



November 14, 2024

ATTY. STEFANIE ANN B. GO
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Philippine Stock Exchange, Inc.
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Director, Markets and Securities Regulation Department
Securities and Exchange Commission
12/F, SEC Headquarters
7907 Makati Avenue, Salcedo Village,
Brgy. Bel-Air, Makati City 1209

Mesdames / Gentlemen:

We are pleased to furnish you with a copy of SEC Form 17-Q report of Security Bank Corporation as of and for the period ended September 30, 2024.

We hope we have complied with your requirements.

Very truly yours,


EDUARDO M. OLBES
Chief Financial Officer


COVER SHEET

6 0 3 0

SEC Registration Number

S E C U R I T Y B A N K C O R P O R A T I O N

(Company's Full Name)

S e c u r i t y B a n k C e n t r e , 6 7 7 6 A y a l a
A v e n u e , M a k a t i C i t y

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

Charles Malvin T. Ching
(Contact Person)

[REDACTED]
(Company Telephone Number)

0 9 3 0
Month Day
(Fiscal Year)

1 7 - Q
(Form Type)

0 5 0 7
Month Day
(Annual Meeting)

[REDACTED]
(Secondary License Type, If Applicable)

CFD
Dept. Requiring this Doc.

[REDACTED]
Amended Articles Number/Section

2,138
Total No. of Stockholders

Total Amount of Borrowings
Domestic Foreign

To be accomplished by SEC Personnel concerned

[REDACTED]
File Number

LCU

[REDACTED]
Document ID

Cashier

STAMPS

Remarks: Please use BLACK ink for scanning purposes.

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended September 30, 2024

2. Commission identification number 6030

3. BIR Tax Identification No. 000-498-020

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

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

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

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

0719
Postal Code

8. (632) 8867-6788
Issuer's telephone number, including area code

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

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

Table with 2 columns: Title of each Class, Number of shares of common stock outstanding and amount of debt outstanding. Rows include Common Shares (Php 10 par) and Preferred Shares (Php 0.10 par) (Unregistered).

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

Yes [x] No []

Preferred Shares are not listed

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

Philippine Stock Exchange Common Stock

12. Check whether the registrant:

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

Yes [x] No []

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

Yes [x] No []

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

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

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

- Annex "9"

PART II – OTHER INFORMATION

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

SIGNATURES

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


EDUARDO M. OLBES
Chief Financial Officer


Date: November 14, 2024

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION

| | September 30, 2024 | December 31, 2023 |
|---|------------------------|---------------------|
| | (Amounts in Thousands) | |
| ASSETS | | |
| Cash and Other Cash Items | P11,517,551 | P13,947,069 |
| Due from Bangko Sentral ng Pilipinas | 26,449,984 | 45,821,155 |
| Due from Other Banks | 12,693,966 | 12,022,007 |
| Interbank Loans Receivable and Securities Purchased Under Resale Agreements with the Bangko Sentral ng Pilipinas (Note 18) | 37,674,160 | 4,080,999 |
| Financial Assets at Fair Value through Profit or Loss (Note 7) | 10,623,488 | 10,886,351 |
| Derivative Assets Designated as Hedges (Note 8) | 8,670 | – |
| Financial Assets at Fair Value through Other Comprehensive Income (Note 9) | 142,354,775 | 139,861,049 |
| Investment Securities at Amortized Cost (Note 10) | 127,295,794 | 76,156,084 |
| Loans and Receivables | 622,751,284 | 538,329,399 |
| Investment in Joint Ventures | 2,730,075 | 2,625,071 |
| Property, Equipment and Right-of-Use-Assets | 6,863,614 | 6,429,496 |
| Investment Properties | 5,393,458 | 4,790,602 |
| Deferred Tax Assets | 6,743,073 | 5,703,100 |
| Goodwill (Note 3) | 841,602 | 841,602 |
| Intangible Assets | 6,333,557 | 4,969,055 |
| Other Assets | 7,491,818 | 5,046,416 |
| TOTAL ASSETS | P1,027,766,869 | P871,509,455 |
| LIABILITIES AND EQUITY | | |
| LIABILITIES | | |
| Deposit Liabilities | | |
| Demand | P259,041,675 | P245,268,222 |
| Savings | 119,192,648 | 118,280,754 |
| Time | 331,247,403 | 232,566,397 |
| Long-term Negotiable Certificates of Deposit (Note 11) | 10,429,247 | 10,416,014 |
| | 719,910,973 | 606,531,387 |
| Financial Liabilities at Fair Value through Profit or Loss (Note 7) | 3,007,271 | 2,968,706 |
| Derivative Liabilities Designated as Hedges (Note 8) | 8,331,258 | – |
| Bills Payable and Securities Sold Under Repurchase Agreements (Note 12) | 60,200,632 | 51,339,105 |
| Acceptances Payable | 2,543,522 | 2,782,734 |
| Margin Deposits and Cash Letters of Credit | 172,770 | 57,568 |
| Manager's and Certified Checks Outstanding | 5,719,657 | 5,208,887 |
| Income Tax Payable | 1,081,069 | 802,086 |
| Notes and Bonds Payable (Note 13) | 60,431,803 | 48,963,521 |
| Accrued Interest, Taxes and Other Expenses | 6,293,229 | 4,844,732 |
| Other Liabilities | 16,809,439 | 11,880,389 |
| TOTAL LIABILITIES | 884,501,623 | 735,379,115 |
| EQUITY ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT COMPANY | | |
| Capital stock (Note 14) | 7,635,389 | 7,635,389 |
| Additional paid-in capital (Note 14) | 38,524,323 | 38,524,323 |
| Surplus | 102,875,753 | 95,555,339 |
| Net unrealized loss on financial assets at fair value through other comprehensive income | (3,385,732) | (5,534,401) |
| Net unrealized gain on subsidiaries' financial assets at fair value through other comprehensive income | 25,963 | 20,632 |
| Cumulative foreign currency translation | (47,108) | (70,942) |
| Cost of hedging reserve (Note 8) | (2,363,342) | – |
| TOTAL EQUITY | 143,265,246 | 136,130,340 |
| TOTAL LIABILITIES AND EQUITY | P1,027,766,869 | P871,509,455 |

See accompanying Notes to Interim Condensed Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF INCOME

| | Nine Months Ended September 30 | | Quarter Ended September 30 | |
|---|--------------------------------|-------------|----------------------------|-------------|
| | 2024 | 2023 | 2024 | 2023 |
| | (Amounts in Thousands) | | | |
| INTEREST INCOME ON | | | | |
| Loans and receivables | ₱34,853,605 | ₱27,786,541 | ₱12,492,596 | ₱9,746,205 |
| Financial assets at fair value through other comprehensive income and investment securities at amortized cost | 8,611,167 | 6,187,100 | 3,178,511 | 2,226,348 |
| Financial assets at fair value through profit or loss | 782,979 | 988,720 | 169,176 | 297,000 |
| Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas | 624,357 | 721,972 | 241,701 | 332,354 |
| Deposits with banks and others | 144,928 | 75,874 | 55,134 | 24,783 |
| | 45,017,036 | 35,760,207 | 16,137,118 | 12,626,690 |
| INTEREST EXPENSE ON | | | | |
| Deposit liabilities (Note 11) | 5,206,745 | 6,412,797 | 1,651,077 | 1,921,431 |
| Notes and bonds payable, bills payable and securities sold under repurchase agreements and other borrowings (Notes 12 and 13) | 4,475,754 | 4,063,894 | 1,703,291 | 1,578,379 |
| Derivatives designated as hedges (Note 8) | 2,850,475 | – | 2,029,974 | – |
| Lease liabilities | 71,187 | 58,172 | 22,648 | 19,502 |
| Derivative instruments | 29,087 | 499,212 | 9,425 | 127,275 |
| | 12,633,248 | 11,034,075 | 5,416,415 | 3,646,587 |
| NET INTEREST INCOME | 32,383,788 | 24,726,132 | 10,720,703 | 8,980,103 |
| Service charges, fees and commissions | 6,676,742 | 4,304,241 | 1,809,420 | 1,505,845 |
| Rent | 653,896 | 512,804 | 236,310 | 175,214 |
| Profit from assets sold/exchanged | 442,286 | 841,816 | 107,986 | 354,474 |
| Trading and securities gain (loss) - net | 402,150 | 110,641 | 889,347 | (260,684) |
| Share in net income of joint ventures | 105,005 | 125,670 | 38,881 | 40,037 |
| Foreign exchange gain (loss) - net | (2,062,422) | (821,586) | 96,542 | (683,244) |
| Miscellaneous | 1,417,124 | 1,393,124 | 459,423 | 458,471 |
| TOTAL OPERATING INCOME | 40,018,569 | 31,192,842 | 14,358,612 | 10,570,216 |
| OPERATING EXPENSES | | | | |
| Compensation and fringe benefits | 8,115,286 | 6,444,279 | 2,870,607 | 2,251,956 |
| Provision for credit losses | 5,105,844 | 2,630,971 | 1,793,928 | 1,031,883 |
| Taxes and licenses | 2,794,507 | 2,367,657 | 875,756 | 653,497 |
| Depreciation and amortization | 2,012,644 | 1,524,778 | 744,066 | 469,604 |
| Amortization of software costs | 570,985 | 502,946 | 196,103 | 169,083 |
| Occupancy costs | 334,401 | 286,574 | 114,013 | 97,861 |
| Recovery of impairment losses | (17,943) | (9,892) | (4,180) | – |
| Miscellaneous | 9,708,757 | 7,805,764 | 3,739,180 | 2,843,358 |
| TOTAL OPERATING EXPENSES | 28,624,481 | 21,553,077 | 10,329,473 | 7,517,242 |
| INCOME BEFORE INCOME TAX | 11,394,088 | 9,639,765 | 4,029,139 | 3,052,974 |
| PROVISION FOR INCOME TAX | 2,939,106 | 2,074,337 | 1,018,770 | 402,607 |
| NET INCOME | ₱8,454,982 | ₱7,565,428 | ₱3,010,369 | ₱2,650,367 |
| Weighted average number of outstanding common shares* | 753,538,887 | 753,538,887 | 753,538,887 | 753,538,887 |
| Basic/Diluted Earnings Per Share* (Note 17) | ₱11.21 | ₱10.03 | ₱3.99 | ₱3.51 |

*In absolute amounts

See accompanying Notes to Interim Condensed Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE INCOME

| | Nine Months Ended September 30 | | Quarter Ended September 30 | |
|---|--------------------------------|------------|----------------------------|------------|
| | 2024 | 2023 | 2024 | 2023 |
| | (Amounts in Thousands) | | | |
| NET INCOME FOR THE PERIOD | ₱8,454,982 | ₱7,565,428 | ₱3,010,369 | ₱2,650,367 |
| OTHER COMPREHENSIVE INCOME (LOSS) | | | | |
| <i>Items to be Reclassified to Profit or Loss in Subsequent Periods:</i> | | | | |
| Cumulative translation adjustments | 23,834 | (60,659) | 125,205 | (93,243) |
| Changes in cost of hedging reserve, net of tax | | | | |
| Fair value loss for the year | (4,486,249) | – | (3,187,687) | – |
| Loss taken to profit or loss | 2,122,907 | – | 1,510,376 | – |
| Changes in cash flow hedge reserve, net of tax | | | | |
| Fair value gain for the year | (2,481,043) | – | (4,646,972) | – |
| Amount recycled to profit or loss | 2,481,043 | – | 4,646,972 | – |
| Change in net unrealized gain (loss) on debt instruments at fair value through other comprehensive income, net of tax | 2,068,514 | 265,054 | 3,614,426 | (529,136) |
| | (270,994) | 204,395 | 2,062,320 | (622,379) |
| <i>Items not to be Reclassified to Profit or Loss in Subsequent Periods:</i> | | | | |
| Remeasurement gains on defined benefit plans | – | 239 | – | – |
| Revaluation gains (loss) on equity instruments at fair value through other comprehensive income | 85,486 | 76,751 | (3,030) | 13,303 |
| OTHER COMPREHENSIVE INCOME (LOSS) FOR THE PERIOD | (185,508) | 281,385 | 2,059,290 | (609,076) |
| TOTAL COMPREHENSIVE INCOME | ₱8,269,474 | ₱7,846,813 | ₱5,069,659 | ₱2,041,291 |
| ATTRIBUTABLE TO: | | | | |
| Equity holders of the Parent Company | ₱8,269,474 | ₱7,846,813 | ₱5,069,659 | ₱2,041,291 |
| Non-controlling interest | – | – | – | – |
| | ₱8,269,474 | ₱7,846,813 | ₱5,069,659 | ₱2,041,291 |

See accompanying Notes to Interim Condensed Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF CHANGES IN EQUITY

| | Capital Stock (Note 14) | Additional Paid-In Capital (Note 14) | Surplus | Net Unrealized Loss on Financial Assets at Fair Value through Other Comprehensive Income (Loss) | Net Unrealized Gain on Subsidiaries' Financial Assets at Fair Value through Other Comprehensive Income | Cumulative Foreign Currency Translation | Cost of Hedging Reserve (Note 8) | Total Equity |
|---|----------------------------|---|---------------------|--|--|--|--|---------------------|
| (Amounts in Thousands) | | | | | | | | |
| Balance at January 1, 2024 | ₱7,635,389 | ₱38,524,323 | ₱95,555,339 | (₱5,534,401) | ₱20,632 | (₱70,942) | ₱– | ₱136,130,340 |
| Total comprehensive income for the period | – | – | 8,454,982 | 2,148,669 | 5,331 | 23,834 | (2,363,342) | 8,269,474 |
| Declaration of cash dividends | – | – | (1,134,568) | – | – | – | – | (1,134,568) |
| Balance at September 30, 2024 | ₱7,635,389 | ₱38,524,323 | ₱102,875,753 | (₱3,385,732) | ₱25,963 | (₱47,108) | (₱2,363,342) | ₱143,265,246 |
| Balance at January 1, 2023 | ₱7,635,389 | ₱38,524,323 | ₱89,004,617 | (₱9,238,853) | ₱16,619 | (₱94,014) | ₱– | ₱125,848,081 |
| Total comprehensive income for the period | – | – | 7,565,667 | 337,480 | 4,325 | (60,659) | – | 7,846,813 |
| Declaration of cash dividends | – | – | (1,134,568) | – | – | – | – | (1,134,568) |
| Balance at September 30, 2023 | ₱7,635,389 | ₱38,524,323 | ₱95,435,716 | (₱8,901,373) | ₱20,944 | (₱154,673) | ₱– | ₱132,560,326 |

SECURITY BANK CORPORATION AND SUBSIDIARIES
INTERIM CONDENSED STATEMENTS OF CASH FLOWS

| | Nine Months Ended September 30 | |
|--|---------------------------------------|--------------|
| | 2024 | 2023 |
| | (Amounts in Thousands) | |
| CASH FLOWS FROM OPERATING ACTIVITIES | | |
| Income before income tax | ₱11,394,088 | ₱9,639,765 |
| Adjustments for: | | |
| Provision for credit losses | 5,105,844 | 2,630,971 |
| Depreciation and amortization | 2,012,644 | 1,524,778 |
| Amortization of software costs | 570,985 | 502,946 |
| Amortization of premium on financial assets at fair value through other comprehensive income and investment securities at amortized cost | 446,597 | 380,362 |
| Amortization of transaction costs on LTNCD and notes and bonds payable (Notes 11 and 13) | 145,393 | 211,374 |
| Recovery of impairment losses | (17,943) | (9,892) |
| Share in net income of joint ventures | (105,005) | (125,670) |
| Profit from assets sold/exchanged | (442,286) | (841,816) |
| Gain (loss) on disposal of financial assets at FVTOCI | (543,730) | 132,350 |
| Changes in operating assets and liabilities: | | |
| Decrease (increase) in the amounts of: | | |
| Due from other banks (Note 18) | (200) | 116 |
| Interbank loans receivable (Note 18) | (500,000) | (2,207) |
| Loans and receivables | (90,653,291) | (3,428,064) |
| Financial assets at Fair Value through Profit or Loss | 262,863 | (3,785,993) |
| Other assets | (2,368,537) | (2,239,293) |
| Increase (decrease) in the amounts of: | | |
| Deposit liabilities | 113,366,352 | (35,611,144) |
| Financial Liabilities at Fair Value through Profit or Loss | 38,564 | - |
| Manager's and certified checks outstanding | 510,770 | 1,183,466 |
| Accrued interest, taxes and other expenses | 1,448,497 | 1,687,704 |
| Margin deposits and cash letters of credit | 115,202 | (31,938) |
| Acceptances payable | (239,212) | 1,163,535 |
| Other liabilities | 4,815,294 | 1,981,453 |
| Net cash provided by (used in) operations | 45,362,889 | (25,037,197) |
| Income taxes paid | (3,031,575) | (2,358,329) |
| Net cash provided by (used in) operating activities | 42,331,314 | (27,395,526) |
| CASH FLOWS FROM INVESTING ACTIVITIES | | |
| Acquisitions of/Additions to: | | |
| Financial assets at FVTOCI | (71,953,428) | (54,359,480) |
| Investment securities at amortized cost | (67,667,442) | (3,248,524) |
| Property and equipment | (1,658,600) | (1,512,568) |
| Intangible assets | (1,935,486) | (1,353,425) |
| Proceeds from: | | |
| Disposals, redemptions or maturities of financial assets at FVTOCI | 71,533,452 | 32,869,002 |
| Disposals, redemptions or maturities of investment securities at amortized cost | 16,245,645 | 2,513,143 |
| Disposal of investment properties and other properties acquired | 714,924 | 790,682 |
| Disposal of property and equipment | 135,281 | 53,652 |
| Net cash used in investing activities | (54,585,654) | (24,247,518) |

(Forward)

Nine Months Ended September 30

| | 2024 | 2023 |
|--|--------------------|----------------------|
| CASH FLOWS FROM FINANCING ACTIVITIES | | |
| Settlements of: | | |
| Bills payable and securities sold under repurchase agreements | (438,168,261) | (656,070,583) |
| Bonds maturity | (30,600,000) | – |
| Notes payable | – | (17,035,500) |
| LTNCD maturity | – | (8,600,000) |
| Proceeds from: | | |
| Bills payable and securities sold under repurchase agreements | 446,887,827 | 659,120,288 |
| Notes issuance | 41,968,598 | – |
| Bonds issuance | – | 18,352,354 |
| Payments of lease liabilities | (586,702) | (544,724) |
| Cash dividends paid | (1,134,568) | (1,142,755) |
| Net cash provided by (used in) financing activities | 18,366,894 | (5,920,920) |
| Effect of change in foreign exchange rates | 5,851,877 | (1,010,632) |
| NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS | ₱11,964,431 | (₱58,574,596) |
| CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD | | |
| Cash and other cash items | ₱13,947,069 | ₱13,180,172 |
| Due from Bangko Sentral ng Pilipinas | 45,821,155 | 63,011,416 |
| Due from other banks | 12,022,007 | 20,097,291 |
| Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas | 2,080,999 | 23,518,740 |
| | 73,871,230 | 119,807,619 |
| CASH AND CASH EQUIVALENTS AT END OF PERIOD | | |
| Cash and other cash items | 11,517,551 | 9,951,842 |
| Due from BSP | 26,449,984 | 41,297,604 |
| Due from other banks | 12,693,966 | 8,416,052 |
| Interbank loans receivable and securities purchased under resale agreements with the Bangko Sentral ng Pilipinas | 35,174,160 | 1,567,525 |
| | ₱85,835,661 | ₱61,233,023 |
| OPERATIONAL CASH FLOWS FROM INTEREST AND DIVIDENDS | | |
| Interest received | ₱44,078,857 | ₱35,131,801 |
| Interest paid | 11,693,710 | 9,919,079 |
| Dividends received | 3,165 | 3,395 |

See accompanying Notes to Interim Condensed Financial Statements.

SECURITY BANK CORPORATION AND SUBSIDIARIES
NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS

1. Corporate Information

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

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

Republic Act No. 1132, otherwise known as the “Revised Corporate Code of the Philippines” or “RCC”, took effect on February 23, 2019. The corporate term of a corporation with certificate of incorporation issued prior to the effectivity of the RCC and which continue to exist, shall be deemed perpetual upon the effectivity of the RCC, without any action on the part of the corporation. As of February 23, 2019, the Bank is deemed to have selected a perpetual term.

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

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

The Parent Company and its subsidiaries and joint ventures (collectively referred to as the “Group”), which are all incorporated in the Philippines, are engaged in the following businesses:

| Subsidiaries and Joint Ventures | Principal place of business | Line of Business | Effective Percentage of Ownership | |
|--|---|---------------------------|-----------------------------------|-------------------|
| | | | September 30, 2024 | December 31, 2023 |
| SB Capital Investment Corporation ¹ | 18 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City | Investment house | 100.00 | 100.00 |
| SB Equities, Inc. (SBEI) | 18 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City | Stock brokerage | 100.00 | 100.00 |
| SB International Services, Inc. (SISI) ² | 17 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City | Marketing services | 100.00 | 100.00 |
| SB Rental Corporation (SBRC) | 5 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City | Rental/Leasing | 100.00 | 100.00 |
| SB Cards Corporation (SBCC) ³ | Diners Club Center, 114 Valero St. Salcedo Village, Makati City | Credit card operations | 100.00 | 100.00 |
| Security Finance and Leasing Inc. (formerly Landlink Property Investments (SPV-AMC), Inc. (LPII)) ⁴ | Security Bank Centre, 6776 Ayala Avenue, Makati City | Financing | 100.00 | 100.00 |
| SB Forex, Incorporated ⁵ | Security Bank Centre, 6776 Ayala Avenue, Makati City | Foreign exchange services | 100.00 | 100.00 |
| SBM Leasing, Inc. (SBML) ⁶ | 5 th floor, Security Bank Centre, 6776 Ayala Avenue, Makati City | Financing | 60.00 | 60.00 |
| SB Finance, Inc. (SBF) (formerly SB Finance Company, Inc.) ⁶ | Keyland Arnaiz Building, 849 Antonio Arnaiz Avenue, Legaspi Village, Makati City 1229 | Financing | 49.96 | 49.96 |

¹ With BOD and Stockholders approval dated December 13, 2023 and May 6, 2024, respectively, to change corporate name to Security Bank Capital Investment Corporation., awaiting approval from SEC

² Corporate term ended December 31, 2021, with clearance from Bureau of Internal Revenue (BIR) dated June 18, 2024. Liquidated effective October 4, 2024

³ With SEC approval to shorten corporate life on December 31, 2024

⁴ With BOD approval to shorten corporate life on December 31, 2025, awaiting approval from SEC

⁵ Corporate term ended February 28, 2022, awaiting clearance from BIR

⁶ Joint Ventures

The Parent Company is the ultimate parent company of the Group.

2. Summary of Significant Accounting Policies

Basis of Preparation

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

The accompanying interim condensed financial statements have been prepared on a historical cost basis except for financial assets and financial liabilities at fair value through profit or loss (FVTPL), derivative contracts designated as hedges and financial assets at fair value through other comprehensive income (FVTOCI) and that have been measured at fair value. The financial statements are presented in Philippine peso and all values are rounded to the nearest thousand peso (₱000) except when otherwise indicated.

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

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

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

Explanatory Comments about the Seasonality or Cyclicity of Interim Operations

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

Statement of Compliance

The accompanying interim condensed financial statements as of and for the nine months ended September 30, 2024 have been prepared in compliance with Philippine Accounting Standard (PAS) 34, *Interim Financial Reporting*. Accordingly, the interim condensed financial statements do not include all of the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of and for the year ended December 31, 2023.

Basis of Consolidation

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

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

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

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

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

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

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

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

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

Non-controlling Interest

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

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

Changes in Accounting Policies

The accounting policies adopted in the preparation of the interim condensed financial statements are consistent with those followed in the preparation of the Group's annual financial statements for the year ended December 31, 2023, except for the adoption of amended standards effective as of January 1, 2024.

The adoption of the following amendments did not have a significant impact on the interim condensed financial statements of the Group:

- Amendments to PAS 1, *Classification of Liabilities as Current or Non-current*
- Amendments to PFRS 16, *Lease Liability in a Sale and Leaseback*
- Amendments to PAS 7 and PFRS 7, *Disclosures: Supplier Finance Arrangements*

3. Goodwill

Impairment Testing of Goodwill

In 2012, goodwill acquired through business combination has been allocated to Security Bank Savings (SBS) as the cash-generating unit (CGU). In 2015, the entire goodwill was reallocated to the branch banking group (BBG) as a result of the integration of SBS to the Parent Company. As of September 30, 2024 and December 31, 2023, the carrying amount of goodwill amounted to ₱841.6 million and there was no impairment loss recognized for the nine months ended September 30, 2024 and 2023. The last impairment test was carried out as of December 31, 2023.

The recoverable amount of the CGU has been determined based on a value in use (VIU) calculation using cash flow projections from financial budgets approved by senior management covering a three-year period. Key assumptions in VIU calculation of CGUs are most sensitive to discount rates and growth rates used to project cash flows. Future cash flows and growth rates were based on experiences and strategies developed and prospects. The discount rate used for the computation of the net present value is the cost of equity and was determined by reference to a comparable entity. In 2023, the pre-tax discount rate applied to cash flow projections is 13.01% while the growth rate used to extrapolate cash flows beyond the three-year period is 9.33%.

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

4. Significant Accounting Judgments and Estimates

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

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

5. Financial Risk Management

There have been no significant changes in the financial risk exposures or management since the December 31, 2023 financial statements. The risk disclosures provided in the audited financial statements remain relevant.

The Group has exposures to the following risks from its use of financial instruments: (a) credit; (b) liquidity; (c) market; (d) operational; and (e) sustainability. Related discussions follow below, which should be read in conjunction with Note 5, *Financial Risk Management Objectives and Policies*, of the Group's 2023 financial statements.

Introduction

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

Risk Management Structure

Board of Directors

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

Executive Committee

The Executive Committee oversees the strategy, financial, liquidity and capital management of the Group. It shall exercise the authority of the BODs as delegated by the Board and as may be allowed by law during intervals between meetings of the BODs.

Risk Oversight Committee

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

Corporate Governance Committee

The Corporate Governance Committee oversees the compliance function and assists the BOD in fulfilling its corporate governance responsibilities across a broad range of areas including sustainability. It is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and guidelines.

Audit Committee

The Audit Committee through the Internal Audit Division provides the independent assessment of the overall effectiveness of, and compliance with the Parent Company's governance, internal controls, risk management functions.

Senior Credit Committee

The Senior Credit Committee is the highest credit decision-making body in the Bank and works closely with the ROC in managing the overall credit risk of the Bank. The committee reviews and approves proposals and facilities related to credit, except for Directors, Officers, Stockholders and Related Interests (DOSRI) and material related party transactions (RPT) accounts. It also approves remedial and/or recovery strategies of the Bank for identified problem loan accounts.

Related Party Transactions Committee

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

Nominations and Remunerations Committee

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

Trust Committee

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

Transformation and Technology Committee

The Transformation and Technology Committee oversees the development and implementation of strategy, transformation, innovation and information technology initiatives of the Bank and its subsidiaries and affiliates, in support of the Group's vision, mission and strategic objectives.

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

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

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

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

Risk Measurement and Reporting

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

Expected credit loss models are developed and maintained by the Risk Management Group. These models are used as a tool for the Parent Company's risk management process and management reporting systems. The applicable results of the calculations are used as the basis for the assessment of expected credit losses.

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

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

Credit Risk Management prepares detailed reporting of risks per credit classification, payment status, industry, loan tenor, and other measures of portfolio quality. Senior management assesses the appropriateness of the allowance for credit losses on a yearly basis or as the need arises. The ROC and the heads of the concerned business units receive comprehensive portfolio quality reports which are designed to provide the necessary information to assess and conclude on the credit risks of the Parent Company.

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

Information compiled from businesses is examined and processed in order to analyze, control and identify risks early. This information is assessed and deliberated by the heads of each business unit, the ROC and the BOD.

Risk Mitigation

The Parent Company uses various risk mitigation practices to manage different types of risks, such as credit, market, operational, liquidity, and sustainability risk. Generally, these include establishing and reviewing risk limits and policies by considering the risk appetite, strategy and objectives of the Bank, as well as the regulatory requirements and industry best practices; implementing and enforcing these limits by using effective monitoring and reporting systems, and by escalating and resolving any limit breaches or policy violations; and conducting regular and ad hoc stress testing.

Risk Concentration

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

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

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

Credit Risk

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

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

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

Liquidity Risk

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

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

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

Market Risk

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

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

- Treasury Group, the unit in charge of managing customer flows, liquidity and interest rate risk in the banking book (IRRBB), and that which handles the proprietary trading of the Group, is assigned risk limits by the ROC.
- The Risk Management Group performs daily monitoring of compliance with policies, procedures and risk limits and accordingly makes recommendations, where appropriate.
- The ALCO is the senior decision-making body for the management of all market risks related to asset and liability management, and trading and accrual books.
- VaR is the statistical model used by the Group to measure the market risk of its trading portfolio, with the confidence level set at 99%.

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

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

- Loss limits
- Position and duration limits, where appropriate
- Mark-to-market valuation
- VaR limits
- Stress testing

Additional risk monitoring tools were likewise adopted to manage under fluid market environments. The tools include sensitivity analyses to identify vulnerabilities in terms of profit or loss and capital erosion.

Interest rate risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair value of financial instruments. The Bank defines IRRBB as the risk of deterioration in the net interest income or capital of bank arising from the timing and rate mismatch of its assets and liabilities combined with unfavorable movements in interest rates.

The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits. Management of IRRBB entails identifications of risks in the banking book, modelling of balance sheet account behavior, measurement of interest rate gap, estimation of Earnings-at-Risk, interest rate stress-testing, calculation of change in Economic Value of Equity (EVE), reporting to ALCO, Risk Oversight Committee and the Board of Directors, model validation and maintenance, and regular audit.

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

loans, model assumptions were developed based on historical experience of the Bank to capture early redemption risk and prepayment risk. These are adjusted using scaling factors under different interest rate shocks and stress scenarios when measuring the impact of IRBB in economic value. After slotting the balance sheet items into time buckets, the resulting difference between the amount of the assets and the amount of the liabilities that will reprice within a particular time bucket constitutes a repricing gap.

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

The Delta Economic Value of Equity (Delta EVE) is a cash flow calculation that takes the present value of all asset cash flows and subtracts the present value of all liability cash flows. This measure is defined as a bank's value sensitivity to changes in market rates. Delta EVE complements earnings-at-risk (EaR) and value-at-risk (VaR) as the Group's measure of interest rate risk. As of September 30, 2024, the Parent Company's Delta EVE is at 10.63%, arising from parallel down interest rate shock scenario.

Market Risk in the Trading Book

The Parent Company measures VaR in order to estimate if the market value of an asset or of a portfolio of assets is likely to change over a certain time period as market factors change.

VaR computation is a two-step process which involves calculation of the changes in the relevant risk factors then computing for the corresponding impact on the exposure's value. A risk factor is defined as a variable that causes a change in the value of a financial instruments or a portfolio of financial instruments.

VaR Methodology

The Parent Company uses a Historical Model approach to calculate VaR for all products.

Unlike parametric methods, the historical approach does not put specific assumptions on the distribution (ex. normality assumption) of the historical returns. Instead, the Historical Model estimates VaR using historical changes in market factors to construct an empirical distribution of potential profits and losses, and then reading off the loss that is exceeded at a specified confidence level and period. The Parent Company employs Historical Model using a Taylor expansion composed of "Greek" sensitivities (Delta and Gamma) characterizing market behavior.

VaR Parameters

The Group uses one-year historical observations consisting of 365 data points with a 99% confidence level and a 1-day holding period. This implies a 99% confidence level that the portfolio will not lose more than the calculated VaR over the next day.

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

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

Market Risk in the Non-Trading Book

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

EaR is a key measure of IRRBB. EaR is the sensitivity of the statement of income given assumed changes in interest rates on the net interest income for one year, based on the floating rate, non-trading financial assets and financial liabilities held at each statements of financial position date. This approach focuses on the impact in profit or loss of holding on to the gaps over a one-year time frame.

The take-off point for the EaR calculation is the bank's repricing gap model which takes into account behavior. To control the interest rate repricing risk in the banking books, the Parent Company sets a limit on the EaR measure.

The Parent Company recognizes that this metric assumes a "business-as-usual" scenario and, therefore, do not show potential losses under a "stress" scenario. To address this limitation, the Parent Company performs regular stress testing to test its ability to cope with adverse changes in interest rates under different stress scenarios. This process involves applying interest rate shocks of different magnitudes to the current repricing gap positions in the balance sheet. Stress-testing involves yield curve shifts based on economic forecasts and regulatory guidelines. Also, the bank uses hedging products such as interest rate swaps to hedge its banking book.

Currency Risk

Currency risk is the risk that the value of a financial instrument will fluctuate due to changes in foreign exchange rates. Foreign currency-denominated deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. The Group's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines.

Operational Risk

Operational risk is the probability of loss arising from fraud, unauthorized activities, errors, omissions, system failures, cyber incidents or from external events. This is the broadest risk type encompassing product development and delivery, operational processing, systems development, computing systems, complexity of products and services, and the internal control environment.

Operational Risk Management is considered a critical element in the Bank's commitment to sound management and corporate governance. Under the Bank's operational risk management framework, business units are provided extensive guidance on the comprehensive identification and effective assessment of their operational risks and the corresponding controls to promote a forward-looking culture of risk management. This is complemented by continuous focus on issue management to address identified weaknesses, as well as by enhanced incident response capability to ensure preparedness in the event of significant risk occurrences.

Group policies and frameworks have been developed and implemented covering key areas such as technology risks, business continuity, fraud, information security, and third-party risk, as well as new risk areas like social media, environmental, social, and governance (ESG), and reputational risk. Guidelines and tools have also been enhanced for key operational risk activities such as Issue Management, Incident and Loss Reporting and Key Risk Indicators to improve reporting and oversight of the Bank's operational risk environment. The Risk and Control Self-Assessment process has also been updated to ensure effective identification, assessment, mitigation and monitoring of operational risks by the risk owners in the first line of defense.

There remains increased focus on operational resilience, with ongoing reviews of business continuity plans and crisis management playbooks, and planned upgrades to critical systems as part of IT disaster recovery efforts.

Increased digitalization in response to customer needs has been accompanied by enhanced alignment of the Bank's risk assessment and technology project management processes. Security controls were strengthened to mitigate cybersecurity and external fraud risks, particularly within the online banking services. Security awareness programs for both customers and staff have likewise been enhanced. Finally, third-party experts are contracted to assess and guide further improvements to both cybersecurity maturity and incident response capability. These measures are intended to address information security, fraud, resiliency, and other operational risks.

Sustainability Risk

Environmental & Social Risk Management (ESRM) is the identification, measurement, assessment, monitoring and reporting of environmental and social risks associated with the Bank's lending and investment activities, and its operations. The Bank has incorporated environmental and social factors into the lending process and customer dialogue to align with its policies. The Bank recognizes the consequences of failing to appropriately manage ESG issues can directly impact its reputation, its operations, and the communities where the Bank and its clients operate.

6. Fair Value Measurement

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

| | September 30, 2024 | | | | |
|--|---------------------|--|---|---|---------------------|
| | Carrying Value | Fair Value | | | |
| Total | | Quoted Prices in active Market (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) | |
| Assets Measured at Fair Value | | | | | |
| Financial assets at FVTPL: | | | | | |
| HFT investments: | | | | | |
| Government securities | ₱8,417,146 | ₱8,417,146 | ₱4,511,427 | ₱3,905,719 | ₱- |
| Private bonds | 449,524 | 449,524 | 293,623 | 155,901 | - |
| Equity securities | 25 | 25 | - | 25 | - |
| Total HFT investments | 8,866,695 | 8,866,695 | 4,805,050 | 4,061,645 | - |
| Derivative assets: | | | | | |
| Currency forwards | 1,657,110 | 1,657,110 | - | 1,657,110 | - |
| Interest rate swaps | 43,247 | 43,247 | - | 43,247 | - |
| FX Options | 32,620 | 32,620 | - | 32,620 | - |
| Cross-currency swaps | 23,679 | 23,679 | - | 23,679 | - |
| Interest rate futures | 137 | 137 | - | 137 | - |
| Total derivative assets | 1,756,793 | 1,756,793 | - | 1,756,793 | - |
| Total financial assets at FVTPL | 10,623,488 | 10,623,488 | 4,805,050 | 5,818,438 | - |
| Derivative assets designated as hedges | 8,670 | 8,670 | - | 8,670 | - |
| Financial assets at FVTOCI | | | | | |
| Treasury notes and bills | 101,846,403 | 101,846,403 | 64,089,158 | 37,757,245 | - |
| Treasury bonds | 38,598,226 | 38,598,226 | 36,280,818 | 2,317,408 | - |
| Private bonds | 1,288,806 | 1,288,806 | - | 1,288,806 | - |
| Equity securities | 621,340 | 621,340 | - | 621,340 | - |
| Total financial assets at FVTOCI | 142,354,775 | 142,354,775 | 100,369,976 | 41,984,799 | - |
| Total | ₱152,986,933 | ₱152,986,933 | ₱105,175,026 | ₱47,811,907 | ₱- |
| Assets for which Fair Values are Disclosed | | | | | |
| Financial Assets | | | | | |
| Financial assets at amortized cost | | | | | |
| Investment securities at amortized cost: | | | | | |
| Private bonds | ₱62,190,951 | ₱62,208,225 | ₱24,502,829 | ₱37,705,396 | ₱- |
| Treasury notes and bills | 43,262,543 | 44,211,972 | 28,443,724 | 15,768,248 | - |
| Treasury bonds | 21,842,300 | 22,436,503 | 16,232,146 | 6,204,357 | - |
| Total investment securities at amortized cost | 127,295,794 | 128,856,700 | 69,178,699 | 59,678,001 | - |
| Loans and receivables – net | 622,751,284 | 617,310,366 | - | - | 617,310,366 |
| Other assets | 363,255 | 321,121 | - | - | 321,121 |
| Total financial assets at amortized cost | 750,410,333 | 746,488,187 | 69,178,699 | 59,678,001 | 617,631,487 |
| Non-financial Assets | | | | | |
| Investment properties | 5,393,458 | 7,747,044 | - | - | 7,747,044 |
| Total | ₱755,803,791 | ₱754,235,231 | ₱69,178,699 | ₱59,678,001 | ₱625,378,531 |
| Liabilities Measured at Fair Value | | | | | |
| Financial liabilities at FVTPL: | | | | | |
| Derivative liabilities: | | | | | |
| Currency forwards | ₱2,906,223 | ₱2,906,223 | ₱- | ₱2,906,223 | ₱- |
| Interest rate swaps | 56,906 | 56,906 | - | 56,906 | - |

September 30, 2024

| | Fair Value | | | | |
|--|---------------------|---------------------|--|---|---|
| | Carrying Value | Total | Quoted Prices in active Market (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| FX Options | 39,266 | 39,266 | – | 39,266 | – |
| Interest rate futures | 4,798 | 4,798 | – | 4,798 | – |
| Cross-currency swaps | 78 | 78 | – | 78 | – |
| Total financial liabilities at FVTPL | 3,007,271 | 3,007,271 | – | 3,007,271 | – |
| Derivative liabilities designated as hedges | 8,331,258 | 8,331,258 | – | 8,331,258 | – |
| | P11,338,529 | P11,338,529 | P– | P11,338,529 | P– |
| Liabilities for which Fair Values are Disclosed | | | | | |
| Deposit liabilities excluding LTNCD | P709,481,726 | P709,994,232 | P– | P– | P709,994,232 |
| Notes and bonds payable | 60,431,803 | 61,979,966 | – | – | 61,979,966 |
| LTNCD | 10,429,247 | 10,353,313 | – | – | 10,353,313 |
| Bills payable and SSURA | 60,200,632 | 59,954,345 | 59,954,345 | – | – |
| | P840,543,408 | P842,281,856 | P59,954,345 | P– | P782,327,511 |

December 31, 2023

| | Fair Value | | | | |
|--|---------------------|---------------------|--|---|---|
| | Carrying Value | Total | Quoted Prices in active market (Level 1) | Significant observable inputs (Level 2) | Significant unobservable inputs (Level 3) |
| Assets Measured at Fair Value | | | | | |
| Financial assets at FVTPL: | | | | | |
| HFT investments: | | | | | |
| Government securities | P9,681,878 | P9,681,878 | P2,913,828 | P6,768,050 | P– |
| Private bonds | 282,092 | 282,092 | 174,580 | 107,512 | – |
| Equity securities | 25 | 25 | – | 25 | – |
| Total HFT investments | 9,963,995 | 9,963,995 | 3,088,408 | 6,875,587 | – |
| Derivative assets: | | | | | |
| Currency forwards | 629,854 | 629,854 | – | 629,854 | – |
| Interest rate swaps | 239,882 | 239,882 | – | 239,882 | – |
| Interest rate future | 40,776 | 40,776 | – | 40,776 | – |
| Cross-currency swaps | 11,828 | 11,828 | – | 11,828 | – |
| Bond forwards and options | 16 | 16 | – | 16 | – |
| Total derivative assets | 922,356 | 922,356 | – | 922,356 | – |
| Total financial assets at FVTPL | 10,886,351 | 10,886,351 | 3,088,408 | 7,797,943 | – |
| Financial assets at FVTOCI: | | | | | |
| Treasury notes and bills | 82,365,379 | 82,365,379 | 45,017,540 | 37,347,839 | – |
| Treasury bonds | 55,451,234 | 55,451,234 | 46,369,066 | 9,082,168 | – |
| Private bonds | 1,523,151 | 1,523,151 | – | 1,523,151 | – |
| Equity securities | 521,285 | 521,285 | – | 521,285 | – |
| Financial assets at FVTOCI: | 139,861,049 | 139,861,049 | 91,386,606 | 48,474,443 | – |
| | P150,747,400 | P150,747,400 | P94,475,014 | P56,272,386 | P– |
| Assets for which Fair Values are Disclosed | | | | | |
| Financial Assets | | | | | |
| Financial assets at amortized cost: | | | | | |
| Investment securities at amortized cost: | | | | | |
| Private bonds | P57,825,124 | P56,774,956 | P22,295,281 | P34,479,675 | P– |
| Treasury notes and bills | 3,372,462 | 3,447,353 | 815,028 | 2,632,325 | – |
| Treasury bonds | 14,958,498 | 14,988,687 | – | 14,988,687 | – |
| Total investment securities at amortized cost | 76,156,084 | 75,210,996 | 23,110,309 | 52,100,687 | – |
| Loans and receivables – net | 538,329,399 | 531,217,961 | – | – | 531,217,961 |
| Other assets | 708,515 | 663,894 | – | – | 663,894 |
| Total financial assets at amortized cost | 615,193,998 | 607,092,851 | 23,110,309 | 52,100,687 | 531,881,855 |
| Non-financial Assets | | | | | |
| Investment properties | 4,790,602 | 6,504,188 | – | – | 6,504,188 |
| | P619,984,600 | P613,597,039 | P23,110,309 | P52,100,687 | P538,386,043 |
| Liabilities Measured at Fair Value | | | | | |
| Financial liabilities at FVTPL: | | | | | |
| Derivative liabilities: | | | | | |
| Currency forwards | P2,940,101 | P2,940,101 | P– | P2,940,101 | P– |
| Interest rate swaps | 28,592 | 28,592 | – | 28,592 | – |
| Bonds forward | 13 | 13 | – | 13 | – |
| Total financial liabilities at FVTPL | P2,968,706 | P2,968,706 | P– | P2,968,706 | P– |
| Liabilities for which Fair Values are Disclosed | | | | | |
| Deposit liabilities excluding LTNCD | P596,115,373 | P597,217,974 | P– | P– | P597,217,974 |
| Notes and bonds payable | 48,963,521 | 49,121,866 | – | – | 49,121,866 |
| LTNCD | 10,416,014 | 10,358,450 | – | – | 10,358,450 |
| Bills payable and SSURA | 51,339,105 | 51,663,319 | – | – | 51,663,319 |
| | P706,834,013 | P708,361,609 | P– | P– | P708,361,609 |

When fair values of listed equity and debt securities, as well as publicly traded derivatives at the reporting date are based on quoted market prices or binding dealer price quotations, without any adjustments for transaction costs, the instruments are included within Level 1 of the hierarchy.

For other financial instruments, fair value is determined using valuation techniques. Valuation techniques include net present value techniques, comparison to similar instruments for which market observable prices exist and other revaluation models, the instruments are included in Level 2. Instruments included in Level 3 include those for which there is currently no active market.

During the periods ended September 30, 2024 and 2023, there were no transfers between Level 1 and Level 2 fair value measurements, and no transfers into and out of Level 3 fair value measurements.

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

Checks and Other Cash Items (COCI), due from BSP and other banks and interbank loans receivable and securities purchased under resale agreements (SPURA) with the BSP

The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities

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

Equity securities

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

Receivable from customers and sales contracts receivable (included under 'Other receivables')

Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Group's current incremental lending rates for similar types of loans and receivables.

Other receivables – Accounts receivable and accrued interest receivable

Carrying amounts approximate fair values given their short-term nature.

Investment properties

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

| | |
|----------|---|
| Location | Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. Generally, properties located along a main road are superior to properties located along a secondary road. |
| Size | Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of the lot size differences on land value. |

| | |
|--------------|---|
| Time element | An adjustment for market conditions is made if general property values have appreciated or depreciated since the transaction dates due to inflation or deflation or a change in investor's perceptions of the market over time, in which case, the current data is superior to historic data. |
| Discount | Generally, asking prices in advertisements posted for sale are negotiable. Discount is the amount the seller or developer is willing to deduct from the posted selling price if the transaction will be in cash or equivalent. |

Other financial assets

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

Derivative instruments

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

Deposit liabilities (demand and savings deposits excluding long-term savings deposits)

The carrying amounts approximate fair values considering that these are due and demandable.

Long-term negotiable certificates of deposit (LTNCD) and subordinated note

Fair values of LTNCD and subordinated note are estimated using adjusted quoted market prices of comparable investments. The adjustments on market quoted prices are unobservable inputs.

Other financial liabilities

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

The significant unobservable input used in the fair value measurement of the Group's financial assets and financial liabilities is credit-adjusted rates for similar types of financial instruments. Significant increases (decreases) in the credit-adjusted rates would result in a significantly lower (higher) fair value measurement.

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

As of September 30, 2024 and December 31, 2023, financial assets at FVTPL include net unrealized gain of ₱21.3 million and net unrealized loss of ₱39.7 million, respectively.

Fair value gains or losses on financial assets at FVTPL (other than currency forwards) is included in 'Trading and securities gain (loss) - net' in the statements of income. Fair value gains or losses on currency forwards are included in 'Foreign exchange gain (loss) - net' in the statements of income.

As of September 30, 2024 and December 31, 2023, certain government securities were pledged as collateral for Securities Sold under Repurchase Agreements (SSURA) (see Note 12).

8. Derivatives Designated as Hedges

In March 2024, Parent Company entered into hedging transactions, particularly cash flow hedges, to hedge its exposure to variability in future cash flows arising from foreign currency risk associated with its inter-book liabilities in RBU books.

The following table shows the summary of the hedging transactions of the Parent Company designated as cash flow hedges and the related balances as of September 30, 2024:

| Hedged Item | Hedging Instrument | Notional Amount* | Derivative Asset | Derivative Liability | Cash Flow Hedge Reserve | Cost of Hedging Reserve, Net of Tax | Total Hedge Reserve, Net of Tax |
|--------------------------------------|-------------------------------------|------------------|------------------|----------------------|-------------------------|-------------------------------------|---------------------------------|
| Cash short position in the RBU books | Spot element of FX forward contract | \$3,515,297 | ₱8,670 | ₱8,331,258 | ₱- | (₱2,363,342) | (₱2,363,342) |

*In thousands

As of September 30, 2024, the Parent Company assessed the hedging relationships to be effective.

The cost of hedging pertaining to the amortization of the forward element presented under 'Interest expense on derivatives designated as hedges' in the statements of income amounted to ₱2.85 billion for the period ended September 30, 2024. Fair value loss of ₱3.31 billion initially deferred in cash flow hedge reserve were recycled to profit or loss at the same time the revaluation of the inter-book liabilities in RBU books was recognized in profit or loss.

9. Financial Assets at Fair Value through Other Comprehensive Income

This account consists of:

| | September 30, 2024 | December 31, 2023 |
|--------------------------|---------------------|-------------------|
| Debt instruments | | |
| Treasury notes and bills | ₱101,846,403 | ₱82,365,379 |
| Treasury bonds | 38,598,226 | 55,451,234 |
| Private bonds | 1,288,806 | 1,523,151 |
| | 141,733,435 | 139,339,764 |
| Equity instruments | | |
| Golf and club shares | 571,175 | 476,875 |
| PSE shares | 50,165 | 44,410 |
| | 621,340 | 521,285 |
| | ₱142,354,775 | ₱139,861,049 |

As of September 30, 2024 and December 31, 2023, debt instruments at FVTOCI were carried at Stage 1 and there were no transfers into and out of Stage 1.

As of September 30, 2024 and December 31, 2023, peso-denominated debt financial assets at FVTOCI amounted to ₱114.8 billion and ₱114.6 billion, respectively.

As of September 30, 2024 and December 31, 2023, dollar-denominated debt financial assets at FVTOCI amounted to ₱26.9 billion and ₱24.7 billion, respectively.

As of September 30, 2024 and December 31, 2023, certain treasury bonds and treasury notes and bills certificates were pledged with foreign banks as collateral for SSURA (see Note 12).

As of September 30, 2024 and December 31, 2023, government securities included under 'Financial Assets at Fair Value through Other Comprehensive Income' with a total face value of ₱1.4 billion were deposited with the BSP in compliance with the requirements of the General Banking Law relative to the Parent Company's trust functions.

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

10. Investment Securities at Amortized Cost

This account consists of investments in:

| | September 30, 2024 | December 31, 2023 |
|----------------------------------|--------------------|-------------------|
| Private bonds | P62,267,624 | P57,874,831 |
| Treasury notes and bills | 43,262,543 | 3,372,462 |
| Treasury bonds | 21,845,098 | 14,959,970 |
| | 127,375,265 | 76,207,263 |
| Less allowance for credit losses | 79,471 | 51,179 |
| | P127,295,794 | P76,156,084 |

As of September 30, 2024 and December 31, 2023, investment securities at amortized cost were carried at stage 1 and there were no transfers into and out of stage 1.

As of September 30, 2024 and December 31, 2023, HTC dollar-denominated securities amounted to P44.6 billion and P38.0 billion, respectively.

As of September 30, 2024 and December 31, 2023, HTC peso-denominated securities amounted to P82.7 billion and P38.2 billion, respectively.

As of September 30, 2024 and December 31, 2023, certain private and treasury bonds were pledged with foreign banks as collateral for SSURA (see Note 12).

11. Deposit Liabilities

On June 23, 2023, the BSP through BSP Circular 1175, approved the 250 basis point reduction from 12.0% to 9.5% in the reserve requirement ratios of selected reservable liabilities of the Bank effective June 30, 2023.

As of September 30, 2024 and December 31, 2023, the Group has set aside 'Due from BSP' as reserves amounting to P24.5 billion and P40.3 billion, respectively.

As of September 30, 2024 and December 31, 2023, the total outstanding LTNCDS of the Group amounted to P10.4 billion. Significant terms of these LTNCDS have been disclosed in the 2023 audited financial statements.

The movement of unamortized debt issue costs on LTNCDS follows:

| | September 30, 2024 | December 31, 2023 |
|------------------------|--------------------|-------------------|
| Beginning balance | P23,986 | P54,214 |
| Amortization | (13,233) | (30,228) |
| Balance at end of year | P10,753 | P23,986 |

Interest expense on deposit liabilities consists of:

| | Nine months ended September 30 | |
|---------|--------------------------------|------------|
| | 2024 | 2023 |
| Time | P4,405,020 | P5,404,721 |
| Demand | 332,999 | 271,203 |
| LTNCDS | 327,592 | 651,683 |
| Savings | 141,134 | 85,190 |
| | P5,206,745 | P6,412,797 |

12. Bills Payable and Securities Sold Under Repurchase Agreements

This account consists of borrowings from:

| | September 30, 2024 | December 31, 2023 |
|--|--------------------|-------------------|
| SSURA | ₱51,348,107 | ₱46,525,809 |
| Foreign banks | 6,723,600 | – |
| Local banks | 2,022,376 | 4,695,331 |
| Local government banks with relending facilities | 106,549 | 117,965 |
| | ₱60,200,632 | ₱51,339,105 |

The following are the carrying values of the investment securities pledged and transferred under SSURA transactions of the Group:

| | September 30, 2024 | | December 31, 2023 | |
|---|--------------------|--------------------|-------------------|-------------|
| | Carrying Value | Fair Value | Carrying Value | Fair Value |
| Financial assets at FVTPL | | | | |
| Government securities (Note 7) | ₱2,739,571 | ₱2,739,571 | ₱3,813,159 | ₱3,813,159 |
| Financial assets at FVTOCI | | | | |
| Treasury notes and bills (Note 9) | 12,358,427 | 12,358,427 | – | – |
| Treasury bonds (Note 9) | 4,245,809 | 4,245,809 | 19,832,200 | 19,832,200 |
| | 16,604,236 | 16,604,236 | 19,832,200 | 19,832,200 |
| Investment securities at amortized cost | | | | |
| Private bonds (Note 10) | 34,649,811 | 34,809,593 | 31,093,477 | 30,551,895 |
| Treasury bonds (Note 10) | 5,775,053 | 6,088,846 | – | – |
| | 40,424,864 | 40,898,439 | 31,093,477 | 30,551,895 |
| | ₱59,768,671 | ₱60,242,246 | ₱54,738,836 | ₱54,197,254 |

Interest expense on bills payable and SSURA amounted to ₱2.5 billion and 2.1 billion for the nine months ended September 30, 2024 and 2023, respectively.

13. Notes and Bonds Payable

The account consists of the following:

| | September 30, 2024 | December 31, 2023 |
|-------------------------------------|--------------------|-------------------|
| Senior unsecured notes due May 2029 | ₱22,111,202 | ₱– |
| Fixed rate bonds due January 2025 | 18,470,668 | 18,396,413 |
| Fixed rate bonds due September 2029 | 19,849,933 | – |
| Fixed rate bonds due May 2024 | – | 14,571,659 |
| Fixed rate bonds due January 2024 | – | 15,995,449 |
| | ₱60,431,803 | ₱48,963,521 |

On January 22, 2024, the Parent Company settled in full the ₱16.0 billion 3.7407% fixed rate bonds.

On May 9, 2024, the Parent Company issued USD 400 million Senior Unsecured Fixed Rate Notes (“Notes”) due May 14, 2029. The Senior Notes, which are listed in the Singapore Stock Exchange, were priced at a discount, with a coupon rate of 5.50% fixed rate (effective interest rate (EIR) of 5.8318%) payable on a semi-annual basis commencing on November 14, 2024. The Parent Company incurred debt issue costs amounting to ₱232.0 million.

On May 10, 2024, the Parent Company settled in full the ₱14.6 billion 5.3000% fixed rate bonds.

On August 20, 2024, the Parent Company issued ₱20.0 billion fixed rate bonds due on September 20, 2029. The bonds, which are listed in Philippine Dealing and Exchange Corporation, were priced at par with a coupon rate of 6.05% fixed rate (EIR of 6.2266%) payable on a quarterly basis commencing on November 20, 2024. The Parent Company incurred debt issue costs amounting to ₱152.9 million.

The movements in unamortized discount and debt issue costs follow:

| | September 30, 2024 | December 31, 2023 |
|------------------------|--------------------|-------------------|
| Beginning balance | ₱136,479 | ₱214,807 |
| Additions | 475,802 | 147,646 |
| Amortization | (132,160) | (251,205) |
| Translation adjustment | 76 | 25,231 |
| Balance at end of year | ₱480,197 | ₱136,479 |

Interest expense on notes and bonds payable amounted to ₱2.0 billion for the nine months ended September 30, 2024 and 2023.

14. Equity

As of September 30, 2024 and December 31, 2023, the Parent Company's capital stock consists of:

| | Shares* | Amount |
|--|----------------------|-------------------|
| Common stock – ₱10 par value | | |
| Authorized | 1,000,000,000 | ₱10,000,000 |
| Issued and outstanding | | |
| Balance at the beginning and end of the period | 753,538,887 | 7,535,389 |
| Preferred stock – ₱0.10 par value | | |
| Authorized | 1,000,000,000 | 100,000 |
| Issued and outstanding | | |
| Balance at the beginning and end of the period | 1,000,000,000 | 100,000 |
| | 1,753,538,887 | ₱7,635,389 |

*Absolute number of shares

Surplus reserves of the Group consist of:

| | September 30, 2024 | December 31, 2023 |
|---|--------------------|-------------------|
| Reserve for regulatory requirements | ₱4,062,347 | ₱3,546,865 |
| Reserve for self-insurance | 1,049,000 | 1,015,500 |
| Reserve for trust business | 412,811 | 412,811 |
| Reserve for redemption of preferred stock | 100,000 | 100,000 |
| | ₱5,624,158 | ₱5,075,176 |

In compliance with existing BSP regulations, 10.0% of the net profits realized by the Parent Company from its trust business is appropriated to surplus reserve. The yearly appropriation is required until the surplus reserve for trust business equals 20.0% of the Parent Company's regulatory capital.

To comply with Securities Regulation Code Rule 49.1 (B), *Reserve Fund*, requiring broker dealers to annually appropriate a certain minimum percentage of its audited profit after tax as reserve fund, a portion of the Group's surplus corresponding to the net earnings of SBEI amounting to ₱39.6 million as of September 30, 2024 and December 31, 2023, respectively, has been appropriated in the consolidated financial statements and is not available for dividend declaration.

Details of the Parent Company’s cash dividend distribution for the nine months ended September 30, 2024 and December 31, 2023 follow:

| Shares | Date of declaration | Dividend | | Record date | Payment date |
|-----------|---------------------|-----------|-------------------------------|-------------------|-------------------|
| | | Per share | Total amounts in thousands | | |
| Common | March 26, 2024 | ₱1.50 | ₱1,130,308 | April 15, 2024 | April 29, 2024 |
| Preferred | February 27, 2024 | 0.0039 | 2,351 | June 26, 2024 | July 20, 2024 |
| Preferred | February 27, 2024 | 0.0048 | 1,908 | March 14, 2024 | April 1, 2024 |
| Common | October 24, 2023 | 1.50 | 1,130,308 | November 10, 2023 | November 24, 2023 |
| Common | March 28, 2023 | 1.50 | 1,130,308 | April 14, 2023 | April 28, 2023 |
| Preferred | February 28, 2023 | 0.0039 | 2,351 | June 26, 2023 | July 10, 2023 |
| Preferred | February 28, 2023 | 0.0048 | 1,908 | March 20, 2023 | April 3, 2023 |

As part of Preferred Stock features stated in the Seventh Article of the Bank’s Amended Articles of Incorporation, the dividend rate will be repriced at the 10-year prevailing rate on each relevant 10th year anniversary from the issue date. On February 27, 2024, the Parent Company’s BOD approved to reprice the dividend rate for the first tranche of Preferred Stock on July 10, 2024 using the 10-year PHP BVAL from 10-Year PDST-R2.

Capital Management

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

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities and assessment of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Group may adjust the amount and mode of dividend payment to shareholders, issue capital securities or undertake a share buy-back. No material changes were made in the objectives, policies and processes from the previous year.

BSP Reporting

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the compliance with regulatory requirements and ratios is based on the amount of the “unimpaired 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 Group complied with BSP Circular No. 781, *Basel III Implementing Guidelines on Minimum Capital Requirements*, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi banks, in accordance with the Basel III standards:

| | |
|------------------------------------|--------|
| Common Equity Tier 1 (CET1) ratio | 6.00% |
| Tier 1 capital ratio | 7.50% |
| Total Capital Adequacy Ratio (CAR) | 10.00% |
| Capital Conservation Buffer * | 2.50% |

*composed of CET1 capital on top of the minimum CET1 requirement

BSP Circular No. 856 covers the implementing guidelines on the framework for dealing with domestic systemically important banks (DSIBs) in accordance with the Basel III standards. Banks identified as DSIBs are required to have higher loss absorbency, on top of the minimum CET1 capital and capital conservation buffer.

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations. Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which

comprises paid-up common stock, additional paid-in capital, retained earnings including current year profit, retained earnings reserves, OCI and non-controlling interest less required regulatory deductions. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debts and general loan loss provision. RWA consist of total assets excluding cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the Monetary Board (MB) of the BSP. Operational RWA are computed using the Basic Indicator Approach.

The CAR of the Group as reported to the BSP follow:

| | September 30, 2024 | December 31, 2023 |
|--|---------------------|-------------------|
| Tier 1 capital | ₱136,785,829 | ₱130,488,792 |
| Less Required deductions | 21,461,364 | 21,235,215 |
| | 115,324,465 | 109,253,577 |
| Excess from Tier 2 deducted to Tier 1 Capital* | - | - |
| Net Tier 1 Capital | 115,324,465 | 109,253,577 |
| Tier 2 capital | 7,631,494 | 6,327,332 |
| Less: Required deductions | - | - |
| | 7,631,494 | 6,327,332 |
| Excess of Tier 2 deducted to Tier 1 Capital* | - | - |
| Net Tier 2 Capital | 7,631,494 | 6,327,332 |
| Total Qualifying Capital | ₱122,955,959 | ₱115,580,909 |
| Credit Risk-Weighted Assets | ₱762,489,049 | ₱632,168,889 |
| Market Risk-Weighted Assets | 34,655,313 | 16,489,117 |
| Operational Risk-Weighted Assets | 68,800,686 | 65,420,128 |
| Total Risk Weighted Assets | ₱865,945,048 | ₱714,078,134 |
| Tier 1 CAR | 13.32% | 15.30% |
| Total CAR | 14.20% | 16.19% |

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

The Group and its individually regulated operations have complied with all regulatory capital requirements throughout the year.

The Bank Viability Assessment Process supplements the BSP's risk-based capital adequacy framework. In compliance with this, the Group has adopted and developed its capital and liquidity assessment frameworks to ensure that the appropriate level and quality of capital and liquidity are maintained by the Group. Under these frameworks, the assessment of risks extends beyond the Pillar 1 set of credit, market and operational risks and onto other risks deemed material by the Group. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget as well as regulatory edicts.

Basel III Leverage Ratio (BLR)

BSP Circular Nos. 881 and 990 cover the implementing guidelines on the BLR framework designed to act as a supplementary measure to the risk-based capital requirements and shall not be less than 5.00%.

The details of the BLR as reported to the BSP follow:

| | September 30, 2024 | December 31, 2023 |
|------------------|----------------------|-------------------|
| Tier 1 Capital | ₱115,324,465 | ₱109,253,577 |
| Exposure Measure | 1,374,577,630 | 1,033,488,172 |
| BLR | 8.39% | 10.57% |

Under the framework, BLR is defined as the capital measure divided by the exposure measure. Capital measure is Tier 1 capital. Exposure measure is the sum of on balance sheet exposures, derivative exposures, securities financing exposures and off-balance sheet items.

Liquidity Coverage Ratio (LCR)

BSP Circular No. 905 provides the implementing guidelines on LCR and disclosure standards that are consistent with the Basel III framework. The LCR is aimed to promote short-term resilience against liquidity risk by requiring banks to maintain an adequate stock of unencumbered high-quality liquid assets (HQLAs) that consists of cash or assets that can be converted into cash at little or no loss of value in private markets, to meet its liquidity needs under stressed conditions. Bank shall maintain an LCR not be lower than 100.00%. As of September 30, 2024 and December 31, 2023, the LCR in single currency as reported to the BSP was at 186.25% and 157.98%, respectively, for the Group.

Net Stable Funding Ratio (NSFR)

On June 6, 2018, the BSP issued BSP Circular No.1007 covering the implementing guidelines on the adoption of the Basel III Framework on Liquidity Standards NSFR. The NSFR is aimed to promote long term resilience against liquidity risk by requiring banks to maintain a stable funding profile in relation to the composition of its assets and off-balance sheet activities. It complements the LCR, which promotes short term resilience of a bank's liquidity profile. Banks shall maintain an NSFR of at least 100.00% at all times. As of September 30, 2024 and December 31, 2023, the NSFR as reported to the BSP, was at 134.74% and 131.05%, respectively, for the Group.

15. Related Party Transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. The Group's related parties include:

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

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

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

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

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

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

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

The Parent Company has lease agreements with some of its subsidiaries for periods ranging from 1 to 5 years. The lease agreements include the share of the subsidiaries in the maintenance of the building.

Transactions of the Parent Company with its subsidiaries were eliminated in the consolidated financial statements of the Group.

For the nine months ended September 30, 2024 and 2023, SBML sold various loans and lease receivables to the Parent Company with carrying amount of ₱400.0 million and ₱507.9 million, respectively. The Parent Company's proportionate share in the gain on sale of loans and lease receivables was eliminated in the consolidated financial statements of the Group.

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

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

16. Commitments and Contingent Liabilities

In the normal course of operations of the Group, there are outstanding commitments and contingent liabilities and bank guarantees that are not reflected in the financial statements. The Group does not anticipate losses that will materially affect its financial position and financial performance as a result of these transactions.

There are several suits and claims that remain unsettled. Management believes, based on the opinion of its legal counsels, that the ultimate outcome of such cases and claims will not have a material effect on the Group's financial position and financial performance.

Regulatory Reporting

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

| | September 30, 2024 | December 31, 2023 |
|---|---------------------------|-------------------|
| Derivatives | ₱499,490,823 | ₱370,310,050 |
| Unutilized credit limit of credit cardholders | 140,569,533 | 89,916,523 |
| Trust department accounts | 129,026,951 | 108,624,757 |
| Spot foreign exchange contracts | 110,345,104 | 18,857,987 |

| | September 30, 2024 | December 31, 2023 |
|--------------------------------------|--------------------|-------------------|
| Unused commercial letters of credit | 75,160,492 | 46,505,642 |
| Committed loan line | 44,427,863 | 18,784,025 |
| Inward bills for collection | 1,011,981 | 1,615,541 |
| Outstanding guarantees | 582,212 | 833,748 |
| Late deposit/payment received | 283,985 | 307,630 |
| Financial guarantees with commitment | 185,230 | 254,274 |
| Outward bills for collection | 140,898 | 232,364 |
| Others | 86 | 250,862 |

17. Earnings Per Share

Basic earnings per share amounts were computed as follows:

| | Nine months ended | | Quarter ended | |
|--|-------------------|-------------|---------------|-------------|
| | September 30 | | September 30 | |
| | 2024 | 2023 | 2024 | 2023 |
| a. Net income attributable to the equity holders of the Parent Company | P8,454,982 | P7,565,428 | P3,010,369 | P2,650,367 |
| b. Dividends declared to preferred shares | 4,259 | 4,259 | 4,259 | 4,259 |
| c. Weighted average number of outstanding common shares* | 753,538,887 | 753,538,887 | 753,538,887 | 753,538,887 |
| d. Earnings per share [(a-b)/c] | P11.21 | P10.03 | P3.99 | P3.51 |

*in absolute amounts

As of September 30, 2024 and 2023, the Parent Company has no potentially dilutive common shares.

18. Notes to the Statement of Cash Flows

The amounts of interbank loans receivables and securities purchased under agreements to resell considered as cash and cash equivalents follow:

| | September 30, 2024 | September 30, 2023 |
|--|--------------------|--------------------|
| Interbank loans receivable and SPURA | | |
| Interbank loans receivable | P35,174,160 | P1,567,525 |
| Interbank loans receivable and SPURA not considered as cash and cash equivalents | | |
| Interbank loans receivable | 2,500,000 | 3,999,998 |
| | P37,674,160 | P5,567,523 |

The movements in allowance for credit losses from 'Due from other banks' and 'Interbank loans receivable and securities purchased under resale agreements' as follows:

| | September 30, 2024 | September 30, 2023 |
|--------------------------------------|--------------------|--------------------|
| Due from other banks | (P200) | P116 |
| Interbank loans receivable and SPURA | - | 1,164 |
| | (P200) | P1,280 |

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

Reconciliation of liabilities arising from financing activities follows:

| | Cashflows | | | Non-cash charges | | Ending balance |
|---------------------------|---------------------|----------------------|-----------------------|---------------------------|-----------------------------------|---------------------|
| | Beginning Balance | Proceeds/ Availments | Payments/ Maturities | Foreign exchange movement | Amortization of transaction costs | |
| September 30, 2024 | | | | | | |
| Bills payable and SSURA | ₱51,339,105 | ₱446,887,827 | (₱438,168,261) | ₱141,961 | ₱- | ₱60,200,632 |
| Notes and bonds payable | 48,963,521 | 41,968,598 | (30,600,000) | (32,476) | 132,160 | 60,431,803 |
| LTNCD | 10,416,014 | - | - | - | 13,233 | 10,429,247 |
| | ₱110,718,640 | ₱488,856,425 | (₱468,768,261) | ₱109,485 | ₱145,393 | ₱131,061,682 |
| September 30, 2023 | | | | | | |
| Bills payable and SSURA | ₱40,920,403 | ₱659,120,288 | (₱656,070,583) | (₱794,929) | ₱- | ₱43,175,179 |
| Notes and bonds payable | 47,111,693 | 18,352,354 | (17,035,500) | 283,769 | 186,489 | 48,898,805 |
| LTNCD | 24,766,786 | - | (8,600,000) | - | 24,885 | 16,191,671 |
| | ₱112,798,882 | ₱677,472,642 | (₱681,706,083) | (₱511,160) | ₱211,374 | ₱108,265,655 |

19. Segment Information

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

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

Wholesale Banking Segment - this segment addresses corporates, institutional, and public sector and commercial clients. Services include relationship management, loans, trade, cash management, deposits and investments. It also provides structured financing and advisory services, debt and equity capital raising, project financing, and mergers and acquisitions advisory offered by SB Capital. Operating leases from SBRC and share in net income from SBML are also part of the segment.

Retail Banking Segment - this segment serves individual clients. It covers deposits, consumer loans, credit cards, bancassurance and investments. Share in net income from SBF is also part of the segment.

Business Banking Segment - this segment serves the micro, small and medium enterprises (MSMEs) with holistic propositions covering deposits, loans, cash management, third-party insurance and investments.

Financial Markets Segment - this segment focuses on providing money market, foreign exchange, financial derivatives, debt and equity securities brokerage, asset management, trust and fiduciary services, as well as the management of the funding operations for the Group. The Group's equity brokerage, SB Equities, is also part of this segment.

Eliminations and Others - This segment includes the Bank's non-reportable segments such as support services and eliminations in accordance with the Bank's group internal reporting. For the nine months ended September 30, 2024, eliminations include net interest income from third party and intersegment amounting to ₱4.6 billion and ₱6.0 billion, respectively; non-interest income and non-interest expense amounting to ₱4.4 billion and ₱13.3 billion, respectively; and total assets and total liabilities amounting to ₱4.9 billion and ₱252.4 billion, respectively. For the nine months ended September 30, 2023, eliminations include net interest income from third party and intersegment amounting to ₱7.6 billion and ₱8.0 billion, respectively; non-interest income and non-interest expense amounting to ₱3.9 billion and ₱11.3 billion, respectively; and total assets and total liabilities amounting to ₱4.2 billion and ₱172.4 billion, respectively.

Management monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets that are employed by a segment in its operating activities and that either are directly

Quarter Ended September 30, 2024

| | Wholesale Banking | Retail Banking | Business Banking | Financial Markets | Elimination and Others | Total |
|--|------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------------------|--------------|
| Statement of Income | | | | | | |
| Net interest income: | | | | | | |
| Third party | P7,017 | P3,944 | P552 | (P2,182) | P1,390 | P10,721 |
| Intersegment | (4,137) | 678 | 660 | 3,031 | (232) | - |
| | 2,880 | 4,622 | 1,212 | 849 | 1,158 | 10,721 |
| Noninterest income | 742 | 2,304 | 162 | 1,072 | (642) | 3,638 |
| Revenue – net of interest expense | 3,622 | 6,926 | 1,374 | 1,921 | 516 | 14,359 |
| Noninterest expense | 2,087 | 4,906 | 853 | 1,275 | 1,209 | 10,330 |
| Income before income tax | 1,535 | 2,020 | 521 | 646 | (693) | 4,029 |
| Provision for income tax | 384 | 450 | 131 | - | 54 | 1,019 |
| Net income for the period attributable to the Parent Company | | | | | | |
| | P1,151 | P1,570 | P390 | P646 | (P747) | P3,010 |

Other Segment Information

| | | | | | | |
|--|------|--------|------|----|------|--------|
| Capital expenditures | P257 | P257 | P7 | P4 | P683 | P1,208 |
| Depreciation and amortization | P200 | P201 | P6 | P3 | P530 | P940 |
| Provision for credit and impairment losses | P281 | P1,391 | P106 | P- | P12 | P1,790 |

Quarter Ended September 30, 2023

| | Wholesale Banking | Retail Banking | Business Banking | Financial Markets | Elimination and Others | Total |
|--|------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------------------|--------------|
| Statement of Income | | | | | | |
| Net interest income: | | | | | | |
| Third party | P5,790 | P2,261 | P354 | (P2,307) | P2,882 | P8,980 |
| Intersegment | (2,919) | 1,675 | 607 | 2,092 | (1,455) | - |
| | 2,871 | 3,936 | 961 | (215) | 1,427 | 8,980 |
| Noninterest income | 947 | 1,994 | 147 | 302 | (1,800) | 1,590 |
| Revenue – net of interest expense | 3,818 | 5,930 | 1,108 | 87 | (373) | 10,570 |
| Noninterest expense | 1,550 | 4,745 | 1,008 | 916 | (702) | 7,517 |
| Income before income tax | 2,268 | 1,185 | 100 | (829) | 329 | 3,053 |
| Provision for income tax | 520 | 273 | 23 | - | (414) | 402 |
| Net income for the period attributable to the Parent Company | | | | | | |
| | P1,748 | P912 | P77 | (P829) | P743 | P2,651 |
| Other Segment Information | | | | | | |
| Capital expenditures | P204 | P332 | P7 | P6 | P695 | P1,244 |
| Depreciation and amortization | P85 | P176 | P4 | P3 | P370 | P638 |
| Provision for (recovery of) credit and impairment losses | (P21) | P1,294 | P345 | (P1) | (P585) | P1,032 |

Statement of Financial Position as of September 30, 2024

| | Wholesale Banking | Retail Banking | Business Banking | Financial Markets | Elimination and Others | Total |
|-------------------|------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------------------|--------------|
| Total assets | P413,400 | P148,623 | P13,271 | P430,521 | P21,952 | P1,027,767 |
| Total liabilities | P211,225 | P317,179 | P59,083 | P540,101 | (P243,086) | 884,502 |

Statement of Financial Position as of September 30, 2023

| | Wholesale Banking | Retail Banking | Business Banking | Financial Markets | Elimination and Others | Total |
|-------------------|------------------------------|---------------------------|-----------------------------|------------------------------|-----------------------------------|--------------|
| Total assets | P388,403 | P114,517 | P7,796 | P286,396 | P17,638 | P814,750 |
| Total liabilities | P203,133 | P227,502 | 48,349 | P363,687 | (P160,481) | P682,190 |

20. Events After the Reporting Period

On October 29, 2024, the Parent Company's BOD approved the second semestral cash dividend of ₱1.50 per common share with payment date on November 27, 2024. The full amount of the second semestral cash dividend is regular cash dividends.

SECURITY BANK CORPORATION AND SUBSIDIARIES
AGING OF LOANS AND RECEIVABLES
AS OF SEPTEMBER 30, 2024
(In thousands)

| No. of Days Outstanding | Amount |
|------------------------------------|---------------------|
| Current | ₱613,588,786 |
| 90 days or less | 6,445,131 |
| 91 to 180 days | 4,893,796 |
| 181 days to 1 year | 2,334,617 |
| More than 1 year | 12,167,116 |
| Loans and Receivables – Gross | 639,429,446 |
| Less: Allowance for Credit Losses | 16,678,162 |
| Loans and Receivables – Net | ₱622,751,284 |

SECURITY BANK CORPORATION AND SUBSIDIARIES
FINANCIAL SOUNDNESS INDICATORS

| | September 30, 2024 | December 31, 2023 |
|----------------------------------|---------------------------|--------------------|
| Liquid to Total Assets (%) | 35.87 | 34.74 |
| Loans (net) to Deposit Ratio (%) | 86.50 | 88.76 |
| Debt-to-equity ratio | 6.17 | 5.40 |
| Asset-to-equity ratio | 7.17 | 6.40 |
| | September 30, 2024 | September 30, 2023 |
| Return on average assets (%) | 1.19 | 1.22 |
| Return on average equity (%) | 8.07 | 7.81 |
| Net interest margin (%) | 4.90 | 4.40 |
| Cost to income ratio (%) | 58.81 | 60.69 |
| Interest rate coverage ratio | 1.90 | 1.87 |

**Calculated based on BSP Circulars 941 and 1011.*

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

Key Performance Indicators

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

| Key Performance Indicators: | September 30, 2024 | December 31, 2023 |
|---|---------------------------|-------------------|
| <u>Capital Adequacy</u> | | |
| Capital to Risk Assets Ratio | 14.20% | 16.19% |
| <u>Asset Quality</u> | | |
| Non-performing Loan (NPL) Ratio -Net | 1.40 | 1.37 |
| Non-performing Loan (NPL) Cover | 79.49 | 82.13 |
| <u>Liquidity</u> | | |
| Liquid Assets to Total Assets | 35.87 | 34.74 |
| For the Nine Months Ended September 30 | | |
| | 2024 | 2023 |
| <u>Profitability</u> | | |
| Return on Average Equity | 8.07 | 7.81 |
| Net Interest Margin | 4.90 | 4.40 |

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

| Key Performance Indicator | BSP Prescribed Formula |
|--|--|
| Capital to Risk Assets Ratio | <u>Total Qualifying Capital</u> Market, Credit and Operational Risk Weighted Exposures |
| Non-performing Loan (NPL) Ratio (Based on Circulars 941 and 1011) | <u>Non-performing Loans (net of specific allowance)</u> Gross Loans |
| Non-performing Loan (NPL) Cover (Based on Circulars 941 and 1011) | <u>Allowance for Probable Losses Loans</u> Non-performing Loans (gross of specific allowance) |
| Liquid Assets to Total Assets | <u>Total Liquid Assets</u> Total Assets |
| Return on Average Equity | <u>Net Income (or Loss) after Income Tax x 100</u> Average Total Capital Accounts |
| Return on Average Assets | <u>Net Income (or Loss) after Income Tax x 100</u> Average Total Assets |
| Net Interest Margin | <u>Net Interest Income x 100</u> Average Interest Earning Assets |

Analysis of Consolidated Statements of Financial Position as of September 30, 2024 and December 31, 2023

Total Assets increased by ₱156.3 billion to ₱1.0 trillion on account of increases in Due from other Banks, Interbank Loans Receivables and Securities Purchased Under Resale Agreements (SPURA) with the Bangko Sentral ng Pilipinas (BSP), Derivative Assets Designated as Hedges, Financial Assets at Fair Value through Other Comprehensive Income, Investment Securities at Amortized Cost, Loans and Receivables, Investment in Joint Ventures, Property, Equipment and Right-of-use Assets, Investment Properties, Deferred Tax Assets, Intangible Assets, and Other Assets, tempered by decreases in Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas, and Financial Assets at Fair Value through Profit or Loss.

Decrease in **Cash and Other Cash Items** by ₱2.4 billion can be attributed to the Bank's daily operations while decrease in **Due from BSP** by ₱19.4 billion is due to asset-liability management. **Due from Other Banks** increased by ₱0.7 billion due to increased level of working balances with counterparty banks. **Interbank Loans Receivable and SPURA with the BSP** increased by ₱33.6 billion due to increased level of placements.

Financial Assets at Fair Value Through Profit or Loss decreased by ₱0.3 billion to ₱10.6 billion due to trading-related activities of the Bank. **Derivative Assets Designated as Hedges** amounted to ₱8.7 million. **Financial Assets at Fair Value through Other Comprehensive Income** increased by ₱2.5 billion to ₱142.4 billion mainly due to purchases of treasury notes and bills during the period. **Investment Securities at Amortized Cost** increased by ₱51.1 billion to ₱127.3 billion mainly due to purchases of corporate bonds and government securities during the period.

Loans and Receivables increased to ₱622.8 billion from ₱538.3 billion in 2023 primarily attributable to increase in wholesale, retail and MSME loans during the period.

Investment in Joint Ventures increased by ₱105.0 million to ₱2.7 billion.

Property, Equipment and Right-of-use Assets increased by ₱434.1 million to ₱6.9 billion due to additions during the period. **Investment Properties** increased to ₱5.4 billion mainly due to additional foreclosures tempered by disposals and depreciation during the period.

Deferred Tax Assets increased by ₱1.0 billion from ₱5.7 billion as of year-end 2023 due to higher allowance for credit losses during period. **Intangible Assets** increased by ₱1.4 billion to ₱6.3 billion in 2024.

Other Assets increased to ₱7.5 billion from ₱5.0 billion due to increases in cash collateral deposits, prepaid expenses and chattel mortgages.

Total Liabilities increased by ₱149.1 billion to ₱884.5 billion on account of increases in Deposit Liabilities, Financial Liabilities at Fair Value through Profit or Loss, Derivative Liabilities Designated as Hedges, Bills Payable and Securities Sold Under Repurchase Agreements (SSURA), Margin Deposits and Cash Letters of Credit, Manager's and Certified Checks Outstanding, Income Tax Payable, Notes and Bonds Payable, Accrued Interest, Taxes, and Other Expenses, and Other Liabilities tempered by decrease in Acceptances Payable.

Deposit Liabilities went up from ₱606.5 billion as of year-end 2023 to ₱719.9 billion mainly due to increases in demand and time deposits.

Financial Liabilities at Fair Value through Profit or Loss decreased by 1.3% to ₱3.0 billion. **Derivative Liabilities Designated as Hedges** amounted to ₱8.3 billion. **Bills Payable and SSURA** increased by ₱8.9 billion to ₱60.2 billion due to an increase in the Bank's borrowings from SSURA and foreign banks during the period.

Acceptances Payable decreased to ₱2.5 billion from ₱2.8 billion. **Margin Deposits and Cash Letters of Credit** increased to ₱172.8 million. **Manager's and Certified Checks Outstanding** increased to ₱5.7 billion from ₱5.2 billion.

Income Tax Payable increased to ₱1.1 billion from year-end 2023's ₱0.8 billion due to higher tax liability for the third quarter of 2024 versus 2023. **Notes and Bonds Payable** increased by ₱11.5 billion mainly due to issuance of USD 400 million, Senior Unsecured Fixed Notes issued last May 9, 2024, and ₱20.0 billion fixed rate bonds issued last August 20, 2024, tempered by settlements of fixed rate bonds due January 2024 and May 2024. **Accrued Interest, Taxes and Other Expenses** increased to ₱6.3 billion from ₱4.8 billion. **Other Liabilities** went up by ₱4.9 billion from ₱11.9 billion due to increase in accounts payable and payable to clearing houses.

Total Equity increased by ₱7.1 billion on account of movements in Surplus, Net Unrealized Loss on Financial Assets at Fair Value through Other Comprehensive Income, Cumulative Foreign Currency Translation and Cost of Hedging Reserve during the period.

Surplus was up due to the net income for the period. **Net Unrealized Loss on Financial Assets at Fair Value through Other Comprehensive Income of the Parent** decreased by ₱2.1 billion mainly due to improvement in market valuation of outstanding debt securities. **Cumulative Foreign Currency Translation** loss decreased to ₱47.1 million as compared to ₱70.9 million as of December 31, 2023. **Cost of Hedging Reserve** amounted to ₱2.4 billion.

The **Capital Adequacy Ratio (CAR)** is 14.2% in September 2024. This is well above BSP minimum requirement of 10%, indicative of the sufficiency of the Bank's capital to support the current level of its risk assets.

Analysis of Consolidated Statements of Income for the Nine Months Ended September 30, 2024 and 2023

Net income attributable to the Bank's equity holders amounted to ₱8.5 billion for the nine months ended September 30, 2024, an increase of ₱0.9 billion from a year ago level of ₱7.6 billion. This translates to earnings per share of ₱11.2 from ₱10.0 for the nine months ended September 30, 2024 and 2023, respectively.

Interest Income amounted to ₱45.0 billion from ₱35.8 billion for the nine months ended September 30, 2024 and 2023, respectively. **Interest Income on Loans and Receivables** amounted to ₱34.9 billion from ₱27.8 billion of the same period last year due to higher volume of loans and receivables on a period-on-period basis. **Interest Income on Financial Assets at Fair Value Through Other Comprehensive Income and Investment Securities at Amortized Cost** grew by ₱2.4 billion on account of higher securities portfolio while **Interest Income on Financial Assets at Fair Value Through Profit or Loss** decreased by ₱205.7 million due to lower interest rates and volume in 2024. Decrease in **Interest Income on Interbank Loans Receivables and SPURA with the BSP** by ₱97.6 million was due to the decrease in volume of placements during the period. **Interest Income on Deposits with Banks and Others** increased by ₱69.1 million due to increase in volume of margin deposits during the period.

Interest Expense increased by ₱1.6 billion from prior period. **Interest Expense on Deposit Liabilities** decreased by ₱1.2 billion due to decrease in interest rates on a period-on-period basis. **Interest Expense on Notes and Bonds Payable, Bills Payable and SSURA and Other Borrowings** went up by ₱411.9 million due to higher borrowing transactions. **Interest Expense on Derivative Instruments** went down to ₱29.1 million. **Interest Expense on Derivative designated as Hedges** recognized during the year is ₱2.9 billion. **Interest Expense on Lease Liabilities** increased to ₱71.2 million compared to 2023 on a period-on-period basis.

Net Interest Income registered an increase of ₱7.7 billion to ₱32.4 billion on September 30, 2024 from ₱24.7 billion of the same period last year.

Other Income increased to ₱7.6 billion from ₱6.5 billion mainly due to increase in **Service Charges, Fees, and Commissions** by ₱2.4 billion due to higher transaction volumes and bancassurance milestone fee of ₱2.0 billion. **Trading and Securities Gain (Loss) - Net** increased by ₱291.5 million from ₱110.6 million in

2023. **Rent Income** increased by ₱141.1 million due to rental of Bank properties. **Foreign Exchange Loss** increased by ₱1.2 billion which represents funding cost in using the swaps market. **Profit from Assets Sold/Exchanged** decreased by ₱399.5 million from ₱841.8 million during the period on account of lower gains on acquisition and sale of foreclosed properties. **Share in Net Income of Joint Ventures** decreased by ₱20.7 million to ₱105.0 million from ₱125.7 million of the same period last year. **Miscellaneous Income** increased by ₱24.0 million.

Operating Expenses were higher by ₱7.1 billion. **Provision for Credit Losses** increased by ₱2.5 billion as a result of the Bank's proactive stance towards the current economic environment. **Compensation and Fringe Benefits, Depreciation and Amortization, Taxes and Licenses, Amortization of Software Costs, Occupancy Costs, and Miscellaneous Expenses** increased by ₱1.7 billion, ₱487.9 million, ₱426.9 million, ₱68.0 million, ₱47.8 million, and ₱1.9 billion, respectively. **Recovery of impairment losses** increased by ₱8.1 million.

Provision for Income Tax is higher by ₱864.8 million on a period-on-period basis mainly due to higher provision for final and current income taxes and lower benefit from deferred income tax.

Total Comprehensive Income for the nine months ended September 30, 2024 amounted to ₱8.3 billion as compared to ₱7.8 billion in 2023 on a period-on-period basis on account of higher net income and higher net unrealized gain on financial liabilities at fair value through other comprehensive income tempered by fair value loss of hedging instruments.

Liquidity

The Group's liquidity is more than adequate with liquid assets to total assets ratio of 35.87% as of September 30, 2024. The Group does not anticipate any cash flow or liquidity problems within the next twelve (12) months and is not in default or breach of any note, loan, lease or other indebtedness or financing arrangement requiring it to make payments. All payables have been paid by the Group within the stated terms. There are no known trends, demands, commitments, events or uncertainties that may result in or that are reasonably likely to result in the Group's liquidity increasing or decreasing in any material way.

Commitments and Contingent Liabilities

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

Material Commitments for Capital Expenditures

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

Material Impact on Income from Continuing Operations

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

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

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

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

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

Significant events and uncertainties during the period

There are no significant events and uncertainties during the period.