50,000	0.02%
Bernadette Cindy C. Tiu	Member	5	1	0.00%
John Y. Tiu, Jr.	Member	12	19,563,020	7.57%
Atty. Lamberto R. Villena	Member	12	50,000	0.02%
Ignatius F. Yenko	Member	12	1	0.00%

Number of Meetings Attended										
Name of Director	Board Meetings		Audit Committee Meetings		Corporate Governance Committee Meetings		Executive Committee Meetings		Information Technology Committee Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Ruben C. Tiu	12	100%	-	-	11	100%	-	-	-	-
Gregorio T. Yu	10	83%	-	-	-	-	10	83%	5	63%*
Cecilio D. San Pedro	11	92%	-	-	-	-	12	100%	12	100%
Bansan C. Choa	10	83%	-	-	-	-	12	100%	7	88%*
William L. Chua	11	92%	11	92%	-	-	-	-	-	-
Harris D. Jacildo	7	58%	-	-	-	-	-	-	-	-
Vicente C. Macasaet, Jr.	8	100%*	8	100%*	7	100%*	-	-	-	-
Nilo L. Pacheco, Jr.	8	67%	-	-	8	73%	-	-	-	-
Maribel B. Sarino-Lazo	8	100%*	8	100%*	7	100%*	-	-	-	-
Atty. A. Bayani K. Tan	10	83%	-	-	5	71%*	-	-	-	-
Bernadette Cindy C. Tiu	7	58%	10	83%	-	-	-	-	-	-
John Y. Tiu, Jr.	11	92%	-	-	-	-	-	-	6	75%*
Atty. Lamberto R. Villena	12	100%	-	-	-	-	12	100%	-	-
Ignatius F. Yenke	12	100%	-	-	-	-	12	100%	7	88%*
Total Number of Meetings Held During the Year	12		12		11		12		12	

*the percentages of attendance are based on the duration of a director's membership with a Board/Board-level committee

Number of Meetings Attended										
Name of Director	Loan Committee Meetings		Pre-qualification, Bidding and Awards Committee Meetings		Related Party Committee Meetings		Risk Management Committee Meetings		Trust Committee Meetings	
	Attended	%	Attended	%	Attended	%	Attended	%	Attended	%
Ruben C. Tiu	-	-	-	-	-	-	8	100%*	12	100%
Gregorio T. Yu	14	74%	-	-	-	-	-	-	-	-
Cecilio D. San Pedro	18	95%	11	100%	-	-	-	-	10	83%
Bansan C. Choa	18	95%	10	91%	-	-	-	-	-	-
William L. Chua	-	-	-	-	10	91%	10	83%	-	-
Harris D. Jacildo	-	-	-	-	11	100%	12	100%	10	83%
Vicente C. Macasaet, Jr.	-	-	-	-	8	100%*	-	-	-	-
Nilo L. Pacheco, Jr.	-	-	-	-	-	-	9	75%	11	92%
Maribel B. Sarino-Lazo	-	-	-	-	8	100%*	8	100%*	-	-
Atty. A. Bayani K. Tan	-	-	-	-	-	-	-	-	-	-
Bernadette Cindy C. Tiu	-	-	-	-	8	73%	-	-	-	-
John Y. Tiu, Jr.	17	89%	10	91%	-	-	-	-	-	-
Atty. Lamberto R. Villena	19	100%	11	100%	-	-	-	-	-	-
Ignatius F. Yenke	18	95%	-	-	-	-	-	-	-	-
Total Number of Meetings Held During the Year	19		11		11		12		12	

*the percentages of attendance are based on the duration of a director's membership with a Board/Board-level committee

Board Level Committees

Executive Committee

The Executive Committee assists the board in the general supervision, administration and management of the Bank's affairs. The committee is actively engaged in overseeing the development and execution of the Bank's business strategies.

Chairman: Gregorio T. Yu

Members: Bansan C. Choa, Cecilio D. San Pedro, Ignatius F. Yenko, Atty. Lamberto R. Villena

Alternate Member: John Y. Tiu, Jr.

Audit Committee

The Audit Committee is responsible for overseeing and reviewing the effectiveness of the Bank's system of controls, including financial and operational controls, compliance and risk management.

Chairman: William L. Chua

Members: Maribel B. Sarino-Lazo, Vicente C. Macasaet, Jr., Bernadette Cindy C. Tiu

Alternate Member: Atty. A. Bayani K. Tan

Risk Management Committee

The Risk Management Committee is responsible for developing and overseeing the Risk Management Program of the Bank and the Trust Unit. The Committee approves the risk strategy and the supporting risk management policies and procedures, ensuring the soundness of risk management practices, while fully considering the Bank's risk exposures.

Chairman: Maribel B. Sarino-Lazo

Members: William L. Chua, Nilo L. Pacheco, Jr., Harris D. Jacildo, Ruben C. Tiu

Alternate Member: Bernadette Cindy C. Tiu

Corporate Governance Committee

The Corporate Governance Committee assists the Board in fulfilling its corporate governance responsibilities and oversees periodic assessment of Board performance, as well as the various Board Committees and Senior Management.

Chairman: Nilo L. Pacheco, Jr.

Members: Maribel B. Sarino-Lazo, Vicente C. Macasaet, Jr., Atty. A. Bayani K. Tan, Ruben C. Tiu

Alternate Member: Bernadette Cindy C. Tiu

Related Party Transactions Committee

The Related Party Transactions Committee is responsible for screening related party transactions to ensure arms-length dealing with related parties of the Bank.

Chairman: Vicente C. Macasaet, Jr.

Members: William L. Chua, Harris D. Jacildo, Maribel B. Sarino-Lazo, Bernadette Cindy C. Tiu

Trust Committee

The Trust Committee is responsible for overseeing the investment activities of the Bank's Trust unit.

Chairman: Nilo L. Pacheco, Jr.

Members: Ruben C. Tiu, Cecilio D. San Pedro, Harris D. Jacildo, Hazel M. Navarro

Pre-qualification, Bidding and Awards Committee

The Pre-qualification, Bidding and Awards Committee oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

Chairman: John Y. Tiu, Jr.

Members: Bansan C. Choa, Cecilio D. San Pedro, Atty. Lamberto R. Villena

Information Technology Committee

The IT Committee oversees the development of the Bank's Information Technology Systems and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect the Bank's information and technical infrastructure.

Chairman: Ignatius F. Yenko

Members: Bansan C. Choa, John Y. Tiu, Jr., Cecilio D. San Pedro, Gregorio T. Yu

Loan Committee

The Loan Committee manages credit risk within the lending portfolio and monitors lending units' activities to ensure that they are carried out in a manner consistent with Board-approved strategic plans and objectives. The committee reviews the effectiveness of credit management systems, policies, and processes for measuring, monitoring, and controlling risk exposures.

Chairman: Gregorio T. Yu

Members: John Y. Tiu, Jr., Bansan C. Choa, Cecilio D. San Pedro, Ignatius F. Yenko, Atty. Lamberto R. Villena

Performance Assessment Program

An annual performance appraisal is conducted to help the Board determine areas for improvement and resolve any issues related to critical governance structures. This regular review enables the Board and the management to execute their roles and responsibilities in accordance to the Bank's corporate guidelines and principles.

Orientation, Education, Succession and Retirement Programs

Center for Learning (CFL) has developed and standardized the Training Plan to enhance the competencies of all employees. These courses include on-boarding to supplemental training that focuses on four key areas namely, Banking Know-How, Functional Know-How, Leadership and Service Excellence.

These comprehensive training and development programs strengthen the capabilities of employees across the organization. Every employee, including directors and senior management, is given access to continuing education to ensure that they remain adept in their respective job functions. Likewise, courses such as the Management Training Program, Branch Officers Development Program, and Leadership Program are regularly conducted to provide opportunities for growth within the company and facilitate succession.

Succession planning is also included in the Bank's employee development programs. These programs serve as reference in monitoring candidates' readiness as well as encourage easier integration of succession planning, talent management and retention.

Remuneration Policy

A continuous review and alignment of remuneration packages are conducted to attract and retain the services of qualified directors and employees to support the interests of the Bank and its stakeholders.

To determine the appropriate compensation, the following items are taken into consideration: (1) the level of remuneration is commensurate to the responsibilities of the role; (2) a director cannot participate in deciding his remuneration; and (3) remuneration pay-out schedules should be sensitive to risk outcomes over a multi-year horizon.

The top five highest paid officers of the Bank are the President and CEO, three EVPs, and one SVP

Policies and Procedures on Related Party Transactions (RPT)

Related Party Transactions are conducted on an arms-length basis with corresponding disclosure and approval from the proper entities, bearing in mind the best interests of the Bank and stakeholders. To avoid potential conflicts of interest, material RPTs are subjected to appropriate vetting by the RPT Committee. As an additional safeguard, the concerned related parties have also refrained from participating in discussions, decisions or approval of the said transaction.

The RPT Committee oversees the implementation of the system for identifying, monitoring, measuring, controlling and reporting RPTs.



Customer service and consumer protection are of utmost importance for the Bank. We will remain resolute in our commitment and dedication of upholding a corporate culture that advocates integrity, transparency, accountability and excellence for the benefit of our clients and our stakeholders.



Self-Assessment Function

Independent internal audit and compliance functions also oversee the effectiveness, soundness and adequacy of the Bank's governance processes and controls, as well as its compliance with laws, rules and regulations.

Internal Audit Function

Internal Audit carries out frequent and special risk-based reviews that are consistent with the Bank's objectives. It thoroughly assesses, analyzes and improves the effectiveness of internal controls, risk management and governance processes under the guidance of the Audit Committee

Compliance Function

The compliance function measures the effective management of compliance risk. This is done mainly by (1) advising the Board and management on relevant laws, rules and regulations, (2) conducting compliance risk assessment and testing, (3) monitoring compliance risk exposures, and (4) corresponding and coordinating with the regulators regarding compliance matters.

The Compliance Office reports to the Corporate Governance Committee.

Corporate Social Responsibility

The Bank is a firm advocate of making positive contributions to society. The Bank continues to

look for avenues wherein it could help uplift the lives of people and spark change in its immediate communities. The Bank has embarked on several outreach projects and initiatives.

The Bank also donated much-needed medical supplies and tools to the St. Martin De Porres Charity Hospital in San Juan last December 2018. This initiative, under the 'Kind Heart Gives' advocacy, began four years ago and was undertaken to enable the Bank to be of service to the community of San Juan where its head office is located.

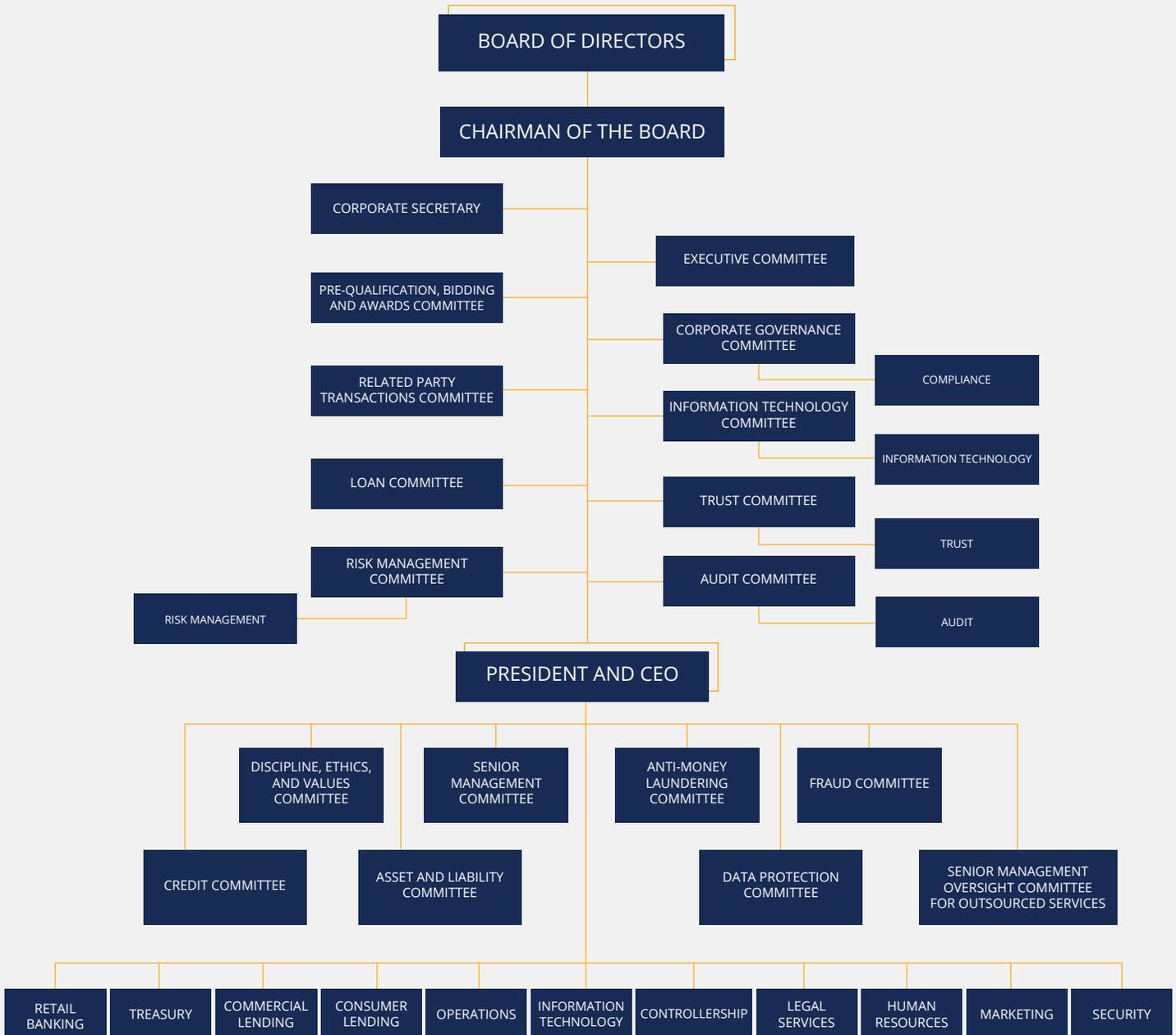
Consumer Protection

Financial consumer protection is a fundamental part of the Bank's corporate governance and culture. Given this, the Bank has implemented a Board-approved Consumer Protection Risk Management System which provides appropriate management controls that safeguard consumer rights.

A customer service helpline has also been put in place to address client concerns.

	2018	2017
Complaints	1,609	1,615

Organizational Structure







RISK MANAGEMENT



With the increasing frequency of environmental risks and cyber threats, it is vital for organizations like Sterling Bank of Asia to have a solid business continuity plan and resilient organization. For us at Risk Management, we incessantly strive to improve the Bank's resiliency, strength and agility by further enhancing our Business Continuity Management, Data Protection, IT infrastructure and security posture.



In 2018, we have seen the risk landscape shift gears towards increasing environmental and cyber threats. Globally, the frequency and intensity of natural disasters have increased. The Philippines, likewise, has not been spared, with its share of typhoons and calamities averaging 20 typhoons annually. We also witnessed the eruption of Mount Mayon in the Bicol region in 2018 which displaced over 56,000 people and caused damage to properties and agriculture. More recently, we have also been plagued by power supply shortages and water crises driven by changing environmental forces. These events underscore the importance of business continuity and resiliency in the face of various sources of disruption.

On the technological front, we have also heard numerous cases of data breaches and cybersecurity incidents targeting both big names and small enterprises. In response, various jurisdictions have tightened regulations and standards to address cybersecurity risk concerns. In Europe, the General Data Protection Regulation (GDPR) came into effect in May of 2018. While on the local front, the Bangko Sentral ng Pilipinas (BSP) developed Cybersecurity guidelines and standards while the National Privacy Commission has taken strides in the implementation of the Philippine Data Privacy Act.

Amidst this landscape, Sterling Bank of Asia has incessantly endeavored to improve its resiliency by enhancing its program implementation in the area of Business Continuity Management and Data Protection, with its continuous process enhancements and investments in system upgrades to strengthen its IT infrastructure and security posture.

Moreover, as the world braces itself for what is to be the fourth industrial revolution characterized by the fusion of technologies converging the physical, digital and biological spheres, we see a reshaping of the banking sector's competitive landscape given disruptive technologies and innovations coming from fintech companies. Traditional banking operating models are now being challenged with this new customer experience provided by various online applications and fintech platforms that provide financial services at a click of a finger. These new technological developments bring with it new risk dimensions as the banking sector embraces digital transformation. The BSP has also been at the forefront of promoting electronic banking with the National Retail Payment System that provides for an interoperable ecosystem to facilitate electronic fund transfers where Sterling Bank of Asia is an active participant in PESONet and InstaPay.

Risk Management Framework

At the heart of Sterling Bank of Asia's risk infrastructure are people, process and technology, providing the fuel to drive the Bank's Enterprise Risk Management (ERM) System into full blast. The Bank's ERM provides an integrated framework that encompasses the entire organization and gives a systemic approach to identifying and assessing risk across the various business lines and bank activities.

Anchored on four key pillars namely: Strategy, Organization and Governance, Infrastructure, and Models and Measures, the Bank's ERM creates the mechanism by which Senior Management and the Board drives a consistent administration of risk across the organization.

Strategy

The Bank underscores the importance of integrating risk into strategy setting. Strategic choices for value creation and driving the business determine the risk profile of the Bank. Due consideration for risks in the strategic planning process allows the Bank to manage the risk exposure of the business within its risk tolerance and capacity, and ensure the short-term and long-term viability of the enterprise.

Sterling Bank of Asia utilizes environmental scanning in its annual strategic planning exercise, looking at risks internal to the organization and external elements such as political, environmental, social, technological, legal, and economic factors. This comprehensive assessment facilitates risk-informed direction setting and enables the Bank to maneuver its plans in accordance with its strategic objectives.

Risk Organization and Governance

The Bank adopts a multistakeholder approach to managing risk and business. Close collaboration with various functional units and business lines enable the Bank to achieve its corporate goals and reap accomplishments. Given this, accountability for risk is shared by all across the different business units and support teams, with each member kept aware and committed to their respective roles in the risk management process.

Sterling Bank of Asia strictly adheres to the principle of separation between front, middle and back office functions with its four lines of defense structure. The

first line of defense is business management. As the front line units enter into business transactions and expose the Bank to risk, whether of financial or non-financial nature, they take ownership of the individual risks associated with it. Front line units are responsible for assessing and managing risk within each business line and are in charge of the implementation of controls to mitigate risks inherent in their products and services.

The second line of defense is back office units that extend support functions and facilitate transaction processing. They ensure that controls are in place and policies are adhered to in the implementation and execution of deals.

The third line of defense involves the middle office function which is handled by the Risk Management and Compliance office that set risk management and control standards, including compliance with applicable laws and regulatory requirements. These independent units are tasked with overseeing and challenging the risk-taking activities of the front line units and evaluating the effectiveness of back office controls and functions. They promote risk awareness and foster a culture of compliance and control by providing advisory services to business units, keeping them abreast of methodologies and tools that can be employed for risk mitigation and control.

Finally, Internal Audit acts as the fourth line of defense. It provides the assurance and validation mechanisms needed to determine the effectiveness of instituted risk management systems.



The responsibility for setting the tone and leadership for ERM resides with Senior Management and the Board of Directors. Having the benefit of an enterprise view of the organization, they are ultimately responsible for understanding, monitoring and managing the significant risks that the Bank is exposed to. The Board of Directors provide the Bank's strategic direction that leads to the development of business plans, oversees its implementation and performance to ensure that activities are within acceptable risk boundaries. The Board oversees the implementation of the Bank's Enterprise Risk Management System that provides the framework for managing the Bank's risk exposures including

risk identification, measurement, monitoring and control mechanisms. Senior Management, on the other hand, is responsible for designing and implementing the enterprise risk management process for the organization.

The Board is supported by various Board and management level committees in its risk oversight functions. These committees are in charge of managing and monitoring specific risks in the conduct of its banking activities, and at various levels in the organization. The Risk Management Group, meanwhile, performs monitoring activities and transparent risk reporting to facilitate the Board's risk oversight function.





PRESIDENT AND CEO



DISCIPLINE, ETHICS, AND VALUES COMMITTEE (DEVCOM)

Ensures the strict adherence to the Bank's standards and code of conduct and exercises disciplinary powers on infringement of the rules governing banking activities. In conjunction to its operational and reputational risk management, the Bank requires all personnel to abide by the code of conduct and perform their fiduciary duties consistent with the Bank's vision and core values.



SENIOR MANAGEMENT COMMITTEE (SMC)

In charge of the Bank's general supervision, administration, and operations while overseeing operational and strategic risk management.



CREDIT COMMITTEE (CRECOM)

Screens and appraises all credit proposals that require the approval of the president, LoanCom or Board. It also monitors credit underwriting activities executed at the management level, checks if the credit risk is within the Board-set risk tolerance levels, and ensures that proposals comply with the Bank's credit underwriting standards, policies and procedures.



ASSET-LIABILITY COMMITTEE (ALCO)

Tasked to ensure that the Bank and all its legal vehicles maintain adequate liquidity, sufficient capital, and the appropriate funding to meet both business and regulatory requirements. It is also responsible for building a stable funding structure by managing the long-term profiles of the Bank's asset and liability maturities; manage the statement of financial position, and guarantee that strategies support adequate liquidity, capital and diversified funding. It also establishes asset liability pricing policies that are consistent with the Bank's strategies.



FRAUD COMMITTEE

Mitigates fraud risk by serving as a recommending body to policy and procedural improvements to prevent the occurrence of fraud.



ANTI-MONEY LAUNDERING COMMITTEE (AML)

Ensures compliance to Anti-Money Laundering laws and its corresponding implementing rules and regulations (IRR), BSP guidelines and regulations.



DATA PROTECTION COMMITTEE

Oversees the implementation of the Data Privacy Act (DPA). The Bank utilized a committee approach to DPA compliance by assigning Data Protection Officers in different key areas namely, Compliance, Risk, Legal, Information Technology and Security.



SENIOR MANAGEMENT OVERSIGHT COMMITTEE FOR OUTSOURCED SERVICES

Tasked with monitoring and evaluating performance of outsourced partners and service providers.

Operational Risk Department

- Operational loss data tracking and reporting
- Operational risk identification, quantification and assessment
- Methodologies in the Conduct of Risk and Control Self-Assessment (RCSA)
- Comprehensive Business Continuity Program
- Analysis of operational risk management processes
- Monitoring of Risk Treatment Action Plans (RTAP)

Credit Risk and Control Department

- Credit portfolio risk management and analytics
- Bank's Internal Credit Risk Rating System
- Credit risk identification, quantification, and assessment
- Detection of credit concentrations and problem accounts
- Establishment of credit limits and credit underwriting standards
- Credit policy development

Market and Liquidity Department

- Analytics on the Bank's market, liquidity and interest rate risk
- Risk identification and assessment affecting the Bank's trust, treasury operations, and financial market activities
- Market risk quantification and assessment
- Contingency measures to address the impact of market shocks and liquidity stress scenarios

Information Security (IS) and Information Technology (IT) Risk

- Technology risk management
- Information security program management
- IT and IS risk identification, quantification, and assessment
- Access control reviews
- IS incident management

Infrastructure

Sterling Bank of Asia's risk infrastructure has three critical components, namely people, processes and technology. These three provide the backbone of the Bank's Enterprise Risk Management (ERM) System. While the responsibility for business-related risks lies with the respective business units, with risk management controls embedded in their respective processes, these aim to address specific risks within a particular organizational area. ERM, meanwhile, provides an integrated framework overarching the entire organization and shifts perspective from a silo paradigm to a holistic viewpoint. It establishes the critical linkages between the various business activities across the enterprise and the associated risk metrics. This integrated view allows for the identification of interdependencies of risks and helps the Bank's Senior Management and Board of Directors to drive a consistent treatment of risk across the enterprise.

Each Sterling Bank of Asia employee is made to understand his role in the risk management process emphasizing that risk is a shared responsibility and accountability across the enterprise. This message is emphasized during the on-boarding process when employees undergo the New Hires Orientation (NHO) Program and are introduced to the Bank's Enterprise Risk Management framework, the corporate and risk culture as well as the business and operating principles behind key program implementations. Meanwhile, as part of the Bank's continuing education program spearheaded by the Bank's Center for Learning (CFL), employees are provided with role-based risk management education designed to address training needs for people outside the formal risk management function.

The Bank's business processes are established via a multiple stakeholder approach to improve efficiencies, eliminate redundancies and reduce duplication of effort. This method paves the way for a shared understanding of risk across the process value chain. These processes are supported by the Bank's policies and procedures that have integrated

risk considerations and provide guidance to ensure that business activities are aligned with the Board-mandated risk appetite and tolerance levels. Existing policies are periodically reviewed and updated to ensure their responsiveness to evolving risk and business environments.

Lastly, Information Technology (IT) is a crucial component of a financial institution's risk management system. Sterling Bank of Asia's IT Group provides the necessary infrastructure to automate critical business activities with embedded control protocols to support a common risk architecture across the organization. IT Group also provides the data management facility for risk reporting and MIS for performance monitoring and decision-making.

Risk Models and Measurements

Risk measurements and monitoring activities provide the necessary information on the Bank's risk exposures that help Sterling Bank of Asia in steering the Bank in pursuit of its strategic directives. This information guides decision-making and provides the trigger mechanisms for strategic inflection points, given the changing regulatory and risk environment that may challenge key strategic assumptions from which business plans were developed. Results of risk monitoring are reported on a periodic basis to the Bank's Senior Management and the Risk Management Committees.

The Bank employs a variety of risk management methodologies using a combination of industry-accepted quantitative and qualitative techniques, to calculate and track risk exposures. These include Value at Risk and Earnings at Risk measures, loan loss estimation methodologies utilizing probabilities of defaults and loss rates for credit risk, internal credit rating systems, gap analysis, and monitoring various key risk indicators and metrics within an established risk dashboard. The risk models used are further subjected to regular back-testing, review and continuous enhancements to ensure their effectiveness in measuring levels of risk and increase accuracy and predictive power of these models.

RISK MANAGEMENT MECHANISMS**RISK CONTROL AND MONITORING TOOLS****RISK REPORTING AND BUSINESS MANAGEMENT****CREDIT**

- | | | |
|--|-------------------------------------|--|
| a. 10-tiered Credit Risk Rating System | a. Central Liability System | a. Annual updates on account risk rating |
| b. Classification of Credits | b. Limits: | b. Monthly credit risk profiling/management reporting to the RMC |
| c. Concentration by industry with risk classification, large exposures, loan tenor, collateral cover and investment counterparty exposures | • Single Borrowers' Limit | c. PD & ITL status reporting |
| d. Impairment Loss Estimation | • Group Exposures | |
| e. Stress Testing | • Industry Exposures | |
| | • Counterparty Limits | |
| | • Country Limits | |
| | c. Loan Provisioning | |
| | d. Herfindahl Hirschman Index (HHI) | |
| | e. PD & ITL impact on CAR | |

MARKET AND INTEREST RATE

- | | | |
|---|---|---|
| a. Concentration by type of investment, tenor and currency denomination | a. Limits: | a. Automated daily risk management, reporting of limits, and P&L to the President and other concerned parties |
| b. Stress Testing | • Position Limit | b. Monthly Market Risk management reporting to risk-taking units, the President, ALCo and RMC |
| c. Sensitivity Analysis | • Value at Risk (VaR) Limit | |
| d. Gap Analysis | • Alert levels (1 & 2) | |
| e. Review of new and existing investments and products | • Stop Loss Limit | |
| | • Traders Limit | |
| | • Earning at Risk (EaR) Limit | |
| | b. Value at Risk (VaR) estimates | |
| | c. Marked to market valuations | |
| | d. Interest rate gap | |
| | e. Exposure/position limits and duration limits on investment types/ products, countries and issuer | |
| | f. Monitoring of Off-Market transactions | |
| | g. Back testing to manage model risk | |

LIQUIDITY

- | | | |
|---|---|---|
| a. Concentration by type of investment, tenor and currency denomination | a. Maximum Cumulative Outflow (MCO) | a. Weekly reporting of balance sheet profile to ALCo |
| b. Stress Testing | b. Determining funding requirements | b. Monthly Liquidity Risk management reporting to RMC |
| c. Sensitivity Analysis | c. Monitoring of financial liquidity ratios | |
| d. Gap Analysis | | |
| e. Contingency Funding Plan | | |

RISK MANAGEMENT MECHANISMS**RISK CONTROL AND MONITORING TOOLS****RISK REPORTING AND BUSINESS MANAGEMENT****OPERATIONAL**

- | | | |
|---|---|--|
| a. Four lines of defense | a. Regular Risk Control and Self-assessment | a. Incident Reports |
| b. Operational Loss Database maintenance | b. Loss Event Reporting | b. Corrective Action Tracking |
| c. Operational Risk and Control Self-assessment | c. Risk Mapping | c. ORM reports to the RMC |
| d. Product risk assessments | d. Business Continuity Planning | d. Close Coordination with Internal Audit and IT |
| e. Business Continuity Management | e. Key Risk Indicator (KRI) Monitoring | |

COMPLIANCE

- | | | |
|--|---|---|
| a. Compliance Program | a. Compliance testing | a. Regular reporting and updating of regulatory concerns to SMC and Board/ExCom |
| b. Review of bank contracts and transactions | b. Information dissemination (e.g. BSP circulars, manual of regulations for banks, BIR and AMLC regulations) to concerned units | |
| c. Know Your Customer (KYC) | c. Training and seminars | |
| d. Know Your Employees (KYE) | d. Regular assessment of Compliance Program | |
| | e. Monitoring of fines and penalties (actual and probable) | |

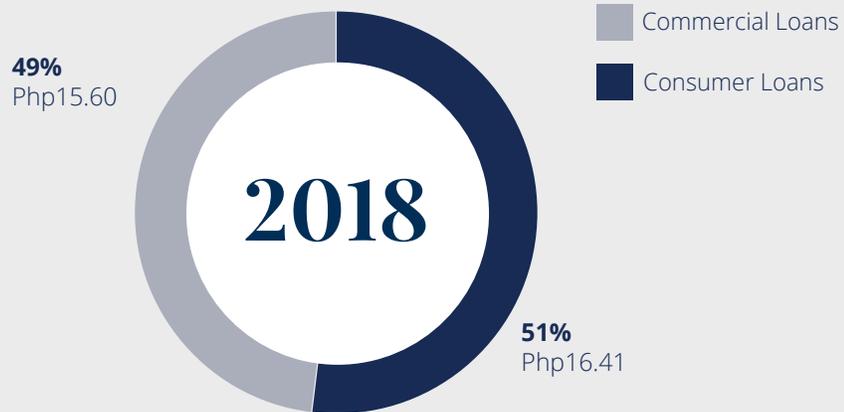
STRATEGIC

- | | | |
|---|---|--|
| a. Internal and external environment scanning | a. Impact assessment based on internal and external environmental scanning | a. Regular reporting and updating of performance vs. objectives to SMC and Board/ExCom |
| b. Strategic and Capital Planning | b. Performance Management System – Business Segment Management Performance Review | |
| c. Performance Management | | |
| d. Commitment to good corporate governance as an integral part of strategic thrusts | | |

REPUTATIONAL

- | | | |
|--|---|---|
| a. Code of Conduct | a. Media scanning | a. SLA Reporting |
| b. Know Your Customer (KYC) Program | b. Proactive solicitation of customer feedback | b. Management Reporting of significant issues |
| c. Media relations | c. Customer service management for complaints and client concerns | c. Internal and external communication |
| d. Customer feedback and complaints management | d. Service Level Agreements (SLA) | |
| e. Strengthened operational controls | e. Client Survey Forms | |

Combined Commercial and Consumer Lending Portfolio (Amount in Billions)



Types of Risks

Credit Risk

Credit risk is the risk of the potential occurrence of adverse effects on the Bank's financials and capital due to debtor's default and/or a counterparty's failure to meet its obligations to the Bank. Credit risk arises from the Bank's lending, trade finance and investment activities.

Credit risk is the Bank's largest risk exposure contributing 93% of the Bank's risk-weighted assets for 2018. Capital charge for credit risk is calculated using the standardized approach.

Lending activities from the Commercial and Consumer Lending Groups comprise the majority of the Bank's credit risk exposures with a combined loan portfolio for both groups at Php32.01 billion for 2018. The auto loans segment was the main driver of growth for the Consumer Lending Group, with an incremental Php1.54 billion to the portfolio. For 2018, the Consumer and Commercial Loans mix registered at 51% and 49% respectively.

Credit Risk Weighted Assets				
	2018 Amount (in Millions Php)		2017 Amount (in Millions Php)	
0% Risk Weight				
Cash on hand	690.703		629.387	
Due from BSP	2,660.231		2,513.066	
Available for sale financial assets	572.352		651.355	
Unquoted debt securities	-		573.989	
Loans and Receivables Arising from RA/CA/PR/SLB	-		371.802	
Loans to the extent covered by hold-out	1,125.413		1,170.848	
Loans to the extent covered by Marginal Deposits	4.654		4.873	
Loans to the extent guaranteed by HGC	1,052.271	-	1,289.495	-
Total Subject to 0% RISK WEIGHT	6,105.624		7,204.815	
20% Risk Weight				
Checks and other cash Items	-		-	
Claims guaranteed by foreign Incorporated banks	567.786		2,503.521	
Interbank call loans	77.655		77.195	
Claims on Philippine Incorporated private enterprise	194.338		211.755	
Claims guaranteed by foreign Incorporated private enterprise	184.036		196.643	
Total Subject to 20% RISK WEIGHT	1,023.815	204.763	2,989.114	597.823
50% Risk Weight				
Loans to individual for housing purposes	1,365.600		1,057.457	
Foreign currency denominated claims on or portions of claims guaranteed by or collateralized by foreign currency denominated securities issued by the Philippine National Government & the BSP.	107.938		107.035	
Total Subject to 50% RISK WEIGHT	1,473.539	736.769	1,164.492	582.246
75% Risk Weight				
Qualified MSME loans	2,796.870		2,702.594	
Total Subject to 75% RISK WEIGHT	2,796.870	2,097.653	2,702.594	2,026.945
100% Risk Weight				
NPL to individuals for housing purposes	109.241		9.499	
Other assets	28,222.857		24,499.899	
Total Subject to 100% RISK WEIGHT	28,332.098	28,332.098	24,509.399	24,509.399
150% Risk Weight				
All NPL except NPL individual for housing purposes	1,380.666		1,117.390	
Real and other properties acquired and NCAHS	439.846		230.587	
Total Subject to 150% RISK WEIGHT	1,820.511	2,730.767	1,347.977	2,021.966
Risk-weighted On Balance Sheet		34,102.050		29,738.378
Risk-weighted Off Balance Sheet		15.911		10.376
Counterparty (Trading/Banking)		7.982		6.300
TOTAL CREDIT RISK		34,125.943		29,755.054

The Commercial Lending portfolio stood at Php15.599 billion. Most of these are short-term business loans with credit structures matched to the borrower's business financing requirements. The credit underwriting for the Commercial Lending segment is anchored on the assessment of the borrower's repayment capacity established through cash flow assessments, management capability, and industry prospects. The acceptance of collateral is a secondary consideration as a risk mitigation technique as the Bank implements risk-based lending standards over collateral-based lending.

Financing under the Commercial Lending segment comes in the form of loan lines for working capital requirements, medium-term loans for capital expenditures, receivables financing and factoring, international and domestic trade financing with credit terms matched to the client's funding gap and floor stock financing for automotive dealers.

Enabling the Bank's risk-based credit underwriting is its 10-scale Internal Credit Risk Rating System (ICRRS) used to profile commercial loans into High Grade, Standard Grade or Impaired categories.

This rating system is subdivided into the borrower's risk rating (BRR), and the Facility Risk Rating (FRR). The BRR makes use a variety of financial indicators, management assessments and industry features that combine both quantitative and qualitative analyses to measure credit risk. While FRR considers the credit enhancements derived from the credit structure as well as risk mitigation mechanisms. Credit ratings are given during the time of loan approval and are re-evaluated and updated at least annually or when there are material changes and events that may impact the borrower's creditworthiness.

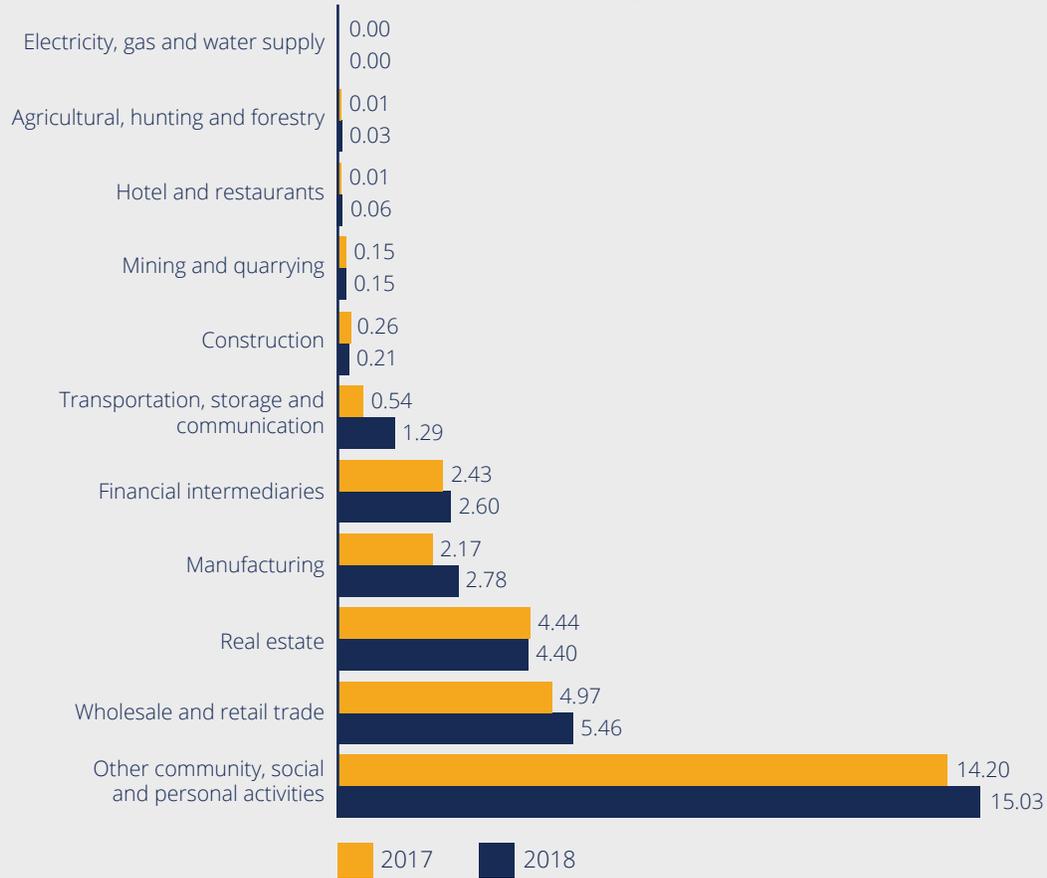
The Consumer Lending segment post sustained growth fueled by the robust macroeconomic performance and increased consumer spending. Growth is seen in the Consumer Lending space with 2018 posting a 9.13% increase over the previous year's performance. Consumer loans are underwritten based on the credit acceptance criteria which are built on a set of borrower attributes.

The Consumer Lending portfolio is divided into secured and unsecured product lines. Secured retail products include auto and real estate loans while unsecured retail products cover personal, salary and employee loans. These loans are designed to finance the personal needs of the Bank's customers as an alternative to credit card obligation, and to finance Small and Medium-sized Enterprises (SMEs).

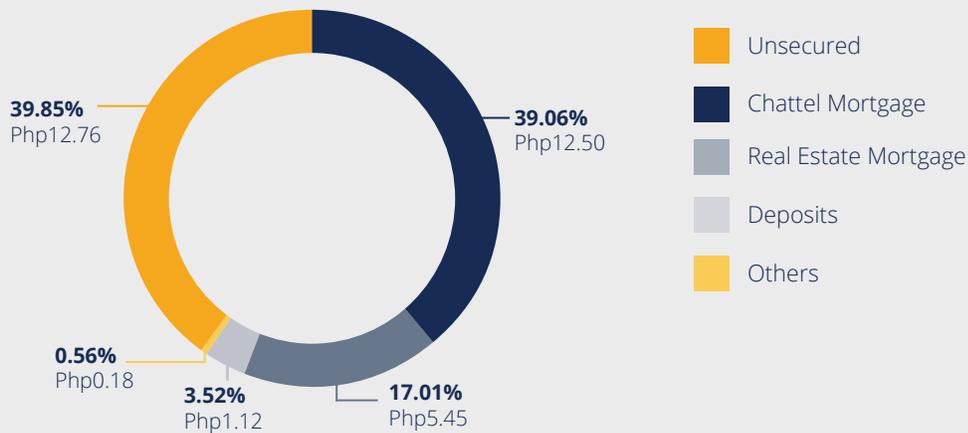
The Bank manages concentration risk by spreading it out across various industry sectors. However, lending units have identified certain industries as their key focus. These are aligned with the risk appetite established by Sterling Bank of Asia's Board of Directors. Meanwhile, Consumer Lending provides for consumption loans such as real estate mortgage loans, auto loans and multi-purpose loans.

RISK RATING	CLASSIFICATION	CREDIT QUALITY
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Industry Sector Distribution of Loans and Receivables (%) (in Billions Php)



Portfolio Breakdown by Security (Amount in Billions)



In terms of approvals, the Bank adheres to the “Four Eyes Principle” and follows a system of delegated authorities as approved by the Board.

The Loan Committee (LoanCom) is the governing body that oversees the Bank’s credit risk management system. It directs the implementation of credit risk strategies employed by the business units, as they deliver financing to their respective target markets. The LoanCom is also the body tasked with approving credit policies and the corresponding risk control framework which sets the parameters for lending and credit risk-taking.

The Credit Committee (CreCom) supervises the implementation of the instituted credit risk management systems. It ascertains that the Bank’s credit risk-taking activities are aligned with the Board-

approved strategies and that credit underwriting is within established limits and thresholds.

Credit risk exposures are monitored and reported regularly to the Credit, Loan and Risk Management Committees. The Credit Risk and Control Department of the Risk Management Group provides the support structure to these committees in terms of risk monitoring and reporting, development of the credit policies, risk measurements, and other credit risk management mechanisms.

For 2018, the Bank’s overall credit risk profile has significantly improved which is proof of its judicious credit risk underwriting procedures. As of December 2018, the Bank’s gross NPL ratio stood at 4.61% versus the industry average of 5.23%, maintaining consistently better than industry asset quality indicators for several years now.



Credit exposures are also present in the Bank’s treasury trading and investment portfolios. This is managed by monitoring the prices of securities which are indicative of the credit risk premium priced by the market. Credit limit structures such as position limits, counterparty limits, and country limits are likewise in place to ensure that investment activities are carried out within Board-set boundaries. Counterparty risk is generally reduced by netting arrangements which provide for single net settlement for exposures.

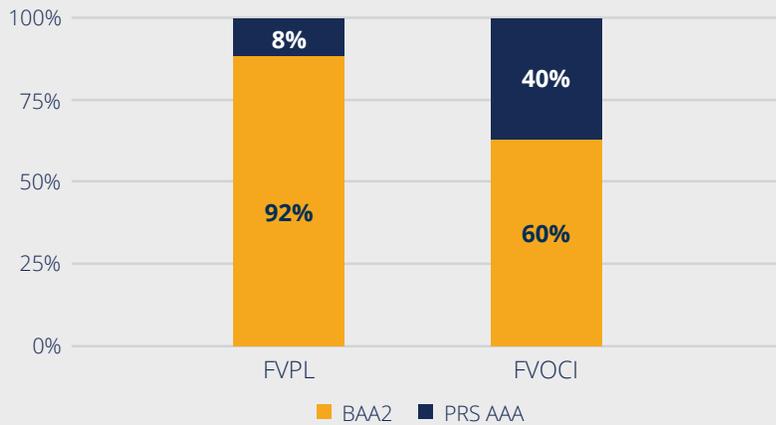
Concentration Risk by Countries



COUNTRIES	FVPL	FVOCI	TOTAL
Philippines	311.86	1,045.47	1,357.33
United States	00.00	523.33	523.33
TOTAL	311.86	1,568.80	1,880.66

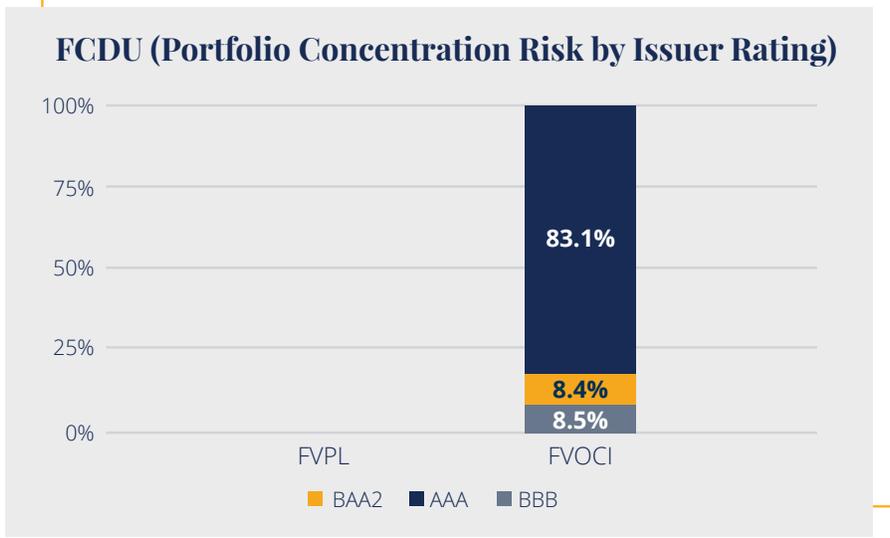
Amounts are in Millions Php
 FCY Denominated converted @ USD/PHP52.58
 FVOCI is exclusive of equity investments - Bancnet amounting to P16.07M
 FVPL is exclusive of MTM derivatives on value amounting to P0.09M

RBU (Portfolio Concentration Risk by Issuer Rating)



RBU	FVPL	FVOCI	TOTAL
PRS AAA	25.95	376.04	401.99
BAA2	285.91	562.83	848.73
TOTAL	311.86	938.86	1,250.72

Amounts are in Php Millions
 FVOCI is exclusive of equity investments - Bancnet amounting to P16.07M
 FVPL is exclusive of MTM derivatives on value amounting to P0.09M



FCDU	FVPL	FVOCI	TOTAL
AAA	00.00	523.33	523.33
BAA2	00.00	53.11	53.11
BBB	00.00	53.50	53.50
TOTAL	00.00	629.94	629.94

Amounts are in Millions Php
 FCY Denominated converted @ USD/PHP52.45

Market Risk

Market risk is the risk of loss that may result from changes in the value of a financial product. The Bank's market risk originates from its holdings of domestic and foreign-denominated debt securities, foreign exchange instruments and foreign exchange derivatives.

The Risk Management Group (RMG) is responsible for identifying, managing, measuring and controlling market risk. It performs the daily monitoring of compliance with the Bank's framework of policies, procedures and market risk limits. This framework is annually reviewed by the Risk Management Group (RMG) and Asset-Liability Committee (ALCO) and approved by the Risk Management Committee (RMC). The ALCO is responsible for managing the Bank's overall market risk exposures. The RMG regularly reports to ALCO and to the RMC, which is a sub-committee of the Board of Directors.

Market Risk in the Trading Book

The Bank is exposed to potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rates. The trading activities of the Bank include investments to fixed income securities and foreign exchange securities, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by daily analysis of the Value at Risk (VaR) of financial instruments under normal market conditions.

Objectives and Limitations of the VaR Methodology

Value at Risk (VaR) is a statistical estimate of the maximum potential loss in the trading portfolio given a specific period of time within a predetermined degree of probability. The Bank has chosen to adopt the Historical VaR model in calculating the VaR. This model approximates VaR by using historical returns and behavior. Past data is used as a guide to what will happen in the future. Like any model, the use of Historical VaR has limitations. While it captures irregularities present in the historical database, it fails to capture probabilities that have not yet occurred.

Backtesting is done to validate the acceptability of the VaR model. The Bank performs both hypothetical and actual backtesting procedures for FX and Fixed income securities (RBU and FCDO) securities. Likewise, market risk positions are subject to regular stress testing to complement backtesting activities in order to assess the Bank's vulnerabilities and ensure that it can withstand extreme market conditions.

VaR Assumptions/Parameters

The historical model approximates VaR using actual historical rates and revalues positions for each change in the market. It involves the day-to-day changes in the values of market variables that have been observed in the past in to estimate the probability of the change in the value of the current portfolio. It is appropriate for all types of instruments, linear and nonlinear, with stable risk factors for which there is a rich historical database. VaR is an integral part of the Bank's market risk management. VaR limits have been established annually for all financial trading activities and utilization is monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank which covers Fair Value Through Profit and Loss (FVPL) securities. Fixed income VaR includes value at risk for investment securities denominated in currencies other than Philippine Peso. VaR is a measure of risk for the trading portfolio.

A Daily VaR report that contains details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any, is prepared by the Market Risk Officer of the Bank. It is submitted to the traders concerned, Treasury Head, Chief Risk Officer, Treasury Operations Head and the President. Moreover, the VaR results are discussed and reported monthly to the Asset and Liability Committee (ALCO) and the Risk Management Committee (RMC).

The Bank's market risk exposure is at a low level as it accounts for only 0.075% of the Bank's risk-weighted assets for 2018. The capital charge for market risk exposure follows the standardized approach.

Interest Rate Risk

Interest rate risk arises from holdings of interest rate sensitive assets and liabilities. The Bank uses the asset-liability gap analysis of interest rate risk-sensitive accounts or by way of the Earnings at Risk (EaR) model to measure the sensitivity of its balance sheet accounts to interest rate fluctuations. The EaR is an estimate of the maximum loss the balance sheet could incur in the event of unfavorable interest rate movements.

The Bank calculates the EaR by factoring in interest rate volatilities using a 99% confidence level. The repricing gap is calculated by first classifying the assets and liabilities into tenor buckets according to the remaining term to the next repricing date or to contractual maturity (if there is no repricing). Then, the difference between the sum of repricing (interest rate sensitive) assets and repricing (interest rate sensitive) liabilities is derived. This indicates the potential changes in the Bank's net interest income over the next 12 months.

The Bank 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 and within existing regulatory guidelines.

Foreign Currency Risk

Foreign currency risk is the probability of loss to capital or earnings due to an adverse movement in currency exchange rates. It arises due to a mismatch in the foreign currency assets and liabilities of the Bank.

Banks are required by the BSP to maintain a 100% cover for foreign currency-denominated liabilities with the foreign currency-denominated assets held under the foreign currency deposit unit (FCDU) books. In addition, at least 30% of the cover requirement should be in the form of liquid assets. Foreign currency-denominated deposits are generally used to fund the Bank's foreign currency-denominated loan and investment portfolio in the FCDU.

The Bank manages its exposure to fluctuations in foreign currency exchange rates by maintaining foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when they come due without incurring unacceptable losses or costs. It includes the inability of the bank to manage unplanned decreases or changes in funding sources. It arises from the failure to recognize or address changes in market conditions that affect the ability to liquidate assets quickly and with minimal loss in value.

The Maximum Cumulative Outflow (MCO) model is used to measure the risk arising from the liquidity gaps between assets and liabilities. The RMG prepares the Maximum Cumulative Outflow (MCO) report on a monthly basis. This is reported to the Asset and Liability Management Committee (ALCO) and the Risk Management Committee (RMC).

ALCO is responsible for capital allocation and balance sheet management with the view of optimizing existing resources. It ensures that it has adequate funds to meet maturing obligations. Funding and liquidity involve the cost-effective generation and maintenance of available funds at levels needed to meet expected and unexpected changes in operating conditions. It serves as the Funding Crisis Committee in case the contingency plan is activated. It ensures that the Liquidity Contingency Funding Plan (LCFP) is in place as part of its liquidity risk management to enable the bank to handle liquidity risk events. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding. Deposits with banks are made on a short-term basis with almost all being available on demand or within three months.

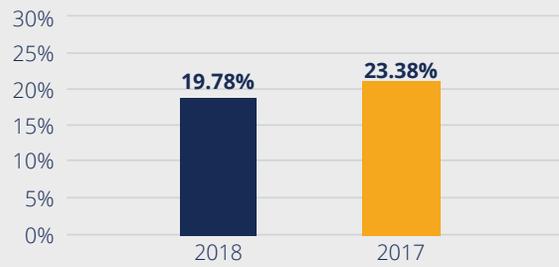
The Bank has started monitoring the Minimum Liquidity Ratio (MLR) in 2018 which is one of the refinements in the BSP Circular 981 (Guidelines on Liquidity Risk Management).

Liquid Assets to Total Assets



	2018	2017
Liquid Assets	7,261,136,856	8,095,556,612
Total Assets	41,770,114,954	39,845,392,952

Liquidity Ratio



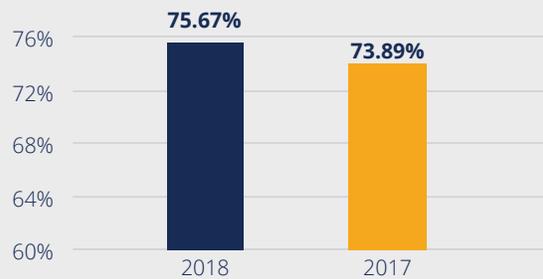
	2018	2017
Liquid Assets	7,261,136,856	8,095,556,612
Total Deposits	36,704,417,712	34,622,708,800

Loans to Deposit Ratio



	2018	2017
Loans and Receivables (net)	31,608,206,084	29,443,021,339
Total Deposits	36,704,417,712	34,622,708,800

Loan to Asset Ratio



	2018	2017
Loans and Receivables (net)	31,608,206,084	29,443,021,339
Total Assets	41,770,114,954	39,845,392,952

Operational Risk

Operational Risk is the risk of direct or indirect loss arising from inadequate or failed internal processes; or external events. This includes internal and external fraud; weaknesses in products and business practices; business disruption and systems failure; employment practices and workplace safety; damage to physical assets; as well as execution, delivery and process management failures.

The Bank recognizes four lines of defense as a fundamental principle in managing the Bank's risk management framework. The business units act as the first line of defense where the embedded controls in the processes are used to manage risks that they exposed to. The back office units serve as the second line of defense that performs additional controls integrated into their operations. The third line of defense is the Risk Management Group and Compliance Office which assists in determining the risk strategies and structures to manage risks and provide advisory services. Internal Audit, meanwhile, functions as the fourth line of defense. They independently review the efficiency of risk management systems and controls in the Bank.

The Risk and Control Self-Assessment (RCSA) and the Operational Loss Database are used to evaluate the Bank's operational risk profile. The RCSA is a tool employed by Sterling Bank of Asia which enables business units to assess the risk exposures and controls in place with regards to their existing processes. This exercise gives way to the identification of risks central to a business unit's operation, measurement of the risk level's alignment with the allowable risks the Bank may undertake, and ensuring that the existing controls are effective and aligned with the current risk environment. The regular conduct of RCSA is pivotal in a forward-looking risk evaluation that makes way for regular checks on the gaps between risk exposure and risk appetite by means of thresholds used in the profiling of risk. This also enables the bank to have insights on its

risk and control environment, proactively formulate risk treatment action plans as well enable timely and accurate decisions in line with the objective of maximizing returns while adhering to the set risk appetite. Key Risk Indicators (KRI) is mapped into the RCSA to determine high-risk areas and assess trigger levels. KRI report is a tool used to facilitate the monitoring and control of risks. Trends in KRIs provide an indication of whether an organization's vulnerability to a particular risk is increasing or decreasing. On the other hand, the Operational Loss Database reflects the loss experience of the Bank in terms of the different Basel categories. These losses are part of the regular reporting to the Risk Management Committee.

A Business Continuity Management Program (BCMP) has also been set in place to guarantee service delivery in the event of a disaster scenario and mitigate reputational risk. The program has established protocols to restore the Bank's core business activities, responding to varying levels of disruption, while factoring different scenarios including but not limited to loss of personnel, inability to access Bank premises and system interruption. Periodical testing is observed as an avenue for enhancement as necessary to keep plans current, fully functional and will address the operational impacts. The Bank implements different types of testing and exercises to cover diverse learning and training methods.

To strengthen the Bank's resilience to cybersecurity risks, it has implemented varied information and security initiatives. These included the designation of five Data Protection Officers to cover the various aspects of the Data Privacy Act implementation, namely, Compliance, Risk, Information Technology, Legal and Security.

Capital charge for operational risk follows the basic indicator approach. For 2018, operational risk accounts for 6.33% of the Bank's risk-weighted assets.

Compliance Risk

Compliance Risk is the possibility of occurrence of adverse effects on the Bank's financial and capital position as a consequence of the Bank's failure to comply with the law and other regulations, standards of operations, anti-money laundering and counter-terrorist financing regulations and other rules governing the Bank's operations. Compliance risk encompasses the risk of sanctions by the regulatory authorities, risk of financial losses and possible reputational risk.

The Bank's Compliance Program is the backbone of the Compliance Risk Management System. The program includes identification of relevant laws and regulations, monitoring of regulatory changes and the assessment of its operational and balance sheet implications. The Compliance Program ascertains that relevant stakeholders are continuously equipped in compliance risk management and also involve risk testing of business units. Capital charges arising from compliance risk is incorporated in the operational risk capital charge.

The Bank also strengthened its Money Laundering and Terrorist Financing Preventive Program (MTPP) to ensure that the Bank will not be used as a money laundering vehicle and conduit for proceeds of unlawful activities, and protect the integrity and confidentiality of banking transactions. The Bank also created an Anti-Money Laundering (AML) Committee to strengthen governance structure. This committee performs oversight functions to ensure compliance with AML regulations.

Key components of the Bank's MTPP include the customer identification and acceptance process, a mechanism for due diligence, Know Your Customer (KYC), and proper vetting during client on-boarding. A monitoring system to track transactions, significant movements including covered and suspicious transaction monitoring that provides for triggers, and control mechanisms to validate whether client's financial transactions are within assessed capacities have also been set in place. In partnership with the Bank's Center for Learning, Sterling Bankers are provided with continuous training and updates to promote a culture of AML compliance. The Bank's Compliance Office (CO) reports to the Corporate Governance Committee, which supplies the Board with pertinent data on the status of compliance risks and controls. The CO also ensures that the relevant stakeholders are well-versed on new regulations. Under the CO is a dedicated team for AML monitoring and compliance testing.

The Legal Department, meanwhile, manages Legal Risk. This is implemented via control structures such as Legal Office sign-off procedures, issuance of legal opinions and continuous training and awareness campaigns. These measures ensure that losses

caused by penalties and sanctions originating from court disputes due to a breach of contractual and legal obligations, and penalties and sanctions by regulatory bodies are minimized, if not totally avoided.

Strategic Risk

Strategic Risk is the risk of potential losses arising from unsuccessful business plans and the inability to properly respond to the changes in the business environment. Impacts of adverse business decisions, improper implementation of processes and failure to keep up to the changes in the industry are factors that may be attributed to this type of risk.

The Board of Directors (BOD) together with the Senior Management Committee (SMC) leads the direction of the Bank in terms of strategic plans. These Committees ensure the alignment of the Bank's goals with the business strategies, resources and implementation plans. Assessment of risks is part of the process improvement of services as well as product enhancements. New products and services also go through a review and deliberation process prior to implementation.

Group performances are regularly monitored and assessed vis-à-vis the objectives set by the SMC and the Executive Committee/BOD.

Reputational Risk

Reputational Risk is defined as the current and prospective impact on earnings or capital arising from negative public opinion. This is managed by handling all aspects that may significantly affect or pose a threat to the reputation of the Bank and bring about negative impact on the public's trust; affect a decrease in the customer base; trigger operational disruption or ignite legal suits.

Sterling Bank of Asia's response remained on the conservative side in terms of the changing risk environment that now includes the rise of social media as a platform for both positive and negative feedback. To date, client concerns are largely coursed through the 24/7 Customer Service Helpline. The Customer Management Department received a total of 1,609 complaints, inquiries and requests for the year 2018. These concerns were handled in accordance with the Bank's policies and regulatory expectations in terms of customer complaints handling.

The Bank also has a Business Continuity Management Plan (BCMP) and Crisis Management Plan in place to ensure the continuity of service delivery and mitigate reputational risk in the event of a disaster or crisis scenario.

Capital Management Framework

Risk and Capital Management optimizes the level and mix of Bank resources to increase shareholder value and ensure capital sufficiency to support the Bank's asset growth and expansion.

The Bank's risk-taking activities are determined largely by its level of capital. Given this, risk and capital management adhere to the following objectives:

- Maintaining capital ratios above the minimum regulatory capital with sufficient buffer to absorb shocks in periods of stress
- Ensuring capital availability to support asset growth and business activities
- Balancing risk and reward with the aim of achieving RWA optimization

Governance

The Board of Directors (BOD) through the Bank's Risk Management Committee (RMC) is in charge of the strategic allocation of risk capital. The BOD's key focus on risk and capital management is to oversee the alignment of corporate strategies and risk-taking activities with capital planning to ensure the best use of capital and optimize the level and mix of resources. The RMC is supported by the Risk Management Group (RMG), a unit independent of the business lines, in the exercise of its oversight functions. RMG is in charge of providing the RMC with an aggregated and broad perspective of capital adequacy.

The heads of the business units, as the risk-taking units of the Bank, are accountable for capital risk. Activities of the business units are guided by the Bank's capacity to absorb risks and the capital utilization for such activities.

As the bank committee in charge of balance sheet management, the Asset and Liability Committee (ALCo) handles recommendations related to capital utilization. It actively assesses the business portfolio, rationalizes the business mix, reallocates capital as necessary, and aligns activities with funding capacity.

The Credit Committee (CreCom), conducts thorough assessments of all big-ticket credit items and requires the approval of the President, Loan Committee and the Board. The Loan Committee (LoanCom) is the highest approving body for credit exposures, and factors in risk and capital utilization considerations in its credit decision-making process.

Capital Adequacy Ratio December 31 (in Millions Php)

	2018	2017
Tier 1 Capital	2,636.151	2,482.597
Tier 2 Capital	1,565.351	1,556.512
Gross Qualifying Capital	4,201.503	4,039.109
Less: Regulatory Deductions	13.755	8.775
TOTAL QUALIFYING CAPITAL	4,187.748	4,030.334
Credit Risk Weighted Assets	34,125.943	29,755.054
Market Risk Weighted Assets	275.636	396.790
Operational Risk Weighted Assets	2,325.196	2,187.795
TOTAL RISK WEIGHTED ASSETS (RWA)	36,726.775	32,339.639
Tier 1 Capital Ratio-Net	7.14%	7.65%
Total Capital Adequacy Ratio	11.40%	12.46%

Total Tier 1 Capital

	2018	2017
Paid-up common stock	2,070.000	2,070.000
Retained earnings	412.570	197.021
Undivided profits	145.117	206.409
Cumulative foreign currency translation	8.464	9.167
GROSS AMOUNT	2,636.151	2,482.597
Deductions:		
Deferred tax assets	13.755	8.775
Total deductions	13.755	8.775
NET TIER 1 CAPITAL	2,622.396	2,473.822

Total Tier 2 Capital

	2018	2017
Preferred Stock	300.000	300.000
General Loan Loss Provision	270.351	261.512
Unsecured subordinated debt	995.000	995.000
NET TIER 2 CAPITAL	1,565.351	1,556.512

	Credit Risk		Market Risk		Operational Risk	
	2018	2017	2018	2017	2018	2017
On-Balance Sheet (net of deductions)	34,102.050	29,738.378				
Off-Balance Sheet	15.911	10.376				
Counterparty (Trading/Banking)	7.982	6.300				
Interest Rate Exposure	-	-	111.948	261.609		
Foreign Exchange	-	-	163.688	135.182		
Operational Risk - Weighted Assets					2,325.196	2,187.795
TOTAL RISK WEIGHT	34,125.943	29,755.054	275.636	396.790	2,325.196	2,187.795
CAPITAL REQUIREMENTS	3,412.594	2,975.505	27.564	39.679	232.520	218.779

Capital Management Mechanism

The Board of Directors set the direction for target capital ranges. The target capital ranges act as an Early Warning System and trigger mechanism for any required bank action. Target capital ratios take into consideration the Bank's strategic directions and business objectives, including growth and expansion plans, and a financial buffer for shocks under stressed scenarios.

Capital ratios are calculated on a monthly basis to monitor capital adequacy and trigger action plans, should capital ratios fall below acceptable levels. Risk exposures are periodically tracked to assess capital utilization as part of the Bank's risk and reward trade-off. The results of these monitoring activities are submitted monthly to the SMC and RMC. It is also used in escalation protocols to address instances of near breach and/or breaches in Board-set limits, hence initiating timely and appropriate Bank response.

The Bank's system of risk limits affords diversification across risk exposures and risk capital utilization. These limits and thresholds reflect the Bank's risk tolerance and capacity as set by the Board. Stress testing is also integral to the Bank's risk and capital management system. It is employed to determine the impact on the Bank's capital position of pre-defined scenarios reflecting various degrees of severity. Stress testing exercises cover both internal stress scenarios developed on the Bank's portfolio and sub-portfolio, and regulatory stress scenarios required by the BSP as part of its oversight of the Philippine banking sector.

Simulations measure and test the impact on capital levels of various business and economic scenarios. Further simulations on the impact of proposed significant investments and loan exposures are conducted to serve as a feedback mechanism on capital utilization to balance risk reward trade-off.

THE MANAGEMENT





BOARD OF DIRECTORS



RUBEN C. TIU
Chairman of the Board

Mr. Ruben C. Tiu, 63, Filipino, is the Chairman of the Board of Directors of Sterling Bank of Asia. He concurrently holds the position of Chairman of the Board and President of nine other companies which include Aldex Realty Corporation, Pan-Asean Multi Resources Corporation, Union Pacific Ace Industries, Inc., Demmik Holdings, Inc., Demmik Realty, Inc., Oakridge Properties, Inc., Hotel Systems Asia, Inc., JTKC Land, Inc., Star Equities, Inc., and JSD Solutions, Inc.

He likewise serves as the Chairman of the Board of The Discovery Leisure Co., Inc., and Discovery Country Suites, Inc. Mr. Tiu also has a leadership position as Director and President of JTKC Leisure Holdings Corporation, Director and Executive Vice President of JTKC Equities, Inc., Director of Tera Investments, Inc., and President of Club Asia, Inc.

Mr. Tiu is a Bachelor of Science degree holder in Business Administration at De La Salle University.



GREGORIO T. YU
Vice Chairman of the Board

Mr. Gregorio T. Yu, 60, Filipino, serves as the Vice Chairman of the Board of Directors of Sterling Bank of Asia. Simultaneously, he acts as Chairman of the Board of Auto Nation Group, Inc., CATS Automobile Corporation and American Motorcycles, Inc and Nexus Technologies. He also has leadership positions as either Director and/or President of CATS Asian Cars, Inc., Glyph Studios, Inc., Philippine Bank of Communications, Unistar Credit and Finance Corporation, Philequity Management, Inc., Prople BPO, Inc., Jupiter Systems Inc., and Wordtext Systems, Inc. Mr. Yu is also an Independent Director of Philippine Airlines, Inc, PAL Holdings, Inc., Alphaland Corporation, ISM Corporation and Vantage Equities, Inc. He is a Board Member of Ballet Philippines and Manila Symphony Orchestra.

Mr. Yu graduated summa cum laude with a degree of Bachelor of Arts in Economics from De La Salle University and holds a Master of Business Administration degree from The Wharton School of the University of Pennsylvania.



CECILIO D. SAN PEDRO
Director, President and CEO

Mr. San Pedro, 58, Filipino, joined the Bank in November 2011. Prior to joining the Bank, he was the Executive Director of Global/Local Markets and Country Treasurer of The Royal Bank of Scotland (formerly ABN AMRO) for eight years. He also worked with Bank of America NT & SA for more than 20 years where his last post was Principal – Global Markets Head and Country Treasurer.

Mr. San Pedro holds a Bachelor of Science Degree in Business Administration, major in Accounting, from the University of the East and has completed degrees/courses in Corporate Finance Management and Strategic Business Economics from the University of Michigan Business School and the Center for Research and Communication (now University of Asia and the Pacific), respectively.



BANSAN C. CHOA
Director

Mr. Bansan C. Choa, 64, Filipino, is a Director of Sterling Bank of Asia. He is also the current Chairman of the Board of I-Remit Inc., Confed Properties, Sure Fortune Properties, Inc., Ferris Sobell Properties, Inc., Surewell Equities, Inc., Bleaushea Properties, Inc., and Merrytown Properties Corporation. Mr. Choa acts as the Chairman of the Board of Trustees of Kassel Condominium Corporation and the Kabalikang ng Migranteng Pilipino, Inc. He is the Treasurer of Banwood Construction Center, Inc. and Six Alps Corporation. He is also the President of Philippine Retirement, Inc. and Comvest Investment Inc.

Mr. Choa simultaneously acts as a Board Adviser for the Subdivision and Housing Developers, Inc. and Organization of Socialized Housing Developers of the Philippines after serving as their past President and Chairman. In addition, he has been the official representative of Subdivision and Housing Developers, Inc. in Interagency Committee on Consumer Price Statistics. He is also a member of the National Real Estate Association.

A certified public accountant, and a member of the Philippine Institute of Certified Public Accountants, he was previously connected to the accounting firm of SGV & Co. He is also a licensed professional real estate broker, appraiser and real estate consultant (with PRC Registration No. 0000002), being one of its first board members in PRC on Real Estate Service professions as appointed by the President of the Republic of the Philippines.

Mr. Choa holds a Bachelor's Degree in Commerce from De La Salle University, a Master's Degree in Business Administration from the Ateneo Graduate School of Business, and has completed a course in housing finance at The Wharton Real Estate Center of the University of Pennsylvania.



WILLIAM L. CHUA
Independent Director

Mr. William L. Chua, 67, Filipino, is an Independent Director of Sterling Bank of Asia. Mr. Chua is concurrently the Chairman of the Board, and President & CEO of WSI Philippines, Inc., Leadtech Systems, Inc., and LSI Leading Technologies, Inc. He likewise serves as Chairman of the Board of Directors of Philmont Academic Solutions Inc., and is a member of the Board of Directors of Nexus Technologies, Inc., Jupiter Systems, Inc., Information Technology Security Distributors, Inc., Aikontech Corporation, WSI Phonecare, Inc. and WSI Technologies Corporation. Mr. Chua acts as the Vice Chairman of Wordtext Systems, Inc., a Trustee of the Adolfo S. Suzara Foundation, Inc., and the CEO & President of WS Pacific Publications, Inc. and an Independent Director of Discovery World Corporation.

He has a Master's Degree in Business Administration from Santa Clara University, California and a Bachelor of Science Degree in Industrial Engineering from California State University in San Jose, California.



HARRIS D. JACILDO
Director

Mr. Harris D. Jacildo, 57, Filipino, is a Director of Sterling Bank of Asia. He holds office as the Director and President of I-Remit, Inc. and is concurrently a member of the Board of Directors of I-Remit Global Remittance Ltd. (GBR), I-Remittance Singapore Pte. Ltd. (SGP), Lucky Star Management Ltd. (HKG), and Worldwide Exchange Pty. Ltd. (AUS), I-Remit New Zealand Limited (NZL), and a member of the Board of Trustees of Kabalikang ng Migranteng Pilipino.

Mr. Jacildo holds a Bachelor of Science Degree in Applied Economics from De La Salle University and has completed the Basic Management Program at the Asian Institute of Management.



VICENTE C. MACASAET, JR.
Independent Director

Mr. Vicente C. Macasaet Jr., 82, Filipino, is an Independent Director of Sterling Bank of Asia. He currently serves as a French language teacher in Guangdong, China and an addiction counselor in Baguio City. Prior to joining the Bank, he was the Director of Sales of Northwest/American Airlines and Regent of Manila Hotel. He also held the role of General Manager of Avianca Airlines and Travelogue, and was also the Commercial Administration Manager of Air France.

He holds a Bachelor of Science Degree in Commerce major in Banking and minor in Finance from Colegio de San Juan de Letran and completed courses in French Language and Culture at the Alliance Francaise de Manille.



MARIBEL B. SARINO-LAZO
Independent Director

Ms. Maribel B. Sarino-Lazo, 57, Filipino, is an Independent Director of Sterling Bank of Asia. Prior to joining the Bank, she worked as Consultant for Treasury, International Treasury and Controls, and Credit and Collections for Adobe Systems, Silicon Graphics, Inc. and Hewlett-Packard Co., respectively in San Jose, California. She was also a Second Vice President and Assistant Treasurer of The Chase Manhattan Bank, North America. She has also managed the overseas office of PCIBank in France and worked in corporate banking for the Insular Bank of Asia and America.

Ms. Sarino-Lazo graduated with a Bachelor's Degree in Economics from Haverford College, Pennsylvania.



NILO L. PACHECO, JR.
Independent Director

Mr. Nilo L. Pacheco, Jr., 63, Filipino, is an Independent Director of Sterling Bank of Asia. With over 27 years of commercial banking experience holding senior positions in several banks under his belt, he currently serves as a consultant at the De La Salle College of St. Benilde functioning as its Vice President for Finance, and is also a part-time professor in the school.

Mr. Pacheco simultaneously holds committee positions in some De La Salle schools, and is also Chairman of the Investment Committee and a member of the Retirement Commission of the Catholic Education Association of the Philippines.

He graduated with a Bachelor of Arts Degree major in Mathematics from De La Salle University, where he graduated magna cum laude and has also attended the Advanced Management Program at Harvard Business School.



ATTY. A. BAYANI K. TAN
Director

Atty. A. Bayani K. Tan, 63, Filipino, is a Director of Sterling Bank of Asia. He also acts as Director or Corporate Secretary, or both, of the Belle Corporation, Coal Asia Holdings, Inc., Discovery World Corporation, I-Remit, Inc., Pacific Online Systems Corporation, Philequity Dividend Yield Fund, Inc., Philequity Dollar Income Fund, Inc., Philequity Fund, Inc., Philequity MSCI Philippines Index Fund, Inc., Peso Bond Fund, Inc., Philequity PSE Index Fund, Inc., Premium Leisure Corporation, TKC Metals Corporation, Tagaytay Highlands International Golf Club, Inc., Tagaytay Midlands Golf Club, Inc., The Country Club at Tagaytay Highlands, Inc., The Spa and Lodge at Tagaytay Highlands, Inc., and Vantage Equities, Inc.

He is concurrently the Managing Partner of the law offices of Tan Venturanza Valdez, Managing Director and President of Shamrock Development Corporation, President of Catarman Chamber Elementary School Foundation, Inc., Managing Trustee of SCTan Foundation, Inc., Trustee and Treasurer of Rebisco Foundation, Inc., and Trustee and Corporate Secretary of St. Scholastica's Hospital, Inc. In addition, Atty. Tan is the Director of Destiny LendFund, Inc., Pascual Laboratories, Inc., and Pure Energy Holdings Corporation.

Atty. Tan holds a Master of Laws Degree from New York University and a Bachelor of Laws Degree from the University of the Philippines where he was a member of the Order of the Purple Feather, the official honor society of the U.P. College of Law, and ranked ninth in his class. Atty. Tan passed the bar examinations in 1981 where he placed sixth. He has a Bachelor of Arts major in Political Science Degree from San Beda College where he graduated class valedictorian and was awarded the medal for Academic Excellence.



**BERNADETTE CINDY
C. TIU**
Director

Ms. Bernadette Cindy C. Tiu, 39, Filipino, is a Director of Sterling Bank of Asia. She is concurrently the Chief Financial Officer and Head of Finance of I-Remit, Inc. She also holds office as the Vice President of Fidelity Securities, Inc.

Ms. Tiu holds a Bachelor of Science Degree in Business Administration, major in Accounting and Finance, from Boston University School of Management.



JOHN Y. TIU, JR.
Director

Mr. John Y. Tiu, Jr., 42, Filipino, is a Director of Sterling Bank of Asia. He has concurrent positions as Chairman of the Board of Discovery World Corporation and its subsidiaries, Euro-Pacific Resorts, Inc, Palawan Cove Corporation, Sonoran Corporation, Cay Islands Corporation, Balay Holdings Inc., Long Beach Property Holdings, Inc., and Lucky Cloud 9 Resort Inc. He is a Director of I-Remit, Inc., Discovery Fleet Corporation, Oakridge Properties, Inc., Sagesoft Solutions, Inc, and Evergreen Manufacturing Corporation. He is the President of The Discovery Leisure Company, Inc. and Discovery Country Suites, Inc., He is the Director and Vice-President of JTKC Leisure Holdings and Aldex Realty Corporation, and Director and Treasurer of JTKC Equities, Inc. and Star Equities, Inc. He holds office as Chairman and President of Tera Investments, Inc.

Mr. Tiu is a Bachelor of Science Degree holder in Electrical Engineering with a minor degree in Mathematics from the University of Washington, in Seattle, Washington.



**ATTY. LAMBERTO
R. VILLENA**
Director

Atty. Lamberto R. Villena, 72, Filipino, was the former President and CEO of Sterling Bank of Asia. He concurrently sits as a member of the Board of Directors of Discovery World Corporation. Prior to joining Sterling Bank of Asia, Atty. Villena was a former EVP for Commercial Banking at RCBC where he had 30 years of banking experience holding various senior positions in Credit, Corporate Banking, Remedial Management, Treasury, and Consumer Banking.

Atty. Villena has a Bachelor of Laws Degree from the University of the Philippines and is a member of the Philippine Bar. He has a Master's Degree in Business Administration from the same university. He likewise holds a degree in AB Philosophy and was a Master of Arts in Education candidate in Ateneo de Manila University.



IGNATIUS F. YENKO
Director

Mr. Ignatius F. Yenko, 66, Filipino, is a Director of Sterling Bank of Asia. He holds concurrent positions as Director and Vice Chairman of TKC Metals Corporation, Chief Finance Adviser and Director of SlashdotPh Corporation and a member of the Board of Directors of Leisure Resorts World Corporation.

Prior to joining Sterling Bank of Asia, Mr. Yenko was a former Vice President at The Chase Manhattan Bank. He also held various senior positions at Citytrust Banking Corp., Metro Pacific Group, Media Quest Holdings, Filcredit Finance and Philippine Long Distance Corporation (PLDT) to name a few.

Mr. Yenko holds a Master's Degree in Business Administration from the Asian Institute of Management and a Bachelor of Arts Degree in Economics from the Ateneo de Manila University.

PRESIDENT AND BUSINESS LINE GROUP HEADS



CECILIO D. SAN PEDRO
President and CEO

Mr. San Pedro, 58, Filipino, joined the Bank in November 2011. Prior to joining the Bank, he was the Executive Director of Global/Local Markets and Country Treasurer of The Royal Bank of Scotland (formerly ABN AMRO) for eight years. He also worked with Bank of America NT & SA for more than 20 years where his last post was Principal – Global Markets Head and Country Treasurer.

Mr. San Pedro holds a Bachelor of Science Degree in Business Administration, major in Accounting, from the University of the East and has completed degrees/courses in Corporate Finance Management and Strategic Business Economics from the University of Michigan Business School and the Center for Research and Communication (now University of Asia and the Pacific), respectively.



RALPH B. CADIZ
*Executive Vice President and
Retail Banking Group Head*

Mr. Cadiz, 51, Filipino, held various positions in retail banking, consumer lending and remittance at UCPB, Solid Bank, International Exchange Bank, Union Bank, Security Bank and Export Bank. His last position was Head of Branch Banking and Consumer Lending with a rank of Senior Vice President at Export Bank before joining Sterling Bank of Asia last September 2010. He has served as Head of the Bank's Retail Banking Group from 2010 up to the present.

Mr. Cadiz obtained a Bachelor of Science Degree in Commerce, major in Business Administration from the University of Santo Tomas.



BENSON J. HARI-ONG
*Executive Vice President and
Commercial Lending Group
Head*

Mr. Hari-Ong, 53, Filipino, brings to the Bank his expertise on Corporate Banking, holding senior positions at Rizal Commercial Banking Corporation, prior to joining in March 2008.

He holds a Bachelor of Science Degree in Industrial Management minor in Mechanical Engineering from De La Salle University and earned his postgraduate master's degree in Business Administration from the same university in 1990.



CLAYTON T. LEE
*Executive Vice President,
Treasurer and Treasury
Group Head*

Mr. Lee, 50, Filipino, has a banking career which includes years of Treasury experience at various local and foreign banks in the Philippines, namely Allied Bank, Bank of America and The Royal Bank of Scotland (formerly ABN AMRO). His last position was Vice President - Global/Local Markets and Foreign Exchange head. He joined Sterling Bank of Asia in November 2011.

Mr. Lee graduated from the Ateneo de Manila University with a Bachelor of Arts Degree in Economics.



ISABEL Y. SAN PABLO
*Senior Vice President and
Consumer Lending Group
Head*

Ms. San Pablo, 58, Filipino, handled key positions for the Consumer Lending business of Maybank and RCBC Savings prior to starting her career with Sterling Bank of Asia as Head of Consumer Marketing in January 2013. She then became the Consumer Lending Group Head the same year.

Ms. San Pablo graduated from the University of the Philippines with a Bachelor of Arts Degree in Economics.



HAZEL M. NAVARRO
*Vice President and Trust
Officer*

Ms. Navarro, 44, Filipino, started her banking career in Traders Royal Bank. She has worked as a Trust Investment officer for RCBC Savings Bank and continued her expertise when she joined Sterling Bank of Asia in September 2016.

Ms. Navarro studied at Assumption College and holds a Bachelor of Science Degree, major in International Business.

SENIOR OFFICERS



LUISITO S. MAYOR
*Senior Vice President,
Operations Group Head*



MICHELLE OHRELLA G. OIRA
*Senior Vice President, Risk Management
Head / Chief Risk Officer*



DALISAY N. RUBIO
*Senior Vice President,
Controllership Group Head*



DAX C. ALBARECE
*First Vice President,
Vismin Consumer Lending Head*



RUTH M. ANIÑON
*First Vice President,
Internal Audit Head*



CHERIE C. BALLESTEROS
*First Vice President,
Retail Banking Group Area 1 Head*



MA. DULCE Y. EDILLOR
*First Vice President,
Human Resources Group Head*



JOSE S. ISON JR.
*First Vice President,
Commercial Lending 3 Head*



HONESTO M. ROQUE JR.
*First Vice President,
Auto Loans Head*



LILIA P. SANTOS
*First Vice President,
Commercial Lending 1 Head*



RONALD C. SANTOS
*First Vice President,
Treasury Marketing Head*



ENRIQUE D. TAN
*First Vice President,
Commercial Lending 2 Head*



JOSE EDUARDO G. ACAYAN
*Vice President,
Treasury Marketing, Trader*



**MARC CHRISTOPHER
U. CARLOS**
Vice President, Peso Fixed Income Head



GREGO S. CERVANTES, JR.
*Vice President, Retail Banking
Group Area 2 Head*



GIRLIE C. GALANG
*Vice President, Chief Compliance
Officer*



MARY JOAN T. GARCIA
*Vice President, Management
Information System and Budget Head*



RINALDI O. GONZALES
*Vice President, Technology
Operations Head*



DAN C. GUEVARA
*Vice President, Center
for Learning Head*



CELIA A. GUTIERREZ
*Vice President, Retail Banking
Group Area 5 Head*



MARIE ANGELA M. HING
*Vice President, International
Markets Head*



HENRY G. HUNG
*Vice President, Application Systems
Head*



MARILOU B. LABAY
*Vice President, Financial Markets
Sales Head*



ETHEL L. PERALTA
*Vice President, Management
Support Services Head*



CANDICE P. QUIANZON
*Vice President, Real Estate Loans
Head*



JOSEFINA S. RIVERA
Vice President, Branch Head - Ortigas



MARIFE N. RUDIO
*Vice President, Credit Evaluation and
Approval Secured/Unsecured Loans Head*



JOSE ANTONIO C. SALVACION
Vice President, Chief Security Officer



MA. RUBY N. SAMSON
Vice President, Application Testing and User Support Head



ARLENE N. SIONGCO
Vice President, Compensation & Benefits Head



ATTY. ALMA VALERIE C. SORIANO
Vice President, Legal Services Head



JOSELITO V. TY
Vice President, Cash Management Head



JOSEPH T. SULIT
Vice President, RBG Support and Branch Expansion Head



MARILOU B. VILLANUEVA
Vice President, Foreign Exchange Head

STERLING BANK OF ASIA INC.
(A Savings Bank)

Financial Statements
December 31, 2018 and 2017

With independent auditors' report provided by



REYES TACANDONG & Co.

FIRM PRINCIPLES. WISE SOLUTIONS.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF FINANCIAL POSITION

		December 31	
	Note	2018	2017
ASSETS			
Cash and other cash items		₱673,088,622	₱629,416,734
Due from Bangko Sentral ng Pilipinas		2,654,024,133	2,519,965,700
Due from other banks		3,538,958,509	4,333,505,485
Interbank loans receivable	6	83,115,070	453,983,478
Investment securities	7	1,896,830,728	1,332,935,866
Loans and receivables	8	31,608,206,084	29,443,021,339
Assets held for sale	9	445,743,668	263,687,853
Property and equipment	10	434,435,516	452,463,399
Intangible assets	11	315,085,543	298,792,117
Deferred tax assets	21	16,663,522	10,754,822
Other assets	12	103,963,559	106,866,159
		₱41,770,114,954	₱39,845,392,952
LIABILITIES AND EQUITY			
Liabilities			
Deposit liabilities	13	₱36,704,417,712	₱34,622,708,800
Manager's checks		128,070,287	185,381,487
Income tax payable		2,275,290	25,003,577
Accrued interest, taxes and other expenses	14	179,847,292	135,199,706
Unsecured subordinated debt	15	1,000,000,000	1,000,000,000
Retirement liability	19	72,439,948	67,313,121
Other liabilities	16	882,185,212	892,731,930
Total Liabilities		38,969,235,741	36,928,338,621
Equity			
Common stock	22	2,070,000,000	2,070,000,000
Perpetual preferred stock	22	300,000,000	300,000,000
Other equity reserves		(160,269,013)	(53,739,798)
Retained earnings		591,148,226	600,794,129
Total Equity		2,800,879,213	2,917,054,331
		₱41,770,114,954	₱39,845,392,952

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF INCOME

		Years Ended December 31	
	Note	2018	2017
INTEREST INCOME ON:			
Loans and receivables	8	₱2,458,099,376	₱1,954,304,495
Investment securities	7	75,956,913	126,490,985
Interbank loans receivable	6	33,378,432	44,561,760
Due from Bangko Sentral ng Pilipinas and other banks		15,847,813	14,042,448
		2,583,282,534	2,139,399,688
INTEREST EXPENSE ON DEPOSIT AND OTHER FINANCIAL LIABILITIES			
	13	856,018,996	556,507,931
NET INTEREST INCOME		1,727,263,538	1,582,891,757
OTHER INCOME (CHARGES)			
Service charges, fees and commissions		201,012,017	210,373,274
Net losses from assets sold or acquired	9	(70,464,456)	(39,290,816)
Net trading and securities gains (losses) from investment securities	7	(40,257,221)	8,136,059
Net foreign exchange gains		19,842,700	20,802,771
Others - net		15,807,737	22,056,641
		125,940,777	222,077,929
OPERATING EXPENSES			
Compensation and fringe benefits		592,640,073	542,353,528
Taxes and licenses		283,064,175	217,956,169
Occupancy		126,246,868	118,555,684
Representation and entertainment		82,996,808	64,823,572
Depreciation and amortization	10	72,138,954	71,035,702
Insurance		71,197,798	67,794,892
Security, messengerial and janitorial		66,016,309	58,051,197
Others	20	277,632,686	289,017,806
		1,571,933,671	1,429,588,550
PROVISION FOR CREDIT AND IMPAIRMENT LOSSES ON LOANS AND RECEIVABLES			
	8	103,101,227	88,838,080
INCOME BEFORE INCOME TAX		178,169,417	286,543,056
INCOME TAX EXPENSE (BENEFIT)			
Current	21	78,470,700	110,247,699
Deferred		(5,556,581)	(276,733)
		72,914,119	109,970,966
NET INCOME		₱105,255,298	₱176,572,090

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)**STATEMENTS OF COMPREHENSIVE INCOME**

		Years Ended December 31	
	Note	2018	2017
NET INCOME		₱105,255,298	₱176,572,090
OTHER COMPREHENSIVE INCOME (LOSS)			
<i>Items to be reclassified to profit or loss:</i>			
Net unrealized losses on financial assets at fair value through other comprehensive income/available-for-sale financial assets	7	(105,005,023)	(14,112,150)
Translation adjustment		(702,581)	14,183,116
<i>Item not to be reclassified to profit or loss -</i>			
Remeasurement gains (losses) on retirement liability, net of deferred tax	19	(821,611)	15,345,599
		(106,529,215)	15,416,565
TOTAL COMPREHENSIVE INCOME (LOSS)		(₱1,273,917)	₱191,988,655

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CHANGES IN EQUITY

	Note	Years Ended December 31	
		2018	2017
COMMON STOCK	22	₱2,070,000,000	₱2,070,000,000
PERPETUAL PREFERRED STOCK	22	300,000,000	300,000,000
OTHER EQUITY RESERVES			
Cumulative Unrealized Losses on Fair Value Changes of Financial Assets at Fair Value through Other Comprehensive Income / Available-for-Sale Financial Assets			
	7		
Balance at beginning of year		(79,334,671)	(65,222,521)
Net unrealized losses		(105,005,023)	(14,112,150)
Balance at end of year		(184,339,694)	(79,334,671)
Cumulative Remeasurement Gains on Retirement Liability			
	19		
Balance at beginning of year		16,428,117	1,082,518
Remeasurement gains (losses), net of deferred tax		(821,611)	15,345,599
Balance at end of year		15,606,506	16,428,117
Cumulative Translation Adjustment			
Balance at beginning of year		9,166,756	(5,016,360)
Translation adjustment		(702,581)	14,183,116
Balance at end of year		8,464,175	9,166,756
		(160,269,013)	(53,739,798)
RETAINED EARNINGS			
Balance at beginning of year:			
As previously reported		600,794,129	424,222,039
Prior period adjustment on Philippine Financial Reporting Standard 9 adoption	2	(114,901,201)	–
As restated		485,892,928	424,222,039
Net income		105,255,298	176,572,090
Balance at end of year		591,148,226	600,794,129
		₱2,800,879,213	₱2,917,054,331

See accompanying Notes to Financial Statements.

STERLING BANK OF ASIA INC. (A Savings Bank)

STATEMENTS OF CASH FLOWS

		Years Ended December 31	
	Note	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax		₱178,169,417	₱286,543,056
Adjustments for:			
Provision for credit and impairment losses on loans and receivables	8	103,101,227	88,838,080
Depreciation and amortization	10	72,138,954	71,035,702
Net losses from assets sold or acquired	9	70,464,456	39,290,816
Net loss (gain) on sale of investment securities	7	35,896,453	(12,851,131)
Retirement benefits	19	19,953,097	18,978,817
Amortization of premium and discount of investment securities	7	15,465,422	23,685,142
Unrealized fair value losses on financial assets at fair value through profit or loss	7	4,360,768	4,715,072
Provision for impairment losses on assets held for sale	9	–	270,440
Operating income before working capital changes		499,549,794	520,505,994
Changes in operating assets and liabilities:			
Decrease (increase) in the amounts of:			
Loans and receivables		(2,795,800,329)	(7,040,187,142)
Financial assets at fair value through profit or loss		(193,522,528)	297,258,179
Other assets		2,902,600	(16,115,724)
Increase (decrease) in the amounts of:			
Deposit liabilities		2,081,708,912	5,139,680,160
Manager's checks		(57,311,200)	(44,924,636)
Accrued interest, taxes and other expenses		44,647,586	14,695,704
Other liabilities		(10,546,718)	146,064,038
Net cash used for operations		(428,371,883)	(983,023,427)
Income tax paid		(101,198,987)	(111,448,287)
Retirement contributions paid	19	(16,000,000)	(1,816,322)
Net cash flows used in operating activities		(545,570,870)	(1,096,288,036)
CASH FLOWS FROM INVESTING ACTIVITIES			
Additions to:			
Financial assets at fair value through other comprehensive income/available for sale financial assets	7	(1,138,600,000)	(169,608,026)
Property and equipment	10	(43,502,660)	(65,269,802)
Computer software	11	(28,745,901)	(21,392,697)
Maturity of financial assets at fair value through other comprehensive income/available for sale financial assets	7	607,500,000	–
Proceeds from sale of:			
Assets held for sale	9	159,575,274	161,033,458
Property and equipment	10	2,361,675	161,382
Investment securities	7	–	736,640,406
Net cash flows provided by (used in) investing activities		(441,411,612)	641,564,721

(Forward)

		Years Ended December 31	
	Note	2018	2017
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of unsecured debt	15	P-	P1,000,000,000
Payment of recalled unsecured debt	15	-	(500,000,000)
Net cash flows provided by financing activities		-	500,000,000
EFFECT OF EXCHANGE RATE CHANGES ON CASH AND CASH EQUIVALENTS		(702,581)	14,183,116
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		(987,685,063)	59,459,801
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items		629,416,734	625,137,059
Due from Bangko Sentral ng Pilipinas		2,519,965,700	3,142,341,082
Due from other banks		4,333,505,485	1,753,369,339
Interbank loans receivable	6	453,983,478	2,356,564,116
		7,936,871,397	7,877,411,596
CASH AND CASH EQUIVALENTS AT END OF THE YEAR			
Cash and other cash items		673,088,622	629,416,734
Due from Bangko Sentral ng Pilipinas		2,654,024,133	2,519,965,700
Due from other banks		3,538,958,509	4,333,505,485
Interbank loans receivable	6	83,115,070	453,983,478
		P6,949,186,334	P7,936,871,397
OPERATING CASH FLOWS FROM INTEREST			
Interest received		P2,458,099,376	P1,954,304,495
Interest paid		856,018,996	556,507,931
NONCASH INFORMATION			
Foreclosure of assets held for sale	9	P412,613,156	P254,423,704

See accompanying Notes to Financial Statements.

1. General Information

Sterling Bank of Asia Inc. (A Savings Bank) (the Bank) was incorporated in the Philippines and is registered with the Securities and Exchange Commission (SEC) and the Bangko Sentral ng Pilipinas (BSP). The Bank is primarily engaged in the general business of savings and mortgage banking. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions.

The Bank was granted authority to engage in trust operations in 2008 and to issue foreign letters of credit in 2010.

As at December 31, 2018 and 2017, the Bank operates a total of 47 branches.

The Bank was formerly known as Far East Savings Bank (FESB) and was originally issued with a Certificate of Incorporation by the SEC on January 20, 1998.

In 2006, JTKC Equities, Inc. (JEI), Surewell Equities, Inc. (SEI) and Star Equities, Inc. acquired all the outstanding shares of stock of FESB from the Bank of the Philippine Islands. In 2007, the change in corporate name of FESB to Sterling Bank of Asia Inc. (A Savings Bank) was approved by the BSP and the SEC.

In 2009, the BSP approved the Bank's application to acquire 100% of the shares of stock of Centennial Savings Bank (CSB). In 2010, as approved by the BSP and the SEC, the Bank, as the surviving entity, merged with CSB.

As at December 31, 2018 and 2017, the ultimate parent company of the Bank is JEI, through a direct interest of 40% and indirect interest of 30%, through Star Equities, Inc., a wholly owned subsidiary of JEI.

The registered office address of the Bank is Sterling Bank Corporate Center, Greenhills, San Juan, Metro Manila.

The financial statements of the Bank as at and for the years ended December 31, 2018 and 2017 have been approved and authorized for issue by the Board of Directors (BOD) on March 26, 2019 as recommended for approval by the Audit Committee on March 19, 2019.

2. Summary of Significant Accounting Policies

Basis of Preparation and Compliance

The financial statements have been prepared in compliance with the Philippine Financial Reporting Standards (PFRS) issued by the Financial Reporting Standards Council and adopted by the SEC. This financial reporting framework includes PFRS, Philippine Accounting Standards (PAS), Philippine Interpretations from International Financial Reporting Interpretations Committee (IFRIC), and the SEC provisions.

Measurement Bases

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

- financial assets measured at fair value through profit or loss (FVPL) and fair value through other comprehensive income (FVOCI);
- assets held for sale, which are measured at the lower of carrying amount and fair value less cost-to-sell; and
- retirement liability, which is carried at the present value of defined benefit obligation less the fair value of plan assets.

Historical cost is generally based on the fair value of the consideration given in exchange for an asset and the fair value of consideration received in exchange for incurring a liability. 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 transaction date.

The Bank uses market observable data as far as possible when measuring the fair value of an asset or a liability. Fair values are categorized into different levels in a fair value hierarchy based on inputs used in the valuation techniques as follows:

- Level 1 - quoted (unadjusted) market prices in active market 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.

If the inputs used to measure the fair value of an asset or a liability might be categorized in different levels of the fair value hierarchy, then the fair value measurement is categorized in its entirety in the same level of the fair value hierarchy as the lowest level input that is significant to the entire measurement.

The Bank recognizes transfers between levels of the fair value hierarchy at the end of the reporting year during which the change has occurred.

Information about the assumptions made in measuring fair values is included in Note 5, *Fair Value Measurement*.

Functional and Presentation Currency

The financial statements of the Bank include the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The functional currency of the RBU and FCDU is the Philippine Peso and United States Dollar (USD), respectively. For financial reporting purposes, the FCDU accounts and foreign currency-denominated accounts in the RBU are translated into their equivalent amounts in Philippine Peso, which is the functional and presentation currency of the Bank. The financial statements of RBU and FCDU are combined after eliminating inter-unit accounts.

Adoption of New and Amended PFRS

The accounting policies adopted are consistent with those of the previous financial year, except for the adoption of the following new and amended PFRS effective January 1, 2018.

- PFRS 9, *Financial Instruments* – This standard replaces PAS 39, *Financial Instruments: Recognition and Measurement* and supersedes all the previous versions of PFRS 9. It provides requirements for the classification and measurement of financial assets and financial liabilities, impairment, hedge accounting and derecognition.
 - For financial assets, PFRS 9 requires subsequent measurement at amortized cost or fair value (through profit or loss or through other comprehensive income), depending on the classification by reference to the business model within which these are held and their contractual cash flow characteristics.
 - For financial liabilities, the most significant effect of PFRS 9 relates to cases where the fair value option is taken: the amount of change in fair value of a financial liability designated as at FVPL that is attributable to changes in the credit risk of that liability is recognized in other comprehensive income (rather than in profit or loss), unless this creates an accounting mismatch.
 - For the impairment of financial assets, PFRS 9 introduces an “expected credit loss” (ECL) model based on the concept of providing for expected losses at inception of a contract. The recognition of credit loss should no longer wait for there to have an objective evidence of impairment.
 - For hedge accounting, PFRS 9 introduces a substantial overhaul allowing financial statements to better reflect how risk management activities are undertaken when hedging financial and non-financial risk exposures.
 - The derecognition provisions are carried over almost unchanged from PAS 39.

Transition. As allowed under transitory provisions of PFRS 9, the Bank applied the modified retrospective approach. The beginning balances of allowance for credit and impairment losses on loans and receivables and retained earnings were adjusted as a result of the adoption of PFRS 9. There were no other adjustments as a result of the adoption of the standard.

PFRS 9 also introduced the requirement to present “interest income calculated using the effective interest rate method” as a separate line item in profit or loss. The amount of interest income presented in the statement of comprehensive income arises from financial assets classified and measured either at amortized cost or at FVOCI. Accordingly, the entire amount of interest income is determined using the effective interest rate method.

Classification and Measurement. Based on the Bank’s analysis of its business model and the contractual cash flow characteristics of its financial assets and liabilities as at January 1, 2018, the Bank has concluded that all of its financial assets and liabilities should be measured on the same basis under PAS 39 but should be classified under PFRS 9.

The following table shows the classification and categories under PAS 39 and the new classification and categories under PFRS 9 for each class of the Bank's financial assets as at January 1, 2018.

Classification under PAS 39	Classification under PAS 39	Note	Classification under PFRS 9		
			Financial Assets at		
			FVPL	Amortized Cost	FVOCI
Investment securities					
Financial assets at FVPL -		(i)			
Government securities	₱158,685,215		₱158,685,215	₱-	₱-
Available-for-Sale (AFS) financial assets:		(ii)			
Government securities	702,075,379		-	-	702,075,379
Private bonds	456,101,809		-	-	456,101,809
Equity security	16,073,463		-	-	16,073,463
Loans and receivables					
Cash and other cash items	629,416,734	(iii)	-	629,416,734	-
Due from BSP	2,519,965,700		-	2,519,965,700	-
Due from other banks	4,333,505,485		-	4,333,505,485	-
Interbank loans receivable	453,983,478		-	453,983,478	-
Loans and receivables	29,443,021,339		-	29,443,021,339	-
Refundable deposits	27,668,123		-	27,668,123	-
Returned checks and other cash items (RCOCI)	416,303		-	416,303	-
	₱38,740,913,028		₱158,685,215	₱37,407,977,162	₱1,174,250,651

- (i) These investments are acquired principally for the purpose of selling or repurchasing it in the near term.
- (ii) These investments are intended to be disposed over time to third parties. As permitted by PFRS 9, the Bank made an irrevocable designation to present in other comprehensive income the changes in fair value of the equity security. Unlike in PAS 39, the accumulated gains or losses from equity security presented in other comprehensive income related to these investments will not be subsequently reclassified to profit or loss upon disposal of the equity security.
- (iii) These financial assets are held within a business model whose objective is to collect contractual cash flows representing solely payments of principal and interest.

The financial liabilities, which were classified as other liabilities under PAS 39, are now classified as financial liabilities at amortized cost.

The Bank has not designated any financial liabilities at FVPL.

Impairment. The Bank has determined that the application of the new requirements for impairment under PFRS 9 did not have a significant impact on the investment securities. The Bank's exposure arising from investments securities are assumed to have low credit risk because this is an exposure to the Philippine National Government and publicly listed corporations with "investment grade" credit ratings.

The Bank has determined that the application of the new requirements for impairment under PFRS 9 resulted in an additional allowance for credit and impairment losses on loans and receivables amounting to ₱114.9 million (see Note 8). The adjustment is attributed to the upward effect of the macroeconomic forward-looking factors considered in the calculation of ECL on January 1, 2018.

Hedging. The Bank has no transaction wherein hedge accounting requirements will apply.

- PFRS 15, *Revenue from Contracts with Customers* – The new standard replaces PAS 11, *Construction Contracts*, PAS 18, *Revenue* and related interpretations. It establishes a single comprehensive framework for revenue recognition to apply consistently across transactions, industries and capital markets, with a core principle (based on a five-step model to be applied to all contracts with customers), enhanced disclosures, and new or improved guidance (e.g. the point at which revenue is recognized, accounting for variable considerations, costs of fulfilling and obtaining a contract, etc.). An amendment to PFRS 15 was issued to provide clarifications on the following topics: (a) identifying performance obligations; (b) principal versus agent considerations; and (c) licensing. The amendments also provide some transition relief for modified contracts and completed contracts.

The Bank applied the retrospective approach upon adoption of PFRS 15. The application of PFRS 15 did not impact the timing or amount of revenue recognized from contracts with customers and the related assets and liabilities recognized by the Bank. Additional disclosures have been included in the notes to financial statements, as applicable.

- Philippine Interpretation IFRIC 22, *Foreign Currency Transactions and Advance Consideration* – The interpretation clarifies that in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine the date of the transactions for each payment or receipt of advance consideration.

The adoption of IFRIC 22 did not have any material effect on the Bank's financial statements.

New and Amended PFRS in Issue But Not Yet Effective

Relevant new and amended PFRS, which are not yet effective for the year ended December 31, 2018 and have not been applied in preparing the financial statements, are summarized below.

Effective for annual periods beginning on or after January 1, 2019:

- PFRS 16, *Leases* – The most significant change introduced by the new standard is that almost all leases will be brought onto lessees' statement of financial position under a single model (except leases of less than 12 months and leases of low-value assets), eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance lease is retained.

For the Bank's non-cancellable operating lease commitments as at December 31, 2018, a preliminary assessment indicates that these arrangements will continue to meet the definition of a lease under PFRS 16. Thus, the Bank will have to recognize a right-of-use asset and a corresponding liability in respect of all these leases - unless these qualify for low value or short-term leases upon the application of PFRS 16 – which might have a significant impact on the amounts recognized in the Bank's financial statements. However, it is not practicable to provide a reasonable estimate of that effect until the Bank completes the review.

- Amendments to PFRS 9, *Financial Instruments— Prepayment Features with Negative Compensation* – The amendments allow entities to measure particular prepayable financial

assets with negative compensation at amortized cost or at FVOCI (instead of at FVPL) if a specified condition is met.

It also clarifies the requirements in PFRS 9, *Financial Instruments*, for adjusting the amortized cost of a financial liability when a modification or exchange does not result in its derecognition (as opposed to adjusting the effective interest rate).

Under prevailing circumstances, the adoption of this PFRS is not expected to have any material effect on the financial statements of the Bank.

Financial Instruments

Date of Recognition. The Bank recognizes a financial asset or liability in the statement of financial position when the Bank becomes a party to the contractual provisions of a financial instrument. In the case of a regular way purchase or sale of financial assets, recognition and derecognition, as applicable, is done using settlement date accounting.

Initial Recognition and Measurement. Financial instruments are recognized initially at fair value, which is the fair value of the consideration given (in case of an asset) or received (in case of a liability). The initial measurement of financial instruments, except for those designated at FVPL, includes transaction cost.

“Day 1” Difference. Where the transaction in a non-active market is different from the fair value of other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Bank recognizes the difference between the transaction price and the fair value (a “Day 1” difference) in profit or loss. In cases where there is no observable data on inception, the Bank deems the transaction price as the best estimate of fair value and recognizes “Day 1” difference in profit or loss when the inputs become observable or when the instrument is derecognized. For each transaction, the Bank determines the appropriate method of recognizing the “Day 1” difference.

Financial Assets

Classification. The Bank classifies its financial assets at initial recognition under the following categories: (a) financial assets at FVPL, (b) financial assets at FVOCI and (c) financial assets at amortized cost. The classification of a financial instrument largely depends on the Bank’s business model and its contractual cash flow characteristics.

Prior to January 1, 2018, the Bank’s financial assets are classified under PAS 39 as: (a) financial assets at FVPL, (b) held-to-maturity (HTM) investments, (c) loans and receivables and (d) AFS financial assets. The classification depends on the purpose for which the financial assets are acquired or whether these are quoted in an active market.

Financial Assets at FVPL. Financial assets that do not meet the criteria for being measured at amortized cost or FVOCI are classified under this category. Specifically, financial assets at FVPL include financial assets that are (a) held for trading, (b) designated upon initial recognition at FVPL, or (c) mandatorily required to be measured at fair value.

Financial assets are classified as held for trading if these are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless these are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVPL, irrespective of the business model. Notwithstanding the criteria for debt

instruments to be classified at amortized cost or at FVOCI, debt instruments may be designated as FVPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Financial assets at FVPL are measured at fair value at each reporting year, with any fair value gains or losses recognized in profit or loss to the extent that these are not part of a designated hedging relationship.

Certain investments in government securities and private bonds are included in this category.

Debt Instruments at FVOCI. For debt instruments that are not designated at FVPL under the fair value option, the financial assets should be measured at FVOCI if both of the following conditions are met:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Certain debt instruments are initially measured at fair value plus transaction costs. After initial recognition, interest income (calculated using the effective interest rate method), foreign currency gains or losses and impairment losses of debt instruments measured at FVOCI are recognized directly in profit or loss. When the financial asset is derecognized, the cumulative gains or losses previously recognized in other comprehensive income (OCI) are reclassified from equity to profit or loss as a reclassification adjustment.

Investments in government securities and private bonds are included in this category. These were previously classified as AFS financial assets under PAS 39.

Equity Instruments Designated at FVOCI. On initial recognition, equity instruments that are not held for trading may be irrevocably designated as a financial asset to be measured at FVOCI.

Dividends from equity instruments held at FVOCI are recognized in profit or loss when the right to receive payment is established, unless the dividend clearly represents a recovery of part of the cost of the investment. Foreign currency gains or losses and unrealized gains or losses from equity instruments are recognized in other comprehensive income and presented in the equity section of the statement of financial position. These fair value changes are recognized in equity and are not reclassified to profit or loss in subsequent years.

Equity security is included in this category. This was classified as AFS financial asset under PAS 39.

Prior to January 1, 2018, AFS financial assets under PAS 39 are subsequently measured at fair value. The unrealized gains and losses arising from the fair valuation of AFS financial assets are reported as other comprehensive income (loss) in the statement of comprehensive income and in the equity section of the statement of financial position. These changes in fair values are recognized in equity until the investment is sold, collected, or otherwise disposed of or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in equity is included in profit or loss.

Financial Assets at Amortized Cost. Financial assets should be measured at amortized cost if both of the following conditions are met:

- it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- its contractual terms give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets at amortized cost are subsequently measured at amortized cost using the effective interest method, less any allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the financial assets are derecognized and through amortization process. Financial assets at amortized cost are included under current assets if realizability or collectability is within 12 months after the reporting year. Otherwise, these are classified as noncurrent assets.

Cash and other cash items, due from BSP and other banks, interbank loans receivable, loans and receivables, refundable deposits, and RCOCI (included under “Other assets” account) are classified under this category.

Prior to January 1, 2018, these financial assets were classified under PAS 39 as loans and receivables and carried at amortized cost using the effective interest method, less any allowance for impairment in value.

Reclassification. The Bank reclassifies its financial assets when, and only when, the Bank changes its business model for managing those financial assets. The reclassification is applied prospectively from the first day of the first reporting year following the change in the business model (reclassification date).

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVPL, any gain or loss arising from the difference between the previous amortized cost of the financial asset and fair value is recognized in profit or loss.

For a financial asset reclassified out of the financial assets at amortized cost category to financial assets at FVOCI, any gain or loss arising from a difference between the previous amortized cost of the financial asset and fair value is recognized in OCI.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at amortized cost, its fair value at the reclassification date becomes its new gross carrying amount.

For a financial asset reclassified out of the financial assets at FVOCI category to financial assets at amortized cost, the financial asset is reclassified at its fair value at the reclassification date, and the cumulative gain or loss previously recognized in OCI is removed from equity and adjusted against the fair value of the financial asset at the reclassification date.

In the case of a financial asset that does not have a fixed maturity, the gain or loss should be recognized in profit or loss when the financial asset is sold or disposed. If the financial asset is subsequently impaired, any previous gain or loss that has been recognized in OCI is reclassified from equity to profit or loss.

For a financial asset reclassified out of the financial assets at FVPL category to financial assets at FVOCI, its fair value at the reclassification date becomes its new gross carrying amount. Meanwhile, for a financial asset reclassified out of the financial assets at FVOCI category to financial assets at FVPL, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment at the reclassification date.

Prior to January 1, 2018, the Bank may reclassify certain financial assets when there is a change in intention, subject to certain requirements as provided under PAS 39.

Impairment. The Bank recognizes impairment losses based on ECL which is the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Bank expects to receive. The difference is then discounted at an approximation to the asset's original effective interest rate and adjusted for forward-looking estimates, as appropriate.

The Bank recognizes impairment loss based on either the 12-month or lifetime ECL. The 12-month ECL is the portion of ECL that results from default events on a financial instrument that are possible within 12 months after the reporting year. The Bank measures impairment loss at an amount equivalent to the 12-month ECL for financial assets that are determined to have low credit risk and those financial assets for which credit risk has not increased significantly since initial recognition. Financial instruments for which a 12-month ECL is recognized are referred to as "Stage 1 financial assets."

However, when there has been a significant increase in credit risk since initial recognition, the allowance for impairment and credit losses will be based on the lifetime ECL. The lifetime ECL is the ECL that results from all possible default events over the expected life of the financial asset. A financial asset for which a lifetime ECL are recognized but which are not credit-impaired are referred to as "Stage 2 financial assets". When determining whether the credit risk of a financial asset has increased significantly since initial recognition, the Bank compares the risk of a default occurring on the financial asset as at the reporting year with the risk of a default occurring on the financial asset as at the date of initial recognition and consider reasonable and supportable information, that is available without undue cost or effort, that is indicative of significant increases in credit risk since initial recognition.

At each reporting date, the Bank assesses whether the financial assets at amortised cost are credit-impaired (referred to as "Stage 3 financial assets"). A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Financial assets at amortized cost are written off when there is no reasonable expectation of recovering the financial asset in its entirety or a portion thereof. This is generally the case when the Bank determines that the borrower does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off. This assessment is carried out at the individual asset level.

Prior to January 1, 2018, an allowance for impairment losses is recognized under PAS 39 when a financial asset or a group of financial assets is deemed to be impaired, i.e., if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that the borrower or a group of

borrowers are experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the excess of financial asset's carrying amount over its net realizable value, which is normally based on the present value of the estimated future cash flows from the financial asset. The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate. Time value is generally not considered when the effect of discounting is not material.

If a financial asset has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate, adjusted for the original credit risk premium. The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

The carrying amount of an impaired financial asset is reduced to its net realizable value through the use of an allowance account. For an impaired financial asset, interest income continues to be recognized using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the industry of the borrower. Future cash flows on a group of financial assets that are collectively evaluated for impairment are estimated on the basis of historical loss experience for the assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect, and are directionally consistent with, changes in related observable data from year to year. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

Derecognition. A financial asset (or where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognized when:

- the right to receive cash flows from the asset has expired;
- the Bank retains the right to receive cash flows from the financial asset, but has assumed an obligation to pay them in full without material delay to a third party under a "pass-through" arrangement; or
- the Bank has transferred its right to receive cash flows from the financial asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

When the Bank has transferred its right to receive cash flows from a financial asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all the risks and rewards of ownership of the financial asset nor transferred control of the financial asset, the

financial asset is recognized to the extent of the Bank's continuing involvement in the financial asset. Continuing involvement that takes the form of a guarantee over the transferred financial asset is measured at the lower of the original carrying amount of the financial asset and the maximum amount of consideration that the Bank could be required to repay.

Financial Liabilities

Classification. The Bank classifies its financial liabilities at initial recognition under the following categories: (a) financial liabilities at amortized cost and (b) financial liabilities at FVPL.

The Bank has not designated any financial liabilities at FVPL.

Financial Liabilities at Amortized Cost. Financial liabilities are categorized as financial liabilities at amortized cost when the substance of the contractual arrangement results in the Bank having an obligation either to deliver cash or another financial asset to the holder, or to settle the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of its own equity instruments.

These financial liabilities are initially recognized at fair value less any directly attributable transaction costs. After initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the effective interest rate. Gains and losses are recognized in profit or loss when the liabilities are derecognized or through the amortization process.

Deposit liabilities, manager's checks, accrued interest and other expenses, unsecured subordinated debt, and other liabilities (excluding due to Philippine Deposit Insurance Corporation - PDIC, withholding taxes and statutory obligations) are included under this category. These were previously classified as other liabilities under PAS 39.

Derecognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or has expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Classification of Financial Instrument between Liability and Equity. A financial instrument is classified as liability if it provides for a contractual obligation to:

- Deliver cash or another financial asset to another entity;
- Exchange financial assets or financial liabilities with another entity under conditions that are potentially unfavorable to the Bank; or
- Satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

If the Bank does not have an unconditional right to avoid delivering cash or another financial asset to settle its contractual obligation, the obligation meets the definition of a financial liability.

Offsetting of Financial Assets and Liabilities

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognized amounts and there is an intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. This is not generally the case with master netting agreements, and the related assets and liabilities are presented gross in the statement of financial position.

Assets Held for Sale

Foreclosed assets are classified as held for sale if the carrying amount will be recovered principally through a sale transaction rather than continuing use. Assets held for sale are accounted for at the lower of cost and fair value less cost to sell. The cost of foreclosed assets includes the carrying amount of the related loan, less any allowance for impairment losses, at the time of foreclosure. Impairment loss is recognized in profit or loss for any subsequent write-down of the asset to fair value less cost to sell. Gain on any subsequent increase in fair value less costs to sell of an asset is recognized in profit or loss to the extent of the cumulative impairment loss.

Assets held for sale that cease to be classified as such is measured at the lower of (a) carrying amount before the assets were classified as held for sale, adjusted for any depreciation, amortization or revaluations that would have been recognized had the assets not been classified as held for sale, and (b) recoverable amount at the date of the subsequent decision not to sell. Any adjustment on the carrying amount of assets held for sale that cease to be classified as held for sale is recognized in profit or loss.

Property and Equipment

Land is stated at cost less any impairment in value. Depreciable property and equipment are stated at cost less accumulated depreciation, amortization and any impairment.

The initial cost of property and equipment consists of its purchase price, including import duties, nonrefundable taxes and any directly attributable costs in bringing the asset to its working condition and location for its intended use.

Expenditures incurred after the property and equipment have been put into operations, such as repairs and maintenance, are normally charged to profit or loss in the year when the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property and equipment.

The cost of replacing a part of the property and equipment is capitalized when that cost is incurred and all the relevant asset recognition criteria are met. The carrying amount of a part of an item of property and equipment that has been replaced is derecognized.

Depreciation and amortization are computed on a straight-line basis over the estimated useful lives of the assets. The estimated useful lives of the property and equipment are as follows:

<u>Asset Category</u>	<u>Number of Years</u>
Building and condominium units	30
Furniture, fixtures and equipment	5
Leasehold rights and improvements	10 or the related lease term, whichever is shorter

The estimated useful lives and depreciation and amortization method are reviewed periodically to ensure that the years and method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

An item of property and equipment is derecognized upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year the asset is derecognized.

Fully depreciated items are retained as property and equipment until these are no longer being used in the operations.

When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and any impairment loss are removed from the accounts, any resulting gain or loss is recognized in profit or loss.

Intangible Assets

Branch Licenses. Branch licenses are capitalized on the basis of the costs incurred to acquire and of bringing the asset to its use in the operations. Branch licenses are not amortized and deemed to have an indefinite useful life as there is no foreseeable limit to the period over which these are expected to generate net cash inflows for the Bank.

Branch licenses are reviewed annually to determine whether events and circumstances continue to support an indefinite useful life assessment. The change in assessment from indefinite to finite life will be accounted prospectively.

Computer Software. Computer software is measured on initial recognition at cost. Subsequently, computer software is measured at cost less accumulated amortization and any impairment losses. Internally-generated computer software, excluding capitalized development costs, is not capitalized and expenditures are recognized in profit or loss in the year in which the related expenditures are incurred.

Computer software is amortized using straight-line method over the useful life of five years and assessed for impairment whenever there is an indication that the computer software may be impaired. The amortization period and method used for computer software are reviewed annually. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimate. The amortization on computer software is recognized in profit or loss.

Gains or losses arising from the disposal of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset, and are recognized in profit or loss when the asset is derecognized.

Other Assets

Other assets include prepaid expenses, refundable deposits, creditable withholding taxes (CWT), RCOCI, other investments and others.

Prepaid Expenses. Prepaid expenses are expenses paid in advance and recorded as asset before these are utilized. Prepaid expenses are apportioned over the period covered by the payment and charged to appropriate accounts in profit or loss when incurred. Prepaid expenses that are expected to be realized for no more than 12 months after the financial reporting year are classified as current assets. Otherwise, these are classified as noncurrent assets.

CWT. CWT represents the amount withheld by the Bank's customers in relation to its income. CWT can be utilized as payment for income taxes provided that these are properly supported by certificates of creditable tax withheld at source subject to the rules on Philippine income taxation.

Impairment of Non-financial Assets

Property and equipment and computer software are reviewed for impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Branch licenses are assessed for impairment annually, either individually or at the cash generating unit (CGU) level, as appropriate. The Bank assesses at the end of the reporting year whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Bank makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or CGU's fair value less costs of disposal and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group of assets. Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. Impairment losses are recognized in profit or loss.

An assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the recoverable amount is estimated. A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized. If that is the case, the carrying amount of the asset is increased to its recoverable amount. That increased amount cannot exceed the carrying amount that would have been determined, net of depreciation and amortization, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in profit or loss unless the asset is carried at revalued amount, in which case the reversal is treated as a revaluation increase. After such reversal, the depreciation and amortization are adjusted in future years to allocate the asset's revised carrying amount on a systematic basis over its remaining useful life.

Equity

Common Stock. Common stock is classified as equity and is measured at par value per share issued. Incremental costs directly attributable to the issuance of new shares are recognized as deduction from equity, net of tax. Otherwise, these are recognized as expense in profit or loss.

Perpetual Preferred Stock. Perpetual preferred stock is classified as equity if it is non-redeemable, or redeemable only at the Bank's option, and any dividends thereon are discretionary. Perpetual preferred stock is classified as a liability if this is redeemable on a specific date or at the option of the stockholders, or if dividend payments are not discretionary. Dividends thereon are recognized as interest expense in profit or loss as accrued.

Retained Earnings. Retained earnings represent the cumulative balance of net income or loss, effects of the changes in accounting policy and other capital adjustments.

Other Comprehensive Income (Loss)

Other comprehensive income (loss) comprises items of income and expenses (including items previously presented under equity) that are not recognized in profit or loss for the year. Other comprehensive income (loss), which is presented as “Other Equity Reserves”, pertains to cumulative unrealized gains (losses) on financial assets at FVOCI (formerly classified as AFS financial assets), cumulative remeasurement gains (losses) on retirement liability, and cumulative translation adjustment.

Revenue Recognition

Revenue from contracts with customers is recognized when the customer obtains control of the services at an amount that reflects the consideration to which the Bank expects to be entitled in exchange for those services. Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Bank and the revenue can be measured reliably.

The Bank also assesses its revenue arrangements to determine if it is acting as a principal or as an agent. The Bank has assessed that it acts as a principal in all of its revenue sources, except for fees and commissions.

The following specific recognition criteria must also be met before revenue within the scope of PFRS 15 is recognized:

Service Charges and Penalties. Service charges and penalties, which are presented under “Service charges, fees and commissions” in profit or loss, are recognized upon collection or being accrued when there is reasonable degree of certainty as to its collectability.

Fees and Commissions. Fees and commissions arising from providing transaction services are recognized upon completion of the transaction. Fees or components of the fees that are linked to a certain performance of a service or a condition are recognized after performing the service or fulfilling the condition.

Gains (Losses) from Assets Sold or Acquired. Income or loss from sale of properties acquired is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured. Gain or loss on foreclosure of properties is determined as the difference between the fair value upon foreclosure and the carrying amount of the loan. Gain or loss on foreclosure of properties is recognized when the risks and rewards of the property have been transferred to the Bank.

Revenue outside the scope of PFRS 15 is recognized as follows:

Interest Income. Interest income is recognized in profit or loss as the interest accrues, taking into account the effective yield of the asset.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective rate, transaction costs and all other premiums or discounts.

For Stage 3 financial assets, interest income continues to be recognized using the original effective interest rate applied to the new carrying amount, provided that the Bank determines that the collection of income is reasonably assured.

Trading and Securities Gains (Losses). Trading and securities gains or losses represent gains and losses from changes in fair value of financial assets at FVPL, and disposals of financial assets at FVPL, debt instruments measured at FVOCI (formerly classified as AFS financial assets) and financial assets at amortized cost, and gains and losses from derivatives transactions.

Foreign Exchange Gains. Foreign exchange gains arising from the settlement of such transactions or from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized when earned.

Costs and Expense Recognition

Costs and expenses are recognized in profit or loss when a decrease in future economic benefit related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Costs and expenses are recognized upon receipt of goods, utilization of services or when the costs and expenses are incurred.

Interest Expense. Interest expense is recognized in profit or loss using the effective interest rate of the financial liabilities to which these relate.

Operating Expenses. Operating expenses constitute costs which arise in the normal business operations and are recognized when incurred.

Employee Benefits

Short-term Benefits. Short-term employee benefits given by the Bank to its employees include salaries and wages, social security contributions, short-term compensated absences, bonuses and non-monetary benefits. The Bank recognizes a liability, net of amounts already paid, and an expense for services rendered by employees during the year.

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

Retirement Benefits. Retirement benefit costs are actuarially determined using the projected unit credit method, which reflects services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries.

The Bank recognizes service costs, comprising of current service costs, past service costs, gains and losses on curtailments and non-routine settlements, and net interest expense or income in profit or loss. Net interest expense or income is calculated by applying the discount rate to the net retirement liability or asset.

Past service costs are recognized in profit or loss on the earlier of the date of the plan amendment or curtailment and the date that the Bank recognizes restructuring-related costs.

Remeasurements comprising of actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit obligation) are recognized immediately in other comprehensive income in the year in which these arise. Remeasurements are not reclassified to profit or loss in subsequent years.

The retirement liability is the aggregate of the present value of the defined benefit obligation and the fair value of plan assets out of which the obligations are to be settled directly. The present value of the retirement liability is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability.

Actuarial valuations are made with sufficient regularity so that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the reporting year.

Leases

The determination of whether an arrangement is, or contains a lease, is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies: (a) there is a change in contractual terms, other than a renewal or extension of the arrangement; (b) renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term; (c) there is a change in the determination of whether the fulfillment is dependent on a specified asset; or (d) there is a substantial change to the asset.

Where reassessment is made, lease accounting commences or ceases from the date when the change in circumstances give rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Leases where a significant portion of the risks and rewards of ownership over the properties are retained by the lessor are classified as operating leases. Payments made under operating leases are recognized in profit or loss on a straight-line basis over the lease term.

Income Taxes

Current Tax. Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the tax authorities. The tax rate and the tax laws used to compute the amount are those that are enacted or substantively enacted at the end of the reporting year.

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

Deferred tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward benefits of unused tax credits and unused tax losses, to the extent that it is probable that sufficient future taxable profit will be available against which the deductible temporary differences and carryforward benefits of unused tax credits and unused tax losses can be utilized. Deferred tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit or loss nor taxable profit or loss.

The carrying amount of deferred tax assets is reviewed at the end of each reporting year and reduced to the extent that it is no longer probable that sufficient future taxable profit will be

available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are re-assessed at the end of each reporting year and are recognized to the extent that it has become probable that sufficient future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rate that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rate (and tax laws) that have been enacted or substantively enacted at the end of reporting year.

Deferred tax assets and liabilities are offset, if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxing authority.

Deferred tax relating to items recognized outside profit or loss is recognized outside profit or loss. Deferred tax items are recognized in relation to the underlying transaction either in other comprehensive income or directly in equity.

Fiduciary Activities

Assets and income arising from fiduciary activities, together with related undertakings to return such assets to customer, are excluded from the financial statements of the Bank when the Bank acts in a fiduciary capacity such as a nominee, trustee or agent.

Foreign Currency Transactions

RBU. Transactions in currencies other than Philippine Peso are recorded at the rate of exchange prevailing on the date of the transaction. At each reporting date, monetary assets and liabilities denominated in foreign currencies are translated at the rates prevailing on the reporting date. Foreign exchange gains or losses are recognized in profit or loss in the year in which these are incurred.

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

FCDU. As at the reporting date, the assets and liabilities of the FCDU are translated into the Bank's functional and presentation currency at the Philippine Dealing System (PDS) closing rate, and its income and expenses are translated at the PDS weighted average rate for the year. Exchange differences arising from translation to foreign currency are recognized as other comprehensive income under "Cumulative translation adjustment." Upon disposal of the FCDU or actual remittance of FCDU profits to RBU, the deferred cumulative amount recognized as "Cumulative translation adjustment" in other comprehensive income is recognized in profit or loss.

Related Party Relationship and Transactions

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

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely the legal form.

Related party transactions consist of transfer of resources, services or obligations between the Bank and its related parties.

Provisions

Provisions, if any, are recognized when the Bank has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation, and a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting year, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessment and the risks specific to the obligation. Provisions are reviewed at the end of each reporting year and adjusted to reflect the current best estimate.

Contingencies

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

Events after the Reporting Year

Subsequent events that provide additional information about the Bank's financial position at the reporting year are reflected in the financial statements when material. Subsequent events that are non-adjusting events are disclosed in the notes to financial statements when material.

3. Significant Accounting Judgments and Estimates

The preparation of the financial statements requires management to exercise judgment, make estimates, and use assumptions that affect amounts of assets, liabilities, income and expenses reported in the financial statements and related disclosures. The judgments, estimates and assumptions used in the financial statements are based upon management's evaluation of relevant facts and circumstances as at the date of the financial statements. While management believes that the assumptions are reasonable and appropriate, significant differences in the actual experience or significant changes in the assumptions may materially affect the estimated amounts. Actual results could differ from such estimates.

Judgments

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

Determining Classification of Financial Assets. Classification of financial assets under PFRS 9 depends on the results of the business model test and sole payment of principal and interest (SPPI) test performed by the Bank.

The Bank exercises judgment in determining the business model to be used in managing its financial instruments to achieve their business objectives. Below are the factors considered by the Bank in its business model assessment:

- Specific business objectives in holding the financial assets,
- Whether income that can be generated from the financial assets can cover the cost of deposits,
- Policies in managing the risks of the financial assets,
- Expected frequency, value and timing of sales, and
- Key performance indicators of the financial assets.

The Bank also determines whether the contractual terms of debt instruments classified and measured as financial assets at amortized cost give rise to specified dates to cash flows that are solely payments for principal and interest, with interest representing time value of money and credit risk associated with the outstanding principal amount. Any other contractual term that changes the timing or amount of cash flows does not meet the SPPI test.

Prior to adoption of PFRS 9, the Bank exercises judgments in classifying a financial instrument upon initial recognition in accordance with the substance of the contractual arrangement and its definitions. The substance of a financial instrument, rather than its legal form, governs the classification in the statements of financial position.

Determining the Functional Currency. The Bank uses its judgment to determine the functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. In making this judgment, the Bank considers the following:

- the currency that mainly influences sales price for financial instruments and services or the currency in which sales prices for its financial instruments and services are denominated and settled;
- the currency in which funds from financing activities are generated; and
- the currency in which receipts from operating activities are usually retained.

Based on the foregoing and the economic substance of the underlying circumstances relevant to the Bank, the functional currency of the Bank has been determined to be the Philippine Peso, which is the currency of the primary economic environment in which the Bank operates.

Determining the Classification of Lease Agreements. The Bank, as a lessee, has various existing lease agreements for its branches. The Bank has determined that the lessor retains all significant risks and rewards of ownership over the leased properties. Accordingly, these leases are accounted for as operating leases.

Rent/occupancy expense amounted to ₱101.2 million and ₱95.2 million in 2018 and 2017, respectively (see Note 18).

Evaluating Contingencies. The Bank is currently involved in various legal proceedings pertaining to collectability of its loans and receivables. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsels handling the Bank's defense in these matters and is based on an analysis of potential results. Based on the opinion of its legal counsels, the Bank is in a good position to secure a favorable judgment in most of these cases. Management therefore believes that the ultimate outcome of these proceedings will not have a material adverse effect on the Bank's financial position and performance (see Note 25).

Estimates and Assumptions

The key assumptions concerning the future and other key sources of estimation uncertainty at the financial reporting year, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Determining the Fair Values of Financial Instruments. PFRS requires certain financial assets and liabilities to be carried at fair value, which requires extensive use of accounting estimates. While significant components of fair value measurement were determined using verifiable objective evidence, the amount of changes in fair value would differ if the Bank utilized different valuation methodologies. Any changes in fair value of these financial assets would affect profit and loss and equity.

When the fair values of financial assets and liabilities recognized or disclosed in the financial statements cannot be derived from the active market, the fair values are determined using internal valuation techniques that include the use of mathematical models. The inputs to these models are taken from observable market where possible, but where this is not feasible, a degree of judgment is required in establishing fair values.

The fair values of the Bank's financial instruments are disclosed in Note 5, *Fair Value Measurement*.

Estimating Impairment and Credit Losses on Financial Assets. Impairment and credit losses on financial assets are based on ECL. In assessing the ECL, the Bank uses historical credit loss experience adjusted for forward-looking factors, as appropriate.

The Bank measures impairment loss based on the 12-month ECL for the following:

- Debt instruments that are determined to have credit risk rating equivalent to "investment grade, and thus, a low credit risk at the reporting date.
- Receivables from customers and other financial instruments on which credit risk has not increased significantly since initial recognition.

The Bank measures impairment loss based on the lifetime ECL for receivables from customers for which credit risk has increased significantly since initial recognition, or when:

- The account is considered as loans especially mentioned based on the BSP guidelines.
- The account has missed payment for more than 30 days or seven days for consumer and commercial loans; respectively.
- The Internal Credit Risk Ratings (ICRR) is downgraded by two risk ratings.

In estimating impairment loss of financial assets at FVOCI and amortized cost, the Bank estimates the amounts and timing of future cash flows and collateral values and the assessment of a significant increase in credit risk. Below are the components considered in the calculation of ECL.

- Net flow and default rates of receivables from customers based on historical experience of the Bank.
- ICRR and certain qualitative factors in determining whether there has been a significant increase in credit risk to determine when to measure lifetime credit losses.
- Latest fair values of collaterals and historical recovery rates of foreclosed assets for loss given default calculations.
- Segmentation of financial assets for collective assessment of ECL.
- Use of regression analysis in determining macroeconomic factors that affect non-performing status of loan accounts.

Evidence that a financial asset is credit-impaired include observable data about the following events:

- Significant financial difficulty of the issuer or the borrower.
- A breach of contract, such as a default or past due event.
- The lenders of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower concessions that the lenders would not otherwise consider.
- It is becoming probable that the borrower will enter bankruptcy or other financial reorganisation.
- The disappearance of an active market for that financial asset because of financial difficulties.
- The purchase or origination of a financial asset at a deep discount that reflects the incurred credit losses.

It may not be possible to identify a single discrete event - instead, the combined effect of several events may have caused financial assets to become credit-impaired.

Financial Assets at FVOCI

No impairment losses on debt instruments at FVOCI were recognized in 2018. The carrying amount of debt instruments at FVOCI amounted to ₱1,568.8 million as at December 31, 2018 (see Note 7).

In assessing impairment losses on AFS financial assets under PAS 39, the Bank determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. The determination of what is significant or prolonged decline requires judgment. In making this judgment, the Bank evaluates, among other factors, the future cash flows and the discount factor. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, dismal industry and sector performance, adverse changes in technology, and negative operational and financing cash flows.

No impairment losses on AFS financial assets were recognized in 2017. The carrying amount of AFS financial assets amounted to ₱1,174.3 million as at December 31, 2017 (see Note 7).

Other Financial Assets at Amortized Cost

No impairment loss on the Bank's cash and other cash items, due from BSP and other banks, interbank loans and receivables, refundable deposits, and RCOCI because these are placements with reputable counterparties that possess good ratings. The carrying amount of these financial assets at amortized cost (excluding loans and receivables) aggregated to ₱6,981.2 million and ₱7,965.0 million as at December 31, 2018 and 2017, respectively (see Notes 6 and 12).

Loans and Receivables

Provision for credit and impairment losses on loans and receivables amounted to ₱103.1 million in 2018 (see Note 8). The carrying amount of loans and receivables and allowance for credit and impairment losses on loans and receivables amounted to ₱31,608.2 million and ₱639.4 million as at December 31, 2018, respectively (see Note 8).

The Bank recognized additional impairment losses on loans and receivables amounting to ₱114.9 million on January 1, 2018 upon adoption of PFRS 9 (see Note 8). The adjustment is attributed to the upward effect of the macroeconomic forward-looking factors considered in the calculation of ECL on January 1, 2018.

Under PAS 39, provision for credit and impairment losses on loans and receivables amounted to ₱88.8 million in 2017 (see Note 8). The carrying amount of loans and receivables and allowance for credit and impairment losses on loans and receivables amounted to ₱29,443.0 million and ₱519.1 million as at December 31, 2017, respectively (see Note 8).

In estimating impairment losses on loans and receivables under PAS 39, the Bank reviews the individually significant loans and receivables at each reporting date to assess and estimate impairment losses. In particular, judgment by management is required in estimating the amount and timing of future cash flows when determining the impairment loss. In estimating these cash flows, the Bank makes judgment about the borrower's financial situation and the net realizable value of the collateral covering the loans and receivables. These estimates are based on a number of factors and assumptions which may differ in the future and may result to changes to the required allowance for impairment losses. The Bank uses its historical credit loss experience.

Loans and receivables that have been assessed individually and found not to be impaired and all individually insignificant loans and receivables are then assessed collectively, in groups of assets with similar characteristics, to estimate impairment losses. The collective assessment takes into account the data from the loan portfolio, historical default, and concentrations of risk, as appropriate.

Loans and receivables that have been assessed individually and found to be impaired and all individually significant loans and receivables are then assessed specifically, by discounting the future cash flows of each loan using the Bank's Transfer Pool Rate (TPR), which is a measure of how each source of funding is contributing to overall profitability for the Bank. The excess of the outstanding balance of the specifically assessed loans over its discounted cash flow will be the impairment loss for the period.

Determining Valuation and Classification of Foreclosed Assets. The Bank classifies foreclosed assets, which will be recovered principally through sale, as assets held for sale. The Bank is committed to sell and actively market the foreclosed assets at a price that is reasonable in relation to their current fair value. In determining the fair value of assets held for sale, sales price are analyzed by applying appropriate units of comparison, adjusted by differences between the subject property and related

market data. Any subsequent write-down of the asset to fair value less cost to sell is recognized as impairment loss in profit or loss.

Carrying amount of assets held for sale amounted to ₱445.7 million and ₱263.7 million as at December 31, 2018 and 2017, respectively (see Note 9).

Assessing Impairment on Branch Licenses. Branch license is determined to be an intangible asset with an indefinite useful life because there is no foreseeable limit to the period on which the branch license is expected to generate net cash inflows for the Bank. The branch license is required to be assessed for impairment annually by comparing its carrying amount with its recoverable amount, irrespective of whether there is any indication that it may be impaired.

The branches have been identified as the CGU for purposes of impairment assessment of branch licenses.

When the branch license's fair value less cost of disposal is lower than its carrying amount, the recoverable amount is based on value in use calculations that use a discounted cash flow model. The cash flows are derived from the projection for the next five years and do not include restructuring activities that the Bank is not yet committed to or significant future investments that will enhance the asset base of the branch being tested. The recoverable amount is most sensitive to the discount rate as well as the expected future cash inflows and the growth rate used for extrapolation purposes.

No impairment losses were recognized in 2018 and 2017. As at December 31, 2018 and 2017, the carrying amount of the branch licenses amounted to ₱225.4 million (see Note 11).

Assessing Impairment on Assets Held for Sale, Property and Equipment and Computer Software. The Bank assesses impairment on property and equipment, computer software and assets held for sale whenever events or changes in circumstances indicate that the carrying amounts of these assets may not be recoverable.

The relevant factors that the Bank consider whether to perform an asset impairment review include, among others, the following:

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

There is no indication that property and equipment and computer software may be impaired. Accordingly, no impairment losses were recognized in 2018 and 2017. Provision for impairment loss on assets held for sale amounted to ₱270,440 in 2017. Allowance for impairment loss on assets held for sale amounted to ₱13.7 million as at December 31, 2018 and 2017 (see Note 9).

The carrying amounts of assets held for sale, property and equipment and computer software are as follows:

	Note	2018	2017
Assets held for sale	9	₱445,743,668	₱263,687,853
Property and equipment	10	434,435,516	452,463,399
Computer software	11	89,695,543	73,402,117
		₱969,874,727	₱789,553,369

Estimating Useful Lives of Property and Equipment and Computer Software. The Bank estimates the useful lives of property and equipment and computer software and for purposes of computing depreciation and amortization based on the year over which the assets are expected to be available for use. The estimated useful lives are reviewed annually and changed if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of property and equipment. However, it is possible that future results of operations could be materially affected by changes in factors mentioned in the foregoing. The amounts and timing of recorded expenses for any year would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of the property and equipment and computer software would increase the recorded expenses and decrease assets.

There was no change in the estimated useful lives of the property and equipment and computer software in 2018. In 2017, the estimated useful life of building and condominium units was changed from 20 to 30 years. The effect of the change resulted to lesser depreciation amounting to ₱6.6 million in 2017.

The carrying amounts of depreciable property and equipment and computer software are as follows:

	Note	2018	2017
Property and equipment	10	₱270,091,016	₱288,118,899
Computer software	11	89,695,543	73,402,117
		₱359,786,559	₱361,521,016

Determining the Retirement Liability. The determination of the obligation and cost of retirement benefits is dependent on selection of certain assumptions determined by management and used by the actuary in calculating such amounts. These assumptions include, among others, discount rate and salary increase rate. Actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligations in such future years.

In determining the appropriate discount rate, management considers the interest rate of government bonds that are denominated in the currency in which the benefits will be paid, with extrapolated maturities corresponding to the expected duration of the defined benefit obligation. Further details about the assumptions used are provided in Note 19 to financial statements.

Retirement liability amounted to ₱72.4 million and ₱67.3 million as at December 31, 2018 and 2017, respectively (see Note 19).

Assessing Realizability of Deferred Tax Assets. The Bank reviews the carrying amount of deferred tax assets at each reporting year and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the deferred tax assets to be utilized. Unrecognized deferred tax assets are reassessed at each reporting year and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

The estimates of future taxable income indicate that deferred tax assets on certain temporary differences may be utilized in the future.

As at December 31, 2018 and 2017, deferred tax assets recognized by the Bank amounted to ₱62.0 million and ₱56.4 million, respectively (see Note 21).

As at December 31, 2018 and 2017, deferred tax assets on certain temporary differences aggregating ₱582.7 million and ₱459.2 million, respectively were not recognized (see Note 21).

Management assessed that it is not probable that sufficient future taxable profit will be available to allow the deferred tax assets to be utilized.

4. Financial Risk Management Objectives and Policies

The Bank has exposure to the following major risks from its use of financial instruments:

- Credit risk
- Liquidity risk
- Market and interest rate risk

Risk Governance

The Bank's BOD has overall responsibility for the oversight of the Bank's risk management process. The established risk governance framework together with the supporting structure provides for the mechanism to ensure oversight and accountability for risk at various levels in the organization. Various board and management committees, which are responsible for developing, managing and monitoring specific risks that the Bank is exposed to, include the following:

Board Level:

1. Risk Management Committee (RMC)
2. Audit Committee (AC)
3. Corporate Governance Committee(CorGov)
4. Related Party Transaction (RPT)
5. Loan Committee (LOANCOM)
6. Bids & Awards Committee (BAC)
7. IT Committee (ITCOM)
8. Trust Committee (TRUSTCOM)
9. Executive Committee (EXCOM)

Management Level:

1. Senior Management Committee (SMC)
2. Credit Committee (CRECOM)
3. Fraud Committee (FRAUDCOM)
4. Anti-Money Laundering Committee (AMLCOM)

5. Data Protection Committee (DPC)
6. Asset-Liability Committee (ALCO)
7. Senior Management Oversight Committee for Outsourced Services (SMOC)

RMC is responsible for developing the Bank's risk strategy and the supporting risk management policies, ensuring the soundness of risk management practices in relation to the risks faced by the Bank.

RMC is supported by the Risk Management Group (RMG) in the exercise of its risk oversight functions. RMG, which is independent of the business units and is directly reporting to the RMC, performs daily market risk analyses to measure market risk exposures and ensure compliance with the Bank's policies, procedures and limit structures, and makes recommendations based on such analyses. RMG, likewise, monitors credit risk exposures and portfolio movements. They also take the lead in the development of the Bank's credit acceptance policies, risk classification and profiling through the administration of the internal credit rating system and the determination of appropriate levels of allowances for credit losses.

AC is responsible for monitoring the Bank's compliance with the risk management policies and procedures, and for reviewing the adequacy of risk management framework in relation to the risks being faced by the Bank. AC is assisted by the Internal Audit (IA) Department. IA undertakes both regular and ad-hoc reviews of risk management controls and procedures, the results of which are reported to the AC.

CorGov assists the board in fulfilling its corporate governance responsibilities and oversees periodic assessment of board performance, as well as the various Board Committees and Executive Management.

RPT is responsible for screening related party accounts for board approval.

LOANCOM is a Board Committee that acts as the highest approving body for loan and other credit related matters, except for directors, officers, stockholders and related interest (DOSRI) loans. It ensures that the credit approval or endorsement of credit facilities is based on a diligent, sound and prudent evaluation of the risks involved and is aligned with the Bank's strategic objectives in terms of asset quality.

BAC oversees the Bank's procurement processes and the implementation of procurement contracts as part of the Bank's operational risk management, while also ensuring transparency and good governance in the process.

ITCOM oversees the development of the Bank's information Technology System and Infrastructure. It ensures that systems are embedded with multi-layered controls in order to protect bank information and technical infrastructure.

TRUSTCOM is responsible for overseeing the investment activities of the Bank's Trust unit.

EXCOM assists the board in the general supervision, administration and management of the Bank's affairs, and is actively engaged in overseeing the development and execution of the Bank's business strategies.

SMC exercises general supervision, administration and management of the bank's operations, and as such oversees the operational and strategic risk management.

CRECOM is the management level committee that evaluates and screens all credit proposals that requires the approval of the President, LOANCOM or the BOD, and likewise monitors credit underwriting activities performed at management level. It ensures that credit risk is within the BOD established risk tolerance levels and that proposals comply with the credit underwriting standards as established in the Bank's policies and procedures.

FRAUDCOM was established in 2017 to properly address the increasing threat landscape for fraud incidents committed against the Bank and its clients. The primary responsibility of the FRAUDCOM is to determine actions to be taken when a fraud incident is reported and recommend changes in the processes, procedures and policies of the Bank whenever applicable.

AMLCOM was established in 2017 to assist the BOD in fulfilling its oversight responsibility over AML activities to ensure that the Bank complies with the provisions of the Anti-Money Laundering Act (AMLA), as amended, its Implementing Rules and Regulations (IRR), and BSP regulations.

DPC task is to oversee the implementation of the Data Privacy Act. The Bank adopted a committee approach to DPA compliance with Data Protection officers representing the different areas namely, Compliance Risk, Legal, Information Technology and Security.

ALCO is responsible for ensuring that the Bank maintains adequate liquidity, sufficient capital and the appropriate funding to meet business requirements and comply with regulatory requisites. It is also responsible for building a stable funding structure by managing the Bank's asset and liability profile. Moreover, it manages the Bank's financial position and ensures that the Bank's liquidity, capital and funding structure support the business strategies. It likewise establishes the Bank's asset-liability pricing policies.

SMOC is tasked to oversee the outsourcing arrangements with third party business partners.

Credit Risk

Credit risk is the risk of financial loss to the Bank when a customer or counterparty fails to meet its contractual obligations. The Bank's credit risk exposure arises largely from the lending, trade finance and investment activities. The Bank manages credit risk through an established risk control framework that provides for policies and guidelines to the business units together with a system of limits reflective of the Bank's risk tolerance and capacity. A monitoring mechanism is also in place to ensure that exposures to individual counterparties, related accounts, countries and industries are within BOD established and approved limits and that any credit concentration is within acceptable levels.

While the Credit Risk Control Department of RMG (CRC-RMG) provides for an independent risk monitoring and control of credit exposures, each business unit is responsible for the quality and performance of its credit portfolio. As the first line of defense, business units are responsible for monitoring and controlling the credit risks in its portfolio. The CRC-RMG, meanwhile, provides an independent evaluation of the Bank's credit risk exposure through review of loan proposals and credit processes, borrower risk assessments and credit administration. This is complemented by regular audits of business units and credit processes undertaken by IA that provide for assurance and feedback mechanisms to determine sufficiency and effectiveness of established risk controls.

The Bank extends various types of loans, several on clean/unsecured basis, and others against hard collaterals and other form of securities. Personal and salary loans are generally granted on a clean/unsecured basis. Other consumer lending products are largely asset-backed financing with auto loans secured by chattel mortgage on the vehicles and real estate loans secured by first real estate mortgage on residential or commercial properties. The Bank's commercial/small-medium enterprise loans cover a mix of clean/unsecured (which includes those under personal guarantees) as well as secured credit facilities (i.e., those supported by real estate and chattel mortgages, guarantees and other registered securities). Estimates of fair value are based on the value of the collateral assessed at the time of the borrowing.

All loan applications, covering the different types of loans, undergo strict credit evaluation in accordance with established risk acceptance criteria. The essential elements that the Bank considers for all its credit dealings and account relationships are: favorable credit checking; good credit standing and track record with other counterparties, banks and trade partners alike; financial strength and cash generating capabilities (fund sourcing), which translate into determination of paying capacity that establishes repayment expectations; and acceptable collateral/security, if applicable. Furthermore, credit underwriting is performed within a framework of delegated credit authorities that take into account facility risks and magnitudes of potential exposures.

Management of Credit Risk

The BOD, through RMC and LOANCOM, is assisted in the monitoring and management of credit risk by the CRC-RMG, which continuously implements its risk control programs, in line with its oversight function over the Bank's lending activities. CRC-RMG is principally tasked with identifying, monitoring, reporting and controlling the Bank's credit risk. The specific functions of CRC-RMG are as follows:

- Takes charge of administering the Bank's lending policies, ensuring compliance by those concerned with continuous issuance of updates on policies and process guidelines for bank-wide implementation and compliance.
- Facilitates the activities of the CRECOM, whose main objective is to evaluate and screen loan proposals requiring approvals beyond line management levels.
- Classifies borrowing accounts according to several levels of risk, based on the ICRR system and loan portfolio assessments, to regularly determine loan impairments for the purpose of determining the appropriate loan loss reserves.
- Conducts credit stress testing and regularly evaluates and monitors the quality of the Bank's loan portfolio via the Portfolio Profile Report, as part of the scheme of controlling large concentration and Bank exposures.

Maximum Exposure to Credit Risk after Collateral Held or Other Credit Enhancements

The Bank's maximum exposure to the credit risk is equal to the carrying amount of the financial assets, except for the following loans and receivables:

	2018			Maximum Exposure to Credit Risk
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	
Loans and receivables:				
Receivables from customers:				
Consumer loans ¹	₱16,016,411,554	₱16,124,686,430	₱15,146,272,018	₱870,136,536
Corporate loans ²	15,353,060,559	4,554,858,557	2,732,915,134	12,615,261,245
	31,369,472,113	20,679,544,987	17,879,187,152	13,485,397,781
Sales contracts receivable ³	17,650,563	28,570,600	17,650,563	–
	₱31,387,122,676	₱20,708,115,587	₱17,896,837,715	₱13,485,397,781

¹Net of allowance for credit and impairment losses amounting to ₱393.4 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to ₱245.0 million and ₱5.6 million, respectively.

³Net of allowance for credit and impairment losses amounting to ₱1.0 million.

	2017			Maximum Exposure to Credit Risk
	Carrying Amount	Fair Value of Collaterals or Credit Enhancements	Financial Effects of Collaterals or Credit Enhancements	
Loans and receivables:				
Receivables from customers:				
Corporate loans ¹	₱14,669,050,557	₱13,509,949,083	₱12,322,666,798	₱2,346,383,759
Consumer loans ²	13,991,362,783	2,915,082,871	2,172,737,602	11,818,625,181
	28,660,413,340	16,425,031,954	14,495,404,400	14,165,008,940
Sales contracts receivable ³	21,863,712	35,134,888	21,863,712	–
	₱28,682,277,052	₱16,460,166,842	₱14,517,268,112	₱14,165,008,940

¹Net of allowance for credit and impairment losses amounting to ₱368.2 million.

²Net of allowance for credit and impairment losses and unearned discounts and capitalized interest amounting to ₱149.9 million and ₱5.4 million, respectively.

³Net of allowance for credit and impairment losses amounting to ₱1.0 million.

Concentration of Credit Risk Exposure of Financial Assets

The Bank monitors concentration of credit risk by industry. The distribution of the Bank's financial assets and off-balance sheet items by industry sector, before taking into account collaterals held or other credit enhancements (maximum exposure) are as follows:

	2018				Total
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	
Other community, social and personal activities	₱15,027,629,717	₱–	₱–	₱31,412,431	₱15,059,042,148
Financial intermediaries	2,600,149,285	6,276,097,712	401,986,255	–	9,278,233,252
Wholesale and retail trade	5,456,012,560	–	–	33,551,416	5,489,563,976
Real estate	4,403,658,169	–	–	27,429,884	4,431,088,053
Manufacturing	2,778,695,493	–	–	–	2,778,695,493
Philippine government	–	–	1,478,771,010	–	1,478,771,010
Transportation, storage and communication	1,288,721,641	–	–	60,000	1,288,781,641
Construction	210,219,754	–	–	–	210,219,754
Mining and quarrying	154,409,736	–	–	–	154,409,736
Hotel and restaurant	59,220,355	–	–	–	59,220,355
Agricultural, hunting and forestry	32,249,248	–	–	–	32,249,248
Electricity, gas and water supply	2,447,716	–	–	1,950,178	4,397,894
	32,013,413,674	6,276,097,712	1,880,757,265	94,403,909	40,264,672,560
Allowance for credit and impairment losses	639,413,323	–	–	–	639,413,323
	₱31,374,000,351	₱6,276,097,712	₱1,880,757,265	₱94,403,909	₱39,625,259,237

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL and FVOCI (excluding equity security).

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

	2017				
	Loans and Receivables ¹	Loans and Advances to Banks ²	Investment Securities ³	Others ⁴	Total
Other community, social and personal activities	₱14,198,901,366	₱–	₱–	₱31,038,138	₱14,229,939,504
Financial intermediaries	2,429,161,823	7,307,454,663	456,101,809	–	10,192,718,295
Wholesale and retail trade	4,966,778,801	–	–	20,335,355	4,987,114,156
Real estate	4,436,264,067	–	–	27,668,123	4,463,932,190
Manufacturing	2,169,368,615	–	–	–	2,169,368,615
Philippine government	–	–	860,760,594	–	860,760,594
Transportation, storage and communication	542,300,946	–	–	–	542,300,946
Construction	259,559,588	–	–	3,000,000	262,559,588
Mining and quarrying	153,984,773	–	–	–	153,984,773
Agricultural, hunting and forestry	14,064,623	–	–	–	14,064,623
Hotel and restaurant	13,597,668	–	–	–	13,597,668
Electricity, gas and water supply	3,282,461	–	–	1,248,250	4,530,711
	29,187,264,731	7,307,454,663	1,316,862,403	83,289,866	37,894,871,663
Allowance for credit and impairment losses	519,113,362	–	–	–	519,113,362
	₱28,668,151,369	₱7,307,454,663	₱1,316,862,403	₱83,289,866	₱37,375,758,301

¹Comprised of receivables from customers, gross of unearned discounts and capitalized interests.

²Comprised of due from BSP, due from other banks, interbank loans receivable.

³Comprised of financial assets at FVPL and AFS financial assets (excluding equity security).

⁴Comprised of RCOCI, refundable deposits and contingencies relating to outstanding guarantees and domestic LC.

The Bank regularly assesses impairment losses on its financial assets (except those held for trading) based on historical loss experience and adjusted for appropriate forward-looking estimates. The Bank addresses impairment assessment in two areas: individual or specific assessment and collective assessment.

Individual or Specific Assessment. The Bank determines the impairment loss appropriate for each individually significant loan or receivable on an individual account basis. Factors considered in determining the appropriate amounts of impairment loss include an account's age, payment and collection history, short and medium-term prospects in the industry, timing of expected cash flows, realizable value of collateral and forward looking factors such as inflation and interest rates, and consumer price index.

The Bank establishes criteria for specific loan impairment testing and uses the discounted cash flow method to compute for impairment loss. Accounts subjected to specific assessment and are found to be impaired are excluded from the collective impairment assessment.

Collective Assessment. Collective assessment for loan impairment losses are performed on loans and receivables that are not individually significant and those significant loans and receivables, which were individually assessed for impairment but were found not to be impaired. Generally, the Bank applies the probability of loss method in determining the collective impairment loss, where such probability is derived from the product of default rate and loss rate. For personal and salary loans, the added dimension of net flow rate method is considered. This method utilizes the historical data on movements of arrearages (flow-over and flow-back) across the different delinquency age buckets, as a means of determining default and loss rate and forward looking factors such as interest rates, and consumer price index.

Significant Increase in Credit Risk. When determining whether the risk of default on a financial instrument has increased significantly since initial recognition, the Bank considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Bank's historical experience and expert credit assessment and including forward-looking information. A significant increase in

credit risk can be measured by comparing the probability of default of the borrower from the initial recognition and the result of the current probability of default.

Other indications may include, among others, indications that a borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in principal and/or interest payments, probability that the borrower will enter bankruptcy or other financial reorganization/restructuring, and other observable data indicating measurable decrease in the estimated future cash flows, such as changes in business or economic conditions that correlate with defaults.

Definition of Default. The Bank considers a financial asset to be in default when a borrower fails to pay the loan in full or seven days after contractual due date for consumer and commercial loans, respectively.

Credit Quality per Class of Financial Assets

The Bank has developed and continually reviews and calibrates its internal risk rating system for large exposures aimed at uniformly assessing its credit portfolio in terms of risk profile. The following table provides the analysis of credit quality of the of the Bank's financial assets (gross of allowance for credit and impairment losses) classified as Stage 1, 2 or 3 financial assets as at December 31, 2018, based on the requirements of PFRS 9.

	2018 (Amounts in Thousands)			Total
	Stage 1	Stage 2	Stage 3	
Financial assets at FVOCI				
Government securities				
High grade	₱1,192,770	₱-	₱-	₱1,192,770
Private bonds				
High grade	376,036	-	-	376,036
Financial assets at amortized cost				
Consumer loans				
High grade	15,143,562	-	-	15,143,562
Standard grade	-	263,225	-	263,225
Past due but not individually impaired	-	507,214	187,754	694,968
Individually impaired	-	-	308,076	308,076
Corporate loans				
High grade	3,212,660	-	-	3,212,660
Standard grade	11,909,570	-	-	11,909,570
Individually impaired	-	-	476,468	476,468
Unquoted debt securities				
High grade	7,736	-	-	7,736
Bills purchased				
High grade	4,884	-	-	4,884
Accrued interest income				
High grade	74,257	-	-	74,257
Standard grade	52,474	1,728	-	54,202
Past due but not individually impaired	-	10,678	4,241	14,919
Individually impaired	-	-	15,467	15,467
Accounts receivable				
High grade	54,502	-	-	54,502
Sales contracts receivables				
High grade	6,700	-	-	6,700
Past due but not individually impaired	-	11,982	-	11,982
Other assets*				
High grade	32,042	-	-	32,042
Due from BSP				
High grade	2,654,024	-	-	2,654,024
Due from other banks				
High grade	3,538,959	-	-	3,538,959
Interbank loans receivables				
High grade	83,115	-	-	83,115
	₱38,343,291	₱794,827	₱992,006	₱40,130,124

*Includes refundable deposits and RCOCI.

Prior to January 1, 2018, the Bank assesses the credit quality of financial assets (gross of allowance for impairment losses) subject to credit risk as follows, based on the requirements of PAS 39.

	2017 (Amounts in Thousands)					
	Neither Past Due nor Impaired			Past Due but not		Total
	High Grade	Standard Grade	Total	Individually Impaired	Individually Impaired	
Financial assets at FVPL -						
Government securities	₱158,685	₱-	₱158,685	₱-	₱-	₱158,685
AFS financial assets:						
Government securities	702,075	-	702,075	-	-	702,075
Private bonds	456,102	-	456,102	-	-	456,102
Loans and receivables:						
Loans and discount:						
Consumer loans	13,810,193	-	13,810,193	719,268	507,768	15,037,229
Corporate loans	2,808,542	10,926,764	13,735,306	-	411,354	14,146,660
Unquoted debt securities	562,289	-	562,289	-	-	562,289
Bills purchased	3,376	-	3,376	-	-	3,376
Accrued interest income	147,832	-	147,832	-	-	147,832
Accounts receivable	47,248	-	47,248	-	-	47,248
Sales contracts receivable	19,758	-	19,758	-	3,137	22,895
Other assets:						
Refundable deposits	27,668	-	27,668	-	-	27,668
RCOCI	416	-	416	-	-	416
Loans and advances to banks:						
Due from BSP	2,519,966	-	2,519,966	-	-	2,519,966
Due from other banks	4,333,505	-	4,333,505	-	-	4,333,505
Interbank loans receivable	453,983	-	453,983	-	-	453,983
	₱26,051,638	₱10,926,764	₱36,978,402	₱719,268	₱922,259	₱38,619,929

The Bank classifies its neither past due nor impaired loans and receivables subject to credit risk into the following credit grades:

- High Grade – This pertains to accounts with very low probability of default because of the borrower’s established ability to tap its liquid resources to fully service its obligations as they become due. The borrower has no history of default and uses leverage sparingly.
- Standard Grade – This pertains to accounts with an acceptable probability of default. Nevertheless, the borrower has a strong debt service record and has demonstrated the ability to readily service its debts. Collateral cover, if applicable, should be adequate.
- Substandard Grade – Risk of default is higher than normal. The borrower is expected to be able to service its debt under normal economic and business conditions. Any prolonged economic or business downturn would however ostensibly create liquidity issues for the borrower. The borrower may have a history of default but have regularized its debt service performance as at reporting year.

The following table shows the aging analysis of the aggregate gross amount of past due but not impaired loans and receivables. A financial asset is past due when the counterparty has failed to make payment when contractually due.

	2017					Total
	Less than 30 Days	31 to 60 Days	61 to 90 Days	91 to 180 Days	Over 180 Days	
Loans and discount -						
Consumer loans	₱76,788	₱25,374	₱19,860	₱39,157	₱558,089	₱719,268

The credit quality of trading and investment securities is generally monitored through the external ratings of eligible external credit rating institutions.

Presented below is the mapping of the credit risk rating from external rating agencies with the Bank's internal risk rating for investment securities:

A. Moody's Rating

Credit Quality	Rating				Short-term
	Long-term				
High Grade	Aaa	Aa	A	Baa	P
Standard Grade	Ba	B			Not Prime
Substandard Grade	Caa	Ca			
Impaired	C				

B. S&P Rating

Credit Quality	Rating				Short-term
	Long-term				
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC	CC	C		C
Impaired	D				

C. Fitch Rating

Credit Quality	Rating				Short-term
	Long-term				
High Grade	AAA	AA	A	BBB	A
Standard Grade	BB	B			B
Substandard Grade	CCC				C
Impaired	DDD	DD	D		

D. Philratings

Credit Quality	Rating				Short-term
	Long-term				
High Grade	PRS Aaa	PRS Aa	PRS A	PRS Baa	PRS 1
					PRS 2
					PRS 3
Standard Grade	PRS Ba	PRS B			PRS 4
Substandard Grade	PRS Caa	PRS Ca			PRS 5
Impaired	PRS C				PRS 6

For debt securities not rated by any rating agency, the Bank performs the credit rating review for the issuers of the debt securities based on quantitative and qualitative analyses, the data of which are provided by the Treasury/Trust Group.

Below is the guidance in evaluation if the investment is impaired or not.

Credit Quality	Rating	Assessment
High Grade	1 and 2	Not Impaired
Standard Grade	3	Not Impaired
Substandard Grade	4	Impaired
Impaired	5	Impaired

For loans, the credit quality is generally monitored using the Bank's internal rating system. It is the Bank's policy to maintain accurate and consistent risk ratings across the credit portfolio. This facilitates management to focus on major potential risk and the comparison of credit exposures across all lines of business, demographics and products. The rating system has two parts, namely, the borrower's risk rating and the facility risk rating. It is supported by a variety of financial analytics, combined with an assessment of management and market information to provide the main inputs for the measurement of credit risk.

The Bank uses ICRR to classify the credit quality of its receivables portfolio. This is being upgraded, as needed, to enhance credit evaluation parameters across different market segments and achieve a more sound and robust credit risk assessment.

Descriptions of the loan grades used by the Bank for receivables from customers are as follows:

Risk Rating	Classification	Credit Quality
1	Excellent	High Grade
2	Strong	High Grade
3	Good	High Grade
4	Satisfactory	Standard Grade
5	Acceptable	Standard Grade
6	Weak	Standard Grade
7	Poor	Impaired
8	Substandard	Impaired
9	Doubtful	Impaired
10	Loss	Impaired

Risk Rating 1 – Excellent. The borrower's ability to meet its financial commitments is extremely strong and there is a very low probability that it will default on payments due in the coming year. The borrower has a high degree of stability, substance and diversity.

A borrower in this category has access to substantial amounts of funds through the public capital market at any time. It has a strong debt service capacity and has conservative balance sheet leverage (vis-a-vis the industry in which the borrower operates). The track record in profit terms is very good. The borrower is of the highest quality, operating reliably under virtually any and all economic conditions.

Risk Rating 2 – Strong. The borrower's ability to meet its financial commitments is very strong and there is a low probability that it will default on payments due in the coming year. The borrower normally has a comfortable degree of stability, substance and diversity. Under normal market conditions, borrowers in this category have good access to public capital market to raise funds.

Borrower has a strong market and financial position with a history of successful performance. The overall debt service capacity as measured by cash flow to total debt service is very strong; the critical balance sheet ratios (vis-à-vis applicable industry) are conservative.

These borrowers herein categorized are described as quality corporations or enterprises, which are adequately capitalized and operating profitably.

Risk Rating 3 – Good. The borrower's ability to meet its financial commitments is strong. It may be described as a big or small corporation whose access to public capital market or to alternative financial market is easy, may be limited to periods of favorable economic and/or market conditions.

A borrower in this category usually exhibits characteristics of some degree of stability and substance and the probability of default is still quite low. However, it may still be susceptible to the negative effects of cyclical business changes.

Typical traits include a combination of comfortable asset protection and an acceptable balance sheet structure (vis-à-vis that industry). The debt service capacity as measured by cash flow analysis is strong.

Risk Rating 4 – Satisfactory. The borrower has adequate capacity to meet its financial commitments. Borrower operates in an environment where clear risk elements exist and the probability of default is somewhat greater. This probability is reflected in volatility of earnings and overall performance. A borrower in this category normally has limited access to public financial market. It should be able to withstand normal business cycles, but any prolonged unfavorable economic climate may create gradual deterioration in its financial health.

Typical for this kind of borrower is the combination of reasonably sound asset and cash flow protection. The debt service capacity as measured by cash flow is deemed adequate. The borrower has reported profit for the past fiscal year and is expected to report a profit in the current year.

Risk Rating 5 – Acceptable. The borrower is less vulnerable but faces major ongoing uncertainties and exposure to adverse business, financial or economic conditions that could lead to its inadequate capacity to meet its financial commitments.

This category represents borrowers who may still be able to withstand normal business cycles. However, any prolonged unfavorable economic and/or market condition would create an immediate deterioration beyond acceptable level.

This category will apply where the risk is still acceptable for the following reasons:

- There is sufficient cash flow either historically or expected for the future, in spite of an economic downturn combined with asset protection; or
- There is a new business or project finance transaction.

Risk Rating 6 – Weak. The borrower is more vulnerable but currently has the capacity to meet its financial commitments. Adverse business, financial, or economic conditions will likely impair the borrower's capacity or willingness to meet its financial requirements.

This category represents the type of borrower for which unfavorable industry or Bank-specific risk factors represent a concern. Operating performance and financial strength may be marginal and it is uncertain whether the borrower can attract alternative sources of financing. Typically, the borrower will find it very hard to cope with any significant economic downturn and a default in such a case is more than a possibility.

Generally, a borrower in this category incurs net losses for one or more years. Normally, there is an expectation that conditions will improve and the rating may be upgraded. Any deterioration, however, will almost certainly result in an automatic downgrade.

In summary, this category includes those borrowers where the credit exposure is not at risk of loss at the moment, but wherein performance has weakened, and unless present trends are reversed, could lead to losses.

Risk Rating 7 – Poor. The borrower is currently vulnerable and is dependent on favorable business, financial and economic conditions to meet its financial obligations.

A borrower in this category is characterized by some probability of default, manifested by some or all of the following:

- Evidence of weakness in the borrower’s financial condition or creditworthiness.
- Unacceptable risk generated by potential or emerging weaknesses as far as asset protection and/or cash flow is concerned. Concerns center on the potential for a continuation of unfavorable economic, market, or borrower specific conditions or trends, which may affect future debt service capacity.
- Indications that the borrower’s ability or willingness to service debt are in doubt.
- Necessity or strong likelihood for rescheduling of the loan.
- Decline in values of, or adverse developments on, collaterals securing the loan.

Risk Rating 8 – Substandard. The borrower is currently highly vulnerable and is in a state of default. Substandard loans are loans or portions thereof which appear to involve a substantial and unreasonable degree of risk to the Bank because of unfavorable or unsatisfactory characteristics. These well-defined adverse elements exist in such loans where there is a possibility of future loss to the institution unless given closer supervision. Such may include adverse trends or development of a financial, managerial, economic or political nature or significant weakness in collateral.

Basic characteristics are:

- Past due loan for which there is an imminent possibility of foreclosure or acquisition of the collateral because of failure of all collection efforts;
- Past due loans to borrowers whose properties securing the loan have declined in value materially or have been found with defects as to ownership or other adverse information;
- Current loans to borrowers whose financial statements audited by the SEC-accredited external auditors show impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Renewed loans of borrowers with declining trend in operations, illiquidity, or increasing leverage trend in the borrower’s financial statements without at least 20.0% repayment of the principal before renewal or extension;

- Current loans of borrowers with unfavorable results of operations for two consecutive years or with impaired/negative net worth, except for startup firms which should be evaluated on a case-to-case basis;
- Loans under litigation; and
- Past due loans for more than 90 days.

Risk Rating 9 – Doubtful. Borrower is in a state of default, where any of the following factors are present:

- Account is already in “non-performing loan” (NPL) status;
- Any portion of any principal and/or interest repayment is in arrears for more than 90 days;
- The borrower is unable or unwilling to service debt over an extended period of time and near future prospects of orderly debt service is doubtful; and
- Overdue loans wherein the prospects of fully applying the collaterals are impaired due to material declines in market value, or subject of adverse claim.

The extent of probability of loss cannot be exactly quantified at this time. Although the possibility of loss is significant, there may be certain important and reasonably specific pending factors that can work to the advantage of the Bank and result in a strengthening of assets of the borrower. Pending factors include merger, acquisition, capital injection and additional cover.

Risk Rating 10 – Loss. Borrower is in a state of default and the prospect for re-establishment of creditworthiness and debt service is remote.

This category also applies where the Bank will take or has taken title to the assets of the borrower and is preparing a foreclosure and/or liquidation of the Bank.

These are loans, or portions thereof, which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is neither practical nor desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

Basic characteristics are:

- Past due clean loans, the interest of which has remained unpaid for a period of six months;
- Loans payable in installments where amortization applicable to interest is past due for a period of six months, unless the loan is fully secured;
- When the borrower’s whereabouts are unknown, or he is insolvent, or his earning power is permanently impaired and his co-makers or guarantors are insolvent or that their guarantee is not financially supported;
- Where the collaterals securing the loans are considered worthless and the borrower and/or his co-makers are insolvent; and
- Loan considered as absolutely uncollectible.

Collateral and Other Credit Risk Mitigation

The amount and type of collateral required depends on an assessment of the credit risk of the obligor. The Bank implements certain requirements regarding the acceptability of types of collateral and valuation.

Collateral comes in the form of financial or non-financial assets. The main types of collateral obtained include cash or securities, charges over real estate or chattel properties, inventory and trade receivables and mortgages over residential properties. The Bank also obtains guarantees from parent companies for loans of borrowing entities belonging to a group of companies.

The Bank monitors the market value of collateral, and request for additional collateral in accordance with the underlying agreement.

The following table shows the fair value of collaterals held against the loans and receivables that are neither past due nor impaired:

	2018	2017
Properties	₱18,001,267,511	₱15,188,195,688
Deposits	1,297,989,944	870,995,271
	₱19,299,257,455	₱16,059,190,959

It is the Bank's policy to sell foreclosed assets through public bidding (only after the assets are appraised anew to determine current market value, and duly bid based on the approved minimum bid price).

Liquidity Risk

Liquidity risk is generally defined as the current and prospective risk to earnings or capital arising from the Bank's inability to meet its obligations when these become due, without incurring unacceptable losses or costs. Specifically, this pertains to events that may necessitate the Bank to enter into transactions that would realize significant losses or costs in order to meet its obligations when these fall due.

ALCO is responsible for formulating the Bank's liquidity risk management policies, whereas the RMG is responsible for monitoring such risks. Liquidity management is among the most important activities conducted within the Bank. The Bank manages its liquidity risk through analyzing net funding requirements under alternative scenarios, diversification of funding sources and contingency planning. The Bank utilizes a diverse range of sources of funds, although short-term deposits made with the Bank's network of domestic branches comprise the majority of such funding.

The Bank's liquidity risk is managed by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met with minimum sacrifice to market price and by maintaining a balanced loan portfolio, which is re-priced on a regular basis. Deposits with banks are made on a short-term basis with almost all being available on demand within three months.

The Bank's Treasury Department uses liquidity forecast models that estimate the Bank's cash flow requirements based on the Bank's actual contractual obligations under normal circumstances and extraordinary circumstances. RMG prepares a monthly maximum cumulative outflow report, which is an analysis of maturity gaps of the Bank's assets and liabilities.

Aging of Financial Assets and Liabilities by Remaining Contractual Maturities

The tables below summarize the maturity profile of the Bank's financial assets and liabilities used for liquidity management based on contractual undiscounted payments and receipts as at December 31, 2018 and 2017:

	2018							Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days		
Financial Assets								
Financial assets at FVPL	₱311,950,522	₱-	₱-	₱-	₱-	₱-	₱-	₱311,950,522
Financial assets at FVOCI	-	-	-	627,771,648	33,818,340	923,290,218	-	1,584,880,206
Financial assets at amortized cost:								
Cash and other cash items	673,088,622	-	-	-	-	-	-	673,088,622
Due from BSP	2,654,024,133	-	-	-	-	-	-	2,654,024,133
Due from other banks	3,538,958,509	-	-	-	-	-	-	3,538,958,509
Interbank loans receivable	83,115,070	-	-	-	-	-	-	83,115,070
Loans and receivables:								
Receivables from customers	-	10,007,660,869	2,020,896,916	3,633,978,100	732,332,293	15,612,985,622	-	32,007,853,800
Accrued interest income	-	19,809,378	7,112,917	19,083,819	13,827,861	99,011,158	-	158,845,133
Accounts receivable	-	29,081,289	650,536	2,755,384	3,134,697	18,880,097	-	54,502,003
Sales contracts receivable	-	-	-	-	-	18,682,199	-	18,682,199
Unquoted debt securities	-	974,843	453,706	1,763,652	429,473	4,114,598	-	7,736,272
Other assets*	-	-	-	-	-	32,042,315	-	32,042,315
	₱7,261,136,856	₱10,057,526,379	₱2,029,114,075	₱4,285,352,603	₱783,542,664	₱16,709,006,207	₱41,125,678,784	
Financial Liabilities								
Deposit liabilities:								
Demand	₱7,957,158,157	₱-	₱-	₱-	₱-	₱-	₱-	₱7,957,158,157
Savings	-	1,351,987,478	2,157,871	7,130,440	-	3,725,869,853	-	5,087,145,642
Time	-	16,182,820,264	3,222,239,285	2,708,739,930	460,742,218	1,085,572,216	-	23,660,113,913
	7,957,158,157	17,534,807,742	3,224,397,156	2,715,870,370	460,742,218	4,811,442,069	-	36,704,417,712
Manager's checks	-	128,070,287	-	-	-	-	-	128,070,287
Accrued interest and other expenses	66,372,856	6,866,197	1,410,324	1,211,541	189,884	91,047,188	-	167,097,990
Unsecured subordinated debt	-	14,250,000	-	14,250,000	28,500,000	1,000,000,000	-	1,057,000,000
Other liabilities**	-	814,847,702	-	-	-	-	-	814,847,702
	₱8,023,531,013	₱18,498,841,928	₱3,225,807,480	₱2,731,331,911	₱489,432,102	₱5,902,489,257	₱61,716,699,902	

*Comprised of refundable deposits and RCOCI.

**Comprised of accounts payable, payment orders, bills purchased-contra and marginal deposit and other liabilities.

	2017							Total
	On Demand	Within 30 Days	31 to 60 Days	61 to 180 Days	181 to 360 Days	Over 360 Days		
Financial Assets								
Financial assets at FVPL	₱-	₱95,175,892	₱15,862,649	₱31,725,297	₱15,921,377	₱-	₱-	₱158,685,215
Financial assets at FVOCI	-	-	-	29,714,117	52,974,802	1,091,561,732	-	1,174,250,651
Cash and other cash items	629,416,734	-	-	-	-	-	-	629,416,734
Due from BSP	2,519,965,700	-	-	-	-	-	-	2,519,965,700
Due from other banks	4,333,505,485	-	-	-	-	-	-	4,333,505,485
Interbank loans receivable	453,983,478	-	-	-	-	-	-	453,983,478
Loans and receivables:								
Receivables from customers	-	7,893,847,420	2,295,761,041	4,940,867,543	3,052,808,676	10,998,586,299	-	29,181,870,979
Unquoted debt securities	-	1,810,929	541,902,106	1,332,597	4,340,050	12,902,982	-	562,288,664
Accrued interest income	-	29,632,758	10,395,733	23,297,511	19,209,244	65,296,716	-	147,831,962
Accounts receivable	-	21,326,267	725,994	1,127,537	416,486	23,651,464	-	47,247,748
Sales contracts receivable	-	109,337	109,337	437,348	656,022	21,583,304	-	22,895,348
Other assets	-	-	-	-	-	28,084,426	-	28,084,426
	₱7,936,871,397	₱8,041,902,603	₱2,864,756,860	₱5,028,501,950	₱3,146,326,657	₱12,241,666,923	₱39,260,026,390	
Financial Liabilities								
Deposit liabilities:								
Demand	₱7,776,434,094	₱-	₱-	₱-	₱-	₱-	₱-	₱7,776,434,094
Savings	-	1,649,356,679	5,227,860	821,166	-	2,713,617,003	-	4,369,022,708
Time	-	15,627,127,669	2,591,783,719	2,748,947,353	623,029,548	886,363,709	-	22,477,251,998
	7,776,434,094	17,276,484,348	2,597,011,579	2,749,768,519	623,029,548	3,599,980,712	-	34,622,708,800
Manager's checks	-	185,381,487	-	-	-	-	-	185,381,487
Accrued interest and other expenses	76,461,874	6,212,282	1,096,982	1,321,289	280,359	44,494,282	-	129,867,068
Unsecured subordinated debt	-	14,250,000	-	14,250,000	28,500,000	1,000,000,000	-	1,057,000,000
Other liabilities*	-	838,787,894	-	-	-	-	-	838,787,894
	₱7,852,895,968	₱18,321,116,011	₱2,598,108,561	₱2,765,339,808	₱651,809,907	₱4,644,474,994	₱36,833,745,249	

*Comprised of refundable deposits and RCOCI.

**Comprised of accounts payable, marginal deposit, payment orders, and bills purchased-contra and other liabilities.

Market Risk

Market risk is the risk of loss of future earnings, fair values or future cash flows as a result of changes in interest rate, foreign exchange rate, commodity prices, equity prices and other market changes. The Bank's market risk originates from its holdings of debt securities.

ALCO, chaired by the Head of Treasury, is the management level committee responsible for review and management of market risk. In managing market risk, the Bank uses a framework of policies and procedures, measurement tools, controls and limits. The Bank's Treasury Group manages asset/liability risks arising from both normal banking operations and from trading operations in financial market. Daily monitoring of compliance with the policies, procedures and limits is performed by the Market Risk Department under RMG. The limits are annually reviewed by the ALCO and RMG and approved by RMC. RMG performs regular reporting to ALCO and to the RMC, which is a sub-committee of the BOD.

Interest Rate Risk

The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rate is kept within acceptable limits.

The Bank measures the sensitivity of its assets and liabilities to interest rate fluctuations by way of Earnings-at-Risk (EaR). EaR is a measure of likely earnings volatility for accrual portfolios. It is calculated as the change in income over the next 12 months, given current exposures that will result from one-year standard deviation change in interest rate, updated monthly. EaR is calculated based on 99.00% confidence level. It is accomplished monthly, with quarterly stress test.

The following tables demonstrate the sensitivity to a reasonable possible change in interest rate of the Bank's net interest income and equity with all other variables held constant (amounts in millions):

	2018			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱7.01	₱14.02	(₱7.01)	(₱14.02)
Deposit liabilities	(15.54)	(31.07)	15.54	31.07
As a percentage of the net interest income for the year	(0.5%)	(1%)	0.5%	1%
Changes in equity* -				
Financial assets at FVOCI	(27.31)	(53.20)	28.97	59.60

**The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.*

	2017			
	Increase (Decrease) in Basis Points			
	50	100	(50)	(100)
Changes in net interest income:				
Loans and receivables	₱6.46	₱12.92	(₱6.46)	(₱12.92)
Deposit liabilities	(14.84)	(29.69)	14.84	29.69
As a percentage of the net interest income for the year	(1%)	(1%)	1%	1%
Changes in equity* -				
Financial assets at FVOCI	(36.98)	(72.46)	40.59	83.03

**The impact on the Bank's equity already excludes the impact of transactions affecting the profit or loss.*

Foreign Currency Risk

Foreign currency risk is the risk of an investment's value erosion due to an adverse movement in foreign exchange rate. It arises due to a mismatch in the Bank's foreign currency-denominated assets and liabilities.

Foreign currency-denominated deposits are generally used to fund the Bank'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. In addition, the BSP requires 100% asset coverage for its FCDU liabilities, 30% of which should be in the form of liquid assets. As at December 31, 2018 and 2017, the Bank is in compliance with the said regulation.

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

The following table summarizes the Bank's foreign currency-denominated financial assets and liabilities as at December 31, 2018 and 2017. Included in the table are assets and liabilities at carrying amounts in Philippine Peso equivalent, categorized by currency.

	2018			2017		
	USD	Others*	Total	USD	Others*	Total
Financial Assets						
Cash and other cash items	₱77,774,604	₱-	₱77,774,604	₱50,791,206	₱30,299	₱50,821,505
Due from other banks	2,995,099,180	47,273,134	3,042,372,314	4,243,990,330	33,347,710	4,277,338,040
Interbank loans receivable	5,459,894	77,655,176	83,115,070	5,055,956	77,194,910	82,250,866
Loans and receivables	536,820,768	-	536,820,768	423,259,095	-	423,259,095
	3,615,154,446	124,928,310	3,740,082,756	4,723,096,587	110,572,919	4,833,669,506
Financial Liabilities						
Deposit liabilities	4,179,945,550	5,994,505	4,185,940,055	4,960,855,954	3,920,772	4,964,776,726
Net Exposure	₱564,791,104	(₱118,933,805)	₱445,857,299	₱237,759,367	(₱106,652,147)	₱131,107,220

*Consist of Euro, United Kingdom Pound, Canadian Dollar, Australian Dollar, Hong Kong Dollar, New Zealand Dollar, Singapore Dollar, Japanese Yen, Swiss Franc and Chinese Yuan.

The following table sets forth the impact of reasonably possible changes in the USD exchange rate on the Bank's net income (amounts in millions):

	2018			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.61	₱1.22	(₱0.61)	(₱1.22)
	2017			
	Increase (Decrease) in Currency			
	5.0%	10.0%	(5.0%)	(10.0%)
USD	₱0.51	₱1.00	(₱0.51)	(₱1.00)

The increase in USD exchange rate represents depreciation of Philippine Peso while the decrease in USD exchange rate represents an appreciation of Philippine Peso. The increase or decrease in exchange rate of other currencies is not significant.

There is no other impact in the Bank's equity other than those already affecting the net income.

Market Risk in the Trading Book

The Bank is exposed to the potential loss in its trading portfolio because the value of its trading positions is sensitive to changes in market prices and rate. The trading activities of the Bank include investments in fixed income securities and foreign exchange trading, which exposes the Bank to interest rate and foreign exchange risks. In the trading book, market risk is controlled by a daily analysis of the Value-at-Risk (VaR) of financial instruments under normal market conditions.

Objectives and Limitations of the VaR Methodology

The Bank uses the VaR approach in assessing possible changes in the market value of the trading portfolio based on historical data for a rolling one year period. The Bank employs the use of historical methodology in calculating the VaR. This model assumes that the exact distribution of past returns does not apply during sudden changes in market condition. The use of historical VaR model has limitations and requires a significant amount of risk factor history. It does not capture probabilities that have not yet occurred while it captures irregularities present in the historical database.

The VaR figures are backtested to validate the robustness of the VaR model. The Bank performs the hypothetical and actual backtesting procedures for both RBU and FCDU securities. Likewise, to complement VaR measurement, the Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios.

VaR Assumptions/Parameters

The VaR that the Bank measures is an estimate which uses actual historical rates and revalues positions for each change in the market. It is appropriate for all types of instruments, linear and non-linear, with stable risk factors for which there is a rich historical database. Since VaR is an integral part of the Bank's market risk management, VaR limits have been established annually for all financial trading activities and exposures against the limits are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Bank.

The Market Risk Officer of the Bank prepares a daily VaR report containing details on the VaR amount, VaR limit utilization, and VaR limit breaches, if any. This report is submitted to the traders concerned, the Treasury Head, Chief Risk Officer, Treasury Operations Head, and the President. Moreover, the VaR results are discussed and reported in the monthly Risk Management Committee meetings.

The following table provides the VaR summary of the Bank for the years ended December 31, 2018 and 2017 (amounts in thousands):

	2018		2017	
	Foreign Exchange	Fixed Income	Foreign Exchange	Fixed Income
December 28	₱1,429	₱1,633	₱782	₱1,430
Average Daily	853	2,146	105	16,414
Highest	1,677	5,909	2,497	47,327
Lowest	1	9	1,432	1,430

Fixed income VaR includes value-at-risk for investment securities denominated in currencies other than Philippine Peso. VaR, being a measure of risk in the trading book, only includes held for trading portfolio.

The Bank's trading in fixed income securities is exposed to movements in interest rate. The high and low of the total portfolio may not equal to the sum of the individual components as the high and low of the individual portfolios may have occurred on different trading days. The VaR of foreign exchange is the foreign exchange risk throughout the Bank. The Bank, when aggregating the foreign exchange VaR and interest VaR, does not consider the correlation effects between the two risks.

Capital Management

The primary objectives of the Bank's capital management are to ensure that it complies with externally-imposed capital requirements and maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Bank manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Bank may adjust the amount of dividend payment to shareholders, return capital, or issue capital securities. No changes were made in the objectives, policies and processes from the previous year.

Regulatory Qualifying Capital

Under the existing BSP regulations, the determination of compliance with regulatory requirements and ratios is based on the amount of the "qualifying capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting policies that differ from PFRS in some respects.

The risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted assets, should not be less than 10.00%. Qualifying capital and risk-weighted assets (RWA) are computed based on the BSP regulations. RWA consist of total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letter of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP.

The details of CAR as reported to the BSP, based on BSP Circular 688, *Revised Risk-Based Capital Adequacy Framework for Standalone Thrift Banks, Rural Banks and Cooperative Banks*, are as follows (amounts in thousands):

	2018	2017
Tier 1 capital	₱2,636,151	₱2,482,597
Required deductions	13,755	8,775
	2,622,396	2,473,822
Excess from Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 1 Capital	2,622,396	2,473,822
Tier 2 capital	1,565,351	1,556,512
Required deductions	-	-
	1,565,351	1,556,512
Excess of Tier 2 deducted from Tier 1 Capital*	-	-
Net Tier 2 Capital	1,565,351	1,556,512
Total Qualifying Capital	₱4,187,747	₱4,030,334

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

	2018	2017
Credit RWA	₱34,125,943	₱29,755,054
Market RWA	275,636	396,790
Operational RWA	2,325,196	2,187,795
Total RWA	₱36,726,775	₱32,339,639
Tier 1 capital ratio	7.14%	7.65%
Total capital ratio	11.40%	12.46%

The Bank's regulatory qualifying capital consists of Tier 1 (core) capital, which comprises paid-up common stock, surplus including current year profit, and cumulative foreign currency translation less required deductions such as unsecured credit accommodations to DOSRI and deferred income tax. Certain adjustments are made to results and reserves based on PFRS, as prescribed by the BSP. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes paid-up preferred stock, unsecured subordinated debt and general loan loss provision (GLLP).

In accordance with BSP Circular 1011 *Guidelines on the Adoption of the PFRS 9, Financial Instruments- Impairment*, banks should set up GLLP equivalent to 1% of all current loans (after excluding accounts considered as credit risk-free under existing regulations). In cases when the computed allowance for ECL on current loans is less than the 1% GLLP required, the difference should be appropriated from the Retained Earnings using the account "Retained Earnings - General Provision" in the books of the Bank.

Appropriation for the excess of 1% GLLP over ECL amounted to ₱90.7 million and ₱125.6 million as at December 31, 2018 and 2017, respectively.

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on the ratings by Standard & Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, Banks, LGUs, Government Corporations and Corporates.

The Bank has complied with all externally imposed capital requirements in 2018 and 2017.

5. Fair Value Measurement

The following table presents the carrying amounts and fair values of the Bank's assets measured at fair value and for which fair values are disclosed, and the corresponding hierarchy:

	2018			
	Carrying Amount	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 FVPL -				
Government securities	₱286,000,562	₱286,000,562	₱-	₱-
Private bonds	25,949,960	25,949,960	-	-
	311,950,522	311,950,522	-	-
Financial assets at FVOCI:				
Government securities	1,192,770,448	1,192,770,448	-	-
Private bonds	376,036,295	-	376,036,295	-
	1,568,806,743	1,192,770,448	376,036,295	-

(Forward)

2018				
	Carrying Amount	Fair Value		
		Quoted Prices in Active Market (Level 1)	Significant Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Consumer loans	₱16,016,411,554	₱-	₱-	₱17,916,012,821
Corporate loans	15,348,176,379	-	-	15,454,153,771
Unquoted debt securities	7,736,272	-	-	7,736,272
	31,372,324,205	-	-	33,377,902,864
Assets held for sale	445,743,668	-	461,903,232	-
Refundable deposits	27,429,884	-	27,429,884	-
Total Assets	₱33,726,255,022	₱1,504,720,970	₱865,369,411	₱33,377,902,864
Liabilities for which Fair Values are Disclosed				
Time deposits	₱23,660,113,913	₱-	₱23,660,113,913	₱-
Unsecured subordinated debt	1,000,000,000	-	1,000,000,000	-
Total Liabilities	₱24,660,113,913	₱-	₱24,660,113,913	₱-
2017				
	Carrying Amount	Fair Value		
		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 FVPL -				
Government securities	₱158,685,215	₱158,685,215	₱-	₱-
AFS financial assets:				
Government securities	702,075,379	702,075,379	-	-
Private bonds	456,101,809	53,345,212	402,756,597	-
	1,316,862,403	914,105,806	402,756,597	-
Assets for which Fair Values are Disclosed				
Loans and receivables:				
Receivable from customers:				
Corporate loans	13,991,362,783	-	-	15,113,091,745
Consumer loans	15,405,407,693	-	-	14,283,022,596
Unquoted debt securities	562,288,664	-	-	570,037,248
	29,959,059,140	-	-	29,966,151,589
Assets held for sale	263,687,853	-	357,506,812	-
Refundable deposits	27,668,123	-	27,668,123	-
Total Assets	₱31,567,277,519	₱914,105,806	₱787,931,532	₱29,966,151,589
Liabilities for which Fair Values are Disclosed				
Time deposits	₱22,477,251,998	₱-	₱22,477,251,998	₱-
Unsecured subordinated debt	1,000,000,000	-	1,027,778,004	-
Total Liabilities	₱23,477,251,998	₱-	₱23,505,030,002	₱-

There were no transfers between levels/hierarchies of fair value measurements in 2018 and 2017.

The table below presents the financial assets and liabilities of the Bank, whose carrying amounts approximate fair values due to the short-term nature of the transactions:

	2018		2017	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	₱673,088,622	₱673,088,622	₱629,416,734	₱629,416,734
Due from BSP	2,654,024,133	2,654,024,133	2,519,965,700	2,519,965,700
Due from other banks	3,538,958,509	3,538,958,509	4,333,505,485	4,333,505,485
Interbank loans receivable	83,115,070	83,115,070	453,983,478	453,983,478
Loans and receivables:				
Receivables from customers:				
Consumer loans	919,801,766	919,801,766	2,985,854,044	2,985,854,044
Corporate loans	15,348,176,379	15,348,176,379	13,991,362,783	13,991,362,783
Bills purchased	4,884,180	4,884,180	3,375,913	3,375,913
Unquoted debt securities	7,736,272	7,736,272	562,288,664	562,288,664
Accrued interest income	158,845,133	158,845,133	147,831,962	147,831,962
Accounts receivable	54,502,003	54,502,003	47,247,748	47,247,748
Refundable deposits	27,429,884	27,429,884	27,668,123	27,668,123
RCOCI	4,612,431	4,612,431	416,303	416,303
	₱23,475,174,382	₱23,475,174,382	₱25,702,916,937	₱25,702,916,937
Financial Liabilities				
Deposit liabilities				
Time	₱18,848,671,844	₱18,848,671,844	₱18,877,271,286	₱18,877,271,286
Demand	7,957,158,157	7,957,158,157	7,776,434,094	7,776,434,094
Savings	5,087,145,642	5,087,145,642	4,369,022,708	4,369,022,708
	31,892,975,643	31,892,975,643	31,022,728,088	31,022,728,088
Accrued interest expense	100,725,134	100,725,134	53,405,194	53,405,194
Other liabilities*	791,258,403	791,258,403	816,212,996	816,212,996
	₱39,381,699,542	₱39,381,699,542	₱31,892,346,278	₱31,892,346,278

*Comprised of accounts payable, payment orders, bills purchased-*contra* and marginal deposits.

The methods and assumptions used by the Bank in estimating the fair value of the assets and liabilities of the Bank that are carried at fair value and those whose fair values are disclosed are as follows:

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 by either using values obtained from adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Loans and Receivables. Fair values are estimated using the discounted cash flow methodology, using the Bank's current incremental lending rate for similar types of loans.

Significant Unobservable Inputs	Range (weighted average)
TPR	4.53% - 8.63%
Credit spread	0.94% - 3.80%

Certain loans are subject to quarterly repricing. Hence, the carrying amounts of these loans approximate fair values.

Sensitivity Analysis. Generally, significant increases (decreases) in rate would result in a significantly (lower) higher fair value measurement. Significant increases (decreases) in effective interest rate would result in a significantly lower (higher) fair value measurement.

Time Deposits and Unquoted Debt Obligations. Fair values of these instruments are estimated using the discounted cash flow methodology using the Bank's current incremental borrowing rates for similar borrowings with maturities consistent with the remaining liabilities being valued.

Assets Held for Sale. Fair value is based on valuation using the market data approach, as determined by an independent and/or in-house appraiser.

Refundable Deposits. Fair value is based on discounted cash flows using the prevailing credit-adjusted interest rate.

Other Financial Liabilities. For financial liabilities other than time deposits, the carrying amounts approximate fair values considering that these are due and demandable or payable within 30 days.

6. Interbank Loans Receivable

This account pertains to short-term loans to local and foreign banks maturing up to three months. Interbank loans receivable amounted to ₱83.1 million and ₱454.0 million as at December 31, 2018 and 2017, respectively. Interest income on interbank loans receivable amounted to ₱33.4 million and ₱44.6 million in 2018 and 2017, respectively.

Below are the ranges of interest rates applicable to the interbank loans receivable:

	2018	2017
Local banks	3.00% to 4.97%	0.01% to 3.00%
Foreign banks	1.10% to 2.38%	0.01% to 0.06%

7. Investment Securities

This account consists of:

	2018			Total
	Financial assets at		Total	
	FVPL	FVOCI		
Balances at beginning of year	₱158,685,215	₱1,174,250,651	₱1,332,935,866	
Additions	38,407,101,820	1,138,600,000	39,545,701,820	
Disposals	(38,249,475,745)	-	(38,249,475,745)	
Matured investments	-	(607,500,000)	(607,500,000)	
Net unrealized fair value loss	(4,360,768)	(105,005,023)	(109,365,791)	
Amortization of premium and discount	-	(15,465,422)	(15,465,422)	
Balances at end of year	₱311,950,522	₱1,584,880,206	₱1,896,830,728	

	2017			Total
	Financial Assets at FVPL	AFS Financial Assets	HTM Investments	
	Balances at beginning of year	₱501,491,653	₱1,373,954,718	
Disposals	(338,091,366)	(337,591,102)	(345,364,986)	(1,021,047,454)
Additions	-	169,608,026	-	169,608,026
Amortization of premium and discount	-	(17,608,841)	(6,076,301)	(23,685,142)
Net unrealized fair value loss	(4,715,072)	(14,112,150)	-	(18,827,222)
Balances at end of year	₱158,685,215	₱1,174,250,651	₱-	₱1,332,935,866

Financial Assets at FVPL

Financial assets at FVPL are comprised of the following:

	2018	2017
Government securities	₱286,000,562	₱158,685,215
Private bonds	25,949,960	–
	₱311,950,522	₱158,685,215

Financial assets at FVPL bear effective interest rates as follows:

	2018	2017
Philippine Peso-denominated	5.22% to 6.93%	–
Foreign currency-denominated	–	2.76% to 3.73%

In 2018 and 2017, total consideration for the sale of financial assets at FVPL amounted to ₱38,213.6 million and ₱297.3 million resulting to loss on disposal amounting to ₱35.9 million and ₱40.8 million, respectively.

Financial Assets at FVOCI/ AFS Financial Assets

Financial assets at FVOCI/AFS financial assets are comprised of the following:

	2018	2017
Government securities	₱1,192,770,448	₱702,075,379
Private bonds	376,036,295	456,101,809
Equity security	16,073,463	16,073,463
	₱1,584,880,206	₱1,174,250,651

Financial assets at FVOCI bear effective interest rates as follows:

	2018	2017
Philippine Peso-denominated	5.61% to 8.12%	2.62% to 6.19%
Foreign currency-denominated	2.36% to 3.49%	2.28% to 2.29%

Movements in cumulative unrealized fair value losses are as follows:

	2018	2017
Balance at beginning of year	(₱79,334,671)	(₱65,222,521)
Unrealized loss on fair value changes	(105,005,023)	(15,756,543)
Amortization of unrealized losses on reclassified		
AFS financial assets	–	891,771
Realized loss on disposal of AFS financial assets	–	752,622
	(105,005,023)	(14,112,150)
Balance at end of year	(₱184,339,694)	(₱79,334,671)

The equity security pertains to the Bank's investment in shares of stock of Bancnet, Inc. (Bancnet), acquired on November 11, 2011, which the Bank intends to hold for long-term. Dividend income amounted to ₱1.3 million and ₱3.8 million in 2018 and 2017, respectively.

Financial assets at FVOCI amounting to ₱607.5 million matured in 2018. In 2017, the Bank disposed certain AFS financial assets for a total consideration of ₱336.8 million resulting to gain on disposal amounting to ₱752,622.

Held-to-Maturity Investments

This account consists of government debt securities. On November 22, 2017, the Bank disposed all of its existing HTM investments for a total consideration of ₱399.8 million resulting to a gain amounting to ₱54.4 million. Amortization of premium amounted to ₱6.1 million in 2017.

Interest income on investment securities are as follows:

	2018	2017
Financial assets at FVOCI / AFS financial assets	₱64,145,573	₱60,665,221
Financial assets at FVPL	11,811,340	48,687,528
Held-to-maturity investments	-	17,138,236
	₱75,956,913	₱126,490,985

Net trading and securities gains (losses) from investment securities are as follows:

	2018	2017
Financial assets at FVPL:		
Realized trading losses	(₱35,896,453)	(₱40,833,187)
Unrealized fair value losses	(4,360,768)	(4,715,072)
Held-to-maturity investments	-	54,436,940
AFS financial assets	-	(752,622)
	(₱40,257,221)	₱8,136,059

8. Loans and Receivables

This account consists of:

	2018	2017
Receivables from customers	₱32,007,853,800	₱29,181,870,979
Accrued interest income	158,845,133	147,831,962
Accounts receivable	54,502,003	47,247,748
Sales contracts receivable	18,682,199	22,895,348
Unquoted debt securities	7,736,272	562,288,664
	32,247,619,407	29,962,134,701
Allowance for credit and impairment losses	(639,413,323)	(519,113,362)
	₱31,608,206,084	₱29,443,021,339

Receivables from customers consist of:

	Note	2018	2017
Loans and discounts:			
Consumer loans		₱16,409,831,024	₱15,037,229,125
Corporate loans		15,598,698,470	14,146,659,693
Bills purchased	16	4,884,180	3,375,913
		32,013,413,674	29,187,264,731
Unearned discounts and capitalized interest		(5,559,874)	(5,393,752)
		₱32,007,853,800	₱29,181,870,979

The following table shows information relating to receivables from customers by collateral (at gross amounts):

	2018		2017	
	Amount	%	Amount	%
Secured by:				
Chattel mortgage	₱12,504,235,384	39.06%	₱11,070,700,786	37.93%
Real estate mortgage	5,447,015,687	17.01%	4,999,465,883	17.13%
Deposits	1,125,412,501	3.52%	1,170,848,094	4.01%
Others	180,108,167	0.56%	284,062,500	0.97%
	19,256,771,739	60.15%	17,525,077,263	60.04%
Unsecured	12,756,641,935	39.85%	11,662,187,468	39.96%
	₱32,013,413,674	100.00%	₱29,187,264,731	100.00%

As at December 31, 2018 and 2017, information on the concentration of credit (at gross amounts) as to industry follows:

	2018		2017	
	Amount	%	Amount	%
Other community, social and personal activities	₱15,027,629,717	46.94%	₱14,198,901,366	48.65%
Wholesale and retail trade	5,456,012,560	17.04%	4,966,778,801	17.02%
Real estate	4,403,658,169	13.76%	4,436,264,067	15.20%
Manufacturing	2,778,695,493	8.68%	2,169,368,615	7.43%
Financial intermediaries	2,600,149,285	8.12%	2,429,161,823	8.32%
Transportation, storage and communication	1,288,721,641	4.03%	542,300,946	1.86%
Construction	210,219,754	0.66%	259,559,588	0.89%
Mining and quarrying	154,409,736	0.48%	153,984,773	0.53%
Hotel and restaurants	59,220,355	0.18%	13,597,668	0.05%
Agricultural, hunting and forestry	32,249,248	0.10%	14,064,623	0.05%
Electricity, gas and water supply	2,447,716	0.01%	3,282,461	0.01%
	₱32,013,413,674	100.00%	₱29,187,264,731	100.00%

Exposures under the community, social and personal activities are mostly retail loan exposures which do not cover a specific industry. Hence, the Bank does not have concentration of credit risk to particular industries as at December 31, 2018 and 2017.

NPL pertains to loan accounts even without any missed contractual payments, that are (a) deemed impaired under existing applicable accounting standards, (b) classified as doubtful or loss, (c) in litigation, and/or (d) there is evidence that full repayment of principal and interest is unlikely without foreclosure of collateral, in the case of secured accounts.

All other loan accounts, even if not considered impaired, should be considered non-performing if any contractual principal and/or interest are not paid for more than 90 days after contractual due date, or accrued interests for more than 90 days have been capitalized, refinanced, or delayed by agreement.

The gross and net NPL of the Bank as reported to the BSP amounted to ₱1,479.6 million and ₱1,116.3 million as at December 31, 2018, respectively, and ₱1,110.0 million and ₱730.6 million as at December 31, 2017, respectively. The gross and net NPL ratios of the Bank are 4.61% and 3.48%, respectively, as at December 31, 2018, and 3.75% and 2.47%, respectively, as at December 31, 2017.

As at December 31, 2018 and 2017, breakdown of the secured and unsecured NPL follows:

	2018	2017
Secured	₱835,493,277	₱500,600,551
Unsecured	644,104,031	609,356,492
	₱1,479,597,308	₱1,109,957,043

Restructured loans, which do not meet the requirements to be treated as performing receivables, are also considered as NPL. Restructured loans amounted to ₱50.4 million and ₱57.4 million as at December 31, 2018 and 2017, respectively. Interest income on restructured receivables amounted to ₱2.1 million and ₱5.2 million in 2018 and 2017, respectively.

Accounts receivable include receivables from officers relating to the car lease amounting to ₱33.2 million as at December 31, 2018 and 2017 (see Note 23), and withdrawals made by depositors of other banks to the Bank's ATM machines.

Sales contracts receivable pertain to receivables from buyers of real properties classified as assets held for sale, bearing 10% nominal interest, with terms of 10 or 15 years.

The details of interest income on loans and receivables are as follows:

	2018	2017
Consumer loans	₱1,417,441,690	₱1,162,485,817
Corporate loans	1,000,538,494	705,968,030
Bills discounted	34,612,610	47,204,647
Unquoted debt securities	4,392,514	37,112,260
Sales contracts receivable	1,114,068	1,533,741
	₱2,458,099,376	₱1,954,304,495

Of the total loans and receivables as at December 31, 2018 and 2017, 58.60% and 57.98% respectively, are subject to periodic interest repricing. The remaining peso-denominated loans have annual fixed interest ranging from 3.75% to 15.75% in 2018 and 3.50% to 21.60% in 2017.

The movements in the allowance for credit and impairment losses on loans and receivables in 2018 follow:

	Note	2018			Total
		Consumer Lending	Corporate Lending	Sales Contract Receivable	
Balances at beginning of year:					
As previously reported		₱368,178,568	₱149,903,158	₱1,031,636	₱519,113,362
Prior period adjustment on PFRS 9 adoption	2	114,901,201	-	-	114,901,201
As restated		483,079,769	149,903,158	1,031,636	634,014,563
Provision		8,042,168	95,059,059	-	103,101,227
Write-offs		(97,702,467)	-	-	(97,702,467)
Balances at end of year		₱393,419,470	₱244,962,217	₱1,031,636	₱639,413,323

Below is the analysis of movements of gross carrying amount and related allowance for impairment and credit losses based on ECL of consumer lending.

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2018	₱14,291,255,715	₱286,286,091	₱459,687,319	₱15,037,229,125
Loan releases	6,032,074,723	5,095,529	–	6,037,170,252
Payments or reclassifications upon foreclosure (excluding write-offs)	(4,446,962,434)	(77,922,185)	(41,981,267)	(4,566,865,886)
Transfers to stage 1	12,540,354	(11,861,725)	(678,629)	–
Transfers to stage 2	(651,736,047)	687,335,858	(35,599,811)	–
Transfers to stage 3	(93,609,825)	(104,404,094)	198,013,919	–
Write-offs	–	(14,090,772)	(83,611,695)	(97,702,467)
Gross carrying amount as at December 31, 2018	₱15,143,562,486	₱770,438,702	₱495,829,836	₱16,409,831,024

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment and credit losses as at January 1, 2018	₱238,781,889	₱23,732,612	₱220,565,268	₱483,079,769
Provisions for (reversals of) impairment and credit losses	(45,891,200)	55,019,844	(1,086,476)	8,042,168
Transfers to stage 1	143,388	(133,793)	(9,596)	–
Transfers to stage 2	(25,732,307)	34,834,581	(9,102,274)	–
Transfers to stage 3	(11,452,028)	(50,636,201)	62,088,229	–
Write-offs	–	(14,090,772)	(83,611,695)	(97,702,467)
Allowance for impairment and credit losses as at December 31, 2018	₱155,849,741	₱48,726,271	₱188,843,456	₱393,419,470

Below is the analysis of movements of gross carrying amount and related allowance for impairment and credit losses based on ECL of corporate lending.

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2018	₱13,735,305,686	₱–	₱411,354,007	₱14,146,659,693
Loan releases	3,280,920,028	–	–	3,280,920,028
Payments (excluding write-offs)	(1,763,640,156)	–	(65,241,095)	(1,828,881,251)
Transfers to stage 1	–	–	–	–
Transfers to stage 2	–	–	–	–
Transfers to stage 3	(130,355,408)	–	130,355,408	–
Gross carrying amount as at December 31, 2018	₱15,122,230,150	₱–	₱476,468,320	₱15,598,698,470

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment and credit losses as at January 1, 2018	₱31,171,155	₱–	₱118,732,003	₱149,903,158
Provisions for (reversals of) impairment and credit losses	53,983,912	–	41,075,147	95,059,059
Transfers to stage 1	–	–	–	–
Transfers to stage 2	–	–	–	–
Transfers to stage 3	(17,637,466)	–	17,637,466	–
Allowance for impairment and credit losses as at December 31, 2018	₱67,517,601	₱–	₱177,444,616	₱244,962,217

Below is the analysis of movements of gross carrying amount and related allowance for impairment and credit losses based on ECL of sales contract receivable.

	Stage 1	Stage 2	Stage 3	Total
Gross carrying amount as at January 1, 2018	₱4,816,793	₱18,078,555	₱-	₱22,895,348
Additions	(672,264)	(3,540,885)	-	(4,213,149)
Payments (excluding write-offs)	-	-	-	-
Transfers to stage 1	2,555,259	(2,555,259)	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Gross carrying amount as at December 31, 2018	₱6,699,788	₱11,982,411	₱-	₱18,682,199

	Stage 1	Stage 2	Stage 3	Total
Allowance for impairment and credit losses as at January 1, 2018	₱-	₱1,031,636	₱-	₱1,031,636
Provisions for (reversals of) impairment and credit losses	-	-	-	-
Transfers to stage 1	-	-	-	-
Transfers to stage 2	-	-	-	-
Transfers to stage 3	-	-	-	-
Allowance for impairment and credit losses as at December 31, 2018	₱-	₱1,031,636	₱-	₱1,031,636

The movements in the allowance for credit and impairment losses on loans and receivables in 2017 (prior to adoption of PFRS 9) follow.

	Corporate Lending	Consumer Lending	Sales Contract Receivable	Total
Balance at beginning of year	₱183,096,175	₱305,918,837	₱-	₱489,015,012
Provision	22,293,095	65,513,349	1,031,636	88,838,080
Write-off	(55,486,112)	(3,253,618)	-	(58,739,730)
Balance at end of year	₱149,903,158	₱368,178,568	₱1,031,636	₱519,113,362
Specific impairment	₱118,732,003	₱154,083,699	₱1,031,636	₱273,847,338
Collective impairment	31,171,155	214,094,869	-	245,266,024
	₱149,903,158	₱368,178,568	₱1,031,636	₱519,113,362
Gross amount of loans individually determined to be impaired	₱411,353,990	₱507,767,719	₱3,136,728	₱922,258,437

9. Assets Held for Sale

This account consists of properties acquired/foreclosed in settlement of loans and receivables aggregating to ₱445.7 million and ₱263.7 million as at December 31, 2018 and 2017, respectively.

In 2018 and 2017, loans with an aggregate carrying amount of ₱412.6 million and ₱254.4 million, respectively, were derecognized in exchange for the foreclosed properties aggregating to ₱359.0 million and ₱228.2 million, respectively, at the time of foreclosure.

Details of net losses from assets sold or acquired are as follows:

	Note	2018	2017
Assets held for sale:			
Loss on foreclosure		(P53,580,273)	(P26,229,899)
Loss on sale		(17,401,794)	(13,381,773)
Gain on sale of property and equipment	10	517,611	320,856
		(P70,464,456)	(P39,290,816)

As at December 31, 2018 and 2017, cumulative unrealized loss on foreclosure amounted to P32.5 million and P11.7 million, respectively.

Proceeds from sale amounted to P159.6 million and P161.0 million as at December 31, 2018 and 2017, respectively.

Provision for impairment loss on assets held for sale amounted to P270,440 in 2017. Allowance for impairment losses of assets held for sale amounted to P13.7 million as at December 31, 2018 and 2017.

10. Property and Equipment

Movements in this account are as follows:

	Note	2018				Total
		Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balances at beginning of year		P164,344,500	P249,307,316	P378,537,159	P291,135,637	P1,083,324,612
Additions		–	–	36,780,544	6,722,116	43,502,660
Reclassification	11	–	–	(23,040,971)	–	(23,040,971)
Disposals		–	(105,768)	(16,967,446)	(501,123)	(17,574,337)
Balances at end of year		164,344,500	249,201,548	375,309,286	297,356,630	1,086,211,964
Accumulated Depreciation and Amortization						
Balances at beginning of year		–	99,931,609	286,675,763	244,253,841	630,861,213
Depreciation and amortization		–	6,883,087	32,959,420	19,138,772	58,981,279
Reclassification	11	–	–	(22,335,771)	–	(22,335,771)
Disposals		–	(23,117)	(15,222,463)	(484,693)	(15,730,273)
Balances at end of year		–	106,791,579	282,076,949	262,907,920	651,776,448
Carrying Amount		P164,344,500	P142,409,969	P93,232,337	P34,448,710	P434,435,516

	Note	2017				Total
		Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Cost						
Balances at beginning of year		P164,344,500	P249,954,716	P363,601,380	P262,852,055	P1,040,752,651
Additions		–	–	36,512,786	28,757,016	65,269,802
Disposals		–	(647,400)	(21,577,007)	(473,434)	(22,697,841)
Balances at end of year		164,344,500	249,307,316	378,537,159	291,135,637	1,083,324,612
Accumulated Depreciation and Amortization						
Balances at beginning of year		–	93,302,189	276,342,456	218,181,230	587,825,875
Depreciation and amortization		–	6,629,420	30,062,264	26,533,752	63,225,436
Disposals		–	–	(19,728,957)	(461,141)	(20,190,098)
Balances at end of year		–	99,931,609	286,675,763	244,253,841	630,861,213

(Forward)

	2017				Total
	Land	Building and Condominium Units	Furniture, Fixtures and Equipment	Leasehold Rights and Improvements	
Accumulated Impairment					
Balances at beginning of year	₱-	₱2,667,217	₱-	₱-	₱2,667,217
Reversal	-	(2,667,217)	-	-	(2,667,217)
Balances at end of year	-	-	-	-	-
Carrying Amount	₱164,344,500	₱149,375,707	₱91,861,396	₱46,881,796	₱452,463,399

Gain on sale of property and equipment included under “Net losses from assets sold or acquired” in the statements of income amounted to ₱517,611 and ₱320,856 in 2018 and 2017, respectively (see Note 9). Proceeds from sale amounted to ₱2.4 million and ₱161,382 as at December 31, 2018 and 2017, respectively.

As at December 31, 2018 and 2017, the cost of fully depreciated assets which are still used in operations amounted to ₱356.2 million and ₱322.8 million, respectively.

Details of depreciation and amortization are as follows:

	Note	2018	2017
Property and equipment		₱58,981,279	₱63,225,436
Computer software	11	13,157,675	7,810,266
		₱72,138,954	₱71,035,702

11. Intangible Assets

This account consists of:

	2018	2017
Branch licenses	₱225,390,000	₱225,390,000
Computer software	89,695,543	73,402,117
	₱315,085,543	₱298,792,117

Branch licenses, recognized from business combination, include branch licenses from CSB amounting to ₱128.0 million, and licensing fees incurred in opening additional branches.

As at December 31, 2018 and 2017, the Bank has a total of 47 branches, 18 of which are in restricted areas.

The impairment test on branch licenses is based on value-in-use calculations determined using a discounted cash flow model. The recoverable amount of the CGU has been determined based on cash flow projections from financial budgets approved by senior management covering a five-year period. The discount rates applied to cash flow projections are 7.04% and 5.38% in 2018 and 2017, respectively, and cash flows beyond the five year-period are extrapolated using a steady growth rate of 20% in 2018 and 2017, which does not exceed the long-term average growth rate for the industry.

The calculation of the value-in-use of the CGU is most sensitive to the following assumptions:

- Discount rate;
- Steady growth rate used to extrapolate cash flows beyond the projection period; and
- Local inflation rate.

The key assumptions are consistent with information from external sources. With regard to the assessment of value-in-use of the CGU, management believes that no reasonably possible change in any of the foregoing key assumptions would cause the carrying amount of the branch licenses to materially exceed its recoverable amount.

Movements of computer software are as follows:

	Note	2018	2017
Cost			
Balance at beginning of year		₱284,917,636	₱263,524,939
Additions		28,745,901	21,392,697
Reclassification	10	23,040,971	–
Balance at end of year		336,704,508	284,917,636
Accumulated Amortization			
Balance at beginning of year		211,515,519	203,705,253
Amortization	10	13,157,675	7,810,266
Reclassification	10	22,335,771	–
Balance at end of year		247,008,965	211,515,519
Carrying Amount		₱89,695,543	₱73,402,117

12. Other Assets

This account consists of:

	Note	2018	2017
Prepaid expenses		₱48,343,197	₱57,429,493
Refundable deposits	18	27,429,884	27,668,123
CWT		9,335,123	–
RCOCI		4,612,431	416,303
Other investments		3,663,333	3,663,333
Others		10,579,591	17,688,907
		₱103,963,559	₱106,866,159

Prepaid expenses include prepaid rentals, group life insurance and employee benefits related to the car plan for the officers of the Bank (see Note 23).

Other investments represent membership fees in Bancnet and Credit Management Association of the Philippines.

Others mainly consist of deposit with a health care agency for the Bank's employee health plan and deferred lease. Deferred lease pertains to the difference between the nominal value of the refundable deposit and its fair value at inception of the lease, which is amortized as expense on a straight-line basis over the lease term (see Note 18).

13. Deposit Liabilities

This account is consists of:

	2018	2017
Time	₱23,660,113,913	₱22,477,251,998
Demand	7,957,158,157	7,776,434,094
Savings	5,087,145,642	4,369,022,708
	₱36,704,417,712	₱34,622,708,800

BSP Circular 832, *Increase in Reserve Requirements*, promulgated the 1.00% increase from 7.00% to 8.00% in the reserve requirements on peso deposit liabilities and deposit substitutes.

As mandated by BSP Circular 753, *Unification of the Statutory/Legal and Liquidity Reserve Requirement, Non-Remuneration of the Unified Reserve Requirement, Exclusion of Vault Cash and Demand Deposits as Eligible Forms of Reserve Requirement Compliance, and Reduction in the Unified Reserve Requirement Ratios*, 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 requirements should earn interest.

As at December 31, 2018 and 2017, the Bank is compliant with the foregoing BSP regulations. The available reserves, which form part of “Due from Bangko Sentral ng Pilipinas”, as at December 31, 2018 and 2017 amounted to ₱2,654.0 million and ₱2,520.0 million, respectively.

As at December 31, 2018 and 2017, 61.65% and 59.84% of the total deposit liabilities, respectively, are subject to periodic interest repricing. The remaining deposit liabilities bear annual fixed interest rates as follows:

	2018	2017
Philippine Peso-denominated	0.25% to 7.20%	0.25% to 4.10%
Foreign currency-denominated	0.25% to 2.25%	0.25% to 2.25%

Interest expense charged to the statements of income is as follows:

	Note	2018	2017
Deposit liabilities:			
Time		₱761,013,523	₱477,193,347
Demand		19,885,342	17,409,226
Savings		16,792,882	14,343,012
		797,691,747	508,945,585
Unsecured subordinated debt	15	57,000,000	47,119,977
Others		1,327,249	442,369
		₱856,018,996	₱556,507,931

14. Accrued Interest, Taxes and Other Expenses

This account consists of:

	2018	2017
Accrued expenses:		
Interest	₱100,725,134	₱53,405,194
Compensation and other benefits	27,006,657	31,143,700
Rent	8,905,107	11,202,641
Security, messengerial and janitorial	7,447,338	8,759,439
Utilities and leased line	1,755,994	4,048,675
Automated teller machine related expenses	1,124,768	4,130,026
Others	20,132,992	17,177,393
	167,097,990	129,867,068
Accrued gross receipts tax (GRT)	12,749,302	5,332,638
	₱179,847,292	₱135,199,706

Accrual for other expenses pertains to expenses for insurance, publications, repairs and maintenance.

15. Unsecured Subordinated Debt

On June 1, 2017, the MB of the BSP, in its Resolution No. 900, approved the Bank's issuance of unsecured subordinated debt with principal amount aggregating ₱1,000.0 million, which was issued on July 18, 2017 and bears 5.70% interest, payable quarterly.

The unsecured subordinated debt will mature after 10 years from issuance date but may be called by the Bank on any interest payment date after the 5th year of issuance at principal amount plus accrued interest.

On September 12, 2017, the Bank exercised its option to recall all unsecured subordinated debt issued last January 2012 with principal amount of ₱500.0 million and interest rate of 6.13% per annum.

Interest expense on unsecured subordinated debt amounted to ₱57.0 million and ₱47.1 million in 2018 and 2017, respectively (see Note 13).

16. Other Liabilities

This account consists of:

	Note	2018	2017
Accounts payable		₱774,437,686	₱804,228,598
Due to PDIC		35,758,369	32,997,235
Withholding taxes		28,652,413	18,304,822
Payment orders		7,282,134	3,735,295
Bills purchased - contra	8	4,884,180	3,375,913
Marginal deposits		4,654,403	4,873,190
Statutory obligations		2,926,728	2,641,979
Others		23,589,299	22,574,898
		₱882,185,212	₱892,731,930

Accounts payable pertains to payables for cash cards, chattel mortgage, insurance and loan service fees, Bancnet and VISA, stale checks, incoming dollar remittances to the Bank for payment to various payees as part of its intermediary services, and remaining balances on purchases of property and equipment. Accounts payable are noninterest-bearing and normally settled within one year.

Due to PDIC pertains to the Bank's insurance premium on deposit liabilities payable one month after reporting year.

Payment order refers to inward and outward remittances of funds by telegraphic transfers, demand drafts, or mail transfer orders received by the Bank pending payment/disposition to designated beneficiaries or application/disposition to appropriate accounts.

Marginal deposits are noninterest-bearing deposits made by borrowers upon opening letters of credit.

Others mainly consist of dormant deposit accounts.

17. Maturity Profile of Assets and Liabilities

The following tables present the assets and liabilities as at December 31, 2018 and 2017 analyzed according to whether these are expected to be recovered or settled within 12 months or over 12 months from the reporting year:

	Note	2018			2017		
		Within One Year	Over One Year	Total	Within One Year	Over One Year	Total
Financial Assets							
Cash and other cash items		₱673,088,622	₱-	₱673,088,622	₱629,416,734	₱-	₱629,416,734
Due from BSP		2,654,024,133	-	2,654,024,133	2,519,965,700	-	2,519,965,700
Due from other banks		3,538,958,509	-	3,538,958,509	4,333,505,485	-	4,333,505,485
Interbank loans receivable	6	83,115,070	-	83,115,070	453,983,478	-	453,983,478
Financial assets at FVPL	7	311,950,522	-	311,950,522	158,685,215	-	158,685,215
Financial assets at FVOCI/AFS financial assets	7	661,589,988	923,290,218	1,584,880,206	-	1,174,250,651	1,174,250,651
Loans and receivables - gross	8	16,493,945,733	15,759,233,548	32,253,179,281	16,977,216,827	12,990,311,626	29,967,528,453
Other assets ¹	12	-	32,042,315	32,042,315	-	28,084,426	28,084,426
		24,416,672,577	16,714,566,081	41,131,238,658	25,072,773,439	14,192,646,703	39,265,420,142
Nonfinancial Assets							
Assets held for sale	9	445,743,668	-	445,743,668	263,687,853	-	263,687,853
Property and equipment	10	-	1,086,211,964	1,086,211,964	-	1,083,324,612	1,083,324,612
Intangible assets	11	-	562,094,508	562,094,508	-	510,307,636	510,307,636
Deferred tax assets	21	-	16,663,522	16,663,522	-	10,754,822	10,754,822
Other assets	12	-	71,921,244	71,921,244	-	78,781,733	78,781,733
		445,743,668	1,736,891,238	2,182,634,906	263,687,853	1,683,168,803	1,946,856,656
		24,862,416,245	18,451,457,319	43,313,873,564	25,336,461,292	15,875,815,506	41,212,276,798
Less:							
Allowance for credit and impairment losses	8	-	639,413,323	639,413,323	-	519,113,362	519,113,362
Accumulated depreciation and amortization	10 11	-	898,785,413	898,785,413	-	842,376,732	842,376,732
Unearned discounts and capitalized interest	8	-	5,559,874	5,559,874	-	5,393,752	5,393,752
		-	1,543,758,610	1,543,758,610	-	1,366,883,846	1,366,883,846
		₱24,862,416,245	₱16,907,698,709	₱41,770,114,954	₱25,336,461,292	₱14,508,931,660	₱39,845,392,952
Financial Liabilities							
Deposit liabilities	13	₱31,892,975,643	₱4,811,442,069	₱36,704,417,712	₱31,022,728,088	₱3,599,980,712	₱34,622,708,800
Manager's checks		128,070,287	-	128,070,287	185,381,487	-	185,381,487
Accrued interest and other expenses	14	167,097,990	-	167,097,990	129,867,068	-	129,867,068
Unsecured subordinated debt	15	-	1,000,000,000	1,000,000,000	-	1,000,000,000	1,000,000,000
Other liabilities	16	850,606,071	-	850,606,071	871,785,129	-	871,785,129
		33,038,749,991	5,811,442,069	38,850,192,060	32,209,761,772	4,599,980,712	36,809,742,484

(Forward)

Note	2018			2017			
	Within One Year	Over One Year	Total	Within One Year	Over One Year	Total	
Nonfinancial Liabilities							
Accrued GRT	14	₱12,749,302	₱-	₱12,749,302	₱5,332,638	₱-	₱5,332,638
Retirement liability		-	72,439,948	72,439,948	-	67,313,121	67,313,121
Income tax payable		2,275,290	-	2,275,290	25,003,577	-	25,003,577
Other liabilities ²	16	31,579,141	-	31,579,141	20,946,801	-	20,946,801
		46,603,733	72,439,948	119,043,681	51,283,016	67,313,121	118,596,137
		₱33,085,353,724	₱5,883,882,017	₱38,969,235,741	₱32,261,044,788	₱4,667,293,833	₱36,928,338,621

¹Other financial assets pertain to refundable deposits and RCOI (see Note 12).

²Other non-financial liabilities pertain to withholding taxes and statutory obligations (see Note 16).

18. Operating Leases

The Bank leases the premises being occupied by certain branches for periods ranging from five to 10 years, renewable under certain terms and conditions. Rent expense included under “Occupancy” in the statements of comprehensive income amounted to ₱101.2 million and ₱95.2 million in 2018 and 2017, respectively.

At the inception of the lease, the Bank pays the lessors security deposits, which are noninterest-bearing and are refundable upon termination of the lease agreements. Refundable deposits pertaining to lease of properties amounted to ₱27.4 million and ₱27.7 million in 2018 and 2017, respectively (see Note 12). Unamortized discount on refundable deposits amounted to ₱1.8 million and ₱1.7 million as at December 31, 2018 and 2017, respectively. Accretion recognized under “Interest income on due from BSP and other banks” amounted to ₱959,713 and ₱824,968 in 2018 and 2017, respectively.

The following table presents the future minimum lease payments of the Bank for non-cancellable leases:

	2018	2017
Within one year	₱88,692,846	₱95,155,101
More than one year but not more than five years	198,278,031	212,999,106
More than five years	13,040,519	21,799,361
	₱300,011,396	₱329,953,568

19. Retirement Benefits

The Bank has a funded, noncontributory defined benefit retirement plan covering all of its officers and regular employees. Under the retirement plan, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. An independent actuary, using the projected credit method, conducted an actuarial valuation of the retirement liability as at December 31, 2017.

The retirement fund of the Bank is placed under the management of the Bank’s Trust Group starting 2013 with oversight from the Bank’s Retirement Fund Committee, as appointed by the BOD. The Retirement Plan Trustee, as appointed by the Bank, in the Trust Agreement, is responsible for the general administration of the Retirement Plan and the management of the Retirement Fund.

The retirement benefits recognized in the statements of income follow:

	2018	2017
Current service cost	₱16,767,061	₱15,392,114
Net interest cost	3,186,036	3,586,703
	₱19,953,097	₱18,978,817

Details of cumulative remeasurement gain follow:

	2018		
	Cumulative Remeasurement Gain (Loss)	Deferred Tax (see Note 21)	Net
Balance at beginning of year	₱23,468,738	₱7,040,621	₱16,428,117
Remeasurement loss	(1,173,730)	(352,119)	(821,611)
Balance at end of year	₱22,295,008	₱6,688,502	₱15,606,506

	2017		
	Cumulative Remeasurement Gain	Deferred Tax (see Note 21)	Net
Balance at beginning of year	₱1,546,454	₱463,936	₱1,082,518
Remeasurement gain	21,922,284	6,576,685	15,345,599
Balance at end of year	₱23,468,738	₱7,040,621	₱16,428,117

Retirement liability is as follows:

	2018	2017
Present value of retirement obligation	₱102,040,894	₱80,629,570
Fair value of plan assets	(29,600,946)	(13,316,449)
	₱72,439,948	₱67,313,121

Movements in the present value of retirement obligation follow:

	2018	2017
Balance at beginning of year	₱80,629,570	₱85,211,757
Current service cost	16,767,061	15,392,114
Interest cost	4,644,263	4,248,901
Remeasurement gain:		
Changes in demographic assumptions	-	(9,282,661)
Experience adjustment	-	(7,239,296)
Changes in financial assumptions	-	(5,884,923)
Benefits paid	-	(1,816,322)
Balance at end of year	₱102,040,894	₱80,629,570

Movements in the fair value of the plan assets follow:

	2018	2017
Balance at beginning of year	₱13,316,449	₱13,138,847
Contributions paid	16,000,000	—
Interest income	1,458,227	662,198
Remeasurement loss (excluding amount included in net interest)	(1,173,730)	(484,596)
Balance at end of year	₱29,600,946	₱13,316,449

The plan assets are carried at fair value. All equity, debt instruments and investments of the pooled funds held have quoted prices in active market. The fair value of other assets and liabilities, which include deposits in banks, BSP's special deposit account, accrued interest and other receivables and trust fee payables, approximate carrying amount due to the short-term nature of these accounts.

The plan assets are diversified investments. Those in short-term placements will be further invested depending on the market direction.

The composition of plan assets by class as at December 31, 2018 and 2017 follows:

	2018	2017
Debt instruments:		
Government securities	72%	30%
Private bonds	6%	17%
	78%	47%
Time certificates	19%	47%
Investments in Unit Investment Trust Funds (UITF)	2%	4%
Equity instruments	1%	2%
Fair value of plan assets	100%	100%

The principal actuarial assumptions used in determining the retirement liability as at December 31, 2018 and 2017 are shown below:

Discount rate	5.76%
Salary increase	3.00%

The sensitivity analysis below has been determined based on reasonably possible changes of each significant assumption on the defined benefit obligation as at December 31, 2018, assuming all other assumptions were held constant:

	Basis Points	Amount
Discount rate	+100 bps	(₱100,824,892)
	-100 bps	103,364,916
Salary increase rate	+100 bps	103,388,313
	-100 bps	(100,782,002)

The average duration of the defined benefit obligation at the end of the reporting year is 17.36 years.

Shown below is the maturity analysis of the undiscounted benefit payments as at December 31, 2018:

Less than one year	₱31,753,929
One to less than five years	56,831,687
Five to less than 10 years	88,156,184
10 to less than 15 years	139,038,544
15 to less than 20 years	240,164,475
	<u>₱555,944,819</u>

20. Other Operating Expenses

This account consists of:

	2018	2017
Repairs and maintenance	₱53,916,883	₱44,653,171
Postage	45,505,240	36,571,216
Fees and commissions	45,191,595	45,480,245
Appraisal fees	33,386,485	57,585,570
Litigation cost	30,698,558	17,916,832
Transportation and travel	15,805,006	15,626,191
Supervision fees	13,201,544	10,933,441
Management and other professional fees	7,994,763	7,717,258
Promotions and advertising	4,379,943	3,793,720
Others	27,552,669	48,740,162
	<u>₱277,632,686</u>	<u>₱289,017,806</u>

Others include office supplies, advertising, and fines and penalties.

21. Income and Other Taxes

Current income tax expense consists of:

	2018	2017
Regular corporate income tax (RCIT)	₱65,210,570	₱83,853,831
Final tax	13,260,130	26,393,868
	<u>₱78,470,700</u>	<u>₱110,247,699</u>

Under Philippine tax laws, the Bank is subject to percentage and other taxes, presented as "Taxes and licenses" in the statements of income, as well as income taxes. Percentage and other taxes paid consist principally of GRT and documentary stamp tax.

Republic Act (RA) No. 9337, *An Act Amending National Internal Revenue Code*, provides that the RCIT rate is 30% and interest expense allowed as deductible expense is reduced by 33% of interest income subjected to final tax.

RA No. 9294, *An Act Restoring the Tax Exemption of Offshore Banking Units (OBUs) and Foreign Currency Deposit Units*, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, offshore banking units (OBUs), and local commercial banks, including branches of foreign banks, is tax-exempt while interest income on foreign currency denominated loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% onshore income tax.

The reconciliation between the statutory income tax and effective income tax follows:

	2018	2017
Statutory income tax	₱53,450,825	₱85,962,917
Changes in unrecognized deferred tax assets	2,805,557	13,006,211
Tax effects of:		
Nondeductible expenses	61,991,321	101,626,522
Nontaxable income	(22,683,404)	(35,425,030)
Interest income subject to final tax	(22,650,180)	(55,199,654)
	₱72,914,119	₱109,970,966

Deferred tax assets and liabilities consist of:

	2018	2017
Deferred tax assets on:		
Allowance for credit and impairment losses	₱45,425,325	₱45,425,325
Cumulative unrealized loss on foreclosure of acquired assets	9,764,521	3,518,680
Allowance for impairment losses on assets held for sale	4,104,568	4,104,568
Accrued rent	2,671,532	3,360,792
	61,965,946	56,409,365
Deferred tax liabilities on:		
Fair value adjustment on branch licenses acquired in business combination	(38,400,000)	(38,400,000)
Cumulative remeasurement gain on retirement liability	(6,902,424)	(7,254,543)
	(45,302,424)	(45,654,543)
Net deferred tax assets	₱16,663,522	₱10,754,822

Net deferred tax benefit (expense) are recognized as follows:

	2018	2017
Through:		
Profit or loss	₱23,565,946	₱18,009,365
Other comprehensive income	(6,902,424)	(7,254,543)
	₱16,663,522	₱10,754,822

Movements of net deferred tax benefit (expense) are recognized as follows:

	2018	2017
Through:		
Profit or loss	₱5,556,581	₱276,733
Other comprehensive income	352,119	(6,576,685)
	₱5,908,700	(₱6,299,952)

As at December 31, 2018 and 2017, the Bank has not recognized deferred tax assets relating to the following deductible temporary differences:

	2018	2017
Allowance for credit and impairment losses	₱487,995,573	₱367,695,612
Retirement liability	94,734,956	91,495,563
	₱582,730,529	₱459,191,175

Management assessed that it is not probable that sufficient future taxable profit will be available to allow the unrecognized deferred tax assets to be utilized.

22. Capital Stock

As at December 31, 2018 and 2017, this account consists of:

	Number of Shares	Amount
Authorized - ₱10 par value		
Common stock	300,000,000	₱3,000,000,000
Perpetual preferred stock	100,000,000	1,000,000,000
Issued and outstanding:		
Common stock -		
Balance at beginning and end of year	207,000,000	₱2,070,000,000
Perpetual preferred stock -		
Balance at beginning and end of year	30,000,000	₱300,000,000

The perpetual preferred stock, which has an annual dividend rate of 4.375%, is cumulative and has no voting rights. As at December 31, 2018 and 2017, cumulative preference dividends amounted to ₱59.9 million and ₱46.8 million, respectively.

23. Related Party Transactions and Balances

In the ordinary course of business, the Bank can enter into loan and other transactions with its related parties and with certain DOSRI. Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70.00% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Bank. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations.

BSP Circular 560, *Ceilings on Loans, Other Credit Accommodations and Guarantees Granted to Subsidiaries and Affiliates*, provides the rules and regulations that govern loans, other credit accommodations and guarantees granted to subsidiaries and affiliates of banks and quasi-banks. Under the said circular, the total outstanding loans, credit accommodations and guarantees to each of the bank's subsidiaries and affiliates should not exceed 10.00% of a bank's net worth, the unsecured portion should not exceed 5.00% of such net worth. Further, the total outstanding exposures should not exceed 20.00% of the net worth of the lending bank.

BSP Circular 423, *Amendments to Sections X326 to X338 of the Manual of Regulations of Banks*, provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI accounts of the Bank:

	2018	2017
Total outstanding DOSRI loans	₱149,303,036	₱159,407,988
Percent of DOSRI accounts granted under BSP Circular 423	0.47%	0.54%

Any violation of the provisions under BSP Circular 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of BSP Circular 423, are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income on DOSRI accounts amounted to ₱10.8 million and ₱8.7 million in 2018 and 2017, respectively.

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements.

The significant transactions and account balances with respect to related parties that are included in the financial statements follow:

Nature of Transactions	2018		2017	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Key Management Personnel				
Loans and receivables	₱3,943,448	₱7,298,671	₱12,911,000	₱9,210,988
Interest income	506,307	-	337,421	-
Deposit liabilities	210,140,448	35,473,921	316,236,053	29,300,911
Interest expense	573,892	77,868	344,020	20,882
Accounts receivable	12,740,697	33,218,777	16,721,589	33,210,659
Subsidiaries of the Parent Company				
Loans and receivables	211,879,500	149,303,036	159,960,000	159,407,988
Accrued interest income	915,393	-	369,091	-
Deposit liabilities	4,242,872,852	34,490,038	49,235,415,101	318,094,569
Accrued interest expense	424,437	29,018	1,993,541	20,828
Trust fee	1,649,598	-	569,119	-
Rent expense	6,740,413	-	6,585,456	-
Parent Bank				
Deposit liabilities	61,466,038	1,294	984,312,194	20,612,857
Interest expense	5,486	-	3,753	-

(Forward)

Nature of Transactions	2018		2017	
	Transactions during the Year	Outstanding Balances	Transactions during the Year	Outstanding Balances
Stockholders				
Loans and receivables	₱-	₱-	₱1,000,000	₱-
Accrued interest income	-	-	29,532	-
Deposit liabilities	122,221,986	19,382,708	1,083,442,829	74,916,692
Accrued interest expense	268,524	48,696	529,263	16,451

Terms and Conditions

Loans and receivables are secured by chattel mortgages, deposits and real estate properties, having terms ranging from one to 18 years, and bearing interests from 3.00% to 12.00% both in 2018 and 2017. Allowance for credit and impairment losses on receivables from related parties amounted to ₱1.5 million and ₱1.6 million as at December 31, 2018 and 2017, respectively.

Deposits have interest ranging from 0.25% to 1.50% for 2018 and 2017.

Trust fees pertain to fees charged for trust operations. These are included under “Other expenses” in the statements of income.

Rent expense pertains to leases of ATM and branch premises.

Compensation of key management personnel included under “Compensation and fringe benefits” in the statements of income follows:

	2018	2017
Short-term employee benefits	₱85,567,718	₱83,352,809
Post-employment retirement benefits	2,199,035	3,647,128
	₱87,766,753	₱86,999,937

The Bank has receivables and prepaid expenses pertaining to the car plan of its officers aggregating ₱58.2 million and ₱60.4 million as at December 31, 2018 and 2017, respectively (see Note 12).

Transactions with Retirement Plan

The retirement plan of the Bank is considered as a related party. The retirement plan is in the form of a trust administered by the Trust Bank under the supervision of the Retirement Fund Committee.

The values of the assets of the fund are as follows (see Note 19):

	2018	2017
Investments in:		
Time deposit	₱5,559,488	₱6,309,667
UITF	519,942	522,345
Debt instruments	23,009,669	6,167,637
Equity instruments	267,000	316,800
	₱29,356,099	₱13,316,449

24. Trust Operations

On May 21, 2008, the Bank was granted a license by the BSP to conduct its trust operations. The Bank started its trust operations on June 2, 2008.

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of financial position since these are not assets of the Bank. Total assets held by the Bank's Trust Group amounted to ₱6,943.3 million and ₱7,932.3 million as at December 31, 2018 and 2017, respectively.

In compliance with current banking regulations relative to the Bank's trust operations, government securities included under financial assets at FVOCI with a total face value of ₱87.0 million and ₱84.0 million as at December 31, 2018 and 2017, respectively, are deposited with the BSP. In addition, 10% of the Bank's net income realized from its trust operations is appropriated to surplus reserve until such reserve for trust operations amounts to 20% of the Bank's regulatory capital.

25. Commitments and Contingencies

In the normal course of the Bank's operations, there are various outstanding commitments and contingencies such as guarantees and commitments to extend credit, which are not reflected in the financial statements. The Bank does not anticipate significant losses as a result of these transactions.

As at December 31, 2018, the Bank is involved in various legal proceedings relating to unpaid loans and acquired properties. Based on the opinion of its legal counsels, the Bank is in a good position to secure favorable judgment in most of these cases. Management therefore believes that the outcome of these proceedings will not have material adverse effect on the financial position and performance of the Bank.

The following is a summary of the commitments and contingencies at their equivalent contractual amounts:

	2018	2017
Investment management account	₱6,778,942,936	₱7,803,097,955
Spot exchange	985,698,646	485,837,158
Trust Bank accounts	166,748,825	134,511,037
Sight/usance foreign letters of credit (LC)	30,723,506	1,292,158
Domestic LC	26,800,000	30,300,000
Sight/usance domestic LC	22,687,360	16,537,163
Inward bills for collection	13,576,897	20,543,869
Outstanding guarantees issued - others	12,874,234	8,368,277
Late payment deposit/payment received	1,595,801	-
Items held for safekeeping	97,388	108,063
Items held as collateral	13,583	9,158

26. Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2018	2017
Return on average equity	3.38%	6.26%
Return on average assets	0.24%	0.48%
Net interest margin on average earning assets	4.45%	4.50%

27. Supplementary Information Required under Revenue Regulations No.15-2010 of the Bureau of Internal Revenue (BIR)

GRT

The Bank is subject to GRT on its gross income from Philippine sources. GRT is imposed on interest, fees and commissions from lending activities at 5.00% or 1.00%, depending on the loan term, and at 7.00% on non-lending fees and commissions, trading and foreign exchange gains and other items constituting gross income.

The details of the GRT expense and corresponding GRT tax base in 2018 are as follows:

	GRT Tax Base	GRT
Interest income	₱2,565,821,697	₱119,424,482
Others	145,399,046	10,732,013
	₱2,711,220,743	₱130,156,495

Taxes and Licenses

This includes all other taxes, local and national, incurred in 2018 and lodged under the “Taxes and licenses” account in the statement of comprehensive income, as follows:

	Amount
Documentary stamp taxes	₱136,651,691
GRT	130,156,495
Real estate, municipal and other taxes	12,163,489
Fringe benefit taxes	3,926,703
Car registration	165,797
	₱283,064,175

Withholding Taxes

Details of total remittances and balances in 2018 follow:

	Paid	Accrued	Total
Final withholding taxes	₱137,843,456	₱20,694,410	₱158,537,866
Compensation taxes	55,811,089	6,312,452	62,123,541
Expanded withholding taxes	15,643,277	1,645,551	17,288,828
	₱209,297,822	₱28,652,413	₱237,950,235

Tax Assessments and Cases

As at December 31, 2018, the Bank has no tax assessments and no outstanding tax cases, litigation and/or prosecution in courts or bodies outside the BIR.



REPORT OF INDEPENDENT AUDITORS ON SUPPLEMENTARY SCHEDULE

The Stockholders and the Board of Directors
Sterling Bank of Asia Inc. (A Savings Bank)
Sterling Bank Corporate Center
Greenhills, San Juan
Metro Manila

We have audited the accompanying financial statements of Sterling Bank of Asia Inc. (A Savings Bank) (the Bank) as at and for the years ended December 31, 2018 and 2017, and have issued our report dated March 26, 2019. Our audits were made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Adoption of Effective Accounting Standards and Interpretations as at December 31, 2018 for submission to the Securities and Exchange Commission is the responsibility of the Bank's management. The supplementary schedule is presented for purpose of complying with Securities Regulation Code Rule 68, as amended, and is not part of the basic financial statements. The supplementary schedule has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, fairly state, in all material respects, the financial data required to be set forth therein in relation to the basic financial statements taken as a whole.

REYES TACANDONG & Co.

HAYDEE M. REYES

Partner

CPA Certificate No. 83522

Tax Identification No. 102-095-265-000

BOA Accreditation No. 4782; Valid until August 15, 2021

SEC Accreditation No. 0663-AR-3 Group A

Valid until August 30, 2020

BIR Accreditation No. 08-005144-006-2017

Valid until January 13, 2020

PTR No. 7334335

Issued January 3, 2019, Makati City

March 26, 2019

Makati City, Metro Manila

STERLING BANK OF ASIA INC. (A Savings Bank)
SUPPLEMENTARY SCHEDULE OF ADOPTION OF
EFFECTIVE ACCOUNTING STANDARDS AND INTERPRETATIONS
DECEMBER 31, 2018

Title	Adopted	Not Adopted	Not Applicable
Framework for the Preparation and Presentation of Financial Statements			
Conceptual Framework Phase A: Objectives and qualitative characteristics	✓		
PFRS Practice Statement Management Commentary			✓
PFRS Practice Statement 2: Making Materiality Judgments	✓		

Philippine Financial Reporting Standards (PFRS)

PFRS	Title	Adopted	Not Adopted	Not Applicable
PFRS 1 (Revised)	First-time Adoption of Philippine Financial Reporting Standards			✓
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters			✓
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters			✓
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans			✓
PFRS 2	Share-based Payment			✓
	Amendments to PFRS 2: Vesting Conditions and Cancellations			✓
	Amendments to PFRS 2: Bank Cash-settled Share-based Payment Transactions			✓
PFRS 3 (Revised)	Business Combinations	✓		
	Amendment to PFRS 3: Accounting for Contingent Consideration in a Business Combination			✓
	Amendment to PFRS 3: Scope Exceptions for Joint Ventures			✓
PFRS 4	Insurance Contracts			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 4: Financial Guarantee Contracts			✓
PFRS 5	Non-current Assets Held for Sale and Discontinued Operations	✓		
	Amendment to PFRS 5: Changes in Methods of Disposal	✓		
PFRS 6	Exploration for and Evaluation of Mineral Resources			✓
PFRS 7	Financial Instruments: Disclosures	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures - Offsetting Financial Assets and Financial Liabilities	✓		
	Amendment to PFRS 7: Servicing Contracts			✓
	Amendment to PFRS 7: Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements			✓
PFRS 8	Operating Segments			✓
	Amendments to PFRS 8: Aggregation of Operating Segments			✓
	Amendments to PFRS 8: Reconciliation of the Total of the Reportable Segments' Assets to the Entity's Assets			✓
PFRS 9	Financial Instruments	✓		
PFRS 10	Consolidated Financial Statements			✓
	Amendments to PFRS 10: Transition Guidance			✓
	Amendments to PFRS 10: Investment Entities			✓
	Amendments to PFRS 10: Investment Entities: Applying the Consolidation Exception			✓
PFRS 11	Joint Arrangements			✓
	Amendments to PFRS 11: Transition Guidance			✓
	Amendments to PFRS 11: Accounting for Acquisitions of Interests in Joint Operations			✓
PFRS 12	Disclosure of Interests in Other Entities			✓

PFRS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PFRS 12: Transition Guidance			✓
	Amendments to PFRS 12: Investment Entities			✓
	Amendments to PFRS 12: Investment Entities: Applying the Consolidation Exception			✓
	Amendment to PFRS 12: Clarification of the Scope of the Standard			✓
PFRS 13	Fair Value Measurement	✓		
	Amendment to PFRS 13: Short-term Receivables and Payables	✓		
	Amendment to PFRS 13: Portfolio Exception	✓		
PFRS 14	Regulatory Deferral Accounts			✓
PFRS 15	Revenue from Contracts with Customers	✓		

Philippine Accounting Standards (PAS)

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 1 (Revised)	Presentation of Financial Statements	✓		
	Amendments to PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation			✓
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
	Amendment to PAS 1: Clarification of the Requirements for Comparative Presentation	✓		
	Amendments to PAS 1: Disclosure Initiative	✓		
PAS 2	Inventories			✓
PAS 7	Statement of Cash Flows	✓		
	Amendments to PAS 7: Disclosure Initiative	✓		
PAS 8	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
PAS 10	Events after the Reporting Period	✓		
PAS 12	Income Taxes	✓		
	Amendments to PAS 12 - Deferred Tax: Recovery of Underlying Assets			✓
	Amendments to PAS 12: Recognition of Deferred Tax Assets for Unrealized Losses	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
PAS 16	Property, Plant and Equipment	✓		
	Amendment to PAS 16: Classification of Servicing Equipment			✓
	Amendment to PAS 16: Revaluation Method - Proportionate Restatement of Accumulated Depreciation	✓		
	Amendment to PAS 16: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
	Amendment to PAS 16: Agriculture: Bearer Plants			✓
PAS 17	Leases	✓		
PAS 19 (Revised)	Employee Benefits	✓		
	Amendment to PAS 19: Defined Benefit Plans: Employee Contributions	✓		
	Amendment to PAS 19: Discount Rate: Regional Market Issue	✓		
PAS 20	Accounting for Government Grants and Disclosure of Government Assistance			✓
PAS 21	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
PAS 23 (Revised)	Borrowing Costs			✓
PAS 24 (Revised)	Related Party Disclosures	✓		
	Amendment to PAS 24: Key Management Personnel	✓		
PAS 26	Accounting and Reporting by Retirement Benefit Plans	✓		
PAS 27 (Amended)	Separate Financial Statements			✓
	Amendments to PAS 27: Investment Entities			✓
	Amendments to PAS 27: Equity Method in Separate Financial Statements			✓
PAS 28 (Amended)	Investments in Associates and Joint Ventures			✓
	Amendments to PAS 28: Investment Entities: Applying the Consolidation Exception			✓
PAS 29	Financial Reporting in Hyperinflationary Economies			✓
PAS 32	Financial Instruments: Disclosure and Presentation	✓		
	Financial Instruments: Presentation	✓		

PAS	Title	Adopted	Not Adopted	Not Applicable
	Amendments to PAS 32: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 32: Tax Effect of Distribution to Holders of Equity Instruments			✓
PAS 33	Earnings per Share			✓
PAS 34	Interim Financial Reporting			✓
	Amendment to PAS 34: Interim Financial Reporting and Segment Information for Total Assets and Liabilities			✓
	Amendment to PAS 34: Disclosure of Information 'Elsewhere in the Interim Financial Report'			✓
PAS 36	Impairment of Assets	✓		
	Amendments to PAS 36: Recoverable Amount Disclosures for Non-Financial Assets	✓		
PAS 37	Provisions, Contingent Liabilities and Contingent Assets	✓		
PAS 38	Intangible Assets	✓		
	Amendment to PAS 38: Revaluation Method - Proportionate Restatement of Accumulated Amortization			✓
	Amendment to PAS 38: Clarification of Acceptable Methods of Depreciation and Amortization	✓		
PAS 40	Investment Property			✓
	Amendment to PAS 40: Clarifying the Interrelationship between PFRS 3 and PAS 40 when Classifying Property as Investment Property or Owner-occupied Property			✓
PAS 41	Agriculture			✓
	Amendment to PAS 41: Agriculture: Bearer Plants			✓

Philippine Interpretations

Interpretations	Title	Adopted	Not Adopted	Not Applicable
IFRIC 1	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
IFRIC 2	Members' Share in Co-operative Entities and Similar Instruments			✓
IFRIC 4	Determining Whether an Arrangement Contains a Lease	✓		
IFRIC 5	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
IFRIC 6	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
IFRIC 7	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
IFRIC 9	Reassessment of Embedded Derivatives			✓
	Amendments to Philippine Interpretation IFRIC-9: Embedded Derivatives			✓
IFRIC 10	Interim Financial Reporting and Impairment			✓
IFRIC 12	Service Concession Arrangements			✓
IFRIC 14	PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement			✓
IFRIC 16	Hedges of a Net Investment in a Foreign Operation			✓
IFRIC 17	Distributions of Non-cash Assets to Owners			✓
IFRIC 19	Extinguishing Financial Liabilities with Equity Instruments			✓
IFRIC 20	Stripping Costs in the Production Phase of a Surface Mine			✓
IFRIC 21	Levies			✓

PHILIPPINE INTERPRETATIONS - SIC

Interpretations	Title	Adopted	Not Adopted	Not Applicable
SIC-7	Introduction of the Euro			✓
SIC-10	Government Assistance - No Specific Relation to Operating Activities			✓
SIC-15	Operating Leases - Incentives	✓		
SIC-25	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders			✓
SIC-27	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
SIC-29	Service Concession Arrangements: Disclosures			✓
SIC-32	Intangible Assets - Web Site Costs			✓

PRODUCTS & SERVICES





Personal Banking

Savings Account Series

Solo Savings Account

An easy to maintain and straightforward Peso Savings Account that makes banking easy and uncomplicated.

Solo Dollar Savings Account

Opening a dollar savings account is now made easier and convenient with our Solo Dollar Savings Account. Here's the deal — we'll count your pennies, you'll count the blessings!

Solo Yuan Savings Account

Grow your money with just an opening balance requirement of CNY 2,500 and a minimum ADB requirement of CNY 2,500.

Neo Savings Account

Teach your children the value of saving with the Neo Savings Account, a special savings deposit account for kids ages 19 and below. Through Neo, your kids can learn how to save and grow their money at an early age.

Bayani OFW Savings Account

The Bayani OFW Savings Account helps OFWs and their families save and grow their hard-earned money.

Solo Basic Savings Account

An easy, accessible, and affordable interest-bearing deposit account.

Duo Checking Account

A unique checking account that gives you the earning potential of a savings account plus the convenience of a Visa Debit Card. This complete hassle-free service even allows you to encash your checks at any Sterling Bank of Asia branch without additional charges.

Time Deposit Series

Prima Time Deposit

Maximize your short-term deposit and earn substantial gains at variable terms with the Prima Time Deposit.

Prima Dollar Time Deposit

Let your dollars gain maximum potential by earning prima interest.

Maxima 3

Make the most of your investment with this fixed-term three-year time deposit.

Maxima 5

The Maxima 5 rewards you with tax-free earnings on a five-year investment of as low as Php25,000.00 with the Maxima 5.

Consumer Loans

Ultima Auto Loans

Owning your own car, whether brand new or second-hand, is now within reach with the Ultima Auto Loans. With its attractive rates, a long repayment term, and convenient loan processing, you can now drive your dream car.

Persona Personal Loans

Rely on the Persona Personal Loans when you need something extra — for tuition fees, your dream vacation, home improvements, business ventures, or to tide you over in a financial emergency.

Discovery Home Loans

Make your dream home a reality. Take your pick of properties and let us handle the rest.

Avance Salary Loans

Need extra funds before the next payout? Tenured employees with at least a Php9,000.00 salary can now take a salary loan with the Avance Salary Loan.

Layag Seafarer's Loans

We know the risks you take in providing for your family. With Layag Seafarer's Loan, you can ensure that their needs are covered no matter how far you may be.

Truck Loans

Expand your company's logistics capabilities with your choice of four- to six-wheeler trucks with Sterling Bank of Asia's truck loans.

Sterling Bank Visa Cards



Enjoy the convenience of shopping and dining without having to worry about your monthly bills by using our debit and prepaid cards. Powered by Visa and BancNet, experience secure, cashless convenience by accessing your funds online, through an ATM or at the checkout counter. Plus, our debit and prepaid cards are the country's first Visa cards to have an embedded EMV chip.

Visa payWave



Shop and Pay the Easy Way!

Visa payWave is a contactless payment system that provides a fast, safe and hassle-free way to pay for small purchases. It eliminates the signature requirement for transactions worth Php2,000 or less, thus, speeding cashier check-out.

PayWave-enabled cards have several layers of security and all transactions are based on the international EMV chip standards, which provide the most advanced and widely accepted encryption technology for payments today.

Verified by Visa



Online shopping made easier and more secure through Verified by Visa!

Verified by Visa is a password-protected authentication system designed to protect your Sterling Bank Visa Debit & Prepaid Card against unauthorized use when shopping online.



Commercial Banking

Business Loans

We have a wide range of loan products that can answer the growing demands of your business, which can provide you the additional working capital requirements.

- Trade Check Discounting
- Factoring of Receivables
- Import / Domestic Letter of Credit (LC)
- Trust Receipt (TR)
- Standby Letter of Credit or Bank Guarantee
- Short Term and Long Term Loans
- Domestic Bills Purchase

Optima Business Banking Solutions

Optima Business Banking Solutions is a unique business account that comes with FREE cash management facilities to help minimize your company's overhead expenses, streamline operations, and most importantly, improve the bottom line.

By using a single account you can optimize the management of cash and liquid funds, and oversee the disbursements, collections, and investments of your company's financial resources. This includes:

- Payroll System
- Payroll Crediting System
- Financial System
- Check Writing System
- Check Warehousing
- Point-Of-Sale (POS) System
- Online Banking

Wealth Management

Treasury Services

We have a range of treasury products and services such as fixed-income securities (government securities and corporate bonds) to more sophisticated products to meet your dynamic investment requirements. Our team of seasoned experts will help you handle your investments prudently.

- Government Securities
 - Treasury Bills
 - Treasury Bonds
 - Retail Treasury Bonds (RTB)
 - Fixed Rate Treasury Notes (FXTNs)
- Peso Corporate Bonds
- USD Sovereign Bonds
- USD Corporate Bonds
- Foreign Exchange

Trust Services

Get customized wealth management services to address different investment needs.

Unit Investment Trust Funds (UITFs)

- Sterling Money Market Fund (Peso)
- Sterling Balanced Fund (Peso)

Personal Wealth Management

- Investment Management Accounts (IMA)
- Personal Management Trust

Corporate Trust

- Employee Benefit Plan
- Investment Management Accounts (IMA)

Auxiliary Trust

- Escrow
- Safekeeping



Solo Basic

SAVINGS ACCOUNT

Savings made simple.

Back then, opening a bank account meant needing a ton of credentials and a considerable sum of money. If you lacked a single requirement, then you wouldn't be entitled to bank. There's also the challenge of actually keeping the maintaining balance.

Fortunately, there's now an easier and much affordable way of owning a bank account minus the numerous IDs and intimidating opening fees.

With the Solo Basic Savings Account, anyone can enjoy the convenience and security of growing hard-earned savings in the bank. By just presenting one valid ID and depositing a minimum of Php100, anybody can now have their own Solo Basic Savings Account.

Solo Basic Savings Account Holders also can earn 0.5% interest per annum if they maintain Php2,000.00 in their account. The bank account can progress to a regular savings account if the balance reaches Php50,000.00. In addition, account holders can easily monitor their transactions through their own passbook.

Uncomplicated and convenient banking for all Filipinos, that is the Solo Basic Savings Account.

Branch Network and Business Offices

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T: +632 553-0033 to 34; 519-5764; 519-5772; 519-8158
F: +632 553-0034

Makati – Ayala Ave.

Tower 3, Alphaland Makati Place, Ayala Ave. Ext. cor. Malugay St. 1209 Makati City
T: +632 892-1263; 864-0428; 864-0429
F: +632 864-0427

Makati – Gil Puyat

G/F Morning Star Bldg., Sen. Gil Puyat Ave., 1220 Makati City
T: +632 895-5573; 899-2838
F: +632 897-4382

Makati – Leviste

G/F Liroville Condominium, Leviste cor. Sedeño Sts., Salcedo Village, 1227 Makati City
T: +632 846-4168; 555-0942
F: +632 555-0944

Malabon

Francis Market, Gov. Pascual Ave. cor. M.H. del Pilar St., Tinajeros, 1470 Malabon City
T: +632 351-1007; 351-1006
F: +632 351-1002

Mandaluyong – Shaw Blvd.

G/F Shaw Residenza, 429 Shaw Boulevard, 1550 Mandaluyong City
T: +632 470-9367; 470-9405
F: +632 470-9420

Manila – Divisoria

630 New Divisoria Center Condominium, Sta. Elena St., San Nicolas, Divisoria, 1006 Manila
T: +632 241-0179; 241-0180
F: +632 241-0181

Manila – Masangkay

Unit 963-965, G/F Masagana Bldg., G. Masangkay St., Binondo, 1006 Manila
T: +632 243-1342; 243-1832
F: +632 243-1446

Manila – Ongpin

Unit-C, G/F 888 Neo Plaza, Sabino Padilla cor. Ongpin Sts., Binondo, 1006 Manila
T: +632 736-3113; 736-3208
F: +632 735-8321

Manila – Quintin Paredes

550 Quintin Paredes St., Binondo, 1006 Manila
T: +632 247-3841; 247-3992
F: +632 247-3954

Manila – San Fernando (Binondo)

Unit 493-495, G/F VISCO Bldg., San Fernando St., Binondo, 1006 Manila
T: +632 242-7849; 242-8697
F: +632 243-4144

Manila – U.N. Ave.

G/F Royal Bay Terrace Condominium, 465 U.N. Ave. cor. Cortado St., Ermita, 1000 Manila
T: +632 523-6881; 523-8572
F: +632 523-7656

Marikina

G/F WRC Bldg., 47 Gil Fernando Ave., Midtown Subd. II, San Roque, 1801 Marikina City
T: +632 681-2628; 681-2908
F: +632 681-4327

Muntinlupa – Alabang

G/F Autocentrum BMW Center, Commerce Ave., Madrigal Business Park, Alabang, 1780 Muntinlupa City
T: +632 556-3180; 556-3493
F: +632 556-3492

Parañaque – BF Homes

President's Ave. cor. Monserrat St., BF Homes Subd., 1700 Parañaque City
T: +632 850-9184; 850-3468
F: +632 850-8959

Parañaque – Ninoy Aquino Ave. (NAIA)

Unit 707-4, G/F Columbia Complex, P 2B Ninoy Aquino Ave., Sto. Niño, 1704 Parañaque City
T: +632 852-0168; 853-9485
F: +632 853-9484

Pasig – Ortigas

G/F Prestige Tower, F. Ortigas Jr. Road, Ortigas Center, 1605 Pasig City
T: +632 706-3072; 706-3254
F: +632 706-3074

Quezon City – Banawe

705 Banawe St., 1114 Quezon City
T: +632 781-7625; 781-7650
F: +632 740-8174

Quezon City – Congressional

Unit 31, G/F Barrington Place Bldg., Congressional Ave., 1106 Quezon City
T: +632 928-5168; 929-8748
F: +632 929-9506

Quezon City – Quezon Ave.

G/F Ave Maria Bldg., 1517 Quezon Ave. (near cor. Examiner St.), West Triangle, 1104 Quezon City
T: +632 376-6792; 376-6793
F: +632 376-6794

Quezon City – Timog

G/F SCT Bldg., 25 Timog Ave., 1103 Quezon City
T: +632 374-0168; 441-8155
F: +632 441-8156

San Juan – Greenhills

G/F Sterling Bank Corporate Center, Ortigas Ave., Greenhills, 1500 San Juan City
T: +632 727-8752; 726-6418
F: +632 727-8752

Taguig – The Fort BGC, 1st Ave.

Unit-J, G/F Kensington Plaza, 1st Ave. cor. 29th St., Crescent Parkwest, Bonifacio Global City, 1634 Taguig City
T: +632 586-5042; 856-5072
F: +632 856-5036

Taguig – The Fort BGC, 31st St.

McKinley Park Residences, 31st St. cor. 3rd Ave., Bonifacio Global City, 1634 Taguig City
T: +632 801-6168, 6172, 6170

Valenzuela

JLB Enterprises Inc. Bldg, 54 Km.12, MacArthur Highway, Marulas, 1440 Valenzuela City
T: +632 294-8301; 294-8379
F: +632 294-8466

Provincial

Bacolod

31 Lacson St., 6100 Bacolod City
T: +6334 432-1381, 432-1490
F: +6334 432-1641

Baguio

1 Leonard Wood Road, 2600 Baguio City
T: +6374 445-2786
F: +6374 445-2788 to 89

Bicol – Legazpi

First CQ Building, B. Imperial St., 4500 Legazpi City
T: +6352 284-3906; 284-3910; 284-3904

Bicol – Naga

Centro Square, #70 Penafrancia Ave. cor. Colgante Bridge, San Francisco, 4400 Naga City
T: +6354 871-6168; 871-3770; 880-0545

Boracay

Boracay Tropics, Balabag, Boracay Island, Malay, 5608 Aklan
T: +6336 390-2577; 390-2583
F: +6336 390-2028

Cagayan de Oro (CDO)

G/F The VIP Hotel, A. Velez cor. JR Borja Sts., 9000 Cagayan de Oro City
T: +6388 852-8168 to 72
F: +6388 852-8172

Cavite – Imus

A&M Ramos Bldg., Emilio Aguinaldo Highway, Bayan Luma IV, Imus, 4103 Cavite
T: +6346 472-3168; 471-0644 to 45
F: +6346 474-0081

Cebu – Fuente Osmeña

Gen. Maxilom Ave. cor. F. Ramos St., 6000 Cebu City
T: +6332 255-3198; 255-6157
F: +6332 254-0087

Cebu – Magallanes

Magallanes cor. Manalili Sts.,
6000 Cebu City
T: +6332 255-1203; 255-7935
F: +6332 256-2659

Dagupan

G/F Lenox Hotel, Rizal St.,
Dagupan City, 2400 Pangasinan
T: +6375 523-1168; 522-0491
F: +6375 522-3168

Davao – J.P. Laurel

J. P. Laurel Ave., Bajada,
8000 Davao City
T: +6382 221-7168; 222-0357,
58, 09
F: +6382 222-0196

Davao – Monteverde

Unit 72-74, G/F Sequoia Inn Bldg.,
Monteverde St., 8000 Davao City
T: +6382 222-4140; 224-0542
F: +6382 224-1924

General Santos

J. Catolico Sr. Ave.,
9500 General Santos City
T: +6383 553-5168; 5172
F: +6383 553-5171

Iloilo

G/F GST Iloilo, Corporate Center
Quezon St., 5000 Iloilo City
T: +6333 338-3795; 338-3797
F: +6333 338-3796

Laguna – Biñan

National Highway, Brgy. Canlalay,
Biñan, 4024 Laguna
T: +6349 307-7595 to 97
F: +6349 307-7594

Laguna – Calamba

National Highway, Brgy. Uno,
Crossing, Calamba, 4027 Laguna
T: +6349 547-7164, 7166, 7168

La Union

Quezon Avenue,
San Fernando City, La Union,
2500 Philippines
T: +6372 888-0168

Palawan – Puerto Princesa

National Highway,
Brgy. San Pedro,
5300 Puerto Princesa City
T: +6348 244-1476; 244-1497;
244-0660

Pampanga – San Fernando

G/F Queensland Commercial Plaza,
Mc Arthur Highway, Dolores,
San Fernando City,
2000 Pampanga
T: +6345 966-9168; 435-4463;
435-4462

Business Offices

Business Development Unit

G/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 535-6168

Commercial Lending 1 & 3

1/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 535-6168

Commercial Lending 2

550 Quintin Paredes St.,
Binondo, 1006 Manila
T: +632 247-0293; 243-0803 to 04

Treasury

3/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 535-6168

Trust

3/F Sterling Bank Corporate Center,
Ortigas Ave., Greenhills,
1500 San Juan City
T: +632 535-6168

Consumer Lending Offices

Greenhills Head Office

Sterling Bank Corporate Center,
Ortigas Ave., Greenhills
1500 San Juan City

Auto Loans
T: +632 535-6168 locs
2605, 2671, 2674,
2675, 2678, 4022
F: +632 982-9399

Ortigas Lending Center

2/F Prestige Tower,
F. Ortigas Jr. Road, Ortigas Center,
1605 Pasig City
F: +632 914-7038; 470-9130

Personal Loan
T: +632 470-8168 locals
2509, 2511, 2522, 2523,
4002

Salary Loan
T: +632 470-8168 locals
2506, 2551, 2553, 2557,
4003

Real Estate Loan
T: +632 470-8168 locals
2498, 2501, 2507, 2512,
2517, 2533, 2593, 4004

Calamba Lending Desk

National Highway
Brgy. Uno, Crossing
4027 Calamba, Laguna
T: +6349 547-7164;
+632 535-6168
local 4546

Cavite Lending Desk

A&M Ramos Bldg,
Aguinaldo Highway (Bayan Luma IV)
Imus, Cavite
T: +6346 472-3168;
+6346 535-6168 local
4542

Pampanga Lending Center

2/F Queensland Commercial Plaza,
MacArthur Highway, Dolores,
San Fernando City,
2000 Pampanga
T: +6345 280-1561;
280-1554; 280-1564

Dagupan Lending Desk

G/F Lenox Hotel
Rizal St., Dagupan City
2400 Pangasinan
T: +6375 523-1168;
+632 535-6168
local 4545

Naga Lending Desk

Centro Square,
#70 Penafrancia Ave.
cor. Colgante Bridge,
San Francisco
4400 Naga City
T: +6354 871-6168;
+632 535-6168
local 4549

Cebu Lending Center

2/F Coast Pacific Bldg.
Gen. Maxilom Ave. cor.
F. Ramos St., 6000 Cebu City
T: +6332 239-0025 to 28,
239-0039, 254-7295
F: +6332 254-8291

Bacolod Lending Desk

31 Lacson St.
6100 Bacolod City
T: +6334 432-1641;
+632 535-6168
local 4561

Iloilo Lending Desk

G/F GST Iloilo
Corporate Center Quezon St.
5000 Iloilo City
T: +6333 338-3796;
+632 535-6168
local 4560

Cagayan De Oro Lending Desk

G/F The VIP Hotel
A. Velez cor. JR Borja Sts.
9000 Cagayan de Oro City
T: +6388 852-8171;
+632 535-6168
local 4581

General Santos Lending Desk

J. Catolico Sr. Ave.
9500 General Santos City
T: +6383 553-5172;
+632 535-6168
local 4583

Davao Lending Center

J.P. Laurel Ave., Bajada
8000 Davao City
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+632 535-6168
local 4582

Sterling Bank of Asia extends its commitment to sustainability by using environmentally-friendly paper for the bank's 2018 Annual Report. This Annual Report is published with FSC Certified and ISO 14001 Environmental Certified recycled paper.



Banking to a different beat.

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