



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

May 15, 2014

**The Philippine Stock Exchange, Inc.**  
3<sup>rd</sup> 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 Unionbank of the Philippines for the period ended March 31, 2014.

Thank you.

Very truly yours,

  
MILA D. FAJARDO  
Assistant Vice President

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# COVER SHEET

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S.E.C. Registration Number

U	N	I	O	N	B	A	N	K		O	F		T	H	E		P	H	I	L	I	P	P	I	N	E	S			
A	N	D		S	U	B	S	I	D	I	A	R	I	E	S															

(Company's Full Name)

U	N	I	O	N	B	A	N	K		P	L	A	Z	A		M	E	R	A	L	C	O		A	V	E	N	U	E	
C	O	R	O	N	Y	X		A	N	D		S	A	P	P	H	I	R	E		S	T	R	E	E	T	S			
O	R	T	I	G	A	S		C	E	N	T	E	R		P	A	S	I	G		C	I	T	Y						

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

ATTY. CESAR G. ILAGAN
Contact Person

(632)667-6388
Company Telephone Number

1 2	3 1
Month	Day
Fiscal Year	

<b>SEC FORM 17Q</b>	0 5	2 3
FORM TYPE	Month	Day
Annual Meeting		

UNDERWRITER OF SECURITIES
Secondary License Type, If Applicable

C F D
Dept. Requiring this Doc.

Amended Articles Number/Section

5,242
Total No. of Stockholders

Total Amount of Borrowings	
Domestic	Foreign

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To be accomplished by SEC Personnel concerned

File Number																			

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**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 17-Q**

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

1. For the quarterly period ended : **March 31, 2014**
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

<u>Title of Each Class</u>	<u>Number of Share of Common Stock Outstanding</u>	<u>Amount of Debt Outstanding (Unpaid Subscription)</u>
<b>Common Stock P10 par value</b>	<b>641,422,420</b>	<b>None</b>

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

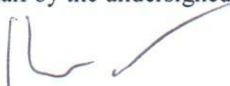
Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations	-	Annex 7
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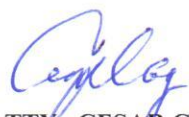

**PART II - OTHER INFORMATION**

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: May 15, 2014

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

	March 31, 2014 (Unaudited)	December 31, 2013 (Audited)
<b>RESOURCES</b>		
Cash and Other Cash items	5,303,201	5,196,965
Due from Bangko Sentral ng Pilipinas	108,226,234	96,200,538
Due from Other Banks	7,268,196	6,421,873
Interbank Loans Receivable	10,397,315	13,829,826
Trading and Investment Securities		
At fair value through profit or loss	224,733	1,420,542
Available-for-sale financial assets-net	100,560,512	94,141,293
Loans and Other Receivables-net	142,508,493	142,117,101
Bank Premises, Furniture, Fixtures and Equipment-net	2,930,949	2,950,675
Assets Held for Sale	527,323	490,824
Investment Properies	13,202,697	13,198,635
Goodwill	11,258,251	11,258,251
Other Resources - net	9,027,086	8,855,531
<b>TOTAL RESOURCES</b>	<b>411,434,990</b>	<b>396,082,054</b>
<b>LIABILITIES AND CAPITAL FUNDS</b>		
Deposit Liabilities		
Demand	111,805,963	108,683,334
Savings	33,712,644	29,823,729
Time	183,426,824	159,730,472
Total Deposit Liabilities	328,945,431	298,237,535
Bills Payable	13,708,918	23,167,145
Notes Payable	-	3,750,000
Other Liabilities	24,107,533	25,935,306
<b>TOTAL LIABILITIES</b>	<b>366,761,882</b>	<b>351,089,986</b>
Capital Funds Attributable to the Equity Holders of UBP		
Common Stock	6,414,224	6,414,224
Additional Paid-In Capital	5,819,861	5,819,861
Surplus Free	38,124,205	39,405,847
Surplus Reserves	1,239,373	1,234,376
Net Unrealized Fair Value Gains/(Losses) on Available-for-Sale Financial Assets	(6,478,018)	(7,535,276)
Remeasurements of Defined Benefit Plan	(463,087)	(361,828)
Parent Bank's Stockholders	44,656,558	44,977,204
Non-controlling Interests	16,550	14,864
<b>TOTAL CAPITAL FUNDS</b>	<b>44,673,108</b>	<b>44,992,068</b>
<b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>	<b>411,434,990</b>	<b>396,082,054</b>

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

	<b>FOR THE THREE MONTHS ENDED MARCH 31</b>	
	<b>2014</b>	<b>2013</b>
<b>INTEREST INCOME ON</b>		
Loans and Other Receivables	2,131,153	2,091,859
Trading and Investment Securities	1,104,352	899,043
Due from BSP and Other Banks	417,480	207,107
Interbank Loans Receivable	3,634	3,867
	<u>3,656,618</u>	<u>3,201,876</u>
<b>INTEREST EXPENSE ON</b>		
Deposit Liabilities	988,733	969,555
Bills Payable and Other Liabilities	106,683	182,590
	<u>1,095,417</u>	<u>1,152,145</u>
<b>NET INTEREST INCOME</b>	2,561,202	2,049,731
<b>IMPAIRMENT LOSSES</b>	90,940	60,531
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>	2,470,262	1,989,200
<b>OTHER INCOME</b>		
Service Charges, Fees and Commissions	881,555	509,186
Trading Gain-net	421,955	3,371,242
Premium Revenues	58,734	393,761
Miscellaneous	445,588	1,033,394
	<u>1,807,832</u>	<u>5,307,583</u>
<b>OTHER EXPENSES</b>		
Salaries and Employee Benefits	900,594	1,128,228
Taxes and Licenses	343,081	495,479
Depreciation and Amortization	127,484	112,723
Occupancy	161,928	153,402
Trust Fund Due	54,602	370,274
Miscellaneous	743,957	795,460
	<u>2,331,646</u>	<u>3,055,566</u>
<b>INCOME BEFORE INCOME TAXES</b>	1,946,448	4,241,217
<b>TAX EXPENSE</b>	404,145	238,399
<b>NET INCOME</b>	<u>1,542,303</u>	<u>4,002,818</u>
<b>Attributable to:</b>		
Parent Bank's Stockholders	1,540,617	4,002,035
Non-controlling Interests	1,686	783
	<u>1,542,303</u>	<u>4,002,818</u>
<b>Basic/Diluted Earnings per Share</b>		
Attributable to Parent Bank's Stockholders	9.62	24.96

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

	<b>FOR THE THREE MONTHS ENDED MARCH 31</b>	
	<b>2014</b>	<b>2013</b>
<b>NET INCOME</b>	<b>1,542,303</b>	<b>4,002,818</b>
<b>OTHER COMPREHENSIVE INCOME (LOSS)</b>		
<b>Items that will be reclassified subsequently to profit and loss</b>		
Net unrealized fair gains (Losses) on available-for-sale financial assets	1,057,258	836,574
Transfer of unrealized fair value losses to statement of income for the impairment of available-for-sale financial assets	-	-
Amortization of unrealized loss on reclassified investments	-	-
<b>Items that will not be classified to profit and loss</b>		
Remeasurements of defined benefit plan	(144,656)	45,724
Tax Income(expense)	43,397	(13,717)
	<b>(101,259)</b>	<b>32,007</b>
Total Other Comprehensive Income(Loss), net of tax	955,999	868,581
<b>TOTAL COMPREHENSIVE INCOME FOR THE PERIOD</b>	<b>2,498,302</b>	<b>4,871,399</b>
<b>ATTRIBUTABLE TO:</b>		
Parent Bank's Stockholders	2,496,980	4,871,399
Non-controlling Interests	1,322	699
	<b>2,498,302</b>	<b>4,871,399</b>

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

	(Unaudited)	
	FOR THE THREE MONTHS ENDED MARCH 31	
	2014	2013
<b>Common Stock</b>		
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
<b>Additional Paid-in Capital</b>		
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
<b>Surplus Free</b>		
Balance at beginning of year	39,405,847	33,710,487
Net Income	1,540,617	9,025,118
Cash Dividends	(2,822,259)	(2,244,978)
Appropriation for trust business		(1,084,780)
Balance at quarter end	38,124,205	39,405,847
<b>Surplus Reserves</b>		
Balance at beginning of year	1,239,373	149,596
Appropriations during the year		1,084,780
Balance at quarter end	1,239,373	1,234,376
Net Unrealized Fair Value Gains/(Losses) on Available-for-Sale Financial Assets	(6,478,018)	(7,535,276)
Remeasurement of Defined Benefit Plan	(463,087)	(361,828)
<b>Total Capital Funds Attributable to Parent Bank's Stockholders</b>	<b>44,656,558</b>	<b>44,977,204</b>



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

	<b>(Unaudited)</b>	
	<b>For the Three Months Ended March 31</b>	
	<b>2014</b>	<b>2013</b>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Profit before income tax	1,946,448	4,241,217
Adjustments for:		
Provision for impairment losses	90,940	60,531
Loss (gain) on decline (appreciation) in fair value of Investment Properties	-	
Depreciation and amortization	127,484	112,723
Changes in operating resources and liabilities:		
Decrease (increase) in:		
Financial Assets at Fair Value Through Profit and Loss	1,195,809	145,097
Loans and Receivables	(482,333)	21,521,669
Other Resources	(277,742)	(4,656,630)
Increase (decrease) in:		
Deposit Liabilities	30,707,896	23,037,099
Other Liabilities	(2,130,909)	(812,151)
Net cash generated from operations	31,177,593	43,649,555
Income taxes paid	(114,913)	(97,786)
Net cash provided by (used in) operating activities	31,062,680	43,551,769
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net disposal (acquisition) of:		
Available-for-Sale Securities investments	(5,361,961)	(6,256,489)
Property and equipment	(85,613)	(296,268)
Assets held for sale	(36,499)	(68,027)
Investment properties	(4,062)	(287,159)
Increase in minority interest	1,686	10,908
Net cash provided by (used in) investing activities	(5,486,449)	(6,897,035)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Increase (decrease) in:		
Bills Payable	(9,458,227)	8,214,530
Notes Payable	(3,750,000)	-
Cash dividends paid	(2,822,259)	-
Net cash provided by (used in) financing activities	(16,030,486)	8,214,530
<b>NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS</b>	<b>9,545,745</b>	<b>44,869,264</b>
<b>CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR</b>		
Cash and Other Cash Items	5,196,965	4,242,361
Due from Bangko Sentral ng Pilipinas	96,200,538	27,450,311
Due from Other Banks	6,421,873	2,999,339
Interbank Loans Receivable	13,829,826	5,503,496
	121,649,202	40,195,507
<b>CASH AND CASH EQUIVALENTS AT END OF YEAR</b>		
Cash and Other Cash Items	5,303,201	4,236,897
Due from Bangko Sentral ng Pilipinas	108,226,234	72,690,144
Due from Other Banks	7,268,196	2,255,606
Interbank Loans Receivable	10,397,315	5,882,124
	131,194,947	85,064,771

**UNION BANK OF THE PHILIPPINES  
GENERAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS  
FOR THE PERIOD ENDED MARCH 31, 2014**

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**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 March 31, 2014, the Bank and its Subsidiaries (the Group) has 239 branches and 237 on-site and 35 off-site automated teller machines, located nationwide.

The Bank's common shares are listed in the Philippine Stock Exchange (PSE). The Bank is effectively 44.50% 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**

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. The policies have been consistently applied to all the years presented, unless otherwise stated.

Basis of Preparation of Financial Statements

a. Statement of Compliance with Financial Reporting Standards in the Philippines for Banks

The consolidated financial statements of the Group and the financial statements of the Bank 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 (1) the exemption from the tainting provision of Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, as may be allowed by Bangko Sentral ng Pilipinas (BSP) and the SEC, and (2) reclassification of credit-linked notes (CLNs) that are linked to Republic of the Philippines (ROP) bonds (without bifurcating the related embedded derivative) from fair value through profit or loss (FVTPL) to unquoted debt securities classified as loans or UDSCL (included as part of Loans and Other Receivables), that are outstanding as of the effective date of reclassification, which is permitted by the BSP for prudential reporting, and by the SEC for financial reporting. In 2013, 2012 and 2011, there is no difference between FRSP for banks and PFRS.

PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resource, liability, income and expense. The measurement bases are more fully described in the accounting policies that follow.

b. Presentation of Financial Statements

The financial statements are presented in accordance with PAS 1, *Presentation of Financial Statements*. The Group presents all items of income and expenses in two statements: a statement of income and a statement of comprehensive income.

The Group presents a third statement of financial position as at the beginning of the preceding period when it applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period.

### **Basis of Consolidation**

The group obtains and exercises control through voting rights. The Group's financial statements comprise the accounts of the Bank and its subsidiaries, after the elimination of material intercompany transactions. All intercompany balances and transactions between entities under the Group, including income, expenses and dividends, are eliminated in full on consolidation. Unrealized profits and losses from intercompany transactions that are recognized in the separate financial statements are also eliminated in full. Intercompany losses that indicate impairment are recognized in the Group's financial statements.

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

<u>Subsidiary</u>	<u>Percentage of Ownership</u>	<u>Nature of Business</u>
First Union Direct Corporation (FUDC)	100% *	Financial products marketing
First Union Plans, Inc. (FUPI)	100% *	Pre-need
First Union Insurance And Financial Agencies, Inc. (FUIFAI)	100% **	Agent for Insurance And Financial Products
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)	99.64%	Thrift Bank
Interventure Capital Corporation (IVCC)	60%	Venture capital

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

\*\*FUIFAI was acquired by UPI on August 23, 2013

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

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.

## Business Combinations

Business acquisitions are accounted for using the acquisition method of accounting.

Goodwill represents the excess of the cost of an acquisition over the fair value of the Group's share of the net identifiable assets of the acquired subsidiary at the date of acquisition. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested annually for impairment and is carried at cost less accumulated losses. Impairment losses on goodwill are not reversed.

Negative goodwill which is the excess of the Group's interest in the net fair value of net identifiable assets acquired over acquisition cost is charged directly to profit.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segment.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquired at its acquisition-date fair value and recognize the resulting gain or loss, if any, in the profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by the Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a charge to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

### 3. Business Acquisitions

- a. 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
<u>Other Assets</u>	<u>35</u>
	<u>15,601</u>
Deposit Liabilities	8,780
Bills Payable	4,222
Accounts Payable and Accrued Expenses	140
Income Tax Payable	68
<u>Other Liabilities</u>	<u>16</u>
	<u>13,226</u>
Net Assets	2,375
Net Assets acquired at 99.54%	2,364
<u>Goodwill arising on acquisition of CTSB</u>	<u>3,371</u>
<u>Total consideration, satisfied by cash</u>	<u>5,735</u>

#### Acquisitions of Additional Shares of City Savings Bank, Inc,

On February 28, 2014, the BOD approved the additional subscription of 62,976 common shares of CSB at P15,879.15 per share; thus, increasing UnionBank's percentage of ownership to 99.64%.

- b. On May 23, 2013, the Board of Directors of Union Properties Inc. (UPI) approved the purchase of First Union Insurance and Financial Agencies, Inc (FUIFAI). UPI bought 100% outstanding capital stock of FUIFAI at total purchase price of PHP375, 000; this was settled on August 23, 2013. FUIFAI was registered with the Securities and Exchange Commission (SEC) on February 18, 2000 and started commercial operations on the same date. The company was organized primarily to engage in the business of a general agent for life and non-life insurance and other allied financial services. Its principal place of business is located at 9<sup>th</sup> Flr. The Peak Tower, #107 LP Leviste St., Salcedo Village, Makati City.

#### 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 FVTPL, loans and receivables, held-to-maturity (HTM) investments and available-for-sale (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 the related transaction costs 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.

*(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 the BSP, are also included in this category. The difference between the sale and repurchase 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. Moreover, the tainting provision will not apply if the sales or reclassifications of HTM investments are: (i) so close to maturity or the financial assets' 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. The Group's AFS financial assets include government and corporate bonds, equity securities and golf club shares.

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.

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 to another party.

***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, which include deposit liabilities, bills payable, notes payable, and other liabilities (except tax-related payables and pre-need reserves), 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 under Interest Expense in the statements of income.

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 from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. The difference between the carrying amount of the financial liability derecognized and the consideration paid or payable is recognized in profit or loss.

### ***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 set off 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 or current effective interest rate determined under the contract if the loan has a variable 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- Adoption of New and Amended PFRS**

### **(a) Effective in 2013 that are Relevant to the Group**

In 2013, the Group adopted for the first time the following new PFRS, revisions and amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2012 or January 1, 2013:

PAS 1 (Amendment)	:	Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income
PAS 19 (Revised)	:	Employee Benefits
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities
PFRS 10	:	Consolidated Financial Statements
PFRS 11	:	Joint Arrangements
PFRS 12	:	Disclosure of Interests in Other Entities
PAS 27 (Revised)	:	Separate Financial Statements
PAS 28 (Revised)	:	Investments in Associate and Joint Venture
PFRS 10, 11 and 12 (Amendment)	:	Amendments to PFRS 10, 11 and 12 – Transition Guidance to PFRS 10, 11 and 12
PFRS 13	:	Fair Value Measurement
Annual Improvements	:	Annual Improvements to PFRS (2009-2011 Cycle)
Annual Improvements PAS 34 (Amendment)	:	Interim Financial Reporting and Segment Information for Total Assets and Liabilities

Discussed below and in the succeeding pages are relevant information about these new and amended standards.

- (i) PAS 1 (Amendment), *Presentation of Financial Statements – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRS: (a) will not be reclassified subsequently to profit or loss; and, (b) will be reclassified subsequently to profit or loss when specific conditions are met. The amendment has been applied retrospectively, hence, the presentation of other comprehensive income has been modified to reflect the changes. Prior period comparatives have been restated as a consequence of this change in presentation.
- (ii) PAS 19, *Employee Benefits*. This revised standard made a number of changes to the accounting for employee benefits. The most significant changes relate to defined benefit plans as follows:
- eliminates the corridor approach and requires the recognition of remeasurements (including actuarial gains and losses) arising in thereporting period in other comprehensive income;
  - changes the measurement and presentation of certain components of the defined benefit cost. The net amount in profit or loss is affected by the removal of the expected return on plan assets and interest cost components and their replacement by a net interest expense or income based on the net defined benefit liability or asset; 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 has applied PAS 19 (Revised) retrospectively in accordance with its transitional provisions. Consequently, it restated the comparative financial statements for December 31, 2012 and the corresponding figures as of January 1, 2012. The effects of the restatement on the affected resources, liabilities, and capital funds components are shown below:

Group

		<u>December 31, 2012</u>		
		<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19</u>	<u>As Restated</u>
<i>Changes in resources and liabilities:</i>				
	P	2,848,912	P 206,377	P 3,055,289
Deferred tax assets – net*		29,585	( 29,585)	-
Retirement benefit asset*				
Post-employment defined benefit obligation**		-	( 685,961)	( 685,961)
Net decrease in capital funds			<u>(P 509,169)</u>	
<i>Changes in components of capital funds:</i>				
	P	33,656,926	P 53,561	P 33,710,487
Surplus free			( 562,730)	( 562,730)
Net actuarial losses				
Net decrease in capital funds			<u>(P 509,169)</u>	
		<u>January 1, 2012</u>		
		<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19</u>	<u>As Restated</u>
<i>Changes in assets and liabilities:</i>				
	P	2,478,602	P 169,901	P 2,648,503
Deferred tax assets – net*		34,636	( 32,557)	2,080
Retirement benefit asset*				
Post-employment defined benefit obligation**		-	( 565,939)	( 565,939)
Net decrease in capital funds			<u>(P 428,595)</u>	
<i>Changes in components of capital funds:</i>				
	P	28,011,264	P 32,279	P 28,043,543
Surplus free			( 460,873)	( 460,873)
Net actuarial losses				

Parent

	<u>December 31, 2012</u>		
	<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19</u>	<u>As Restated</u>
<i>Changes in resources and liabilities:</i>			
Deferred tax assets – net*	P 2,848,933	P 206,024	P 3,054,957
Retirement benefit asset*	27,622	( 27,622)	-
Post-employment defined benefit obligation**	-	( <u>686,747</u> )	( 686,747)
Net decrease in capital funds		(P <u>508,345</u> )	
<i>Changes in components of capital funds:</i>			
Surplus Free	P 33,217,786	P 54,160	P 33,271,946
Net actuarial losses	-	( <u>562,505</u> )	562,505
Net decrease in capital funds		(P <u>508,345</u> )	
	<u>January 1, 2012</u>		
	<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19</u>	<u>As Restated</u>
<i>Changes in resources and liabilities:</i>			
Deferred tax assets – net*	P 2,480,325	P 169,782	P 2,650,106
Retirement benefit asset*	32,160	( 32,160)	-
Post-employment defined benefit obligation**	-	( <u>565,938</u> )	( 565,938)
Net decrease in capital funds		( <u>428,316</u> )	
<i>Changes in components of capital funds:</i>			
Surplus Free	P 27,688,954	P 32,890	P 27,721,844
Net actuarial losses	-	( <u>461,206</u> )	( 461,206)
Net decrease in capital funds		(P <u>428,316</u> )	

The effects of the adoption of PAS 19 (Revised) on the statements of income and statements of comprehensive income for the years ended December 31, 2012 and 2011 are shown below.

Group

	2012		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
<i>Changes in profit or loss:</i>			
Interest expense on bills payable and and other liabilities	P 373,322	P 36,000	P 409,322
Salaries and employee benefits	3,304,063	( 64,460)	3,239,603
Tax expense	328,040	<u>7,176</u>	335,216
Net decrease in net profit		<u>(P 21,282)</u>	
<i>Changes in other comprehensive income:</i>			
Actuarial loss on defined benefit obligation – net of tax	P -	(P 101,857)	( P101,857)
	2011		
	As Previously Reported	Effect of Adoption of PAS 19	As Restated
<i>Changes in profit or loss:</i>			
Interest expense on bills payable and other liabilities	P 417,819	P 35,872	P 453,691
Salaries and employee benefits	2,958,592	( 60,781)	2,897,811
Tax expense	214,509	<u>( 3,610)</u>	210,899
Net decrease in net profit		<u>(P 28,519)</u>	
<i>Changes in other comprehensive income:</i>			
Actuarial loss on defined benefit obligation – net of tax	P -	(P 37,357)	( P37,357)

Parent

	<u>2012</u>		
	<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19</u>	<u>As Restated</u>
<i>Changes in profit or loss:</i>			
Interest expense on bills payable and other liabilities	P 373,322	P 36,129	P 409,451
Salaries and employee benefits	3,279,371	( 64,571)	3,214,800
Tax expense	325,293	<u>7,172</u>	332,465
Net decrease in net profit		<u>(P 21,270)</u>	
<i>Changes in other comprehensive income:</i>			
Actuarial loss on defined benefit obligation – net of tax	P -	(P 101,299)	( P101,299)
	<u>2011</u>		
	<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19</u>	<u>As Restated</u>
<i>Changes in profit or loss:</i>			
Interest expense on bills payable and other liabilities	P 417,819	P 36,001	P 453,820
Salaries and employee benefits	2,941,835	( 60,888)	2,880,947
Tax expense	211,381	<u>( 3,617)</u>	207,764
Net decrease in net profit		<u>(P 28,504)</u>	
<i>Changes in other comprehensive income:</i>			
Actuarial loss on defined benefit obligation – net of tax	P -	(P 37,877)	( P37,877)

The effects of the adoption of PAS 19 (Revised) on the statements of cash flows for the years ended December 31, 2012 and 2011 are shown below.

Group

	<u>2012</u>		
	<u>As Previously Reported</u>	<u>Effect of Adoption of PAS 19 (Revised)</u>	<u>As Restated</u>
<i>Changes in cash flows</i>			
Profit before tax	P 7,913,392	P 28,458	P 7,941,850
Other Resources	2,197,331	( 41,020)	2,238,351
Other Liabilities	6,278,565	<u>12,562</u>	6,291,127
		<u>P -</u>	

	2011		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in cash flows</i>			
Profit before tax	P 6,809,907	P 24,909	P 6,834,816
Other Resources	1,467,761	( 225,641)	1,693,402
Other Liabilities	2,043,370	<u>200,732</u>	2,244,102
		<u>P -</u>	

Parent

	2012		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in cash flows</i>			
Profit before tax	P 7,793,815	P 28,442	P 7,822,257
Other Resources	383,993	( 47,952)	431,945
Other Liabilities	4,616,172	<u>19,510</u>	4,635,682
		<u>P -</u>	

	2011		
	As Previously Reported	Effect of Adoption of PAS 19 (Revised)	As Restated
<i>Changes in cash flows</i>			
Profit before tax	P 6,616,875	P 24,887	P 6,641,762
Other Resources	159,568	( 225,919)	66,351
Other Liabilities	730,140	<u>201,032</u>	931,172
		<u>P -</u>	



- (iii) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting of Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments which are subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32 and amounts related to a financial collateral. These disclosures allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's statement of financial position.
- (iv) Consolidation, Joint Arrangements, Associates and Disclosures.

This package of consolidation, joint arrangements, associates and disclosures standards comprise of PFRS 10, *Consolidated Financial Statements*, PFRS 11, *Joint Arrangements*, PFRS 12, *Disclosure of Interests in Other Entities*, PAS 27 (revised 2011), *Separate Financial Statements* and PAS 28 (revised 2011), *Investments in Associates and Joint Ventures*.

- PFRS 10 changes the definition of control focusing on three elements which determines whether the investor has control over the investee such as the (a) power over the investee, (b) exposure or rights to variable returns from involvement with the investee, and, (c) ability to use such power to affect the returns. This standard also provides additional guidance to assist in determining controls when it is difficult to assess, particularly in situation where an investor that owns less than 50% of the voting rights in an investee may demonstrate control to the latter.
- PFRS 11 deals with how a joint arrangement is classified and accounted for based on the rights and obligations of the parties to the joint arrangement by considering the structure, the legal form of the arrangements, the contractual terms agreed by the parties to the arrangement and, when relevant, other facts and circumstances. The option of using proportionate consolidation for arrangement classified as jointly controlled entities under the previous standard has been eliminated. This new standard now requires the use of equity method in accounting for arrangement classified as joint venture.
- PFRS 12 integrates and makes consistent the disclosure requirements for entities that have interest in subsidiaries, joint arrangements, associates, special purpose entities and unconsolidated structured entities. In general, this requires more extensive disclosures about the risks to which an entity is exposed from its involvement with structured entities.
- PAS 27 (revised) deals with the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10, while PAS 28 (Revised) includes the requirements for joint ventures, as well as for associates, to be accounted for using the equity method following the issuance of PFRS 11.

Subsequent to the issuance of these standards, amendments to PFRS 10 and PFRS 12 were issued to clarify certain transitional guidance for the first-time application of the standards. The guidance clarifies that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures

relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

The Group has evaluated the various facts and circumstances related to its interests in other entities and has determined that the adoption of the foregoing standards had no material impact on the amounts recognized in the financial statements. Additional information, however, are disclosed in compliance with the requirements of PAS 27 (Revised) with respect to principal place of business and incorporation of the significant subsidiaries and associates.

- (v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This new standard clarifies the definition of fair value and provides guidance and enhanced disclosures about fair value measurements. The requirements under this standard do not extend the use of fair value accounting but provide guidance on how it should be applied to both financial instrument items and non-financial instrument items for which other PFRS require or permit fair value measurements or disclosures about fair value measurements, except in certain circumstances. The amendment applies prospectively from annual period beginning January 1, 2013, hence, disclosure requirements need not be presented in the comparative information in the first year of application. The application of this new standard had no significant impact on the amounts recognized in the financial statements since the Group's fair value measurement methods are already in accordance with the requirements of other relevant accounting standard.
- (vi) 2009-2011 Cycle Annual Improvements to PFRS. Annual improvement to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS. Among those improvements, the following are relevant to the Group:
  - (a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies that a statement of financial position at the beginning of the preceding period (third statement of financial position) is required when an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the third statement of financial position. The amendment specifies that other than disclosures of certain specified information in accordance with PAS 8, related notes to the opening consolidated statement of financial position are not required to be presented.

Consequent to the Group's adoption of PAS 19 (Revised) in the current year which resulted in retrospective restatement of the prior years' financial statements, the Group has presented a third statement of financial position as of January 1, 2012 without the related notes, except for the disclosure requirements of PAS 8.

- (b) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. 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. This amendment had no effect on the Group's financial statements as it has been recognizing the effect of distributions to holders of equity instruments and transaction costs of an equity transaction in accordance with PAS 12.

- (vii) Annual Improvements – PAS 34 (Amendment), *Interim Financial Reporting and Segment Information for Total Assets and Liabilities*. This amendment clarifies the requirements on segment information for total assets and liabilities for each reportable segment to enhance consistency with the requirements in paragraph 23 of PFRS 8, *Operating Segments*. It also clarifies that the total assets and liabilities for a particular reportable segment are required to be disclosed if, and only if: (a) a measure of total assets or of total liabilities (or both) is regularly provided to the chief operating decision maker; and, (b) there has been a material change from those measures disclosed in the last annual financial statements for that reportable segment. The adoption of this amendment has no significant impact to the Group's financial statements.

**(b) *Effective in 2013 that are not Relevant to the Group***

The following new PFRS, amendments, interpretation and improvements to PFRS are mandatory for accounting periods beginning on or after January 1, 2013 but are not relevant to the Company's financial statements:

PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Government Loans
Philippine Interpretation International Financial Reporting Interpretations Committee 20	:	Stripping Costs in the Production Phase of a Surface Mine
PAS 16 (Amendment)	:	Property, Plant and Equipment – Classification of Servicing Equipment
Annual Improvements PFRS 1 (Amendment)	:	First-time Adoption of PFRS – Repeated Application of PFRS 1 and Borrowing Costs

**(c) *Effective Subsequent to 2013 but not Adopted Early***

There are new PFRS, amendments and annual improvements to existing standards that are effective for periods subsequent to 2013. Management has initially determined the following pronouncements, which the Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

- (i) PAS 19 (Amendment), *Employee Benefits – Defined Benefit Plans – Employee Contributions* (effective from January 1, 2014). The amendment clarifies that if the amount of the contributions from employees or third parties is dependent on the number of years of service, an entity shall attribute the contributions to periods of service using the same attribution method (i.e., either using the plan's contribution formula or on a straight-line basis) for the gross benefit. Management has initially determined that this amendment will have no impact on the Group's financial statements.
- (ii) 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.

- (iii) PAS 36 (Amendment), *Impairment of Assets – Recoverable Amount Disclosures for Non-financial Assets* (effective from January 1, 2014). The amendment clarifies that the requirements for the disclosure of information about the recoverable amount of assets or cash-generating units is limited only to the recoverable amount of impaired assets that is based on fair value less cost of disposal. It also introduces an explicit requirement to disclose the discount rate used in determining impairment (or reversals) where recoverable amount based on fair value less cost of disposal is determined using a present value technique. Management will reflect in its subsequent years' financial statements the changes arising from this relief on disclosure requirements.
- (iv) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Novation of Derivatives and Continuation of Hedge Accounting* (effective January 1, 2014). The amendment provides some relief from the requirements on hedge accounting by allowing entities to continue the use of hedge accounting when a derivative is novated to a clearing counterparty resulting in termination or expiration of the original hedging instrument as a consequence of laws and regulations, or the introduction thereof. Management has yet to assess the impact of the amendment on the Group's financial statements.
- (v) PFRS 9, *Financial Instruments: Classification and Measurement*. This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement*, in its entirety. The first phase of the standard was issued on November 2009 and October 2010 and contains new requirements and guidance for the classification, measurement and recognition of financial assets and financial liabilities. It requires financial assets to be classified into two measurement categories: amortized cost or fair value. Debt instruments that are held within a business model whose objective is to collect the contractual cash flows that represent solely payments of principal and interest on the principal outstanding are generally measured at amortized cost. All other debt instruments and equity instruments are measured at fair value. In addition, PFRS 9 allows entities to make an irrevocable election to present subsequent changes in the fair value of an equity instrument that is not held for trading in other comprehensive income. 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, in most arrangement, does not require separation from the host contract. 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 the liability's credit risk is recognized in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

In November 2013, the IASB has published amendments to International Financial Reporting Standard (IFRS) 9 that contain new chapter and model on hedge accounting that provides significant improvements principally by aligning hedge accounting more closely with the risk management activities undertaken by entities when hedging their financial and non-financial risk exposures. The amendment also now requires changes in the fair value of an entity's own debt instruments caused by changes in its own credit quality to be recognized in other comprehensive income rather in profit or loss. It also includes the removal of the January 1, 2015 mandatory effective date of IFRS 9.

To date, the remaining chapter of IFRS 9 and PFRS 9 dealing with impairment methodology is still being completed. Further, the IASB is currently discussing some limited modifications to address certain application issues regarding classification of financial assets and to provide other considerations in determining business model.

Management is currently assessing the impact of PFRS 9 on the financial statements of the Group as it is conducting a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

PFRS 10, 12 and PAS 27 (Amendments) - *Investment Entities* (effective from January 1, 2014). The amendments define the term “investment entities”, provide supporting guidance, and require investment entities to measure investments in the form of controlling interest in another entity, at fair value through profit or loss.

Management does not anticipate these amendments to have a material impact on the Group’s financial statements.

- (vi) Annual Improvements to PFRS. Annual improvements to PFRS (2010-2012 Cycle) and PFRS (2011-2013 Cycle) made minor amendments to a number of PFRSs, which are effective for annual period beginning on or after July 1, 2014. 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:

*Annual Improvements to PFRS (2010-2012 Cycle)*

- (a) PAS 16 (Amendment), *Property, Plant and Equipment* and PAS 38 (Amendment), *Intangible Assets*. The amendments clarify that when an item of property, plant and equipment, and intangible assets is revalued, the gross carrying amount is adjusted in a manner that is consistent with a revaluation of the carrying amount of the asset.
- (b) PAS 24 (Amendment), *Related Party Disclosures*. The amendment clarifies that entity providing key management services to a reporting entity is deemed to be a related party of the latter. It also requires and clarifies that the amounts incurred by the reporting entity for key management personnel services that are provided by a separate management entity should be disclosed in the financial statements, and not the amounts of compensation paid or payable by the key management entity to its employees or directors.
- (c) PFRS 8 (Amendment), *Operating Segments*. Requires disclosure of the judgments made by management in applying the aggregation criteria to operating segments, clarifies that the reconciliations of segment assets are only required if segment assets are reported regularly.
- (d) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment, through a revision only in the basis of conclusion of PFRS 13, clarifies that issuing PFRS 13 and amending certain provisions of PFRS 9 and PAS 39 related to discounting of financial instruments, did not remove the ability to measure short-term receivables and payables with no stated interest rate on an undiscounted basis, when the effect of not discounting is immaterial.

*Annual Improvement to PFRS (2011-2013 Cycle)*

- (a) PFRS 13 (Amendment), *Fair Value Measurement*. The amendment clarifies that the scope of the exception for measuring the fair value of a group of financial assets and financial liabilities on a net basis (the portfolio exception) applies to all contracts within the scope of, and accounted for in accordance with, PAS 39 or PFRS 9, regardless of whether they meet the definitions of financial assets or financial liabilities as defined in PAS 32.
- (b) PAS 40 (Amendment), *Investment Property*. The amendment clarifies the interrelationship of PFRS 3, *Business Combinations*, and PAS 40 in determining the classification of property as an investment property or owner-occupied property, and

explicitly requires entity to use judgment in determining whether the acquisition of an investment property is an acquisition of an asset or a group of asset, or a business combination in reference to PFRS 3.

## **5. Financial Risk Management**

Risks are inherent in the business activities of the Group. Among its identified risks are credit risk, liquidity risk, market risk, interest rate risk, foreign exchange risk, operational risk, legal risk, and regulatory risk. These are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an ongoing basis.

Risk management is the process by which the Group identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resultant risk positions. The objective of risk management is to ensure that the Group conducts its business within the risk levels set by the BOD while business units pursue their objective of maximizing returns.

### ***Risk Management Strategies***

The Group maintains a prudent risk management strategy to ensure its soundness and profitability. Business units are held accountable for all the risks and related returns, and ensure that decisions are consistent with business objectives and risk tolerance. Strategies, policies and limits are reviewed regularly and updated to ensure that risks are well-diversified and risk mitigation measures are undertaken when necessary. A system for managing and monitoring risks is in place so that all relevant issues are identified at an early stage and appropriate actions are taken. The risk policies, guidelines and processes are designed to ensure that risks are continuously identified, analysed, measured, monitored and managed. Risk reporting is done on a regular basis, either monthly or quarterly.

Although the BOD is primarily responsible for the overall risk management of the Group's activities, the responsibility rests at all levels of the organization. The risk appetite is defined and communicated through an enterprise-wide risk policy framework.

### ***Credit Risk***

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligation to the Parent Bank. The risk may arise from lending, trade finance, treasury, investments, derivatives and other activities undertaken by the Parent Bank. Credit risk is managed through strategies, policies and limits that are approved by the BOD. Further, the Parent Bank has a clearly-defined credit approval process and credit scoring system for each of its business and/or product segments

### ***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.

### ***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 classifies exposures to market risk into either trading book or banking book. The market risk for the trading portfolio is managed and monitored based on a Value-at-Risk (VaR) methodology. Meanwhile, the market risk for the non-trading positions are managed and monitored using other sensitivity analyses.

### ***Interest Rate Risk***

A critical element of the Group's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Group's net interest income and ensuring that the exposure in interest rates is kept within acceptable limits.

### ***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

### ***Operational Risk***

To standardize the practice and to conform to international standards, the Parent Bank has adopted the Basel Committee's definition of operational risk. This is formalized in the Parent Bank's approved Operational Risk Management Framework. Operational risk is the risk of loss arising from inadequate or failed internal processes, people, and systems or external events. This definition includes legal risk, but excludes strategic and reputational risk. This also covers potential losses that could occur as a result of the Parent Bank's exposure in the use of technology-related products, services, delivery channels, and processes.

### ***Legal Risk and Regulatory Risk Management***

Legal risk pertains to the Bank's exposure to losses arising from cases decided not in favor of the Bank where significant legal costs have already been incurred, or in some instances, where the Bank may be required to pay damages. The Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Bank may incur significant legal expenses as a result of these events, but the Bank may still end up with non-collection or non-enforcement of claims. The Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Bank

## **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)

	<u>March 31, 2014 (unaudited)</u>				<u>December 31, 2013 (audited)</u>			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
<b>Resources</b>								
Financial Assets at FVTPL	57	126	42	225	1,336	42	42	1,420
Available for Securities	100,561			100,561	94,023	118		94,141
<b>Liabilities</b>								
Derivatives with negative fair values		227		227	229			229

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):

	31-March-14		31-Dec-13	
	(Unaudited)		(Audited)	
	Cost	Fair Value	Cost	Fair Value
<b>Financial Assets</b>				
Cash and other cash items		5,303		5,197
Due from BSP		108,226		96,201
Due from other banks		7,268		6,422
Interbank loans receivable		10,397		13,830
Loans and other receivables		142,508		142,131
<b>Financial Liabilities</b>				
Deposit liabilities		328,945		298,238
Bills payable		13,709		23,167
Notes payable		-		3,750
Other Liabilities		13,154		18,258

Trading and investment securities includes foreign denominated investments in government bonds and other debt securities amounting to P46.35 billion as of March 31, 2014 and 46.31 billion as of December 31, 2013. Government bonds and other debt securities issued by resident and non-resident corporations earned interest at 3.375% to 9.50% from January to March 2014 and 3.375% to 10.375% in 2013



## 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 ended March 31, 2014 and 2013 is presented as follows (amounts in millions of Philippine pesos):

	<u>Consumer Banking</u>	<u>Corporate and Commercial Banking</u>	<u>Treasury</u>	<u>Headquarters</u>	<u>Total</u>
<b>March 31, 2014</b>					
Net interest income and other income	P 2,614	P 1,001	P 1,558	P (805)	P 4,368
Other expenses	( 1,102)	( 305)	( 254)	( 670)	2,331
Income before provision for impairment and income tax	P 1,512	P 696	P 1,304	P (1,475)	2,037
Provision for impairment					( 91)
Tax expense					( 404)
Net income					P 1,542
Segment resources	P 88,906	P 77,555	P 213,281	P 31,693	P 411,435
Segment liabilities	P 178,829	P 117,651	P 62,508	P 7,774	P 366,762

<b>March 31, 2013</b>	<b>Consumer Banking</b>	<b>Corporate and Commercial Banking</b>	<b>Treasury</b>	<b>Headquarters</b>	<b>Total</b>
Results of operations					
Net interest income and other income	P 1,258	P 550	P 3,601	P 1,948	P 7,357
Other expenses	( 804)	( 272)	( 405)	( 1,574)	3,055
Income before provision for impairment and income tax	<u>P 454</u>	<u>P 278</u>	<u>P 3,196</u>	<u>( P 374)</u>	P 4,302
Provision for impairment					( 61)
Tax expense					( 238)
Net income					<u>P 4,003</u>
Segment resources	<u>P 47,735</u>	<u>P 74,060</u>	<u>P 151,629</u>	<u>P 41,710</u>	<u>P 315,134</u>
Segment liabilities	<u>P 109,100</u>	<u>P 73,786</u>	<u>P 52,285</u>	<u>P 27,265</u>	<u>P 262,436</u>

## 8. Capital Funds

The Bank's common stock at March 31, 2014 and 2013 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 2014 and 2013:

Date of Declaration	Date of Record	Date of Payment	Date of BSP Approval	Dividend per Share	Shares Outstanding	Total Amount
January 24, 2014	March 25, 2014	April 23, 2014	March 06, 2014	P4.40	641,422,420	P 2,822,259
January 25, 2013	March 20, 2013	April 18, 2013	March 04, 2013	P3.50	641,422,420	P 2,245,978

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.

## 9. 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 March 31, 2014 and December 31, 2013, the Bank is in compliance with these regulatory requirements.

## 10. 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 March 31, 2014 and December 31, 2013, 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 opinion 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.

## 11. Earnings Per Share

Basic earnings per share were computed as follows:

	<u>March 31, 2014</u>	<u>March 31, 2013</u>
Net income Attributable to Equity Holders Of the Parent Company	P 1,540,617	P 4,002,035
Divided by the weighted average number of outstanding common shares	<u>641,422</u>	<u>641,422</u>
Basic earnings per share*	<u>P 9.62</u>	P <u>24.96</u>
* <i>annualized</i>		

As of March 31, 2014 and 2013, 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

On April 28, 2014 the Board of Directors approved, subject to ratification by stockholders, the amendment of its Articles of Incorporation to increase the authorized capital stock from Php 6.7 billion to Php 23.1 billion. Said proposed authorized capital stock will be divided into 1,311,442,242 common shares at par value of Php 10 and 100 million preferred shares at par value of Php 100. The board, likewise, approved the declaration of 65% stock dividend, equivalent to Php 4.2 billion, to fund the required 25% of the Php 16.4 billion increase in authorized capital stock.

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

Ratios	<b>03/31/2014</b>	<b>12/31/2013</b>
a. Liquidity Ratio	62.3%	62.4%
b. Debt to Equity Ratio	821.3%	780.6%
c. Asset to Equity Ratio	921.3%	880.6%
d. Capital Adequacy Ratio	11.5%	18.5%
	<b>03/31/2014</b>	<b>03/31/2013</b>
e. Interest Rate Coverage Ratio	277.7%	468.1%
f. Return on Average Equity	13.8%	31.8%
g. Return on Average Assets	1.5%	5.4%
h. Net interest Margin	3.2%	3.6%
i. Cost-to-income Ratio	53.4%	41.5%

**UNION BANK OF THE PHILIPPINES  
SEC FORM 17-Q  
FOR THE PERIOD ENDED MARCH 31, 2014**

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

**Statement of Income for the Period Ended March 31, 2014 vs. March 31, 2013**

The Bank posted a net income of Php1.54 billion for the first three months of 2014, a decrease of 61.47% from the Php4.00 billion earned in the same period last year.

Total interest income improved by 14.20% to Php3.66 billion for the three months ending March 31, 2014 from Php3.20 billion recorded in the comparable period a year ago. Interest income on trading and investment securities and due from other banks were up by Php0.21 billion each to Php1.10 billion and Php0.42 billion, respectively, supported by higher average levels on these investments. Conversely, interest income on interbank loans receivable went down by Php0.0002 billion to Php0.003 billion as the increase in average levels on these investments was outweighed by the decrease in average yields.

Total interest expense dropped by 4.92% to Php1.10 billion this year from the Php1.15 billion incurred last year, predominantly due to the decline in interest expense on bills payable and other liabilities to Php0.11 billion, resulting from the reduction in average levels and costs of these borrowings.

As a result of the foregoing, net interest income rose by 24.95% to Php2.56 billion this year from Php2.05 billion a year ago.

The provision for impairment losses amounted to Php0.09 billion for the quarter ended March 2014, 50.24% higher compared to the Php0.06 billion set aside in the same period last year.

Total other income dropped by 65.94% to Php1.81 billion this year from Php5.31 billion the prior year, principally on account of the Php2.95 billion decline in trading gains to Php0.42 billion. Service charges, fees and commissions, meanwhile, went up by Php0.37 billion to Php0.88 billion mainly driven by the strong growth in consumer loans. Premium revenues fell by Php0.34 billion to Php0.06 billion on decreased pre-need sales of First Union Plans Inc. (FUPI). Miscellaneous income was also trimmed down by Php0.59 billion to Php0.45 billion largely on lower income from FUPI’s trust fund.

Total other expenses amounted to Php2.33 billion, representing a 23.69% reduction from the Php3.06 billion the previous year. Salaries and employee benefits slid to Php0.90 billion from Php1.13 billion on compensation-related expenses. Taxes and licenses decreased to Php0.34 billion from Php0.50 billion on gross receipts tax. Trust fund contribution went down to Php0.05 billion from Php0.37 billion in view of lower FUPI pre-need sales. Miscellaneous expenses declined to Php0.74 billion from Php0.80 billion on lower levels of pre-need reserves related to the sale of FUPI’s pre-need plans. Depreciation and amortization, meanwhile, rose to Php0.13 billion from Php0.11 billion attributed primarily to the branch expansion of CitySavings. Occupancy, likewise, went up to Php0.16 billion from Php0.15 billion on higher rent expenses.

Tax expense was higher by Php0.17 billion to Php0.40 billion this year from Php0.24 billion a year ago, attributable to higher corporate income taxes owing mainly to the strong earnings of CitySavings.

Income attributable to non-controlling interests more than doubled to Php0.002 billion for the first quarter of 2014 from Php0.0008 billion last year due to CitySavings’ operating performance.

**Statement of Comprehensive Income for the Period Ended March 31, 2014 vs. March 31, 2013**

The Bank posted a total comprehensive income of Php2.50 billion for the first three months of 2014, 48.71% lower than the Php4.87 billion recorded the previous year on low earnings. Net unrealized fair value gains on available-for-sale financial assets improved by Php0.22 billion to Php1.06 billion on more favorable market

conditions relative to the same period a year ago. Remeasurements of defined benefit plan, net of tax shifted to a loss of Php0.10 billion from a gain of Php0.03 billion as a consequence of the Bank's subsidiaries' retroactive application of PAS 19 on Employee Benefits. Comprehensive income attributable to non-controlling interests rose by Php0.0006 billion to Php0.001 billion in view of the strong performance of CitySavings.

**Statement of Condition as of March 31, 2014 vs. December 31, 2013**

The Bank's total resources expanded by 3.88% to Php411.43 billion as of March 31, 2014 from Php396.08 billion as of December 31, 2013.

Due from Bangko Sentral ng Pilipinas grew by Php12.03 billion to Php108.23 billion driven by the increased placements in special deposit accounts alongside with the expansion in deposit liabilities. Higher working balances in due from other banks' clearing accounts led to an increase of Php0.85 billion in due from other banks to Php7.27 billion. Interbank loans receivable, meanwhile, was down by Php3.43 billion to Php10.40 billion as excess funds were shifted to higher yielding assets.

Financial assets at fair value through profit or loss fell by Php1.20 billion to Php0.22 billion as the Bank took profit from its securities position. Available-for-sale financial assets, on the other hand, rose by Php6.42 billion to Php100.56 billion as the Bank continues to build-up its investment portfolio.

Assets held for sale inched up by Php0.04 billion to Php0.53 billion due to higher auto loan foreclosures.

Total liabilities stood at Php366.76 billion as of quarter-end March 2014, an increase of 4.46% from Php351.09 billion posted as of December 31, 2013. Total deposit liabilities expanded by 10.30% to Php328.95 billion buoyed by the Php3.12 billion, Php3.89 billion and Php23.70 billion increases in the outstanding levels of demand, savings and time deposits to Php111.81 billion, Php33.71 billion and Php183.43 billion, respectively. On the other hand, bills payable dropped by Php9.46 billion on lower outstanding levels of repurchased agreements and foreign borrowings. Notes payables was zeroed out as the Bank exercised its right to redeem the Php3.75 billion unsecured subordinated notes upon its non-qualification as Lower Tier 2 capital with the effectivity of Basel III beginning January 1, 2014. Other liabilities fell by Php1.83 billion to Php24.11 billion on lower outstanding level of funds held by the Bank for remittance to BIR on the implementation of the Treasury Single Account (TSA) beginning January this year.

Total capital funds amounted to Php44.67 billion as of the end of the first quarter of 2014, as the 14.03% reduction in net unrealized loss on available-for-sale financial assets to Php6.48 billion was offset by the 3.25% drop in surplus to Php38.12 billion. Remeasurements of defined benefit plan also fell by 27.99% to Php0.46 billion, reflecting the Bank's subsidiaries' retroactive application of PAS 19 on Employee Benefits. Non-controlling interest rose by 11.34% to Php0.02 billion brought about by the exemplary earnings performance of CitySavings.

The Bank's annualized return on average equity (ROE) and return on average assets (ROA) as of March 31, 2014 was lower at 13.8% and 1.5%, respectively. Cost-to-income ratio was at 53.4%. Net non-performing loans (NPL) ratio and NPL cover ended the period under review at 0.12% and 109.8%. The Bank's capital adequacy ratio slid to 11.5%, above the Basel III minimum of 10.0%. Annualized earnings per share declined to Php9.62 for the three-month ended March 2014, reflective of the Bank's earnings performance.

Key performance indicators of the Bank are as follows:

	<u>Mar. 2014</u>	<u>Mar. 2013</u>
Return on Average Assets	1.5%	5.4%
Return on Average Equity	13.8%	31.8%
Cost-to-Income Ratio	53.4%	41.5%

	<u>Mar. 2014</u>	<u>Dec. 2013</u>
Net Non-Performing Loan Ratio*	0.12%	-0.32%
Non-Performing Loan Cover*	109.8%	118.0%
Capital Adequacy Ratio	11.5%	18.5%**

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*

*\*\*Calculated based on Basel 2*

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 March 31, 2014

ANNEX II

<u>Type of Accounts Receivable</u>	<u>Total</u>	<u>Current</u>	<u>90 days or less</u>	<u>91 to 180 days</u>	<u>181 days to 1 year</u>	<u>more than 1 year</u>
1) Interbank Loans Receivable	10,397,315	10,397,315				
2) Loans	124,460,675	113,966,832	1,895,868	294,304	3,524,880	4,778,791
3) Accrued Interest Receivable	1,869,613	1,748,396	17,112	3,242	10,054	90,809
4) Sales Contract Receivable	1,707,203	1,493,251	150,044	21,532	26,669	15,707
5) Accounts Receivable	1,782,662	599,069	204,424	91,826	104,117	783,226
6) Installment Contract Receivable	18,974	-	-	-	2,484	16,490
Less: Allow. For Doubtful Account	11,825,634					
<b>TOTAL</b>	<b>128,410,808</b>	<b>128,204,863</b>	<b>2,267,448</b>	<b>410,904</b>	<b>3,668,204</b>	<b>5,685,023</b>