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

12 August 2016

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

Attention: **MR. JOSE VALERIANO B. ZUNO III**
Head, Disclosure Department

Dear Mr. Zuno:

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 June 30, 2016.

Thank you.

Very truly yours,

MILA D. FAJARDO
Assistant Vice President

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 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	(632)667-6388
Contact Person	Company Telephone Number

1 2	3 1	**SEC FORM 17Q**	0 5	2 7
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

5,069

Total No. of Stockholders

Domestic

Foreign

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 : **June 30, 2016**

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	**1,058,343,929**	**None**

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

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

12. Indicate by check mark whether the registrant:

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

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

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

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

PART II - OTHER INFORMATION

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

SIGNATURES

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

JESUS ROBERTO S. REYES
SEVP, Chief Finance Officer

FRANCIS B. ALBALATE
SVP, Financial Controller

Date: August 12, 2016

Annex 1

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
STATEMENTS OF FINANCIAL POSITION
June 30, 2016
(With Comparative Figures as of December 31, 2015)
(Amounts in Thousands of Philippine Pesos)

	June 30, 2016 (Unaudited)	December 31, 2015 (Audited)
RESOURCES		
CASH AND OTHER CASH ITEMS	5,446,304	6,566,176
DUE FROM BANGKO SENTRAL NG PILIPINAS	62,598,236	70,036,867
DUE FROM OTHER BANKS	5,080,723	19,697,783
INTERBANK LOANS RECEIVABLE	4,293,711	16,884,953
TRADING AND INVESTMENT SECURITIES		
At fair value through profit or loss	3,844,775	4,489,320
At amortized cost	117,561,723	105,414,330
At fair value through other comprehensive income	43,783	47,116
LOANS AND OTHER RECEIVABLES - Net	201,700,674	179,551,842
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	3,332,312	3,306,804
ASSETS HELD FOR SALE - Net	73,943	73,943
INVESTMENT PROPERTIES	13,370,761	13,406,802
GOODWILL	11,258,251	11,258,251
OTHER RESOURCES - Net	10,327,285	10,923,367
TOTAL RESOURCES	**438,932,483**	**441,657,554**
LIABILITIES AND CAPITAL FUNDS		
DEPOSIT LIABILITIES		
Demand	115,464,257	104,782,779
Savings	42,976,068	41,569,992
Time	177,971,534	165,230,667
Total Deposit Liabilities	336,411,859	311,583,438
BILLS PAYABLE	12,518,838	41,551,701
NOTES PAYABLE	7,200,000	7,200,000
OTHER LIABILITIES	21,008,122	21,832,790
TOTAL LIABILITIES	377,138,819	382,167,929
Capital Funds Attributable to the Equity Holders of UBP		
Common stock	10,583,439	10,583,439
Additional paid-in capital	5,819,861	5,819,861
Surplus free	44,392,502	42,322,902
Surplus reserves	1,719,810	1,459,541
Net unrealized fair value gains (losses) on investment securities	25	301
Other Comprehensive Income-Revaluation	50,121	50,121
Remeasurements of defined benefit plan	(791,913)	(770,333)
Parent Bank's Stockholders	61,773,845	59,465,832
Non-controlling Interests	19,819	23,793
TOTAL CAPITAL FUNDS	61,793,664	59,489,625
TOTAL LIABILITIES AND CAPITAL FUNDS	**438,932,483**	**441,657,554**

Annex 2

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
STATEMENTS OF INCOME
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2016 and 2015
(UNAUDITED)

(Amounts in Thousands of Philippine pesos, Except Per Share Data)

	FOR THE SIX MONTHS ENDED JUNE 30		QUARTERS ENDED JUNE 30	
	2016	2015	2016	2015
INTEREST INCOME ON				
Loans and Other Receivables	6,997,071	5,554,765	3,606,044	2,930,043
Trading and Investment Securities	2,420,370	1,621,354	1,247,116	907,612
Due from BSP and Other Banks	312,313	523,424	153,300	173,902
Interbank Loans Receivable	12,026	15,168	6,096	5,517
	9,741,781	**7,714,711**	**5,012,557**	**4,017,073**
INTEREST EXPENSE ON				
Deposit Liabilities	2,026,967	1,670,413	1,061,426	756,711
Bills Payable and Other Liabilities	442,190	468,144	217,750	211,886
	2,469,157	**2,138,557**	**1,279,175**	**968,598**
NET INTEREST INCOME	7,272,624	5,576,154	3,733,382	3,048,475
IMPAIRMENT LOSSES	228,978	274,948	21,215	211,535
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	7,043,646	5,301,206	3,712,168	2,836,940
OTHER INCOME				
Service Charges, Fees and Commissions	1,978,637	1,783,151	1,004,890	903,753
Trading Gain-net	11,578	794,947	167,964	255,382
Premium Revenues	8,056	511,319	5	463,856
Miscellaneous	1,077,182	450,316	576,281	119,808
	3,075,453	**3,539,733**	**1,749,140**	**1,742,799**
OTHER EXPENSES				
Salaries and Employee Benefits	2,232,242	1,894,967	1,107,753	926,046
Taxes and Licenses	585,213	483,670	295,901	221,861
Depreciation and Amortization	348,923	282,013	180,288	151,339
Occupancy	339,109	342,690	177,963	176,775
Trust Fund Due	7,618	482,213	5	438,054
Miscellaneous	1,746,693	1,486,015	920,795	721,546
	5,259,798	**4,971,568**	**2,682,705**	**2,635,621**
INCOME BEFORE INCOME TAXES	4,859,301	3,869,371	2,778,602	1,944,117
TAX EXPENSE	936,872	862,915	469,832	418,716
NET INCOME	**3,922,428**	**3,006,456**	**2,308,769**	**1,525,401**
Attributable to:				
Parent Bank's Stockholders	3,918,591	3,002,053	2,306,605	1,523,030
Non-controlling Interests	3,838	4,403	2,165	2,371
	3,922,428	**3,006,456**	**2,308,769**	**1,525,401**
Basic/Diluted Earnings per Share Attributable to Parent Bank's Stockholders	**7.41**	**5.68**		

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
STATEMENTS OF COMPREHENSIVE INCOME
FOR THE SIX AND THREE MONTHS ENDED JUNE 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Thousands of Philippine Pesos)

	FOR THE SIX MONTHS ENDED JUNE 30		FOR THE QUARTERS ENDED JUNE 30	
	2016	2015	2016	2015
NET INCOME	**3,922,428**	**3,006,456**	**2,308,768**	**1,525,404**
OTHER COMPRENEHSIVE INCOME (LOSS)				
Items that will be reclassified subsequently to profit and loss				
Net unrealized fair gains (Losses) on investment securities	(276)	(18,000)	-	(34,000)
Items that will not be classified to profit and loss				
Remeasurements of defined benefit plan	(30,827)	(14,594)	5,399	(14,243)
Tax Income(expense)	9,248	4,378	(1,620)	4,273
	(21,579)	**(10,216)**	**3,779**	**(9,970)**
Other Comprehensive Income-Revaluation		(102,288)	-	-
Tax Income(expense)	-	30,686	-	-
	-	**(71,602)**	**-**	**-**
Total Other Comprenhensive Income(Loss), net of tax	**(21,855)**	**(99,818)**	**3,779**	**(43,970)**
TOTAL COMPREHENSIVE INCOME FOR THE PERIOD	**3,900,573**	**2,906,638**	**2,312,547**	**1,481,434**
ATTRIBUTABLE TO:				
Parent Bank's Stockholders	3,896,736	2,902,235	2,310,383	1,479,063
Non-controlling Interests	3,838	4,403	2,165	2,371
	3,900,573	**2,906,638**	**2,312,547**	**1,481,434**

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
STATEMENTS OF CHANGES IN EQUITY
FOR THE SIX MONTHS ENDED JUNE 30, 2016 AND 2015
(UNAUDITED)
(Amounts in Thousands of Philippine Pesos)

	Common Stock	Additional Paid-in Capital	Surplus Free	Surplus Reserves	Net Unrealized Fair Value Gains (Losses) on Investment Securities	Remeasurements of Defined Benefit Plan	Other Reserves	Total	Non-controlling Interests	Total Capital Funds
Balance at January 1, 2016	10,583,439	5,819,861	42,322,902	1,459,541	301	(770,334)	50,121	59,465,831	23,794	59,489,625
Total comprehensive income (loss) for the year			3,918,591		(276)	(21,579)		3,896,736	3,838	3,900,573
Cash dividends			(1,588,722)					(1,588,722)		(1,588,722)
Appropriations during the year			(260,269)	260,269				-		-
Acquisition of shares of non-controlling interest								-	(7,813)	(7,813)
during the period								-		-
Balance at June 30, 2016	**10,583,439**	**5,819,861**	**44,392,502**	**1,719,810**	**25**	**(791,913)**	**50,121**	**61,773,845**	**19,819**	**61,793,664**
Balance at January 1, 2015	10,583,439	5,819,861	38,822,845	1,174,088	24,025	(659,445)	50,121	55,814,934	21,194	55,836,128
Total comprehensive income (loss) for the year			3,002,053		(18,000)	(10,216)	(71,601)	2,902,236	4,403	2,906,639
Cash dividends			(2,222,522)					(2,222,522)		(2,222,522)
Appropriations during the year								-		-
Acquisition of shares of non-controlling interest										-
during the period									(177)	(177)
Balance at June 30, 2015	**10,583,439**	**5,819,861**	**39,602,376**	**1,174,088**	**6,025**	**(669,661)**	**(21,480)**	**56,494,648**	**25,420**	**56,520,068**

Annex 4

Union Bank of the Philippines and Subsidiaries
STATEMENTS OF CASH FLOW
FOR THE SIX MONTHS ENDED JUNE 30, 2016 and 2015
(UNAUDITED)
(Amounts in Thousands of Philippine Pesos)

	(Unaudited)	
	For the Six Months Ended June 30	
	2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES		
Profit before income tax	**4,859,301**	**3,869,371**
Adjustments for:		
Provision for impairment losses	228,978	274,948
Depreciation and amortization	348,923	282,013
Changes in operating resources and liabilities:		
Decrease (increase) in:		
Financial Assets at Fair Value Through Profit and Loss	644,545	18,820,799
Financial Assets at amortized cost	(12,147,393)	(25,838,133)
Financial Asset at fair value through OCI	3,333	27,155
Loans and Receivables	(22,377,810)	(19,651,971)
Other Resources	587,605	(1,440,532)
Increase (decrease) in:		
Deposit Liabilities	24,828,421	(45,508,367)
Other Liabilities	(815,002)	126,727
Net cash generated from operations	(3,839,100)	(69,037,990)
Income taxes paid	(1,020,456)	(818,516)
Net cash provided by (used in) operating activities	(4,859,555)	(69,856,506)
CASH FLOWS FROM INVESTING ACTIVITIES		
Net disposal (acquisition) of:		
Available-for-Sale Securities investments	(276)	(18,000)
Property and equipment	(317,455)	(544,524)
Assets held for sale	0	60,186
Investment properties	36,041	110,570
Increase in minority interest	(3,974)	4,226
Net cash provided by (used in) investing activities	(285,665)	(387,542)
CASH FLOWS FROM FINANCING ACTIVITIES		
Increase (decrease) in:		
Bills Payable	(29,032,863)	(36,329,431)
Notes Payable	-	
Cash dividends paid	(1,588,722)	(2,222,522)
Net cash provied by (used in) financing activities	(30,621,584)	(38,551,953)
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	**(35,766,804)**	**(108,796,001)**
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and Other Cash Items	6,566,176	6,667,885
Due from Bangko Sentral ng Pilipinas	70,036,867	112,829,122
Due from Other Banks	19,697,783	16,021,008
Interbank Loans Receivable	16,884,953	50,219,746
	113,185,779	**185,737,761**
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and Other Cash Items	5,446,304	5,806,827
Due from Bangko Sentral ng Pilipinas	62,598,236	49,792,043
Due from Other Banks	5,080,723	10,432,676
Interbank Loans Receivable	4,293,711	10,910,216
	77,418,975	**76,941,762**

UNION BANK OF THE PHILIPPINES
GENERAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE PERIOD ENDED JUNE 30, 2016

1. Corporate Information

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

The Bank provides expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. As of June 30, 2016, the Bank and its Subsidiaries (the Group) has 300 branches and 251 on-site and 51 off-site automated teller machines, located nationwide.

The Bank's common shares are listed in the Philippine Stock Exchange (PSE). The Bank is effectively 47.48% 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 Philippine Financial Reporting Standards (PFRS). PFRS are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB), and approved by the Philippine Board of Accountancy.

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 Philippine Accounting Standards (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. The related notes to the third statement of financial position are not required to be disclosed.

Basis of Consolidation

The Group's financial statements comprise the accounts of the Bank and its subsidiaries, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, and expenses and cash flows relating to transactions with subsidiaries are eliminated in full. 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 financial statements of the subsidiaries are prepared in the same reporting period as the Parent Bank, using consistent accounting policies.

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

Subsidiary	Percentage of Ownership	Nature of Business
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)	99.76%	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*

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 consideration 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 capital funds is not remeasured, and its subsequent settlement is accounted for within capital funds.

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 P5.734 billion based on 2.5 times the audited book value of CSBs' shares as of December 31, 2012.

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

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

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

	Values recognized on Acquisition of CSB
Cash and Other Cash Items	P 235
Due from Bangko Sentral ng Pilipinas	1,187
Due from Other Banks	457
Loans and Receivables	13,326
Property and Equipment	145
Investment Properties	96
Intangibles	86

Deferred Tax Asset	34
Other Assets	35
	15,601
Deposit Liabilities	8,780
Bills Payable	4,222
Accounts Payable and Accrued Expenses	140
Income Tax Payable	68
Other Liabilities	16
	13,226
Net Assets	2,375
Net Assets acquired at 99.54%	2,364
Goodwill arising on acquisition of CTSB	3,371
Total consideration, satisfied by cash	5,735

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%.

On June 30, 2014, the Bank purchased from the minority shareholders of CSB, 15 common shares at P29,469.93 per share; thus, increasing Unionbank's percentage of ownership to 99.65%.

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 9th Flr. The Peak Tower, #107 LP Leviste St., Salcedo Village, Makati City.

c. On January 23, 2015, the BOD approved the proposal to purchase the remaining CSB 894 common shares held by minority shareholders, of which 203 shares, 59 shares and an additional 9 shares were subscribed in December, 2015, February, 2016 and March 2016, respectively. Thereby, further increasing the Bank's percentage ownership to 99.73%, 99.75% and 99.76% in respective dates.

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. For purposes of classifying financial assets, an instrument is considered as an equity instrument if it is non-derivative and meets the definition of equity for the issuer in accordance with the criteria under PAS 32. All other non-derivative financial instruments are treated as debt instruments.

(a) Classification, Measurement and Reclassification of Financial Assets in Accordance with PFRS 9 Effective from January 1, 2014

Under PFRS 9, the classification and measurement of financial assets is driven by the entity's business model for managing the financial assets and the contractual cash flow characteristics of the financial assets. The classification and measurement of financial assets are described below.

(i) *Financial Assets at Amortized Cost*

Financial assets are measured at amortized cost if both of the following conditions are met:

- the asset is held within the Group's business model whose objective is to hold financial assets in order to collect contractual cash flows; and,

- the contractual terms of the instrument give rise, on specified dates, to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets meeting these criteria are measured initially at fair value plus transaction costs. They are subsequently measured at amortized cost using the effective interest method, less any impairment in value.

The Group's financial assets at amortized cost are presented in the statement of financial position as Cash and Other Cash Items, Due from Bangko Sentral ng Pilipinas (BSP), Due from Other Banks, Interbank Loans Receivable, Financial Assets at Amortized Cost under Trading and Investment Securities, Loans and Other Receivables and certain Other Resources accounts.

For purposes of cash flows reporting and presentation, cash and cash equivalents comprise accounts with original maturities of three months or less, including Cash and Other Cash Items and non-restricted balances of Due from BSP, Due from Other Banks and Interbank Loans Receivable. These generally include cash on hand, demand deposits and short-term, highly liquid investments readily convertible to known amounts of cash and which are subject to insignificant risk of changes in value.

The Group may irrevocably elect at initial recognition to classify a financial asset that meets the amortized cost criteria above as at FVTPL if that designation eliminates or significantly reduces an accounting mismatch had the financial asset been measured at amortized cost. In 2015 and 2014, the Group has not made such designation.

(ii) *Financial Assets at Fair Value Through Profit or Loss*

Debt instruments that do not meet the amortized cost criteria, or that meet the criteria but the Group has chosen to designate as at FVTPL at initial recognition, are classified as financial assets at FVTPL. Equity investments are classified as financial assets at FVTPL, unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income (FVOCI) at initial recognition. The Group's financial assets at FVTPL include government securities, corporate bonds and equity securities which are held for trading purposes.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;

- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,

- it is a derivative that is not designated and effective as a hedging instrument or financial guarantee.

Financial assets at FVTPL are measured at fair value. Related transaction costs are recognized directly as expense in profit or loss. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets at FVTPL category and realized gains or losses arising from disposals of these instruments are included in Trading Gain account in the statement of income.

Interest earned on these investments is reported in profit or loss under Interest Income account while dividend income is reported in profit or loss under Miscellaneous Income account when the right of payment has been established.

(iii) *Financial Assets at Fair Value Through Other Comprehensive Income*

At initial recognition, the Group can make an irrevocable election (on an instrument-by-instrument basis) to designate equity investments as at FVOCI; however, such designation is not permitted if the equity investment is held by the Group for trading. The Group has designated certain equity instruments as at FVOCI on initial application of PFRS 9.

Financial assets at FVOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value, with no deduction for any disposal costs. Gains and losses arising from changes in fair value are recognized in other comprehensive income and accumulated in Net Unrealized Fair Value Gains (Losses) on Investment Securities in the statement of changes in capital funds. When the asset is disposed of, the cumulative gain or loss previously recognized in the Net Unrealized Fair Value Gains (Losses) on Investment Securities account is not reclassified to profit or loss, but is reclassified directly to Surplus Free account.

Any dividends earned on holding these equity instruments are recognized in profit or loss as part of Miscellaneous Income account, when the Group's right to receive dividends is established in accordance with PAS 18, *Revenue*, unless the dividends clearly represent recovery of a part of the cost of the investment.

The Group can only reclassify financial assets if the objective of its business model for managing those financial assets changes. Accordingly, the Group is required to reclassify financial assets: (i) from amortized cost to FVTPL, if the objective of the business model changes so that the amortized cost criteria are no longer met; and, (ii) from FVTPL to amortized cost, if the objective of the business model changes so that the amortized cost criteria start to be met and the characteristic of the instrument's contractual cash flows meet the amortized cost criteria.

A change in the objective of the Group's business model will be effected only at the beginning of the next reporting period following the change in the business model.

(b) Classification, Measurement and Reclassification of Financial Assets in Accordance with PAS 39 Effective Prior to January 1, 2014

Financial assets are assigned to different categories by management on initial recognition, depending on the purpose for which the investments were acquired and their characteristics. 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) securities. Management determines the classification of its financial assets at initial recognition and, where allowed and appropriate, re-evaluates such designation at the end of each reporting period.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as 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 as expense in profit or loss.

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

(i) Financial Assets at Fair Value Through Profit or Loss

This category includes derivative financial instruments and financial assets that are either classified as held for trading or 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.
Financial assets at FVTPL are measured at fair value. Unrealized gains and losses arising from changes (mark-to-market) in the fair value of the financial assets and realized gains or losses arising from disposals of these instruments at FVTPL category are included in Trading Gain account in the statement of income.

(ii) 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.

(iii) 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 category.

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 future 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 the 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.

(iv) 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 Investment Securities account in capital funds. 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 capital funds to profit or loss and is presented as reclassification adjustment within other comprehensive income.

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.

(c) 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 (or events) has an impact on the estimated future cash flows of the financial assets 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) the Group granting the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that lender would not otherwise consider; (iv) it is probable that the borrower will enter bankruptcy or other financial reorganization; (v) the disappearance of an active market for that financial asset because of financial difficulties; or, (vi) 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.

The Group recognizes impairment loss based on the category of financial assets as follows:

(i) Financial Assets Carried at Amortized Cost

For financial assets classified and measured 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 financial assets 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 financial asset carried at amortized cost 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 collective evaluation of impairment for loans and receivables, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the Group'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 in the group 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 directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). 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 possible, the Group seeks to restructure loans rather than to take possession of the collateral. This may involve extending the payment arrangement and agreement for 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 evidencing the good quality of the loan 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 loan's 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 account in profit or loss.

When a loan receivable is determined to be uncollectible, it is written-off against the related allowance for impairment. Such loan or receivable is written-off after all the prescribed procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written-off decrease the amount of impairment losses in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases 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 statement of income.

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

For AFS 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.

In the case of investments classified as AFS financial assets (under PAS 39) or financial assets at FVOCI (under PFRS 9), 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 equity investments, 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 reclassified 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.

In the case of debt instruments classified as AFS financial assets, impairment is assessed based on the same criteria as financial assets carried at amortized cost. Future interest income is based on the reduced carrying amount and is accrued based on the rate of interest used to discount future cash flows for the purpose of measuring impairment loss. Such accrual is recorded as part of interest income in profit or loss.

If, in a subsequent period, the fair value of debt instruments classified as AFS financial assets 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.

(iii) Financial Assets Carried at Cost Prior to January 1, 2014

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.

(d) Derecognition of Financial Assets

A financial asset (or where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when the contractual rights to receive cash flows from the financial instruments expire, or when the financial assets and all substantial risks and rewards of ownership have been transferred to another party. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognizes its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognize the financial asset and also recognizes a collateralized borrowing for the proceeds received.

Derivative Financial Instruments

The Group is a counterparty to derivatives contracts, such as currency forwards and warrants. 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 resources 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, which indicates a fair value different from the transaction price, 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 liabilities, 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.

Assets Held for Sale

Assets held for sale include chattel and other personal properties acquired (ROPA) through repossession or foreclosure that the Group intends to sell within one year from the date of classification as held for sale.

The Group classifies an asset (or disposal group) as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond the Group's control and there is sufficient evidence that the Group remains committed to its plan to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale, and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortization. The profit or loss arising from the sale of assets held for sale is included in the Gain (loss) from sale of assets under Miscellaneous Income or Expenses account in the statement of income.

When the criteria for the asset to be recognized as held for sale are no longer satisfied, the Group shall cease to classify the asset as held for sale.

Financial Liabilities

Financial liabilities which include deposit liabilities, bills payable, notes payable, and other liabilities (except tax-related payables, pre-need reserves and post-employment defined benefit obligation) are recognized when the Group becomes a party to the contractual terms of the instrument.

Financial liabilities are recognized initially at their fair value and subsequently measured at amortized cost using the effective interest method, for those with maturities beyond one year, less settlement payments. All interest-related charges incurred on financial liabilities are recognized as an expense in the statement of income under the caption Interest Expense.

Deposit liabilities are stated at amounts in which they are to be paid. Interest is accrued periodically and recognized in a separate liability account before recognizing as part of deposit liabilities.

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. These are subsequently measured 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, apart from derivative 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.

In 2014 and 2013, dividend distributions to shareholders are recognized as financial liabilities upon declaration by the Group and subsequent approval of the BSP. In 2015, BSP approval is no longer necessary on dividend recognition in accordance with the liberalized rules for banks and quasi-banks on dividend declaration.

Financial liabilities are derecognized from the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or if the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of the new liability, and the difference in the respective carrying amounts is recognized in profit or loss.

Offsetting Financial Instruments

Financial resources and liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously. The right of set-off must be available at the end of the reporting period, that is, it is not contingent on future event. It must also be enforceable in the normal course of business, in the event of default, and in the event of insolvency or bankruptcy; and must be legally enforceable for both entity and all counterparties to the financial instruments.

Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and they can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive obligation that has resulted from past events (e.g., legal dispute or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of the reporting period, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, at an amount not exceeding the balance of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. When time value of money is material, long-term provisions are discounted to their present values using a pretax rate that reflects market assessment and the risks specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense. Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. Similarly, possible inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements. On the other hand, any reimbursement that the Group can be virtually certain to collect from a third party with respect to the obligation is recognized as a separate asset not exceeding the amount of the related provision.

Changes in Accounting Policies- Adoption of New and Amended PFRS

a. Effective in to 2016 that are Relevant to the Group

There are new PFRS, amendments and annual improvements to existing standards effective for annual periods in 2016 which have been adopted by the Group.

(i) PAS 1 (Amendment), *Presentation of Financial Statements – Disclosure Initiative* (effective from January 1, 2016). The amendment encourages entities to apply professional judgment in presenting and disclosing information in the financial statements. Accordingly, it clarifies that materiality applies to the whole financial statements and an entity shall not reduce the understandability of the financial statements by obscuring material information with immaterial information or by aggregating material items that have different natures or functions. Moreover, the amendment clarifies that an entity's share of other comprehensive income of associates and joint ventures accounted for using equity method should be presented in the statement of comprehensive income based on whether or not such other comprehensive income item will subsequently be reclassified to profit or loss. It further clarifies that in determining the order of presenting the notes and disclosures, an entity shall consider the understandability and comparability of the financial statements.

(ii) PAS 27 (Amendment), *Separate Financial Statements – Equity Method in Separate Financial Statements* (effective from January 1, 2016). This amendment introduces a third option which permits an entity to account for its investments in subsidiaries, joint ventures and associates under the equity method in its separate financial statements in addition to the current options of accounting those investments at cost or in accordance withPAS 39 or PFRS 9.

(iii) PFRS 10 (Amendment), *Consolidated Financial Statements*, PFRS 12, *Disclosure of Interests in Other Entities*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Investment Entities – Applying the Consolidation Exception* (effective from January 1, 2016). This amendment addresses the concerns that have arisen in the context of applying the consolidation exception for investment entities. It clarifies which subsidiaries of an investment entity are consolidated in accordance with paragraph 32 of PFRS 10 and clarifies whether the exemption to present consolidated financial statements, set out in paragraph 4 of PFRS 10, is available to a parent entity that is subsidiary of an investment entity. This amendment also permits a non-investment entity investor, when applying the equity method of accounting for an associate or joint venture that is an investment entity, to retain the fair value measurement applied by the investment entity associate or joint venture to its interests in subsidiaries.

(iv) PFRS 10 (Amendment), *Consolidated Financial Statements*, and PAS 28 (Amendment), *Investments in Associates and Joint Ventures – Sale or Contribution of Assets between an Investor and its Associates or Joint Venture* (effective date deferred indefinitely). The amendment to PFRS 10 requires full recognition in the investor's financial statements of gains or losses arising on the sale or contribution of assets that constitute a business as defined in PFRS 3 between an investor and its associate or joint venture. Accordingly, the partial recognition of gains or losses (i.e., to the extent of the unrelated investor's interests in an associate or joint venture) only applies to those sale of contribution of assets that do not constitute a business. Corresponding amendment has been made to PAS 28 to reflect these changes. In addition, PAS 28 has been amended to clarify that when determining whether assets that are sold or contributed constitute a business, an entity shall consider whether the sale or contribution of those assets is part of multiple arrangements that should be accounted for as a single transaction. In December 2015, the IASB deferred the mandatory effective date of these amendments (i.e., from January 1, 2016) indefinitely.

(v). Annual Improvements to PFRS (2012-2014 Cycle) (effective from January 1, 2016). Among the improvements, the following amendments are relevant to the Group:

- PFRS 5 (Amendment), *Non-current Assets Held for Sale and Discontinued Operations.* The amendment clarifies that when an entity reclassifies an asset (or disposal group) directly from being held for sale to being held for distribution (or vice-versa), the accounting guidance in paragraphs 27-29 of PFRS 5 does not apply. It also states that when an entity determines that the asset (or disposal group) is no longer available for immediate distribution or that the distribution is no longer highly probable, it should cease held-for-distribution accounting and apply the guidance in paragraphs 27-29 of PFRS 5.

- PFRS 7 (Amendment), *Financial Instruments – Disclosures*. The amendment provides additional guidance to help entities identify the circumstances under which a contract to "service" financial assets is considered to be a continuing involvement in those assets for the purposes of applying the disclosure requirements of PFRS 7. Such circumstances commonly arise when, for example, the servicing is dependent on the amount or timing of cash flows collected from the transferred asset or when a fixed fee is not paid in full due to non-performance of that asset.

- PAS 19 (Amendment), *Employee Benefits*. The amendment clarifies that the currency and term of the high quality corporate bonds which were used to determine the discount rate for post-employment benefit obligations shall be made consistent with the currency and estimated term of the post-employment benefit obligations.

b. Effective in 2016 that are not Relevant to the Group

(i) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 38 (Amendment), *Intangible Assets – Clarification of Acceptable Methods of Depreciation and Amortization* (effective from January 1, 2016). The amendment in PAS 16 clarifies that a depreciation method that is based on revenue that is generated by an activity that includes the use of an asset is not appropriate for property, plant and equipment. In addition, amendment to PAS 38 introduces a rebuttable presumption that an amortization method that is based on the revenue generated by an activity that includes the use of an intangible asset is not appropriate, which can only be overcome in limited circumstances where the intangible asset is expressed as a measure of revenue, or when it can be demonstrated that revenue and the consumption of the economic benefits of an intangible asset are highly correlated. The amendment also provides guidance that the expected future reductions in the selling price of an item that was produced using the asset could indicate an expectation of technological or commercial obsolescence of an asset, which may reflect a reduction of the future economic benefits embodied in the asset.

(ii) PAS 16 (Amendment), *Property, Plant and Equipment*, and PAS 41 (Amendment), *Agriculture – Bearer Plants* (effective from January 1, 2016). The amendment defines a bearer plant as a living plant that is used in the production or supply of agricultural produce, is expected to bear produce for more than one period and has a remote likelihood of being sold as agricultural produce, except for incidental scrap sales. On this basis, bearer plant is now included within the scope of PAS 16 rather than PAS 41, allowing such assets to be accounted for as property, plant and equipment and to be measured after initial recognition at cost or revaluation basis in accordance with PAS 16. The amendment further clarifies that produce growing on bearer plants remains within the scope of PAS 41.

(iii) PFRS 11 (Amendment), *Joint Arrangements – Accounting for Acquisitions of Interests in Joint Operations* (effective from January 1, 2016). This amendment requires the acquirer of an interest in a joint operation in which the activity constitutes a business as defined in PFRS 3, to apply all accounting principles and disclosure requirements on business combinations under PFRS 3 and other PFRS, except for those principles that conflict with the guidance in PFRS 11.

c. Effective Subsequent to 2016 but not not Adopted Early

(i) PFRS 9 (2014), *Financial Instruments* (effective from January 1, 2018). This new standard on financial instruments will eventually replace PAS 39 and PFRS 9 (2009, 2010 and 2013 versions), herein referred to as PFRS 9. In addition to the principal classification categories for financial assets and financial liabilities, which were early adopted by the Group on January 1, 2014, PFRS 9 (2014) includes the following major provisions:

- limited amendments to the classification and measurement requirements for financial assets introducing a fair value through other comprehensive income measurement for eligible debt securities; and,

- an expected loss model in determining impairment of all financial assets that are not measured at fair value through profit or loss (FVTPL), which generally depends on whether there has been a significant increase in credit risk since initial recognition of a financial asset.

In view of the Group's early adoption of PFRS 9, management is currently assessing impact of PFRS 9 (2014) on the Group's financial statements and is currently conducting a comprehensive study on the potential impact of this standard prior to its mandatory adoption.

The detailed information about the Group's early adoption of PFRS 9 is disclosed in its financial statements as of and for the year ended December 31, 2014.

5. SUMMARY OF ACCOUNTING JUDGMENTS AND ESTIMATES

The preparation of the Group's financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates.

Critical Management Judgments in Applying Accounting Policies

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

(a) *Determining Functional and Presentation Currency*

The Group has determined that its functional and presentation currency is the Philippine pesos, which is the currency of the primary environment in which the Group operates.

(b) *Evaluation of Business Model in Managing Financial Instruments*

The Group manages its financial assets based on business models that maintain adequate level of financial assets to match its expected cash outflows, largely arising from customers' withdrawals and continuing loan disbursements to borrowers, while maintaining a strategic portfolio of financial assets for trading activities consistent with its risk appetite.

Upon adoption of PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but shall be applied at the level of a portfolio of financial instruments (i.e., group of financial instruments that are managed together by the Group) and not on an instrument-by-instrument basis (i.e., not based on intention or specific characteristics of individual financial instrument).

In determining the classification of a financial instrument under PFRS 9, the Group evaluates in which business model a financial instrument or a portfolio of financial instruments belong to taking into consideration the objectives of each business model established by the Group.

(c) *Testing the Cash Flow Characteristics of Financial Assets and Continuing Evaluation of the Business Model*

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are solely payments of principal and interest (SPPI) on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

In addition, PFRS 9 emphasizes that if more than an infrequent sale is made out of a portfolio of financial assets carried at amortized cost, an entity should assess whether and how such sales are consistent with the objective of collecting contractual cash flows. In making this judgment, the Group considers certain circumstances documented in its business model manual to assess that an increase in the frequency or value of sales of financial instruments in a particular period is not necessarily inconsistent with a held-to-collect business model if the Group can explain the reasons for those sales and why those sales do not reflect a change in the Group's objective for the business model.

(d) Evaluation of Impairment of AFS Financial Assets

The determination when an investment in AFS financial assets is other-than-temporarily impaired requires the Group to make judgment. In making this judgment with respect to the Group's outstanding AFS financial assets as of December 31, 2013, the Group has evaluated, among other factors, the duration and extent to which the fair value of an investment is less than its cost and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy, the Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quotes prices for distressed securities) since current bid prices are no longer available.

(e) Distinction Between Investment Properties and Owner-occupied Properties

The Group determines whether a property qualifies as an investment property. In making its judgment, the Group considers whether the property generated cash flows largely independent of the other assets held by an entity.
Owner-occupied properties generate cash flows that are attributable not only to property but also to other assets used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), the Group accounts for the portions separately. If the portions cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services or for administrative purposes.

Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. The Group considers each property separately in making its judgment.

(f) *Distinction Between Operating and Finance Leases*

The Group has entered into various lease agreements as either a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risk and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities.

(g) *Classification of Acquired Properties and Fair Value Determination of Assets Held for Sale and Investment Properties*

The Group classifies its acquired properties as Bank Premises, Furniture, Fixtures and Equipment if used in operations, as Assets Held for Sale if the Group expects that the properties will be recovered through sale within one year from the date of classification rather than use, as Investment Properties if the Group intends to hold the properties for capital appreciation or for lease, or as Financial Assets in accordance with PAS 39 (prior to January 1, 2014) and in accordance with PFRS 9 (from January 1, 2014). At initial recognition, the Group determines the fair value of acquired properties based on valuations performed by independent appraisal companies accredited by the BSP. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next reporting period:

(a) *Estimation of Impairment Losses on Loans and Other Receivables and Financial Assets at Amortized Cost*

The Group reviews its loan and other receivables and investment portfolios to assess impairment at least on an annual basis. In determining whether an impairment loss should be recorded in profit or loss, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(b) *Determination of Fair Value Measurement of Financial Assets and Financial Liabilities*

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.

(i) *Due from BSP and Other Banks*

Due from BSP pertains to deposits made by the Group to BSP for clearing and reserve requirements. Due from other banks include interbank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest-bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short-term deposits approximates the nominal value.

(ii) *Loans and Other Receivables*

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iii) *Deposits and Borrowings*

The estimated fair value of demand deposits with no stated maturity, which includes noninterest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(iv) *Other Liabilities*

Due to their short duration, the carrying amounts of other liabilities in the statement of financial position are considered to be reasonable approximation of their fair values.

(c) *Determination of Fair Value of Derivatives*

The fair values of derivative financial instruments that are not quoted in an active market are determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d) *Estimation of Useful Lives of Bank Premises, Furniture, Fixtures and Equipment and Computer Software*

The Group estimates the useful lives of bank premises, furniture, fixtures and equipment and computer software based on the period over which the assets are expected to be available for use. The estimated useful lives of bank premises, furniture, fixtures and equipment and computer software are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. In addition, estimation of the useful lives of bank premises, furniture, fixtures and equipment and computer software is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

(e) *Determination of Fair Value of Investment Properties*

The Group's investment properties is composed of land, buildings and related improvements carried at fair value at the end of the reporting period.

The fair value of investment properties is determined based on valuations performed by independent appraisal companies accredited by the BSP at the end of each reporting period. The fair value is determined by reference to market-based evidence, which is the amount for which the assets could be exchanged between a knowledgeable willing buyer and seller in an arm's length transaction as at the valuation date. Such amount is influenced by different factors including the location and specific characteristics of the property (e.g., size, features, and capacity), quantity of comparable properties available in the market, and economic condition and behavior of the buying parties.

For investment properties with appraisal conducted prior to the end of the current reporting period, management determines whether there are significant circumstances during the intervening period that may require adjustments or changes in the disclosure of fair value of those properties.

(f) *Determination of Realizable Amount of Deferred Tax Assets*

The Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Estimation of Impairment of Non-financial Assets

PFRS requires that an impairment review be performed when certain impairment indicators are present. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

(g) *Valuation of Post-employment and Other Benefits*

The determination of the Group's obligation and cost of pension and other post-employment benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions include, among others, discount rates, expected rates of salary increase, and employee turnover rate. A significant change in any of these actuarial assumptions may generally affect the recognized expense, other comprehensive income or loss and the carrying amount of the post-employment benefit obligation in the next reporting period.

The Group also estimates other employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to Parent Bank policies.

These estimates may vary depending on future changes in salaries and actual experiences during the year.

(h) *Business Combinations*

On initial recognition, the assets and liabilities of the acquired business and the consideration paid for them are included in the consolidated financial statements at their fair values. In measuring fair value, management uses estimates of future cash flows and discount rates. Any subsequent change in these estimates would affect the amount of goodwill if the change qualifies as a measurement period adjustment. Any other change would be recognized in profit or loss in the subsequent period.

6. 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, analyzed, 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.

Risk Management Structure

The BOD of the Parent Bank exercises oversight of the Parent Bank's risk management process as a whole and through its various risk committees. For the purpose of day-to-day management of risks, the Parent Bank has established independent Risk Management units (RMUs) that objectively review and ensure compliance to the risk parameters set by the BOD. They are responsible for the monitoring and reporting of risks to senior management and the various committees of the Parent Bank.

On the other hand, the risk management processes of its subsidiaries are handled separately by their respective BODs.

The Parent Bank's BOD is primarily responsible for setting the risk appetite, approving risk parameters, credit policies, and investment guidelines, as well as establishing the overall risk taking capacity of the

Parent Bank. To fulfill its responsibilities in risk management, the BOD has established the following committees, whose functions are described below.

(a) The Executive Committee (EXCOM), composed of seven members of the BOD, exercises certain functions as delegated by the BOD including, among others, the approval of credit proposals, asset recovery and ROPA sales within its delegated limits.

(b) The Risk Management Committee (RMC), composed of seven members of the BOD, is responsible for the development and oversight of the Parent Bank's risk management program. It assists the BOD in the management of identified risks and reviewing risk policies, strategies and procedures. It receives and reviews management reports on risk exposures and provides guidance when needed. The RMC also provides oversight, direction, and guidance to the other risk committees, specifically the Market Risk Committee (MRC) and the Operations Risk Management Committee (ORMC).

(c) The MRC, composed of six members of the BOD, sets policies and standards for market risk identification, analysis and management. The MRC also monitors the sensitivity of the Group's financial condition to the effects of market volatility and adverse price changes on the Group's portfolio of financial instrument and oversees the Group's liquidity position through the Asset and Liability Committee (ALCO).

(d) The ORMC, composed of at least five members of the BOD and two members from Senior Management, reviews various operations risk policies and practices.

(e) The Audit Committee is a committee of the BOD that is composed of five members, most of whom are with accounting, auditing, or related financial management expertise or experience. The skills, qualifications, and experience of the committee members are appropriate for them to perform their duties as laid down by the BOD. Two of these five members are independent directors, including the Chairman.

The Audit Committee serves as principal agent of the BOD in ensuring independence of the Bank's external auditors and the internal audit function, the integrity of management, and the adequacy of disclosures and reporting to stockholders. It also oversees the Bank's financial reporting process on behalf of the BOD. It assists the BOD in fulfilling its fiduciary responsibilities as to accounting policies, reporting practices and the sufficiency of auditing relative thereto, and regulatory compliance.

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 well-structured and standardized credit approval process and credit scoring system for each of its business and/or products segments.

The RMU undertakes several functions with respect to credit risk management. The RMU independently performs credit risk assessment, evaluation and review for its retail, commercial and corporate financial products to ensure consistency in the Parent Bank's risk assessment process. It also ensures that the Parent Bank's credit policies and procedures are adequate and are constantly updated to meet the changing demands or risk profiles of the business units.

Corporate Loans

Corporate lending activities are undertaken by the Bank's Corporate Banking Center. The customer accounts under this group belong to the top tier corporations, conglomerates and large multinational companies. The Bank undertakes a comprehensive procedure for the credit evaluation and risk assessment of large corporate borrowers based on its Internal Credit Risk Rating System. The rating system assesses risks on a three-dimensional level: Borrower Risk, Facility Risk and Security Risk. It also has established concentration limits depending on the Borrower Risk Rating and overall credit quality.

Commercial Loans

The Parent Bank's commercial banking activities are undertaken by its Commercial Banking Center (ComBank). These consist of banking products and services rendered to customers which are entities that are predominantly small and medium scale enterprises (SMEs). These products and services are similar to those provided to large corporate customers, with the predominance of trade finance-related products and services.

ComBank uses a separate 10-grade credit scoring system for commercial accounts, comprised of: an Obligor Risk Rating (ORR), a Facility Risk Adjustment (FRA) and a Final Risk Rating (FRR). An Estimated Cash Risk Position is indicated to determine the secured and unsecured portion of the obligation relative to collateral.

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. To maintain sufficient liquidity in foreign currencies, the Group has also set an MCO limit for certain designated foreign currencies. The MCO limits are endorsed by the MRC and approved by the BOD.

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.

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. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

The Group uses the parametric VaR approach in assessing the possible changes in the market value of held-for-trading and AFS financial assets based on historical data for a rolling one year period. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will follow a normal distribution. The use of VaR has limitations because it is based on historical correlations and volatilities in market prices and assumes that future price movements will follow a statistical distribution. Due to the fact that VaR relies heavily on historical data to provide information and may not clearly predict the future changes and modifications of the risk factors, the probability of large market moves may be underestimated if changes in risk factors fail to align with the normal distribution assumption.

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.

The Group employs "gap analysis" to measure the interest rate sensitivity of its assets and liabilities, also known as Earnings-at-Risk (EaR). This sensitivity analysis is performed at least every quarter. The EaR measures the impact on the net interest income for any mismatch between the amounts of interest-earning assets and interest-bearing liabilities within a one year period. The EaR is calculated by first distributing the interest sensitive assets and liabilities into tenor buckets based on time remaining to the next repricing date or the time remaining to maturity if there is no repricing and then subtracting the liabilities from the assets to obtain the repricing gap. The repricing gap per tenor bucket is then multiplied by the assumed interest rate movement and appropriate time factor to derive the EaR per tenor. The total EaR is computed as the sum of the EaR per tenor within one year. To manage the interest rate risk exposure, BOD approved EaR limits were established.

Non-maturing or repricing assets or liabilities are considered to be non-interest rate sensitive and are not included in the measurement.

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.

Each specific unit of the Parent Bank has its roles and responsibilities in the management of operational risk and these are clearly stated in the operational risk management framework. At the BOD level, an ORMC was formed to provide overall direction in the management of operational risk.

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.

Regulatory risk refers to the potential risk for the Bank to suffer financial loss due to changes in the laws or monetary, tax or other governmental regulations of a country. The monitoring of the Bank's compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the Bank's Chief Compliance and Corporate Governance Officer. The Chief Compliance and Corporate Governance Officer is responsible for communicating and disseminating new rules and regulations to all units, analyzing and addressing compliance issues, performing periodic compliance testing and regularly reporting to the Corporate Governance Committee and the BOD.

7. Fair Value Measurement

In accordance with PFRS 13, the fair value of financial assets and liabilities and non-financial assets which are measured at fair value on a recurring or non-recurring basis and those assets and liabilities not measured at fair value but for which fair value is disclosed in accordance with other relevant PFRS, are categorized into three levels based on the significance of inputs used to measure the fair value. 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); and,
- 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.

For purposes of determining the market value at Level 1, a market is regarded as active if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service, or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis.

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

	June 30, 2016 (Unaudited)				December 31, 2015 (Audited)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Resources								
Financial Assets at FVTPL								
Debt securities	860		-	860	1,427			1,427
Equity securities	2,702		85	2,787	2,912	77		2,989
Derivative assets	153		45	198		73		73
Trust fund assets	1,730			1,730	3,161			3,161
	5,445	**-**	**131**	**5,576**	**7,500**	**150**	**-**	**7,650**
Financial Assets at FVOCI								
Equity securities			44	**44**			47	**47**
	5,445	**-**	**175**	**5,620**	**7,500**	**150**	**47**	**7,697**
Liabilities								
Derivatives with negative fair values	**181**			**181**		**58**		**58**

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):

	June 30, 2016 (Unaudited)		December 31, 2015 (Audited)	
	Carrying Amt	**At Fair Value**	**Carrying Amt**	**At Fair Value**
Cash and other cash items	5,446	5,446	6,566	6,566
Due from BSP	62,598	62,598	70,036	70,036
Due from other banks	5,081	5,081	19,697	19,697
Interbank loans receivable	4,294	4,294	16,884	16,884
Financial Assets at amortized cost	117,562	122,128	105,414	97,279
Loans and other receivables	201,701	201,868	179,551	179,765
Financial Liabilities				
Deposit liabilities	336,412	336,407	311,583	311,492
Bills payable	12,519	12,519	41,551	41,551
Notes payable	7,200	7,200	7,200	7,093
Manager Checks	6,612	6,612	5,850	5,850
Bills Purchased-Domestic and foreign	3,077	3,077	3,144	3,144
Accounts Payable	2,187	2,187	2,589	2,589
Accrued Interest Payable	384	384	408	408
Payment Order Payable	163	163	217	217
Due to Treasurer of the Philippines	3	3	4	4

Trading and investment securities includes foreign denominated investments in government bonds and other debt securities amounting to P 79.373 billion as of June 30, 2016. Government bonds and other debt securities issued by resident and non-resident corporations earned interest at 2.875% to 9.50% from January to June 30, 2016.

8. Segment Information

The Group's main operating businesses are organized and managed separately according to the nature of products and 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. 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 June 30, 2016 and 2015 is presented as follows (amounts in millions of Philippine pesos):

Segment Information as of June 30, 2016	Consumer Banking	Corporate & Commercial Banking	Treasury & Trust	Headquarters	Total
Results of operations					
Net interest income and other income	6,116	2,119	1,632	481	10,348
Other expenses	2,768	570	367	1,555	5,260
Income before provision for probable losses and income tax	3,348	1,549	1,265	(1,074)	5,088
Provision for probable losses					(229)
Income tax					(937)
Net income for the year					**3,922**
Segment assets	125,983	129,915	153,963	29,071	438,932
Segment liabilities	205,097	102,230	45,732	24,080	377,139

Segment Information as of June 30, 2015	Consumer Banking	Corporate & Commercial Banking	Treasury & Trust	Headquarters	Total
Results of operations					
Net interest income and other income	5,218	1,640	1,915	343	9,116
Other expenses	2,454	515	330	1,673	4,972
Income before provision for probable losses and income tax	2,764	1,125	1,585	(1,330)	4,144
Provision for probable losses					(275)
Income tax					(863)
Net income for the year					**3,006**
Segment assets	112,681	99,973	123,929	28,282	364,865
Segment liabilities	175,554	90,106	22,138	20,547	308,345

9. Capital Funds

The Bank's capital stock is consist of the following:

	Shares		Amount	
	2015	2014	**2015**	2014
Common – P10 par value				
Authorized	**1,311,422,420**	1,311,422,420	**P 13,114,224**	P 13,114,224
Issued and outstanding:				
Balance at beginning of year	**1,058,343,929**	641,422,420	**P 10,583,439**	P 6,414,224
Issued during the year	-	416,921,509	-	4,169,215
Balance at end of year	**1,058,343,929**	1,058,343,929	**P 10,583,439**	P 10,583,439
Preferred – P100 par value, non-voting				
Authorized	**100,000,000**	100,000,000	**P 10,000,000**	P 10,000,000
Issued and outstanding	-	-	**P -**	P -

The authorized capital stock of the Bank is P23,114,224 divided into 1,311,422,420 common shares at P10 par value and 100,000,000 preferred shares at P100 par value. The Bank's outstanding common stock as of December 31, 2015 is 1,058,343,929 shares. No preferred shares have been issued to date.

The following is a summary of the dividends declared and distributed by the Bank in 2016 and 2015:

Date of Declaration	Date of Record	Date of Payment	Date of BSP Approval	Dividend per Share	Shares Outstanding	Total Amount
22-Jan-16	09-Feb-16	19-Feb-16	-	P1.5	1,058,343,929	P 1,587,516
23-Jan-15	23-Apr-15	20-May-15	01-Apr-15	P2.10	1,058,343,929	P 2,222,522

For dividends declared on January 22, 1016, BSP's approval is no longer required per BSP Circular no. 888 dated Oct.9, 2015 except for banks with major supervisory concerns.

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

10. Related Party Transactions

The Bank has a Related Party Transaction Committee composed of independent directors and directly reports to the Board of Directors. The Committee is responsible for reviewing and approving related party transactions in accordance with the Bank's Related Party Transaction Policy or endorsing their approval to the Board of Directors. It is the policy of the Bank to ensure that related party transactions are all entered into at arm's length standard. These transactions are made and entered into substantially on the same terms and conditions as transactions with other individuals and businesses of comparable risks. Hence, they likewise go through the same process applicable to ordinary or unrelated party transactions as set forth in various policies and guidelines of the Bank.

11. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of June 30, 2016 and December 31, 2015, 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.

Following is a summary of the Bank's commitments and contingent accounts:

	June 30, 2016	December 31, 2016
	(Unaudited)	(Audited)
Trust department accounts	34,382,101	35,271,291
Unused commercial letters of credit	3,325,251	2,890,992
Inward bills for collections	24,271,589	18,806,486
Outstanding guarantees issued	1,100,005	485,534
Late deposits/payments received	35,888	39,402
Outward bills for collection	11,519	34,977
Other contingent accounts	2,797	2,738

12. Earnings Per Share

Basic earnings per share were computed as follows:

	June 30, 2016	June 30, 2015
Net income Attributable to Equity Holders Of the Parent Company	P 3,918,591	P 3,002,053
Divided by the weighted average number of outstanding common shares	1,058,344	1,058,344
Basic earnings per share*	P 7.41	P 5.68

* *annualized*

As of June 30, 2016 and 2015, the Group has no outstanding potentially dilutive securities, hence, basic earnings per share are equal to diluted earnings per share.

13. Other Matters

None to report.

14. Events After the Reporting Period

None to report.

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

Ratios	June 30, 2016	December 31, 2015
a. Liquidity Ratio	39.93%	50.70%
b. Debt to Equity Ratio	6.1:1	6.4:1
c. Asset to Equity Ratio	7.1:1	7.4:1
d. Capital Adequacy Ratio	16.00%	16.15%
	June 30, 2016	June 30, 2015
e. Interest Rate Coverage Ratio	296.80%	280.93%
f. Return on Average Equity	12.93%	10.69%
g. Return on Average Assets	1.78%	1.48%
h. Net interest Margin	4.26%	3.77%
i. Cost-to-income Ratio	50.83%	54.54%

UNION BANK OF THE PHILIPPINES
SEC FORM 17-Q
FOR THE SIX MONTHS ENDED JUNE 30, 2016

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

Statements of Income for the Period Ended June 30, 2016 vs June 30, 2015

Union Bank of the Philippines registered Php3.92 billion in net income in the first half of 2016, 30.47% higher from Php3.01 billion earned in the same period last year.

Total interest income for the first six months of 2016 soared by 26.28% to Php9.74 billion from the Php7.71 billion recorded in the comparative period last year. Higher average level of loans and receivables, and trading and investment securities led to corresponding 25.97% and 49.28% increases in interest income to Php7.00 billion and Php2.42 billion, respectively. These more than offset the 40.33% and 20.71% decreases in interest income on due from Bangko Sentral ng Pilipinas (BSP) and other banks, and interbank loans receivable to Php0.31 billion and Php0.01 billion, respectively, resulting from lower average levels of these assets.

Total interest expense rose by 15.46% to Php2.47 billion this period from the Php2.14 billion incurred in the same period a year ago. Interest expense on deposit liabilities increased by 21.35% to Php2.03 billion mainly attributed to increase in deposits to support earning asset growth. This increase was partially countered by the reduction in interest expense on bills payable and other liabilities by 5.54% to Php0.44 billion, in view of lower short term borrowings.

The substantial increase in interest income and the managed cost of funds resulted in the Bank’s net interest income to surge by 30.42% to Php7.27 billion in the first half of 2016 as compared to the Php5.58 billion earned in the same period a year ago.

The Bank set aside Php0.23 billion for impairment and credit losses for this period, 16.72% lower than the Php0.28 billion provided in the same period of the preceding year as a result of better credit quality of its lending portfolio.

Total other income amounted to Php3.08 billion for the first half of 2016, 13.12% lower from the Php3.54 billion recorded in the same period of the previous year. The variance was largely attributable to the higher trading gains realized for the same period a year ago. Premium revenues similarly fell by Php0.50 billion to Php0.008 billion on lower pre-need plan sales of First Union Plans, Inc. (FUPI). Meanwhile, service charges, fees and commissions moved up by 10.96% to Php1.98 billion, buoyed by the expanded customer base in both loans and deposits. Miscellaneous income also rose, as it doubled to Php1.08 billion due to foreign exchange gains and income from trust fund investments arising from favorable market conditions.

Total other expenses went up by 5.80% to Php5.26 billion for the period in review from the Php4.97 billion incurred in the same period a year ago. Salaries and employee benefits rose by 17.80% to Php2.23 billion as a combined result of higher headcount due to business expansion and annual compensation adjustments. Taxes and licenses was up by 20.99% to Php0.59 billion on increased higher gross receipt taxes attributed to higher accrual income for the period, coupled with higher documentary stamp taxes resulting from increased levels of time deposits. Depreciation and amortization climbed by 23.73% to Php0.35 billion principally due to depreciation of transportation equipment as well as amortization on leasehold rights and improvements. Miscellaneous expenses rose by 17.54% to Php1.75 billion on higher security, messengerial, clerical and janitorial services, advertising expenses as well as insurance. Consequent to FUPI's pre-need plan sales performance, trust fund due decreased by Php0.47 billion to Php0.008 billion. The marginal increase in operating expenses coupled with the strong growth in recurring income resulted for cost-to-income ratio to improve to 50.83% from 54.54% in the same period last year.

Tax expense amounted to Php0.94 billion for the six-month period, 8.57% higher from the Php0.86 billion incurred in the same period last year as a result of higher taxable income.

Income attributable to non-controlling interests slid by 12.83% to Php0.004 billion from a year ago on increased Bank's shareholdings of CitySavings.

<u>Statements of Comprehensive Income for the Period Ended June 30, 2016 vs June 30, 2015</u>

The Bank's total comprehensive income posted Php3.90 billion for the first half ending June 2016, an increase of 34.20% from Php2.91 billion recorded in the same period of the prior year. Net unrealized losses on investment securities amounted to Php0.28 million on decreased levels of investment securities at fair value through other comprehensive income. Losses in remeasurements of defined benefit plan, net of tax widened to Php0.02 billion resulting from lower actuarial adjustments versus comparative period. Other comprehensive income – revaluation was zeroed out from Php0.07 billion (net of tax impact), arising from the reclassification of certain bank premises into investment properties the previous year. Total other comprehensive income attributable to non-controlling interests went down by 12.83% to Php0.004 billion in view of higher Bank shareholdings.

<u>Statements of Financial Position as of June 30, 2016 vs December 31, 2015</u>

The Bank's total resources settled at Php438.93 billion as of end-June 2016, relatively flat versus the Php441.66 billion reported as of end-December 2015.

Cash and other cash items dropped by 17.06% to Php5.45 billion on lower cash requirements compared to year-end. Due from BSP also fell by 10.62% to Php62.60 billion driven by the reduced level of Special Deposit Account placements. Due from other banks shrunk by Php14.62 billion to Php5.08 billion principally from decreased working balances with foreign correspondent banks. Interbank loans receivable fell by Php12.59 billion to Php4.29 billion as placements granted with other banks matured.

Trading and investment securities portfolio increased by 10.46% to Php121.45 billion as the Bank continued to build-up its financial assets at amortized cost, which rose by 11.52% to end at Php117.56 billion. Meanwhile, financial assets at fair value through profit or loss and other comprehensive income contracted by 14.36% and 7.07% to Php3.84 billion and Php0.04 billion, respectively.

Loans and other receivables – net expanded by 12.34% to Php201.70 billion, underpinned by the robust expansion in both corporate and consumer-based asset businesses. As such, the Bank’s loan-to-deposit ratio advanced to 59.96%.

Other resources-net declined by 5.46% to Php10.33 billion largely arising from lower trust fund assets of the Bank’s subsidiary.

Total liabilities slightly fell by 1.32% to Php377.14 billion as of end-June 2016 from the Php382.17 billion posted as of year-end 2015. Total deposit liabilities, representing 89.20% of total liabilities, moved up by 7.97% to Php336.41 billion attributed to the increased levels across all product type. Low-cost demand and savings deposits registered 10.19% and 3.38% hikes to Php115.46 billion and Php42.98 billion, respectively. High-cost time deposits also grew by 7.71% to Php177.97 billion. Bills payable dropped by 69.87% to Php12.52 billion stemming from lower repurchase agreements and interbank borrowings. Other liabilities went down by 3.78% to Php21.01 billion on lower pre-need reserves.

Total capital funds increased by 3.87% to Php61.79 billion for the first six months of the year mainly coming from retained earnings. Surplus reserves was up by 17.83% to Php1.72 billion on increased appropriations in First Union Plans resulting from higher trust fund income. Net unrealized fair value gains on investment securities further decreased by Php0.28 million to Php0.03 million on reclassification of retirement asset. Non-controlling interest was 16.70% lower at Php0.02 billion, following the Bank’s increased shareholdings in CitySavings.

The Bank’s annualized return on average equity (ROE) and return on average assets (ROA) were at 12.93% and 1.78%, respectively. Net non-performing loans (NPL) ratio and NPL cover for the period under review stood at 0.74% and 103.33%, respectively. The Bank’s capital adequacy ratio as of end-June 2016 remained healthy at 16.00%, well-above the 10.0% regulatory minimum. Annualized earnings per share was up to Php7.41 for the six-month ended June 2016, reflective of the Bank’s earning performance.

Key performance indicators of the Bank are as follows:

	Jun. 2016	Jun. 2015
Return on Average Equity	12.93%	10.69%
Return on Average Assets	1.78%	1.48%
Cost-to-Income Ratio	50.83%	54.54%

	Jun. 2016	Dec. 2015
Net Non-Performing Loan Ratio*	0.74%	0.76%
Non-Performing Loan Cover*	103.33%	102.88%
Capital Adequacy Ratio	16.00%	16.15%

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

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

**Based on unaudited figures*

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

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

UNIONBANK OF THE PHILIPPINES

ANNEX II

Aging of Accounts Receivable

As of June 30, 2016

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	4,293,711	4,293,711				
2) Loans	204,963,935	141,513,507	54,480,295	493,277	811,837	7,665,019
3) Accrued Interest Receivable	2,491,799	2,271,491	45,862	8,415	90,204	75,827
4) Sales Contract Receivable	1,358,235	1,118,849	222,442	11,346	3,484	2,114
5) Accounts Receivable	3,447,006	1,845,460	204,779	310,272	144,520	941,975
6) Installment Contract Receivable	14,066	340	-	-	-	13,726
Less: Allow. For Doubtful Account	10,574,367					
TOTAL	205,994,385	151,043,358	54,953,378	823,310	1,050,045	8,698,661