UNIONBANK

UnionBank Plaza
Meralco Avenue cor. Onyx &
Sapphire Roads, Ortigas Center
Pasig City 1605
Tel: (632) 667 6388 Fax: (632) 636 6289
www.unionbankph.com

August 14, 2013

The Philippine Stock Exchange, Inc.
3rd Floor, Philippine Stock Exchange Plaza
Ayala Triangle, Ayala Avenue
City of Makati

Attention: ***MS. JANET A. ENCARNACION***
Head, Disclosure Department

Dear Ms. Encarnacion:

In compliance with SEC reportorial requirements, we are pleased to submit the SEC Form 17-Q report of the Union Bank of the Philippines for the period ended June 30, 2013.

Thank you.

Very truly yours,

MILA D. FAJARDO
Assistant Vice President

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 : **June 30, 2013**

2. Commission identification number : **36073**

3. BIR Tax Identification No. : **000-508-271-000**

4. Exact name of registrant as specified in its charter : **UNION BANK OF THE PHILIPPINES**

5. Province, country or other jurisdiction of incorporation or organization : **PHILIPPINES**

6. Industry Classification Code : ________ (SEC Use Only)

7. Address of principal office : **UBP Plaza, Meralco Avenue corner Onyx & Sapphire Roads, Ortigas Center, Pasig City**

8. Registrant's telephone number, including area code : **(632) 667-6388**

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

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

Title of Each Class	Number of Share of Common Stock Outstanding	Amount of Debt Outstanding (Unpaid Subscription)
Common Stock P10 par value	**641,422,420**	**None**

11. Are any or all of the securities listed on a Stock Exchange? **Yes (x) No ( )**
If yes, state the name of such stock exchange and the classes of securities listed therein:

Stock Exchange : Philippine Stock Exchange
Class of Securities : Common Shares

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of SRC and SRC Rule 11 (a)-1 thereunder and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 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 90 days **Yes (x) No ( )**

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

Consolidated Statements of Financial Position	-	Annex 1
Consolidated Statements of Income	-	Annex 2 (page 1 of 2)
Consolidated Statements of Comprehensive Income	-	Annex 2 (page 2 of 2)
Consolidated Statements of Changes in Capital Funds	-	Annex 3
Consolidated Statements of Cash Flow	-	Annex 4
Notes to Consolidated Financial Statements	-	Annex 5
Financial Indicators	-	Annex 6

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Annex 7

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 registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

JESUS ROBERTO S. REYES
SEVP, Treasurer

ATTY. CESAR G. ILAGAN
SVP, Financial Controller

Date: August 14, 2013

Annex 1

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
(Amounts in Thousands of Philippine Pesos)

	June 30, 2013 (Unaudited)	December 31, 2012 (Audited)
RESOURCES		
Cash and Other Cash items	3,836,220	4,242,361
Due from Bangko Sentral ng Pilipinas	91,927,446	27,450,311
Due from Other Banks	2,919,257	2,999,339
Interbank Loans Receivable	13,062,712	5,503,496
Trading and Investment Securities		
At fair value through profit or loss	320,961	397,477
Available-for-sale-net	92,498,633	88,558,276
Loans and Other Receivables-net	99,751,288	119,716,589
Bank Premises, Furniture, Fixtures and Equipment-net	3,308,144	3,105,790
Assets Held for Sale	504,670	397,459
Investment Properies	12,047,261	11,555,076
Goodwill	11,258,368	7,886,898
Other Resources - net	9,205,530	7,931,914
TOTAL RESOURCES	**340,640,490**	**279,744,986**
LIABILITIES AND CAPITAL FUNDS		
Deposit Liabilities		
Demand	87,824,447	62,811,727
Savings	25,418,586	23,868,712
Time	146,303,059	103,160,918
Total Deposit Liabilities	259,546,092	189,841,357
Bills Payable	15,208,030	18,541,267
Notes Payable	3,750,000	3,750,000
Other Liabilities	17,102,609	19,765,119
TOTAL LIABILITIES	295,606,731	231,897,743
Capital Funds Attributable to the Equity Holders of UBP		
Common Stock	6,414,224	6,414,224
Capital Paid in Excess of Par Value	5,819,861	5,819,861
Surplus	37,602,250	33,656,926
Surplus Reserve for Trust Business	149,713	149,596
Net Unrealized Gain/(Loss) on Available-for-Sale Securities	(4,964,665)	1,806,636
	45,021,383	47,847,243
Non-controlling Interest	12,376	-
TOTAL CAPITAL FUNDS	45,033,759	47,847,243
TOTAL LIABILITIES AND CAPITAL FUNDS	**340,640,490**	**279,744,986**

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENTS OF INCOME
(Amounts in Thousands of Philippine pesos, Except Per Share Data)

	FOR THE SIX MONTHS ENDED JUNE 30		QUARTERS ENDED JUNE 30	
	2013	2012	2013	2012
INTEREST INCOME ON				
Loans and other receivables	4,060,372	3,480,343	1,968,513	1,731,060
Trading and Investments securities	1,811,607	2,081,367	912,564	1,078,107
Due from other banks	501,188	102,555	294,081	(6,791)
Interbank loans receivables	9,679	14,724	5,812	4,556
	6,382,846	5,678,989	3,180,970	2,806,932
INTEREST EXPENSE ON				
Deposit liabilities	1,973,367	1,838,274	1,003,812	823,466
Bills payable and other liabilities	346,122	171,513	163,532	87,785
	2,319,489	2,009,787	1,167,344	911,251
NET INTEREST INCOME	4,063,357	3,669,202	2,013,626	1,895,681
IMPAIRMENT LOSSES	369,626	260,148	309,095	77,442
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	3,693,731	3,409,054	1,704,531	1,818,239
OTHER INCOME				
Service charges, fees and commissions	1,001,604	378,453	492,418	200,237
Trading gain-net	5,613,213	3,289,006	2,241,971	641,269
Premium Revenue	1,003,686	1,078,556	609,925	439,422
Miscellaneous	1,091,613	823,403	58,219	360,305
	8,710,116	5,569,418	3,402,533	1,641,233
OTHER EXPENSES				
Salaries and employee benefits	2,082,588	1,647,969	954,360	758,253
Taxes and Licenses	936,420	511,709	440,941	234,037
Depreciation and amortization	225,428	174,884	112,705	85,373
Occupancy	302,657	278,346	149,255	135,319
Trust Fund Contribution	942,925	1,014,307	572,651	413,214
Miscellaneous	1,240,830	1,045,389	445,370	488,771
	5,730,848	4,672,604	2,675,282	2,114,967
INCOME BEFORE INCOME TAXES	6,672,999	4,305,868	2,431,782	1,344,505
TAX EXPENSE	481,243	238,610	242,844	120,339
NET INCOME	6,191,756	4,067,258	2,188,938	1,224,166
Attributable to:				
Equity Holders of the Parent	6,190,302	4,067,258		
Non-controlling Interest	1,454	0		
	6,191,756	4,067,258		
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Company	19.31	12.68		

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands of Philippine Pesos)

	FOR THE SIX MONTHS ENDED JUNE 30		FOR THE QUARTERS ENDED JUNE 30	
	2013	**2012**	**2013**	**2012**
NET INCOME	6,191,756	4,067,258	2,188,938	1,224,166
OTHER COMPRENEHSIVE INCOME (LOSS)				
Net unrealized gains (Losses) on available-for-sale securities	(6,771,302)	(1,336,358)	(7,607,876)	(197,730)
Amortization of unrealized loss on reclassified investments		(52,982)	-	(18,210)
Realized on reclassified investments		(257,413)	-	(204,839)
Other Comprehensive Income for the period	(6,771,302)	(1,646,753)	(7,607,876)	(420,779)
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	(579,546)	2,420,505	(5,418,938)	803,387

ATTRIBUTABLE TO:		
Equity holders of the Parent Company	(581,000)	2,420,505
Non-controlling Interest	1,454	-
	(579,546)	2,420,505

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
INTERIM STATEMENTS OF CHANGES IN CAPITAL FUNDS
(Amounts in Thousands of Philippine Pesos)

	(Unaudited)	
	FOR THE SIX MONTHS ENDED JUNE 30	
	2013	2012
Common Stock		
Balance at beginning of year, as restated	6,414,224	6,414,224
Issuance of additional shares during the quarter		
Balance at quarter end	6,414,224	6,414,224
Additional Paid-in Capital		
Balance at beginning of year	5,819,861	5,819,861
Issuance of additional shares		
Balance at quarter end	5,819,861	5,819,861
Surplus Free		
Balance at beginning of year	33,656,926	28,011,264
Net Income	6,190,302	4,067,258
Cash Dividends	(2,244,978)	(1,924,267)
Appropriation for trust business		
Balance at quarter end	37,602,250	30,154,255
Surplus Reserves		
Balance at beginning of year	149,713	134,173
Transfer from surplus		
Balance at quarter end	149,713	134,173
Net Unrealized Gain(Loss) on Available-for-sale Securities	(4,964,665)	812,764
Total Capital Funds Attributable to Equity Holders of UBP	45,021,383	43,335,277
Non-Controlling Interest	12,376	0
Total Capital Funds	45,033,759	43,335,277

ANNEX 4

Union Bank of the Philippines and Subsidiaries
Interim Statements of Cash Flows
(Amounts in Thousands of Philippine Pesos)

	(Unaudited)	
	For the Six Months Ended JUNE 30	
	2013	**2012**
CASH FLOW FROM OPERATING ACTIVITIES		
Profit before income tax	6,672,999	4,305,868
Adjustments for:		
Provision for impairment losses	369,626	260,148
Loss (gain) on decline (appreciation) in fair value	46	-
Depreciation and amortization	225,428	174,884
Changes in operating resources and liabilities:		
Decrease (increase) in:		
Financial Assets at Fair Value Through Profit and Loss	76,845	(540,948)
Loans and Receivables	19,604,244	17,248,345
Other Resources	(4,896,352)	(365,139)
Increase (decrease) in:		
Deposit Liabilities	69,704,735	(35,396,822)
Other Liabilities	(2,494,194)	(271,072)
Net cash generated from operations	89,263,377	(14,584,736)
Income taxes paid	(443,172)	(287,725)
Net cash provided by operating activities	88,820,205	(14,872,461)
CASH FLOW FROM INVESTING ACTIVITIES		
Net disposal (acquisition) of:		
Available-for-Sale Securities investments	(10,711,988)	(1,587,651)
Property and equipment	(391,354)	(285,151)
Assets held for sale	(107,211)	
Investment properties	(492,232)	818,021
Increase in minority interest	10,923	
Net cash provided by (used in) investing activities	(11,691,862)	(1,054,781)
CASH FLOW FROM FINANCING ACTIVITIES		
Increase (decrease) in:		
Bills Payable	(3,333,237)	7,635,557
Notes Payable	-	
Cash dividends paid	(2,244,978)	(1,924,267)
Net cash provied by (used in) financing activities	(5,578,215)	5,711,290
NET INCREASE IN CASH AND CASH EQUIVALENTS	71,550,128	(10,215,952)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and Other Cash Items	4,242,361	3,686,931
Due from Bangko Sentral ng Pilipinas	27,450,311	28,771,881
Due from Other Banks	2,999,339	3,213,740
Interbank Loans Receivable	5,503,496	12,989,144
	40,195,507	48,661,696
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and Other Cash Items	3,836,220	3,217,182
Due from Bangko Sentral ng Pilipinas	91,927,446	28,670,394
Due from Other Banks	2,919,257	3,765,777
Interbank Loans Receivable	13,062,712	2,792,391
	111,745,635	38,445,744

UNION BANK OF THE PHILIPPINES
GENERAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2013

1. Corporate Information

Union Bank of the Philippines (the Bank, UnionBank or the Parent Company) was incorporated in the Philippines on August 16, 1968 and operates as a universal bank through its universal banking license acquired in July 1992.

The Bank provides expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. As of June 30, 2013, the Bank has 185 branches and 241 automated teller machines, located nationwide.

The Bank's common shares are listed in the Philippine Stock Exchange (PSE). The Bank is effectively 44.16% owned by Aboitiz Equity Ventures, Inc. (AEVI), a company incorporated and domiciled in the Philippines. AEVI is the holding and management company of the Aboitiz Group of Companies.

2. Summary of Significant Accounting Policies

Basis of Preparation

The Bank's interim financial statements have been prepared in accordance with Financial Reporting Standards in the Philippines (FRSP) for banks. FRSP for banks and Philippine Financial Reporting Standards (PFRS) are the same, except for the exemption from the tainting provision of Philippine Accounting Standard (PAS) 39, Financial Instruments: Recognition and Measurement, as allowed by Bangko Sentral ng Pilipinas (BSP) and the Securities and Exchange Commission (SEC).

PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board. The financial statements have been prepared using the measurement basis specified by PFRS for each type of resource, liability, income and expense.

The financial statements are presented in Philippine pesos, the Bank's functional and presentation currency, and all values represent absolute amounts except when otherwise indicated.

The accounting polices adopted in the preparation of the interim financial statements are consistent with its most recent annual financial statements as of December 31, 2012.

Basis of Consolidation

The group obtains and exercises control through voting rights. The Group's interim financial statements comprise the accounts of the Bank and of its subsidiaries, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full.

The Bank's subsidiaries (all incorporated in the Philippines), its effective percentage of ownership and the nature of the subsidiaries' businesses follow:

Subsidiary	Percentage of Ownership	Nature of Business
First Union Direct Corporation (FUDC)	100%*	Financial products marketing
First Union Plans, Inc. (FUPI)	100% *	Pre-need
UBP Insurance Brokers, Inc. (UBPIBI)	100%	Insurance brokerage
UBP Securities, Inc. (UBPSI)	100%	Securities brokerage
UnionBank Currency Brokers Corporation (UCBC)	100%	Foreign currency brokerage
UnionDataCorp (UDC)	100%	Data processing
Union Properties, Inc. (UPI)	100%	Real estate administration
City Savings Bank (CSB)	99.54%	Thrift Bank
Interventure Capital Corporation (IVCC)	60%	Venture capital

** FUDC and FUPI are wholly-owned subsidiaries of UPI.*

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are consolidated from the date the Bank obtains control until such time that such control ceases

Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any noncontrolling- interest in the acquiree, either at fair value or at the noncontrolling-interest's proportionate share of the recognized amounts of acquiree's identifiable net assets.

The acquisition method is applied to account for acquired subsidiaries. This requires recognizing and measuring the identifiable assets acquired, the liabilities assumed and any non controlling-interest in the acquiree. It is measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the Group recognizes any non controlling-interest in the acquiree, either at fair value or at the non controlling interest's proportionate share of the recognized amount of acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any noncontrolling-interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of identifiable net assets acquired is recognized as goodwill.

The financial statements of subsidiaries are prepared for the same reporting period as the Bank, using consistent accounting principles. IVCC was not included in the consolidation due to immateriality of its account balances.

3. **Business Combinations**

On January 8, 2013, UnionBank's Board of Directors approved the purchase of City Savings Bank (CSB), a premier thrift bank specializing in granting teacher's loans under the Department of Education's Automatic Payroll Deduction System. A Memorandum of Agreement was entered into by and between UBP and CSB on that date for the sale and purchase of 99.54% ownership at a purchase price of Php5.734 billion based on 2.5 times the audited book value of CSBs' shares as of December 31, 2012.

On March 21, 2013, the Monetary Board of Bangko Sentral ng Pilipinas (BSP) approved the acquisition of 99.54% of the total issued and subscribed common capital stock of the CSB.

The acquisition of CSB is aligned with the Bank's business plans and long-term strategy of building businesses based on consumers.

The values of the assets and liabilities of CSB that were relied upon by the parties in entering into the transactions are as follows (amounts in millions of Philippine pesos):

	Values recognized on Acquisition of CSB
Cash and Other Cash Items	P 235
Due from Bangko Sentral ng Pilipinas	1,187
Due from Other Banks	457
Loans and Receivables	13,326
Property and Equipment	145
Investment Properties	96
Intangibles	86
Deferred Tax Asset	34
Other Assets	35
	15,601
Deposit Liabilities	8,780
Bills Payable	4,222
Accounts Payable and Accrued Expenses	140
Income Tax Payable	68
Other Liabilities	16
	13,226
Net Assets	2,375
Net Assets acquired at 99.54%	2,364
Goodwill arising on acquisition of CTSB	3,371
Total consideration, satisfied by cash	5,735

4. Significant Accounting Policies – Financial Instruments

Financial Assets

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, HTM investments and AFS financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

A more detailed description of the four categories of financial assets follow:

(a) Financial Assets at FVTPL

This category includes financial assets that are either classified as held for trading or that meets certain conditions and are designated by the Group to be carried at FVTPL upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets (except derivatives and financial assets originally designated as financial assets at FVTPL) may be subsequently reclassified out of FVTPL category if they are no longer held for the purpose of being sold or repurchased in the near term, effective July 1, 2008:

(i) only in rare circumstances and if there is a change in intention (i.e., the financial asset is no longer held for the purpose of selling or repurchasing it in the near future); and

(ii) if the financial asset would have met the definition of loans receivables and if the financial asset had not been required to be classified as held-for-trading at initial recognition and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are those arising from direct loans to customers, interbank loans, sales contract receivables, and all receivables from customers and other banks.

Securities Purchased Under Reverse Repurchase Agreements (SPURRA), wherein the Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with BSP, are also included under this category. The difference between the purchase and subsequent selling price is recognized as interest and accrued over the life of the agreements using the effective interest method.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in their fair value is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7 (Amendments). Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 (Amendments) shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate.

Impairment losses is the estimated amount of losses in the Group's loan portfolio, based on the evaluation of the estimated future cash flows discounted at the loan's original effective interest rates or the last repricing rate for loans issued at variable rates. It is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

(c) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification.

HTM investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment due to impairment are recognized in profit or loss.

Should the Group sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS financial assets, except as may be allowed by the BSP and SEC. However, the tainting provision will not apply if the sales or reclassifications of HTM investments are: (i) so close to maturity or the financial resources' call date that changes in the market rate of interest would not have a significant effect on its fair value; (ii) occur after the Group has collected substantially all of the financial assets' original principal through scheduled payments or prepayments; or, (iii) are attributable to an isolated event that is beyond the control of the Group, is non-recurring and could have not been reasonably anticipated by the Group.

(d) AFS Financial Assets

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed. Gains and losses from changes in fair value are recognized in other comprehensive income, net of any income tax effects, and are reported as part of the Net Unrealized Fair Value Gains (Losses) on AFS Financial Assets account in equity. When the financial asset is disposed of or is determined to be impaired, the cumulative fair value gains or losses recognized in other comprehensive income is reclassified from equity to profit or loss and is presented as reclassification adjustment within other comprehensive income.

Reversal of impairment losses are recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

For investments that are actively traded in organized financial markets, fair value is determined by reference to exchange-quoted market bid prices at the close of business on the reporting period. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

A financial asset is considered as being traded in an active market if quoted prices or market values are readily and periodically available from stock or debt markets, exchanges, dealers, brokers, industry groups, pricing service entities or regulatory agencies. In such cases, those prices or values represent actual and regularly occurring market transactions on an arm's length basis. Otherwise, the market is regarded as being inactive. Indications that a market is inactive are when there are few recent transactions or when market participants have not engaged in transactions for at least one year.

Non-compounding interest, dividend income and other cash flows resulting from holding financial assets are recognized in profit or loss when earned, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire or when all substantial risks and rewards of ownership have been transferred.

Derivative Financial Instruments

The Group is a counterparty to derivatives contracts, such as options, currency forwards and swaps, interest rate swap and futures contracts. These contracts are entered into as a means of reducing or managing the Group's foreign exchange and interest rate exposures as well as those of its customers.

Derivatives are initially recognized at fair value on the date on which the derivative contract is entered into and are subsequently measured at their fair values. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument. When such evidence exists, the Group recognizes a gain or loss at initial recognition.

For more complex instruments, the Group uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized in income depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks, as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value on the statement of financial position.

Certain derivatives embedded in other financial instruments, such as the call or put option in a bond and credit default swap in a credit linked note, are considered as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss.

Changes in the fair value of derivatives are recognized in profit or loss.

Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, notes payable, and other liabilities (except tax-related payables and pre-need reserves).

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest-related charges incurred on a financial liability are recognized as an expense in profit or loss.

Deposit liabilities are recorded or stated at amounts in which they are to be paid, which approximate fair value.

Bills payable and notes payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and notes payable are subsequently stated at amortized cost; any difference between the proceeds, net of transaction costs and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Derivative liabilities, which are included as part of Other Liabilities, are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, using effective interest method for maturities beyond one year, less settlement payments.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BSP.

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

Offsetting Financial Instruments

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

Impairment of Financial Assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about certain loss events, including, among others: (i) significant financial difficulty of the issuer or debtor; (ii) a breach of contract, such as a default or delinquency in interest or principal payments; (iii) it is probable that the borrower will enter bankruptcy or other financial reorganization; (iv) the disappearance of an active market for that financial asset because of financial difficulties; or, (v) observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(a) Assets Carried at Amortized Cost

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment.

Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.

If a loan or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group's or BSP's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets and historical loss experience for assets with credit risk characteristics similar to those in the group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it may be written off, subject to BSP guidelines, against the related allowance for loan impairment. Such loans are written off after all the necessary procedures including approval from the BOD and the BSP, if necessary under existing regulations, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment loss in profit or loss.

If, in a subsequent period the amount of the impairment loss decrease and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in profit or loss.

(b) Assets Carried at Fair Value with Changes Recognized in Other Comprehensive Income

In the case of investments classified as AFS financial assets, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS financial assets, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from other comprehensive income and recognized in profit or loss. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss.

If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(c) Assets Carried at Cost

The Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed. Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized as part of Impairment Losses in the statement of income.

Changes in Accounting Policies

There are new PFRS amendments and interpretations to existing standards that will be effective in the subsequent periods. Management has determined whether these are relevant to its financial statements and has evaluated their applicability and impact to the bank.

(a) Effective in 2013

(i) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;

- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,

- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

The Group used the corridor approach in its December 31, 2012 and 2011 financial statements and actuarial valuations were made annually to update the post employment benefit costs and the amount of contribution. The unrecognized actuarial losses as of December 31,2012 will be retrospectively recognized as loss in the 2013 statement of comprehensive income.

(ii) Consolidation Standards

- PFRS 10, *Consolidated Financial Statements*. This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess. All of the subsidiaries in the Group, except CitySavings Bank which is 99.54% owned, are wholly owned companies of the Parent Bank, hence, the standard has no significant impact on the Group Financial Statements.

- PFRS 12, *Disclosure of Interest in Other Entities.* This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities. This standards is not applicable, hence, no significant impact on Group Financial Statements.

- PAS 27 (Amendment), *Separate Financial Statements.* This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred to and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision, hence, the amendment has no significant impact on the separate financial statements of the companies in the Group.

- PAS 28 (Amendment), *Investments in Associate and Joint Venture.* This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*. This standards is not applicable, hence, no significant impact on Group Financial Statements.

(iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfer of Financial assets*. The amendment requires disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. The Group did not transfer any financial asset involving this type of arrangement; hence, the amendment will not result in any significant change in the Group's disclosure in its financial statement.

(iv) PFRS 13, *Fair Value Measurement*. This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. This new standard has no significant effect on the financial statements of the group since its current fair value measurement methods are already in accordance with requirements of other relevant accounting standards.

Amendments to PFRS 1, *Government Loans* and PFRS 11, *Joint Arrangements,* are not applicable to the Group.

Future Changes in Accounting Policies

b) Effective in 2014

PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. The Group does not expect this amendment to have a significant impact on its financial statements.

c) Effective in 2015

PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39 in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and as such, the entity shall apply measurement to the entire hybrid contract, depending on whether the contract is at fair value or amortized cost.

For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of the Group and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

d) Annual Improvements to PFRS

The annual improvements to the following PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to the Group but management does not expect a material impact on the Group's financial statements:

1. PAS 16 (Amendment), *Property, Plant and Equipment – Classification of Servicing Equipment.* The amendment addresses a perceived inconsistency in the classification requirements for servicing equipment which resulted in classifying servicing equipment as part of inventory when it is used for more than one period. It clarifies that items such as spare parts, stand-by equipment and servicing equipment shall be recognized as property, plant and equipment when they meet the definition of property, plant and equipment, otherwise, these are classified as inventory.

2. PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments* was identified to be relevant to the Group's financial statements but management does not expect a material impact on the Group's financial statements. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12, *Income Taxes*. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

5. Financial Risk Management

Compared with the report as of December 31, 2012, there has been no significant changes in the financial risk exposures of the Group as of June 30, 2013 that will have a material impact on its financial condition and results of operation. The Group has exposure to the following risks arising from the use of financial instruments: (a) credit, (b) market, (c) liquidity, (d) interest rate and (e) currency risk.

The Board of Directors (BOD) has the overall responsibility for overseeing the risk management process in the bank. It approves and periodically reviews the risk strategy and significant risk policies. The strategy reflects the Bank's tolerance for risk and the level of profitability it expects for accepting the risks.

The BOD is supported by Board-level committees in its risk oversight function, such as the Executive Committee (Excom), Risk Management Committee (RMC), Market Risk Committee (MRC), Operations Risk Management Committee (ORMC), Audit Committee and the Corporate Governance Committee, and through senior management committees such as the Asset and Liability Committee (ALCO).

Credit Risk

Credit Risk is the risk of financial loss to the Bank arising from the failure of a counterparty to meet its contractual obligations. It arises from exposures both in the banking and trading books and on and off balance sheet. The Group manages and controls credit risk through a system of limits applied by individual counterparty, group of related borrowers, product program, type of exposure, industry concentration and by monitoring exposures against the limits on a regular basis. The Group has well-defined policies and criteria for its credit granting process with respect to the different types of portfolio or market segments.

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 rate, foreign exchange rates and equity prices. The Group applies a Value at Risk (VaR) methodology to assess the market risk of positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. The group manages and controls market risk by establishing VaR and portfolio limits. To supplement the VaR, the Group performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Group's VaR model.

Liquidity Risk

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Group's customers and repay deposits on maturity. The ALCO and the Treasurer of the Group ensure that sufficient liquid assets are available to meet short-term funding and regulatory requirements. Liquidity is monitored by the Group on a daily basis and under stressed situations. A contingency plan is formulated to set out the amount and the sources of funds (such as unused credit facilities) that are available to the Group and the circumstances under which the Group may use such funds. The Group also manages its liquidity risks through the use of a Maximum Cumulative Outflow (MCO) limit which regulates the outflow of cash on a cumulative basis and on a tenor basis.

Interest Rate Risk

Interest rate risk is the risk associated with fluctuations in market interest rates on the Group's net interest income making it necessary to ensure that the Bank's exposure to the effect of interest rates risk is kept within acceptable limits. The Group employs "gap analysis" to measure the interest rate sensitivity of its resources and liabilities. The gap analysis measures, for any given period, any mismatch between the amounts of interest-earning resources and interest-bearing liabilities which would mature or reprice during the period.

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates. The Group's net foreign exchange exposure, taking into account any spot or forward exchange contracts, is computed as foreign currency assets less foreign currency liabilities. The foreign exchange exposure is limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Group's branches, as well as foreign exchange trading with corporate accounts and other financial institutions. The Group is permitted to engage in proprietary trading to take advantage of foreign exchange fluctuations.

6. Fair Value Measurement

Management applies valuation techniques to determine the fair value of financial instruments where active market quotes are not available. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument.

Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

All financial assets at FVTPL are held for trading. The fair value of equity shares have been determined directly by reference to published price quoted in an active market. Derivative instruments include foreign currency forwards and warrants. Foreign currency forwards represent commitments to purchase/sell foreign currency on a future date at an agreed exchange rate.

In accordance with this PFRS 7, *Financial Instruments Disclosures*, financial assets and liabilities measured at fair value in the statement of financial position are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

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

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy (amounts in millions of Philippine pesos)

	June 30, 2013 (unaudited)				**December 31, 2012 (audited)**			
	Level 1	**Level 2**	**Level 3**	**Total**	**Level 1**	**Level 2**	**Level 3**	**Total**
Resources								
Financial Assets at FVTPL	61	219	41	321	54	304	39	397
Available for Securities	92,381	47	71	92,499	88,558			88,558
Liabilities								
Derivatives with negative fair values		442		442	1,048			1,048

The following table summarizes the carrying amounts and fair values of those financial resources and liabilities not presented in the statement of financial position at their fair values (amounts in millions of Philippines pesos):

	30-Jun-13		31-Dec-12	
	(Unaudited)		(Audited)	
	Cost	Fair Value	Cost	Fair Value
Financial Assets				
Cash and other cash items	3,836	3,836	4,242	4,242
Due from BSP	91,927	91,927	27,450	27,450
Due from other banks	2,919	2,919	2,999	2,999
Interbank loans receivable	13,063	13,063	5,503	5,503
Loans and other receivables	99,751	99,666	119,717	119,674
Financial Liabilities				
Deposit liabilities	259,546	259,546	189,841	189,841
Bills payable	15,208	15,208	18,541	18,541
Notes payable	3,750	3,698	3,750	3,936
Other Liabilities	8,743	8,743	12,992	12,992

Trading and investment securities includes foreign denominated investments in government bonds and other debt securities amounting to P51.77 billion as of June 30, 2013 and 43.01 billion as of December 31, 2012. Government bonds and other debt securities issued by resident and non-resident corporations earned interest at 3.375% to 12.375% from January to June 2013 and 3.875% to 12.375% in 2012.

Criteria used to determine whether the market for financial instrument is active or inactive

A financial instrument is considered as being traded in an active market if quoted prices or market values are readily and periodically available from stock or debt markets, exchanges, dealers, brokers, industry groups, pricing service entities or regulatory agencies. In such cases, those prices or values represent actual and regularly occurring market transactions on an arm's length basis. Otherwise, the market is regarded as being inactive.

7. Segment Information

The Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of the Group in reporting to its chief operating decision-maker for its strategic decision-making activities. The Group's main business segments are as follows:

(a) *Consumer Banking* - principally handles individual customers' deposits and provides consumer type loans, such as automobiles and mortgage financing, credit card facilities and funds transfer facilities;
(b) *Corporate and Commercial Banking* - principally handles loans and other credit facilities and deposit and current accounts for corporate, institutional, small and medium enterprises, and middle market customers;
(c) *Treasury* - principally responsible for managing the Bank's liquidity and funding requirements, and handling transactions in the financial markets covering foreign exchange and fixed income trading and investments and derivatives; and,
(d) *Headquarters* - includes corporate management, support and administrative units not specifically identified with Consumer Banking, Corporate Banking or Treasury.

These segments are the basis on which the Group reports its primary segment information. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Segment resources and liabilities comprise operating resources and liabilities including items such as taxation and borrowings. Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

Segment information of the Group as of and for the quarters ended June 30, 2013 and 2012 is presented as follows (amounts in millions of Philippine pesos):

	Consumer Banking	Corporate and Commercial Banking	Treasury	Headquarters	Total
June 30, 2013					
Net interest income and other income	P 3,601	P 1,474	P 5,733	P 1,965	P 12,773
Other expenses	(2,009)	(533)	(790)	(2,399)	5,731
Income before provision for impairment and income tax	P 1,592	P 941	P 4,943	P (433)	7,403
Provision for impairment					(370)
Tax expense					(481)
Net income					P 6,192
Segment resources	P 48,656	P 75,169	P 171,102	P 45,713	P 340,640
Segment liabilities	P 121,575	P 92,553	P 50,739	P 30,740	P 295,607

June 30, 2012	Consumer Banking	Corporate and Commercial Banking	Treasury	Headquarters	Total
Results of operations					
Net interest income and other income	P 2,374	P 788	P 4,312	P 1,765	P 9,239
Other expenses	(1,638)	(472)	(444)	(2,119)	4,673
Income before provision for impairment and income tax	P 736	P 316	P 3,868	(P 354)	P 4,566
Provision for impairment					(260)
Tax expense					(239)
Net income					P 4,067
Segment resources	P 45,779	P 68,724	P 110,755	P 17,399	P 242,657
Segment liabilities	P 104,473	P 53,515	P 33,564	P 7,770	P 199,322

8. Notes Payable

The Group's notes payable as of June 30, 2013 of P3.750 billion pertain to the outstanding balance of unsecured subordinated notes (the Notes) which was issued on October 14, 2009 due on October 14, 2019 and callable on October 15, 2014. The balance of the Notes as of December 31, 2012 likewise amounted to P3.750 billion.

The Notes bear interest at the rate of 7.375% per annum payable quarterly in arrears to the Noteholders for the period from and including the issue date up to but excluding the first banking day of the 21st interest period (if the call option is not exercised) or the call option date (if the call option is exercised). The interest rate from and including October 14, 2014 up to but excluding October 14, 2019 will be reset and such step-up interest rate shall be payable to the Noteholders beginning on the 21st interest period up to the last interest period in the event that the Parent Company does not exercise the call option.

9. Capital Funds

The Bank's common stock at June 30, 2013 and 2012 consists of 641.4 million shares with P10 par value. The authorized capital stock of the Bank is 670 million shares.

The following is a summary of the dividends declared and distributed by the Bank in 2013 and 2012:

Date of Declaration	Date of Record	Date of Payment	Date of BSP Approval	Dividend per Share	Shares Outstanding	Total Amount
January 25, 2013	March 20, 2013	April 18, 2013	March 06, 2013	P3.50	641,422,420	P 2,245,978
January 27, 2012	March 13, 2012	April 11, 2012	February 27, 2012	P3.00	641,422,420	P 1,924,267

In compliance with BSP regulations, the Bank ensures that adequate reserves are in place for future bank expansion requirements. The foregoing cash dividend declarations were made within the BSP's allowable limit of dividends.

10. Related Party Transactions

In the ordinary course of business, the Group has loans, deposits and other transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). Under the Group's existing policies, these transactions are made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Group. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Group, whichever is lower. As of June 30, 2013 and December 31, 2012, the Bank is in compliance with these regulatory requirements.

11. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of June 30, 2013 and December 31, 2012, no additional material losses or liabilities are required to be recognized in the accompanying financial statements as a result of the above commitments and transactions.

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

12. Earnings Per Share

Basic earnings per share were computed as follows:

	June 30, 2013	June 30, 2012
Net income Attributable to Equity Holders Of the Parent Company	**P 6,190,302**	P 4,067,258
Divided by the weighted average number of outstanding common shares	**641,422**	641,422
Basic earnings per share*	**P 19.31**	P 12.68

* *annualized*

As of June 30, 2013 and 2012, the Group has no outstanding potentially dilutive securities, hence, basic earnings per share are equal to diluted earnings per share.

13. Events After the Reporting Period

None to report.

Annex 6

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
FINANCIAL INDICATORS
AS OF INDICATED DATES

Ratios	**06/30/2013**	**12/31/2012**
a. Liquidity Ratio	78.8%	86.6%
b. Debt to Equity Ratio	656.9%	484.7%
c. Asset to Equity Ratio	757.0%	584.7%
d. Capital Adequacy Ratio	19.5%	20.7%
	06/30/2013	**06/30/2012**
e. Interest Rate Coverage Ratio	388.0%	314.0%
f. Return on Average Equity	26.7%	18.9%
g. Return on Average Assets	4.0%	3.2%
h. Net interest Margin	3.4%	3.4%
i. Cost-to-income Ratio	44.9%	50.6%

UNION BANK OF THE PHILIPPINES
SEC FORM 17-Q
FOR THE PERIOD ENDED JUNE 30, 2013

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

Statement of Income for the Period Ended June 30, 2013 vs. June 30, 2012

The Bank recorded a net income of Php6.19 billion for the first six months of 2013, a growth of 52.23% from the Php4.07 billion in the same period last year.

Total interest income went up by 12.39% to Php6.38 billion this year compared to the Php5.68 billion earned the previous year. Interest income on loans and other receivables, and due from other banks climbed to Php4.06 billion and to Php0.50 billion, respectively, with the improvement in the average levels and yields on these investments. Interest income on interbank loans receivables, on the other hand, slid by Php0.005 billion to Php0.010 billion on lower average levels and yields. The expansion in the Bank's average securities portfolio was more than offset by the contraction in average yields, which led to the Php0.27 billion drop in interest income on trading and investments securities to Php1.811 billion.

Total interest expense amounted to Php2.32 billion, 15.41% more than the Php2.00 billion reported a year ago, driven by the increases in interest expense on deposit liabilities and bills payable to Php1.97 billion and to Php0.35 billion, respectively, as the growth in the average deposit and borrowing levels outweighed the decline in the average costs of funding.

As a result of the foregoing, net interest income rose by 10.74% to Php4.06 billion this year as compared to the Php3.67 billion last year.

The Bank booked higher provision for impairment losses at Php0.37 billion this year from Php0.26 billion set aside the previous year.

Total other income surged to Php8.71 billion for the first half of 2013, up by 56.39% from Php5.57 billion in the same period a year ago, principally due to the increase in securities trading gains to Php5.61 billion from Php3.29 billion. Service charges, fees and commissions breached the Php1.00 billion level from Php0.38 billion, mainly driven by higher loan processing fees attributed to the robust growth in lending activities. Miscellaneous income went up to Php1.09 billion from Php0.82 billion, predominantly on higher trust fund income and dividend income. Premium revenue, however, dipped to Php1.00 billion from Php1.08 billion on lower sales of First Union Plans, Inc. (FUPI) pre-need plans.

Total other expenses amounted to Php5.73 billion for the six-months ending June 2013, up by 22.65% from Php4.67 billion in the same period last year. Salaries and employee benefits rose by Php0.43 billion to Php2.08 billion on compensation-related increases. Taxes and Licenses was up by Php0.42 billion to Php0.94 billion on higher documentary stamps used and gross receipts taxes. Depreciation and amortization was higher by Php0.05 billion to Php0.23 billion while occupancy increased by Php0.02 billion to Php0.30 billion, primarily due to the expanded branch network arising from CitySavings' acquisition. Miscellaneous expense jumped by Php0.20 billion to Php1.24 billion largely driven by brokerage fees and build-up of pre-need reserves. Trust fund contribution, meanwhile, fell by Php0.07 billion to Php0.94 billion, consequent to the decline in premium revenue.

Tax expense doubled to Php0.48 billion from Php0.24 billion on the back of higher corporate income tax resulting from the consolidation of CitySavings and on lower deferred tax.

Statement of Comprehensive Income for the Period Ended June 30, 2013 vs. June 30, 2012

The Bank posted a total comprehensive loss of Php0.58 billion for the period ended June 30, 2013 from an income of Php2.42 billion in the same period last year, largely on account of the higher mark-to-market losses on available-for-sale securities at Php6.77 billion from Php1.34 billion. Amortization of unrealized and realized loss on reclassified investments amounted to zero from Php0.05 billion and from Php0.26 billion, respectively, with the Bank's complete disposal of these investments in 2012.

Statement of Condition as of June 30, 2013 vs. December 31, 2012

The Bank's total resources grew by 21.77% to Php340.64 billion as of end-June 2013 from Php279.74 billion as of end-December 2012.

Cash and other cash items declined by Php0.41 billion to Php3.84 billion on lower clients' cash requirements as of the period in review from the usual cash-in-vault build-up during the holiday season. Financial assets at fair value through profit or loss fell by Php0.08 billion to Php0.32 billion on maturity of some foreign exchange forward contracts. Funds temporarily invested in the special deposit account with BSP, on the other hand, accounted for the Php64.48 billion increase in due from BSP to Php91.93 billion. Higher overnight lending pushed up interbank loans receivable by Php7.56 billion to Php13.06 billion.

Loans and other receivables contracted by 16.68% to Php99.75 billion, due entirely to lower levels of securities purchased under reverse repurchase agreements, which more than offset the expansion in time loans.

Bank premises, furniture, fixtures and equipment went up by 6.52% to Php3.31 billion on account of the consolidation of CitySavings' properties and equipment. Assets held for sale rose by 26.97% to Php0.50 billion as a result of higher auto loan foreclosures. In view of the acquisition of CitySavings, an additional goodwill of Php3.37 billion was recognized, bringing its total to Php11.26 billion. Other resources climbed by 16.06% to Php9.21 billion largely on higher investments in trust funds.

Total liabilities went up by 27.47%, ending the first half of 2013 at Php295.61 billion from Php231.90 billion as of year-end 2012. Total deposit liabilities expanded by 36.72% to Php259.55 billion, propelled by the growth across all deposit types. Demand, savings and time deposits ended higher at Php87.82 billion, Php25.42 billion and Php146.30 billion, respectively. Bills payable, in contrast, decreased by 17.98% to Php15.21 billion on lower outstanding levels of interbank borrowings. Other liabilities declined by 13.47% to Php17.10 billion mainly due to the drop in funds held by the Bank for remittance to the BIR.

Total capital funds amounted to Php45.03 billion as of June 30, 2013, down by 5.88% from Php47.85 billion as of December 31, 2012, as the Php3.95 billion increase in surplus, reflecting the net effect of the net income and dividends paid during the same period, was countered by the swing in net unrealized gains/(losses) on available-for-sale securities from a gain of Php1.81 billion to a loss of Php4.96 billion. Non-controlling interest stood at Php0.012 billion owing to the acquisition of CitySavings.

The Bank's annualized return on average equity (ROE) and return on average assets (ROA) as of end-June 2013 were higher at 26.7% and 4.0%, respectively. As the improvement in net revenues outpaced the increase in other expenses, cost-to-income ratio improved to 44.9% for the first six months of 2013 from 50.6% a year ago. Annualized earnings per share rose to Php19.31 from Php12.68 last year. Net non-performing loans (NPL) ratio and NPL cover stood at - 0.16% and 112.59%, respectively. The Bank's capital adequacy ratio ended the first half of 2013 at 19.5%, well-above the existing regulatory minimum and providing adequate headroom for growth and the forthcoming Basel III requirements.

Key performance indicators of the Bank are as follows:

	Jun. 2013	Jun. 2012
Return on Average Assets	4.0%	3.2%
Return on Average Equity	26.7%	18.9%
Cost-to-Income Ratio	44.9%	50.6%

	Jun. 2013	Dec. 2012
Net Non-Performing Loan Ratio*	- 0.16%	0.30%
Non-Performing Loan Cover*	112.59%	104.19%
Capital Adequacy Ratio	19.5%	20.7%

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

Return on Average Assets:	Annualized net income divided by average total resources for the period indicated
Return on Average Equity:	Annualized net income divided by average total capital funds for the period indicated
Cost-to-Income Ratio:	Total operating expenses divided by the sum of net interest income and other income
Net Non-Performing Loan Ratio*:	(Total non-performing loans less specific loan loss reserves) divided by (total loans inclusive of interbank loans receivables)
Non-Performing Loan Cover*:	(Total allowance for loan losses) divided by (total non-performing loans)
Capital Adequacy Ratio:	Total qualifying capital divided by total risk-weighted assets (inclusive of credit, market and operational risk charge)

**Based on unaudited figures*

As to material event/s and uncertainties, the Bank has nothing to disclose on the following apart from those already disclosed elsewhere or presented in the accompanying unaudited financial statements:

- Any known trends, demands, commitments, events or uncertainties that will have a material impact on the issuer's liquidity.
- Any events that will trigger direct or contingent financial obligation, including any default or acceleration of an obligation.
- Any material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company.
- Any material commitments for capital expenditures, the general purpose of such commitments and the expected sources of funds for such expenditures.
- Any known trends, events or uncertainties that have had or that are reasonably expected` to have a material favorable or unfavorable impact on net sales/revenues/income from continuing operations.
- Any significant elements of income or loss that did not arise from the issuer's continuing operations.
- Any seasonal aspects that had a material effect on the financial condition or results of operations.

UNIONBANK OF THE PHILIPPINES
Aging of Accounts Receivable
As of June 30, 2013

Type of Accounts Receivable	Total	Current	90 days or less	91 to 180 days	181 days to 1 year	more than 1 year
1) Interbank Loans Receivable	13,062,712	13,062,712				
2) Loans	106,703,950	95,588,550	2,283,780	448,108	3,734,500	4,649,012
3) Accrued Interest Receivable	1,562,065	1,422,200	42,424	7,906	11,249	78,286
4) Sales Contract Receivable	1,805,056	1,614,026	154,610	9,011	12,275	15,134
5) Accounts Receivable	1,279,355	130,187	74,501	228,486	99,263	746,918
6) Installment Contract Receivable	18,470	6,404	-	-	1,833	10,233
Less: Allow. For Doubtful Account	11,617,608					
TOTAL	112,814,000	111,824,079	2,555,315	693,511	3,859,120	5,499,583