UNIONBANK

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

November 14, 2012

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

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

Dear Ms. Encarnacion:

In compliance with your reportorial requirement, we are transmitting to you herewith our SEC Form 17-Q report for the period ended September 30, 2012.

For proper acknowledgement.

Thank you.

Very truly yours,

11/14

VIRGINIA C. SAN PASCUAL
Senior Manager

# COVER SHEET

3 6 0 7 3

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

(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 N E R O N Y X A N D S A P P H I R E S 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 | SEC FORM 17Q | 0 5 | 2 5 |
|---|---|---|---|---|
| *Month* | *Day* | FORM TYPE | *Month* | *Day* |
| Fiscal Year | | | Annual Meeting | |

UNDERWRITER OF SECURITIES

Secondary License Type, If Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

5,386

Total No. of Stockholders

Domestic

Foreign

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To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

## SECURITIES AND EXCHANGE COMMISSION

## SEC FORM 17-Q

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

1. For the quarterly period ended : **September 30, 2012**

2. Commission identification number : **36073**

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

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

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

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

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

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

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

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

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

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

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

12. Indicate by check mark whether the registrant:

(a) Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder or Section 11 of SRC and SRC Rule 11 (a)-1 thereunder and Section 26 and 141 of the Corporation Code of the Philippines during the preceding 12 months (or for such shorter period the registrant was required to file such reports) **Yes (x) No ( )**

(b) Has been subject to such filing requirements for the past 90 days **Yes (x) No ( )**

## PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

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

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

## PART II - OTHER INFORMATION

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

## SIGNATURES

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

**VICTOR B. VALDEPENAS**
**President and Chief Operating Officer**

**ATTY. CESAR G. ILAGAN**
**Senior Vice President/Financial Controller**

Date: November 14, 2012

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

| | September 30, 2012 (Unaudited) | December 31, 2011 (Audited) |
|---|---|---|
| **RESOURCES** | | |
| **Cash and Other Cash items** | **3,253,312** | 3,686,931 |
| **Due from Bangko Sentral ng Pilipinas** | **23,160,229** | 28,771,881 |
| **Due from Other Banks** | **5,098,380** | 3,213,740 |
| **Interbank Loans Receivable** | **10,033,877** | 12,989,144 |
| **Trading and Investment Securities** | | |
| **At fair value through profit or loss** | **271,474** | 270,870 |
| **Available-for-sale-net** | **67,888,106** | 89,743,516 |
| **Loans and Other Receivables-net** | **90,945,233** | 105,011,206 |
| **Bank Premises, Furniture, Fixtures and Equipment-net** | **3,154,308** | 2,769,566 |
| **Assets Held for Sale** | **318,044** | 198,085 |
| **Investment Properies** | **11,043,426** | 12,166,969 |
| **Goodwill** | **7,886,898** | 7,886,898 |
| **Other Resources - net** | **4,757,154** | 3,477,068 |
| **TOTAL RESOURCES** | **227,810,441** | 270,185,874 |
| **LIABILITIES AND CAPITAL FUNDS** | | |
| **Deposit Liabilities** | | |
| Demand | **62,355,710** | 114,752,297 |
| Savings | **16,523,465** | 20,078,830 |
| Time | **76,983,054** | 69,379,150 |
| Total Deposit Liabilities | **155,862,229** | 204,210,277 |
| **Bills Payable** | **4,909,303** | 5,619,244 |
| **Notes Payable** | **3,750,000** | 3,750,000 |
| **Other Liabilities** | **16,707,525** | 13,767,314 |
| TOTAL LIABILITIES | **181,229,057** | 227,346,835 |
| **Capital Funds** | | |
| Common Stock | **6,414,224** | 6,414,224 |
| Capital Paid in Excess of Par Value | **5,819,861** | 5,819,861 |
| Surplus | **32,401,979** | 28,011,264 |
| Surplus Reserve for Trust Business | **134,173** | 134,173 |
| Net Unrealized Gain/(Loss) on Available-for-Sale Securities and Trust Fund Investments | **1,811,147** | 2,459,517 |
| TOTAL CAPITAL FUNDS | **46,581,384** | 42,839,039 |
| **TOTAL LIABILITIES AND CAPITAL FUNDS** | **227,810,441** | 270,185,874 |
| **Equity Attributable to Equity Holders of the Parent** | **46,581,384** | 42,839,039 |

ANNEX 2


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

| | FOR THE NINE MONTHS ENDED SEPTEMBER 30 | | QUARTERS ENDED SEPTEMBER 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **INTEREST INCOME ON** | | | | |
| Loans and other receivables | 5,212,782 | 5,038,919 | 1,732,439 | 1,706,542 |
| Trading and Investments securities | 2,877,706 | 2,896,204 | 796,339 | 1,054,528 |
| Due from other banks | 108,012 | 808,239 | 5,457 | 167,257 |
| Interbank loans receivables | 20,155 | 27,680 | 5,431 | 7,580 |
| | 8,218,655 | 8,771,042 | 2,539,666 | 2,935,907 |
| **INTEREST EXPENSE ON** | | | | |
| Deposit liabilities | 2,493,584 | 3,222,720 | 655,310 | 1,005,816 |
| Bills payable and other liabilities | 272,269 | 335,421 | 100,756 | 109,412 |
| | 2,765,853 | 3,558,141 | 756,066 | 1,115,228 |
| **NET INTEREST INCOME** | 5,452,802 | 5,212,901 | 1,783,600 | 1,820,679 |
| **IMPAIRMENT LOSSES** | 338,262 | 623,759 | 78,114 | 150,000 |
| **NET INTEREST INCOME AFTER IMPAIRMENT LOSSES** | 5,114,540 | 4,589,142 | 1,705,486 | 1,670,679 |
| **OTHER INCOME** | | | | |
| Service charges, fees and commissions | 665,448 | 666,949 | 286,995 | 243,814 |
| Trading gain-net | 5,280,287 | 4,450,322 | 1,991,281 | 2,270,691 |
| Premium Revenue | 1,197,474 | 1,322,193 | 118,918 | 195,323 |
| Miscellaneous | 1,070,084 | 1,049,394 | 246,681 | 291,972 |
| | 8,213,293 | 7,488,858 | 2,643,875 | 3,001,800 |
| **OTHER EXPENSES** | | | | |
| Salaries and employee benefits | 2,518,203 | 2,144,328 | 870,234 | 809,173 |
| Taxes and Licenses | 734,887 | 604,531 | 223,178 | 258,920 |
| Depreciation and amortization | 261,333 | 265,983 | 86,449 | 84,800 |
| Occupancy | 414,886 | 403,002 | 136,540 | 148,563 |
| Trust Fund Contribution | 1,125,881 | 1,242,062 | 111,574 | 182,404 |
| Miscellaneous | 1,582,814 | 1,584,382 | 537,425 | 520,004 |
| | 6,638,004 | 6,244,288 | 1,965,400 | 2,003,864 |
| **INCOME BEFORE INCOME TAXES** | 6,689,829 | 5,833,712 | 2,383,961 | 2,668,615 |
| | | | - | |
| **TAX EXPENSE** | 374,847 | 427,869 | 136,237 | 124,626 |
| | | | - | |
| **NET INCOME** | 6,314,982 | 5,405,843 | 2,247,724 | 2,543,989 |
| **Attributable to:** | | | | |
| **Equity Holders of the Parent** | 6,314,982 | 5,405,843 | | |
| **Minority Interests** | 0 | 0 | | |
| | 6,314,982 | 5,405,843 | | |
| **Basic/Diluted Earnings Per Share Attributable to Equity Holders of the Parent** | 13.13 | 11.24 | | |

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

| | FOR THE NINE MONTHS ENDED SEPTEMBER 30 | | FOR THE QUARTERS ENDED SEPTEMBER 30 | |
|---|---|---|---|---|
| | **2012** | 2011 | **2012** | 2011 |
| **NET INCOME** | **6,314,982** | 5,405,843 | **2,247,724** | 2,543,989 |
| **OTHER COMPRENEHSIVE INCOME (LOSS)** | | | | |
| Net unrealized gains (Losses) on available-for-sale securities | **(309,681)** | (1,417,272) | **1,026,677** | (2,221,888) |
| Amortization of unrealized loss on reclassified investments | **(60,614)** | (86,656) | **(7,633)** | (43,646) |
| Realized on reclassified investments | **(278,075)** | (763,892) | **(20,661)** | (59,806) |
| Other Comprehensive Income for the period | **(648,370)** | (2,267,820) | **998,383** | (2,325,340) |
| **TOTAL COMPREHENSIVE INCOME FOR THE PERIOD** | **5,666,612** | 3,138,023 | **3,246,107** | 218,649 |
| ATTRIBUTABLE TO: | | | | |
| Equity holders of the Parent Company | **5,666,612** | 3,138,023 | **3,246,107** | 218,649 |
| Minority interest | - | - | - | |
| | **5,666,612** | 3,138,023 | **3,246,107** | 218,649 |

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

| | (Unaudited) | |
|---|---|---|
| | FOR THE NINE MONTHS ENDED SEPTEMBER 30 | |
| | **2012** | 2011 |
| **Common Stock** | | |
| Balance at beginning of year, as restated | **6,414,224** | 6,414,224 |
| Issuance of additional shares during the quarter | | |
| Balance at quarter end | **6,414,224** | 6,414,224 |
| **Additional Paid-in Capital** | | |
| Balance at beginning of year | **5,819,861** | 5,819,861 |
| Issuance of additional shares | | |
| Balance at quarter end | **5,819,861** | 5,819,861 |
| **Surplus Free** | | |
| Balance at beginning of year | **28,011,264** | 23,033,433 |
| Net Income | **6,314,982** | 5,405,843 |
| Cash Dividends | **(1,924,267)** | (1,603,556) |
| Appropriation for trust business | | |
| Balance at quarter end | **32,401,979** | 26,835,720 |
| **Surplus Reserves** | | |
| Balance at beginning of year | **134,173** | 120,162 |
| Transfer from surplus | | |
| Balance at quarter end | **134,173** | 120,162 |
| **Net Unrealized Gain(Loss) on Available-for-sale Securities** | **1,811,147** | 655,190 |
| **Net Capital Funds** | **46,581,384** | 39,845,157 |

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

| | (Unaudited) | |
|---|---|---|
| | For the Nine Months Ended September 30 | |
| | **2012** | 2011 |
| **CASH FLOW FROM OPERATING ACTIVITIES** | | |
| Profit before income tax | **6,689,829** | 5,833,712 |
| Adjustments for: | | |
| Provision for impairment losses | **338,262** | 623,759 |
| Loss (gain) on decline (appreciation) in fair value of Investment Properties | **-** | - |
| Depreciation and amortization | **261,333** | 265,983 |
| Changes in operating resources and liabilities: | | |
| Decrease (increase) in: | | |
| Financial Assets at Fair Value Through Profit and Loss | **(604)** | 5,461,240 |
| Loans and Receivables | **13,727,711** | (5,937,878) |
| Other Resources | **(1,271,770)** | (108,380) |
| Increase (decrease) in: | | |
| Deposit Liabilities | **(48,348,048)** | (5,030,079) |
| Other Liabilities | **2,923,527** | 5,548,926 |
| Net cash generated from operations | **(25,679,760)** | 6,657,283 |
| Income taxes paid | **(400,415)** | (461,729) |
| Net cash provided by operating activities | **(26,080,175)** | 6,195,554 |
| **CASH FLOW FROM INVESTING ACTIVITIES** | | |
| Net disposal (acquisition) of: | | |
| Available-for-Sale Securities | **21,207,040** | (53,199,369) |
| Held-to-Maturity Investments | **-** | 35,665,162 |
| Property and equipment | **(612,139)** | (90,294) |
| Investment Properties | **1,003,584** | (14,959) |
| Net cash provided by (used in) investing activities | **21,598,485** | (17,639,460) |
| **CASH FLOW FROM FINANCING ACTIVITIES** | | |
| Increase (decrease) in: | | |
| Bills Payable | **(709,941)** | (1,683,272) |
| Notes Payable | **-** | (1,287,100) |
| Cash dividends paid | **(1,924,267)** | (1,603,556) |
| Net cash provied by (used in) financing activities | **(2,634,208)** | (4,573,928) |
| **NET INCREASE IN CASH AND CASH EQUIVALENTS** | **(7,115,898)** | (16,017,834) |
| **CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR** | | |
| Cash and Other Cash Items | **3,686,931** | 4,177,961 |
| Due from Bangko Sentral ng Pilipinas | **28,771,881** | 42,524,011 |
| Due from Other Banks | **3,213,740** | 1,760,146 |
| Interbank Loans Receivable | **12,989,144** | 7,470,463 |
| | **48,661,696** | 55,932,581 |
| **CASH AND CASH EQUIVALENTS AT END OF YEAR** | | |
| Cash and Other Cash Items | **3,253,312** | 3,210,762 |
| Due from Bangko Sentral ng Pilipinas | **23,160,229** | 25,157,493 |
| Due from Other Banks | **5,098,380** | 1,497,052 |
| Interbank Loans Receivable | **10,033,877** | 10,049,440 |
| | **41,545,798** | 39,914,747 |

*ANNEX 5*

**UNION BANK OF THE PHILIPPINES**
**GENERAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**
**FOR THE PERIOD ENDED September 30, 2012**

## 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 September 30, 2012, the Bank has 187 branches and 205 on-site and 23 off-site automated teller machines, located nationwide.

The Bank's common shares are listed in the Philippine Stock Exchange (PSE). The Bank is effectively 43.27% owned by Aboitiz Equity Ventures, Inc. (AEVI), a company incorporated and domiciled in the Philippines. AEVI is the holding and management company of the Aboitiz Group of Companies.

## 2. Summary of Significant Accounting Policies

Basis of Preparation

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

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

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

The accounting polices adopted in the preparation of the interim financial statements are consistent with its most recent annual financial statements as of December 31, 2011.

Basis of Consolidation

The interim financial statements comprise the accounts of the Bank and of its subsidiaries, after the elimination of material intercompany transactions. All intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full.

The 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.

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

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

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

**Significant Accounting Policies – Financial Instruments**

***Financial Assets***

Financial assets are recognized when the Group becomes a party to the contractual terms of the financial instrument. Financial assets other than those designated and effective as hedging instruments are classified into the following categories: financial assets at fair value through profit or loss (FVTPL), loans and receivables, HTM investments and 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 transaction costs related to it are recognized in profit or loss.

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

*(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 fair value through profit or loss upon initial recognition. All derivatives fall into this category, except for those designated and effective as hedging instruments.

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

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

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

*(b) Loans and Receivables*

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

Securities Purchased Under Reverse Repurchase Agreements (SPURRA) wherein the Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with 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 (see Note 2.19). 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 Bank 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 maybe 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 resources' call date that changes in the market rate of interest would not have a significant effect on its fair value; (ii) occur after the Group has collected substantially all of the financial assets' original principal through scheduled payments or prepayments; or, (iii) are attributable to an isolated event that is beyond the control of the Group, is non-recurring and could have not been reasonably anticipated by the Group.

*(d) AFS Financial Assets*

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

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

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

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

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

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

*Derivative Financial Instruments*

The Group is a counterparty to derivatives contracts, such as options, currency forwards and swaps. 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 value. Fair values are obtained from quoted market prices in active markets, including recent market transactions. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

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

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

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

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

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

***Financial Liabilities***

Financial liabilities include deposit liabilities, bills payable, notes payable, outstanding acceptances payable, due to other banks, derivative liabilities, interest and other expenses, and other liabilities (except taxes-related payables). Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument.

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 are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.  Accrued interests and other expenses and other liabilities are recognized initially at their fair value and subsequently measured at amortized cost, less settlement payments.  Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BSP.

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

*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 receivable or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate.  The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss.  If a loan or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

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

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

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

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

When a loan is uncollectible and subject to BSP guidelines, it may be written off 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 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.

***Future Changes in Accounting Policies***

There are new PFRS amendments and interpretations to existing standards that will be effective in the subsequent periods. Management has determined these to be relevant to its financial statements and will apply these in accordance with their transitional provisions:

*(a) Effective in 2012*

(i) PAS 1 (Amendment), *Financial Statements Presentation – 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 Group's management expects that this will not affect the presentation of items in other comprehensive income, since all of the Group's other comprehensive income, which include unrealized fair value gains and losses on AFS financial assets, can be reclassified to profit or loss when specified conditions are met.

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets* (effective from January 1, 2012). The amendment provides an exception to the existing principle in PAS 12 that recovery of the carrying amount of investment property measured at fair value under PAS 40, *Investment Property*, will be or normally be through sale. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset on an investment property measured at fair value should reflect the tax consequence of recovering the carrying amount entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) measured at fair value that is held with an objective to consume substantially the economic benefits embodied in the asset over time, rather than through sale. As a result of the amendment, Standing Interpretations Committee (SIC) 21 *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn. The Group is yet to assess the impact of this amendment to the standard.

*(b) Effective in 2013*

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

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all gains and losses arising in the reporting period;
- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in them.

(ii) Consolidation Standards

- PFRS 10, *Consolidated Financial Statements* (effective from January 1, 2013). This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interest in Other Entities* (effective from January 1, 2013). This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Revised), *Separate Financial Statements* (effective from January 1, 2013). This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in the new PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

- PAS 28 (Revised), *Investments in Associate and Joint Venture* (effective from January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement*.

  The Group is currently reviewing the impact of the above consolidation standards on its financial statements in time for its adoption in 2013.

*(c) Effective in 2015*

(i) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on classification and measurement of financial assets and financial liabilities that will replace PAS 39 in its entirety. This chapter deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related, and, 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 an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed. The Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. Nevertheless, the management continues to assess the potential impact of PFRS 9 on the financial statements of the Group.

The Group conducted an evaluation of the possible financial impact of the early adoption of PFRS 9 and decided not to early adopt this in its financial reporting in the current year.

(ii) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards. The Group is yet to assess the impact of this new standard.

## 3. Financial Risk Management

Compared with the report as of December 31, 2011, there has been no significant changes in the financial risk exposures of the Group as of September 30, 2012 that will have a material impact on its financial condition and results of operation. The Group has exposure to the following risks arising from the use of financial instruments: (a) credit, (b) market, (c) liquidity, (d) interest rate and (e) currency risk.

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

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

### *Credit Risk*

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

### *Market Risk*

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates and equity prices. The Group applies a VaR methodology to assess the market risk of positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. The group manages and controls market risk by establishing VaR and portfolio limits. To supplement the VaR, the Group performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Group's VaR model.

### *Liquidity Risk*

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

*Interest Rate Risk*

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

*Foreign Exchange Risk*

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

## 4. 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 level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the statements of financial position as of September 30, 2012 and December 31, 2011 are grouped into the fair value hierarchy as presented in the following table (amounts in millions of Philippine pesos). For the purpose of this disclosure, the investments in unquoted equity securities classified as AFS amounting to P94,427 are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore are not included. Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

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:

| | September 30, 2012 | | December 31, 2011 | |
|---|---|---|---|---|
| | (Unaudited) | | (Audited) | |
| | **Cost** | **Fair Value** | Cost | Fair Value |
| Financial Assets | | | | |
| Cash and other cash items | **3,253,312** | **3,253,312** | 3,686,931 | 3,686,931 |
| Due from BSP | **23,160,229** | **23,160,229** | 28,771,881 | 29,771,881 |
| Due from other banks | **5,098,380** | **5,098,380** | 3,213,740 | 3,213,740 |
| Interbank loans receivable | **10,033,877** | **10,033,877** | 12,989,144 | 12,989,144 |
| Loans and other receivables | **90,945,233** | **90,891,216** | 105,011,206 | 104,709,437 |
| | | | | |
| Financial Liabilities | | | | |
| Deposit liabilities | **155,862,229** | **155,862,229** | 204,210,277 | 204,210,277 |
| Bills payable | **4,909,303** | **4,909,303** | 5,619,244 | 5,619,244 |
| Notes payable | **3,750,000** | **4,055,399** | 3,750,000 | 4,220,962 |
| Other Liabilities | **9,418,736** | **9,418,736** | 9,236,206 | 9,236,206 |

Trading and investment securities includes foreign denominated investments in government bonds and other debt securities amounting to P29.4 billion as of September 30, 2012 and P48.7 billion as of December 31, 2011. Government bonds and other debt securities issued by resident and non-resident corporations earned interest at 2.89% to 12.25% from January to September 2012 and 4.0% to 14.0% in 2011

**Criteria used to determine whether the market for financial instrument is active of 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.

## 5. Segment Information

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

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

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

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

Segment information of the Group as of and for the quarters ended September 30, 2012 and 2011 is presented as follows (amounts in millions of Philippine pesos):

| **September 30, 2012** | **Consumer Banking** | **Corporate and Commercial Banking** | **Treasury** | **Headquarters** | **Total** |
|---|---|---|---|---|---|
| Results of operations | | | | | |
| Net interest income and other income | **P 3,605** | **P 1,261** | **P 6,466** | **P 2,334** | **P 13,666** |
| Other expenses | **( 2,387)** | **( 729)** | **( 621)** | **( 2,901)** | **6,638** |
| Income before provision for impairment and income tax | **P 1,218** | **P 532** | **P 5,845** | **( P 567)** | **7,028** |
| Provision for impairment | | | | | **( 338)** |
| Tax expense | | | | | **( 375)** |
| Net income | | | | | **P 6,315** |
| Segment resources | **P 47,256** | **P 70,040** | **P 92,597** | **P 17,917** | **P 227,810** |
| Segment liabilities | **P 99,255** | **P 45,667** | **P 26,303** | **P 10,004** | **P 181,229** |

| September 30, 2011 | Consumer Banking | Corporate and Commercial Banking | Treasury | Headquarters | Total |
|---|---|---|---|---|---|
| Results of operations | | | | | |
| Net interest income and other income | P 3,545 | P 1,204 | P 5,744 | P 2,209 | P 12,702 |
| Other expenses | ( 2,362) | ( 556) | ( 517) | ( 2,809) | 6,244 |
| Income before provision for impairment and income tax | P 1,183 | P 648 | P 5,227 | ( P 600) | P 6,458 |
| Provision for impairment | | | | | ( 624) |
| Tax expense | | | | | ( 428) |
| Net income | | | | | P 5,406 |
| Segment resources | P 38,858 | P 70,804 | P 99,802 | P 42,626 | P 252,090 |
| Segment liabilities | P 99,821 | P 71,830 | P 28,007 | P 14,912 | P 214,570 |

## 6. Notes Payable

Significant terms and conditions of the Group's Notes Payable (Unsecured Subordinated Notes) have been disclosed in the 2011 Audited financial statements.

## 7. Capital Funds

The Bank's common stock at September 30, 2012 and 2011 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 2012 and 2011:

| Date of Declaration | Date of Record | Date of Payment | Date of BSP Approval | Dividend per Share | Shares Outstanding | Total Amount |
|---|---|---|---|---|---|---|
| January 27, 2012 | March 13, 2012 | April 11, 2012 | February 27, 2012 | P3.00 | 641,422,420 | P1,924,267 |
| January 28, 2011 | April 08, 2011 | May 06, 2011 | March 21, 2011 | P2.50 | 641,422,420 | P1,603,556 |

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.

## 8. Related Party Transactions

In the ordinary course of business, the Group has loans, deposits and other transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). Under the Group's existing policies, these transactions are made substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Group. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Group, whichever is lower. As of September 30, 2012 and December 31, 2011, the Bank is in compliance with these regulatory requirements.

## 9. 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 September 30, 2012 and December 31, 2011, no additional material losses or liabilities are required to be recognized in the accompanying financial statements as a result of the above commitments and transactions.

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

## 10. Earnings Per Share

Basic earnings per share were computed as follows:

| | **September 30, 2012** | September 30 2011 |
|---|---|---|
| Net income | **P 6,314,982** | P 5,405,843 |
| Divided by the weighted average number of outstanding common shares | **641,422** | 641,422 |
| Basic earnings per share* | **P 13.13** | P 11.24 |
| * *annualized* | | |

As of September 30, 2012 and 2011, the Group has no outstanding potentially dilutive securities, hence, basic earnings per share are equal to diluted earnings per share.

## 11. Events After the Reporting Period

None to report.

*ANNEX 6*

**UNION BANK OF THE PHILIPPINES**
**FINANCIAL INDICATORS**
**AS OF AND FOR THE NINE MONTHS ENDED SEPTEMBER 30, 2012 AND 2011**

| Ratios | **09/30/2012** | **12/31/2011** |
|---|---|---|
| a. Liquidity Ratio | 71.8% | 79.2% |
| b. Debt to Equity Ratio | 393.6% | 535.0% |
| c. Asset to Equity Ratio | 493.6% | 635.0% |
| d. Capital Adequacy Ratio | 20.5% | 18.2% |
| | **09/30/2012** | **09/30/2011** |
| e. Interest Rate Coverage Ratio | 337.3% | 261.7% |
| f. Return on Average Equity | 18.8% | 19.6% |
| g. Return on Average Assets | 3.4% | 2.9% |
| h. Net interest Margin | 3.4% | 3.1% |
| i. Cost-to-income Ratio | 48.6% | 49.2% |

**UNION BANK OF THE PHILIPPINES**
**SEC FORM 17-Q**
**FOR THE PERIOD ENDED SEPTEMBER 30, 2012**

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

***Statement of Income for the Period Ended September 30, 2012 vs. September 30, 2011***

The Bank recorded a net income of Php6.31 billion for the first nine months of 2012, a growth of 16.82% from the Php5.41 billion for the same period last year.

Total interest income amounted to Php8.22 billion this year, lower by 6.30% from Php8.77 billion earned last year. Interest income on due from other banks stood at Php0.11 billion from Php0.81 billion on lower average levels and yields, in view of the non-remuneration of deposit reserves with the implementation of BSP Circular No. 753. Interest income on interbank loans receivables figured at Php0.02 billion from Php0.03 on lower average levels on these investments.

Total interest expense declined to Php2.77 billion this year compared to the Php3.56 billion reported last year, principally driven by the 22.62% drop in interest expense on deposit liabilities, to Php2.49 billion from Php3.22 billion on lower average deposit costs and decline in average levels of high cost funds. Interest expense on bills payable and other liabilities similarly declined by 18.83% to Php0.27 billion from Php0.34 billion as the Bank exercised the call option on its Php1.29 billion of unsecured subordinated debt in September 2011.

As a result of the foregoing, net interest income rose to Php5.45 billion this year from Php5.21 billion a year ago.

The Bank set aside lower provision for impairment losses at Php0.34 billion this year from Php0.62 billion as of the same period last year, when it took advantage of its robust earnings in 2011 to book higher loan-loss provisioning.

Total other income went up by 9.67% to Php8.21 billion, largely due to the 18.65% increase in securities trading gains to Php5.28 billion from Php4.45 billion, as the Bank continued to take profit in its securities position. Premium revenue, on the other hand, declined by 9.43% to Php1.20 billion from Php1.32 billion resulting from lower sales of First Union Plans, Inc.'s (FUPI) pre-need plans.

Total other expenses increased by 6.31% to Php6.64 billion attributable mainly to the 17.44% increase in salaries and employee benefits to Php2.52 billion. Taxes and Licenses also went up to Php0.73 billion from Php0.60 billion principally on higher gross receipts tax. Corresponding to the decline in premium revenue, trust fund contribution fell by 9.35% to Php1.13 billion from Php1.24 billion a year ago.

Tax expense was down by 12.39% to Php0.37 billion from Php0.43 billion in view lower final taxes.

***Statement of Comprehensive Income for the Period Ended September 30, 2012 vs. September 30, 2011***

Total comprehensive income surged by 80.58% to Php5.67 billion for the period ending September 2012 from Php3.14 billion last year, driven primarily by the 78.15% improvement in net unrealized loss on available-for-sale securities to Php0.31 billion and the 16.82% increase in net income year-on-year. Amortization of unrealized loss and realized loss on reclassified investments amounted to Php0.06 billion and Php0.28 billion, respectively, owing to the mark-to-market valuation on lower levels of these investments.

***Statement of Condition as of September 30, 2012 vs. December 31, 2011***

The Bank's total resources amounted to Php227.81 billion as of September 30, 2012 from Php270.19 billion as of end-2011.

Cash and other cash items declined by 11.76% to Php3.25 billion from Php3.69 billion due to seasonally high cash requirements of clients as at year-end. Due from BSP amounted to Php23.16 billion, lower by 19.50% from Php28.77 billion on account of lower outstanding deposit liabilities and the implementation of BSP Circular No. 753. Funds placed in overnight lending were shifted to higher-yielding investments, accounting for the 22.75% drop interbank loans receivables to Php10.03 billion from Php12.99 billion. Available-for-sale securities similarly dipped by about a quarter to Php67.89 billion from Php89.74 billion, as the Bank took advantage of favorable market opportunities to realize gains on the sale of these investments. Due from other banks, on the other hand, expanded by 58.64% to Php5.10 billion from Php3.21 billion due to higher working balances with foreign correspondent banks.

Lower outstanding levels of securities purchased under reverse repurchase agreements resulted to the 13.39% decrease in loans and other receivables to Php90.95 billion from Php105.01 billion.

Bank premises, furniture, fixtures and equipment increased to Php3.15 billion from Php2.77 billion, in view of branch improvements and reclassification of certain assets from investment properties. Foreclosures in auto loans pushed up assets held for sale to Php0.32 billion from Php0.20 billion while the Bank's continuous efforts to reduce non-performing assets drove down investment properties to Php11.04 billion from Php12.17 billion. Other resources climbed to Php4.76 billion from Php3.48 billion, mainly due to higher outstanding levels of deferred tax assets, returned checks and other cash items, and lending to RBU books.

Total liabilities amounted to Php181.23 billion as of end-September 2012 from Php227.35 billion as of end-2011, principally on account of lower outstanding level of deposit liabilities, which went down by 23.68% to Php155.86 billion from Php204.21 billion. Demand and savings deposits contracted by 45.66% and 17.71%, respectively, while time deposits expanded by 10.96%. Bills payable, likewise, slid by 12.63% to Php4.91 billion from Php5.62 billion, in view of maturities in foreign repurchase agreements. Other liabilities, on the contrary, went up by 21.36% to Php16.71 billion from Php13.77 billion, mainly on higher levels of pre-need reserves related to sales of FUPI's pre-need plans, derivative liability and borrowing from FCDU books.

Total capital funds grew to Php46.58 billion as of end-September 2012 from Php42.84 billion as of end-2011, primarily driven by the 15.67% growth in surplus to Php32.40 billion from Php28.01 billion, on the back of higher net income for the period less cash dividends paid amounting to Php1.92 billion. Net unrealized gain on available-for-sale securities, in the interim, went down by 26.36% to Php1.81 billion from Php2.46 billion on mark-to-market valuation on lower levels of these investments.

The Bank's annualized return on average equity (ROE) and return on average assets (ROA) stood at 18.8% and 3.4%, respectively, as of the end of the third quarter of 2012. Cost-to-income ratio for the first nine months of 2012 further improved to 48.6% from 49.2% a year ago on faster growth of revenues versus expenses. Non-performing loans (NPL) ratio and NPL cover were at 2.9% and 79.6%, respectively. The Bank's capital position remained strong, as it reflects higher capital adequacy ratio at 20.5% as of end-September 2012 from 18.2% as of end-2011, providing adequate buffer in light of the stringent capital requirements under the Basel III implementation in the Philippines come 2014. Annualized earnings per share rose to Php13.13 for the reported period from Php11.24 a year ago.

Key performance indicators of the Bank are as follows:

| | Sept. 2012 | Sept. 2011 |
|---|---|---|
| Return on Average Assets | 3.4% | 2.9% |
| Return on Equity | 18.8% | 19.6% |
| Cost-to-Income Ratio | 48.6% | 49.2% |

| | Sept. 2012 | Dec. 2011 |
|---|---|---|
| Non-Performing Loan Ratio* | 2.9% | 2.3% |
| Non-Performing Loan Cover* | 79.6% | 102.8% |
| Capital Adequacy Ratio | 20.5% | 18.2% |

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 |
| Non-Performing Loan Ratio: | (Total non-performing loans less fully-covered loans classified as loss) divided by (total loans inclusive of interbank loans receivables less fully-covered loans classified as loss) |
| Non-Performing Loan Cover: | (Total allowance for loan losses less fully-covered loans classified as loss) divided by (total non-performing loans less fully-covered loans classified as loss) |
| Capital Adequacy Ratio: | Total qualifying capital divided by total risk-weighted assets (inclusive of credit, market and operational risk charge) |

**Based on unaudited figures*

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

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

**UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES**

Aging of Accounts Receivable

As of September 30, 2012

| Type of Accounts Receivable | Total | Current | 90 days or less | 91 to 180 days | 181 days to 1 year | more than 1 year |
|---|---|---|---|---|---|---|
| 1) Interbank Loans Receivable | 10,033,877 | 10,033,877 | | | | |
| 2) Loans | 96,807,629 | 86,786,795 | 1,381,795 | 588,834 | 3,344,318 | 4,705,887 |
| 3) Accrued Interest Receivable | 1,352,830 | 1,232,595 | 15,757 | 6,212 | 6,101 | 92,165 |
| 4) Sales Contract Receivable | 1,765,475 | 1,428,532 | 280,450 | 32,626 | 5,216 | 18,651 |
| 5) Accounts Receivable | 1,056,669 | 150,679 | 42,941 | 100,335 | 107,006 | 655,708 |
| 6) Installment Contract Receivable | 17,071 | - | - | - | - | 17,071 |
| Less: Allow. For Doubtful Account | 10,054,441 | | | | | |
| TOTAL | 100,979,110 | 99,632,478 | 1,720,943 | 728,007 | 3,462,641 | 5,489,482 |