COVER SHEET

A	1	9	9	7	1	8	9	6	3

S.E.C. Registration Number

ASIA UNITED BANK CORPORATION

(Company's Full Name)

JOY-NOSTALG, NO.17 ADB AVENUE, ORTIGAS CENTER PASIG CITY

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

KRISTEL D. GUTO
Officer – Corporate Planning and Investor Relations

Contact Person

(632) 631-3333 / (632) 638-6888

Company Telephone Number

1 2 **3 1**

Month *Day*

Fiscal Year

SEC Form 17-Q

FORM TYPE

4TH Friday of June

Month *Day*

Annual Meeting

Secondary License Type, If Applicable

M S R D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

103
As of 10/31/2020

Total No. of Stockholders

Domestic

Foreign

**No. of Shareholders Owning at Least 1 Board Lot*

Based on latest Report on the Number of Shareholders.

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q
PURSUANT TO SECTION 17 OF THE
SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. Date of Report (Date of earliest event reported): **September 30, 2020**

2. SEC Identification Number: **A-1997-18963**

3. BIR Tax Identification No. **005-011-651-000**

4. Exact name of issuer as specified in its charter: **ASIA UNITED BANK CORPORATION**

5. Province, country or other jurisdiction of incorporation: **Pasig City, Philippines**

6. Industry Classification Code: (SEC Use Only)

7. Address of principal office/ Postal Code: **Joy-NostalgCenter No. 17 ADB Avenue, Ortigas Center, Pasig City 1600**

8. Issuer's telephone number, including area code: **(632) 8631-3333 / (632) 8638-6888**

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

10. Securities registered pursuant to Sections 8 &12 of the SRC or Sections 4 and 8 of the RSA:

Title of Each Class	**Common Stock**
Number of Shares Outstanding	**485,310,538**

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

Yes [X] **No [ ]** **Not Applicable [ ]**

If yes, please state the name of such stock exchange and the classes of securities listed therein:

Philippine Stock Exchange / Common Stock

12. Check whether the issuer:

(a) has filed all reports required to be filed by Section 17 of the SRC and SRC Rule 17.1 thereunder or Section 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of The Corporation Code of the Philippines during the preceding twelve(12) months (or for such shorter period that the registrant was required to file such reports);

Yes [X] **No [ ]** **Not Applicable [ ]**

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

Yes [X] **No [ ]** **Not Applicable [ ]**

SEC 17-Q

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

The following interim consolidated financial statements of Asia United Bank Corporation and Subsidiaries (the Group) have been prepared in accordance with Philippine Accounting Standards (PAS) 34, Interim Financial Reporting:

- Statements of condition as at September 30,2020 (Unaudited), December 31, 2019 (Audited), and September30,2019 (Unaudited);
- Statements of income for the quarter ended September 30,2020 (Unaudited), December 31, 2019 (Audited), and September 30,2019 (Unaudited);
- Statements of comprehensive income for the three-month period ended September 30, 2020 and June 30,2019
- Statements of changes in equity for the three-month period ended September 30,2020 and September 30,2019, and:
- Statements of cash flows for the three-month period ended September 30, 2020 (unaudited) and September 30,2019 (unaudited).

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION (1 of 2)

in PHP Millions	September 30, 2020	December 31, 2019	September 30, 2019
	(Unaudited)	(Audited)	(Unaudited)
ASSETS			
Cash and Other Cash Items	3,556	4,050	3,291
Due from Bangko Sentral ng Pilipinas	58,123	39,090	45,995
Due from Other Banks	3,318	3,662	2,332
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	13,734	3,541	1,714
Financial Assets at Fair Value Through Profit or Loss (FVTPL)	1,001	885	2,331
Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)	28,810	18,164	31,939
Investment Securities at Amortized Cost	9,966	16,952	17,206
Loans and Receivables	165,446	172,539	158,605
Investments in Subsidiaries	-	-	-
Property and Equipment	1,743	2,104	2,013
Investment Properties	476	440	454
Deferred Tax Assets	442	71	107
Goodwill	1,961	1,961	1,961
Intangible Assets	2,026	2,004	1,959
Other Assets	238	531	1,332
TOTAL ASSETS	**290,841**	**265,994**	**271,237**

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CONDITION (2 of 2)

in PHP Millions	September 30, 2020	December 31, 2019	September 30, 2019
	(Unaudited)	(Audited)	(Unaudited)
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand	128,021	96,700	86,912
Savings	66,289	76,201	83,031
Time	37,694	37,325	52,931
	232,005	**210,226**	**222,874**
Bills Payable	2,710	3,208	3,538
Manager's Checks	394	717	588
Income Tax Payable	53	21	22
Accrued Taxes, Interest and Other Expenses	1,359	1,508	1,452
Subordinated Debt	4,977	4,975	4,976
BONDS PAYABLE	6,949	6,932	-
Other Liabilities	6,632	5,248	4,974
Total Liabilities	**255,080**	**232,835**	**238,423**
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	4,853	4,853	4,853
Additional paid-in capital	6,623	6,623	6,623
Surplus reserves	1,202	1,202	1,034
Surplus	22,889	20,107	19,858
Net unrealized gain (loss) on FVTOCI	(1)	171	190
Cumulative translation adjustment	52	60	96
	35,618	33,015	32,655
Non-controlling Interest	143	144	159
Total Equity	**35,761**	**33,159**	**32,814**
TOTAL LIABILITIES AND EQUITY	**290,841**	**265,994**	**271,237**

See accompanying Notes to Interim Consolidated Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	9-month period ended		3-month Quarter Ended	
	September 30, 2020	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
In Php Millions	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**
INTEREST INCOME				
Loans and receivables	8,639	8,811	2,807	3,032
Trading and investment securities	1,269	1,323	355	459
Interbank loans receivable and securities purchased under resale agreements	129	98	66	41
Deposit with banks and others	345	141	135	113
Others	71	64	24	22
	10,453	10,437	3,387	3,667
INTEREST EXPENSE				
Deposit liabilities	1,709	3,075	439	989
Bills payable and other borrowings	645	453	214	221
	2,353	3,528	654	1,210
NET INTEREST INCOME	8,100	6,908	2,733	2,457
Trading and securities gain - net	2,408	1,150	1,295	317
Service charges, fees and commissions	543	645	190	260
Foreign exchange gain (loss) - net	121	148	58	47
Trust income	67	50	23	21
Miscellaneous	301	306	169	122
OTHER OPERATING INCOME	3,439	2,299	1,734	767
TOTAL OPERATING INCOME	11,539	9,207	4,467	3,224
Compensation and fringe benefits	1,485	1,269	508	460
Provision for credit and impairment losses	2,957	693	1,447	373
Depreciation and amortization	486	487	161	300
Taxes and licenses	832	772	331	287
Rent	58	87	17	-123
Insurance	424	371	145	128
Security, messengerial and janitorial	111	110	41	38
Freight expenses	51	51	19	18
Transportation and travel	101	85	40	28
Power, light and water	44	53	15	18
Postage, telephone, cables and telegrams	105	92	37	31
Management and other professional fees	18	22	6	9
Repairs and maintenance	88	79	29	31
Amortization of intangibles	39	32	13	11
Miscellaneous	552	617	193	210
TOTAL OPERATING EXPENSES	**7,350**	**4,819**	**3,002**	**1,820**
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES	**4,188**	**4,388**	**1,465**	**1,405**
Share in Net Income of Subsidiaries	0	0	0	0
INCOME BEFORE INCOME TAX	**4,188**	**4,388**	**1,465**	**1,405**
PROVISION FOR (BENEFIT FROM) INCOME TAX	436	603	9	182
NET INCOME	**3,752**	**3,786**	**1,456**	**1,223**

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Nine-month Period Ended		Three-month Period Ended	
in Php Mio	**September 30, 2020**	**September 30, 2019**	**September 30, 2020**	**September 30, 2019**
NET INCOME	**3,752.3**	**3,785.5**	**1,455.6**	**1,222.8**
OTHER COMPREHENSIVE INCOME				
Changes in net unrealized gain (loss) on FVTOCI	(171.6)	686.0	(114.2)	(2.2)
Cumulative translation adjustments	(8.3)	(0.4)	(8.2)	16.2
Other comprehensive loss not to be reclassified in profit or loss in subsequent periods				
Loss on remeasurement of retirement obligation-net of income tax				
	(179.9)	685.6	(122.3)	13.9
TOTAL COMPREHENSIVE INCOME	**3,572.4**	**4,471.1**	**1,333.3**	**1,236.7**
Attributable to:				
Equity holders of the Parent Company	3,573.3	4,456.6	1,333.6	1,206.2
Minority interest	(0.9)	14.5	(0.4)	30.5
	3,572.4	4,471.1	1,333.3	1,236.7

See accompanying Notes to Interim Consolidated Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(in PHP Millions)	Capital Stock	Additional Paid in Capital	Suplus Reserve	Surplus	Measurement of Retirement obligation	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on FVTOCI	Total	Non-Controlling Interest	Total Equity
Balance at December 31, 2019 (audited, as previously reported)	4,853	6,623	1,202	20,107	-	60	171	33,015	144	33,159
Net income fot the period	-	-	-	3,753		-	-	3,753	(1)	3,752
Other comprehensive income (loss) for the period	-	-	-	-	-	(0)	(0)	(0)	-	(0)
Total comprehensive income	-	-	-	3,753	-	(0)	(0)	3,753	(1)	3,752
Dividends distribution	-	-	-	(971)		-	-	(971)	-	(971)
Balance at September 30, 2020	**4,853**	**6,623**	**1,202**	**22,889**	**-**	**60**	**171**	**35,798**	**143**	**35,941**
Balance at December 31, 2018 (audited, as previously reported)	4,853	6,623	1,034	16,956	-	97	(491)	29,071	145	29,216
Net income fot the period	-	-	-	3,776		-	-	3,776	10	3,786
Other comprehensive income (loss) for the period	-	-	-	-	-	(0)	681	681	5	686
Total comprehensive income	-	-	-	3,776	-	(0)	681	4,457	14	4,471
Dividends distribution	-	-	-	(874)		-	-	(874)	-	(874)
Balance at September 30, 2019	**4,853**	**6,623**	**1,034**	**19,858**	**-**	**96**	**190**	**32,655**	**159**	**32,814**

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF CASH FLOWS

in Php Millions	**Consolidated**	
NET CHANGE	**Nine Month Ended September 30, 2020 (Unaudited)**	**Nine Month Ended September 30, 2019 (Unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	4,188	4,388
Adjustments for:		
Depreciation and Amortization	486	487
Amortization of intangibles	39	32
Trading gains from sale of financial assets at FVOCI	-988	-982
Provision for impairment and credit losses	2,957	693
Gain on sale of investment properties	-31	-48
(Gain)/loss on sale of property and equipment	-2	-9
Gain on foreclosure of investment properties	7	-29
Amortization of transaction costs of subordinated debts	3	5
Amortization of transaction costs of bonds payable	17	-
Dividend Income	-1	-1
Change in Operating Assets and Liabilities		
Increase(Decrease) in Financial Assets at FVTPL	-116	-1,453
Increase(Decrease) in Loans and Receivable	3,970	-3,626
Increase(Decrease) in Other Resources	276	-909
Increase(Decrease) in Deposit Liabilities	21,779	30,690
Increase(Decrease) in Accrued expenses and other liabilities	1,058	514
Cash Generated from (used in) Operations	33,642	29,753
Cash Paid for Income Taxes	-762	-717
Dividends Received	1	1
Net Cash from (Used In) Operating Activities	32,882	29,037
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisition of:		
Financial assets at fair value through other comprehensive income	-121,239	-89,287
Held-to-Collect Investments	-7,458	-2,780
Software costs	-61	-13
Property and equipment	-103	-222
Proceeds from sale/maturities of:		
Financial assets at fair value through other comprehensive income	111,396	79,900
Investment properties	83	129
Held-to-Collect Investments	14,444	692
Property and equipment	2	46
Net Cash from (Used In) Investing Activities	-2,937	-11,536
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from bills payable	3,426	25,857
Proceeds from Bonds Payable		
Payments of bills payable	-3,852	-27,177
Payments of LTNCD	-	-900
Payment of Lease Liability	-217	-172
Payment of cash dividends to shareholders	-971	-874
Net Cash from (Used In) Financing Activities	-1,614	-3,266
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	-8	0
NET INCREASE IN CASH AND CASH EQUIVALENTS	28,322	14,235

See accompanying Notes to Interim Consolidated Financial Statements.

NOTES TO INTERIM CONSOLIDATED FINANCIAL STATEMENTS

General Information

Asia United Bank Corporation (the Parent Company) was granted authority as a commercial bank under the Monetary Board (MB) Resolution No. 1149 dated September 3, 1997 and commenced operations on October 31, 1997.

The Parent Company is a domestic corporation registered with the Securities and Exchange Commission (SEC) on October 3, 1997. The Parent Company provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. The Parent Company is also licensed to enter into regular financial derivatives as a means of reducing and managing the Parent Company's and its customers' foreign exchange exposure. Further, as a universal bank, it has the power to exercise the following: (i) the power of an investment house, including securities underwriting and trading, loan syndication, financial advisory, private placement of debt and equity securities, project finance and direct equity investment; and (ii) the power to invest in allied and non-allied enterprises, subject to regulatory caps on the amount of investment relative to the Parent Company's capital and ownership percentage.

The Parent Company's principal place of business is located at Joy-Nostalg Center, 17 ADB Avenue, Ortigas Center, Pasig City. The Parent Company operates through its 230 and 226 domestic branches as at September 30, 2020 and December 31, 2019, respectively.

The Parent Company's common shares were listed at the main board of the Philippine Stock Exchange (PSE) on May 17, 2013.

Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying financial statements include the consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as "the Group") as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019, and of the Parent Company as at December 31, 2019 and 2018 and for each of the three years in the period ended December 31, 2019.

The accompanying financial statements have been prepared on a historical cost basis except for financial instruments at fair value through profit or loss (FVTPL) and investment securities at fair value through other comprehensive income (FVOCI) that have been measured at fair value. The financial statements are presented in Philippine peso, and all values are rounded to the nearest thousand except when otherwise indicated.

The accompanying financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The books of accounts of the RBU are maintained in Philippine peso, the RBU's functional currency, while those of the FCDU are maintained in United States dollars (USD), the FCDU's functional currency. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in the

RBU are translated into their equivalents in Philippine peso (see policy on the Foreign Currency Translation). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. The functional currency of the subsidiaries is the Philippine peso except for RediMoney Express Pte. Ltd. in which the functional currency is Singapore Dollar (SGD).

Statement of Compliance
The financial statements of the Group and of the Parent Company have been prepared in compliance with PFRS.

Presentation of Financial Statements
The Group and the Parent Company present their statement of condition broadly in the order of liquidity. An analysis regarding recovery or settlement within 12 months after the statement of condition date (current) and more than 12 months after the statement of condition date (non-current) is presented in Note 22.

The Group assesses that it has a currently enforceable right of offset if the right is not contingent on a future event, and is legally enforceable in the normal course of business, event of default, and event of insolvency or bankruptcy of the Group and all of the counterparties. Income and expense are not offset in the statement of income unless required or permitted by any accounting standard or interpretation, and as specifically disclosed in the accounting policies of the Group and of the Parent Company. This is not generally the case with master-netting agreements, where the related assets and liabilities are presented gross in the statement of financial position.

Basis of Consolidation
The Group's consolidated financial statements include the financial statements of the Parent Company and the following subsidiaries:

Subsidiary	Principal Activities	Country of Incorporation	Effective Percentage of Ownership
Cavite United Rural Bank (CURB)	Rural banking	Philippines	100.00%
RediMoney Express Pte Ltd. (formerly Pinoy Express Pte Ltd.) (REPL)	Remittance services	Singapore	100.00%
Rural Bank of Angeles (RBA)	Rural banking	Philippines	99.54%
Asia United Leasing and Finance Corporation (AULFC)	Leasing and financing business	- do -	39.00%
Asia United Fleet Management Services, Inc.	Operating lease business	- do -	39.00%

The Group controls the investee if and only if the Group has:

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

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

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

The financial policies and operations of AULFC is controlled by the Parent Company by virtue of the irrevocable voting trust agreement that has the effect of transferring the voting rights of the individual shareholders of the subsidiaries to the Parent Company.

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

The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. Profit or loss and each component of other comprehensive income (OCI) are attributed to the equity holders of the Parent Company and to the non-controlling interests. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's accounting policies. All significant intra-group balances, transactions, income and expenses and profits and losses resulting from intra-group transactions are eliminated in full in the consolidation.

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

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

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

Non-controlling interests are presented separately in the consolidated statements of income, consolidated statement of comprehensive income, and within equity in the consolidated statement of condition, separately from Parent Company's shareholders' equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this results in the non-controlling interest having a deficit balance. Acquisitions of non-controlling interests that do not result in a loss of control are accounted for as equity transactions, whereby any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received shall be recognized directly in equity and attributed to the owners of the Parent Company.

<u>Changes in Accounting Policies and Disclosures</u>
Except for the following standards and amended PFRS which were adopted as of January 1, 2020, the accounting policies and methods of computation adopted in the preparation of the financial statements are consistent with those followed in the previous financial year. These new and revised accounting standards have no impact on the Group.

• Amendments to PFRS 3, Definition of a Business

• Amendments to PAS 1 and PAS 8, Definition of Material

Significant Accounting Policies

<u>Foreign Currency Translation</u>
The financial statements are presented in Philippine peso, which is the Parent Company's functional currency. The books of accounts of the RBU are maintained in Philippine peso, while those of the FCDU are maintained in US dollar.

RBU
As at reporting date, foreign currency monetary assets and liabilities of the RBU are translated to Philippine peso based on the Philippine Dealing System (PDS) closing rate prevailing at end of the year, and foreign currency-denominated income and expenses, at the exchange rates as at the date of the transaction. Foreign exchange differences arising from translations of foreign currency-denominated assets and liabilities in the RBU are credited to or charged against profit or loss in the

year in which the rates change. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined.

FCDU and Foreign subsidiary
As at the reporting date, the assets and liabilities of the FCDU and the foreign subsidiary are translated to the Parent Company's presentation currency (the Philippine peso) at BAP for 2019 and 2018 (PDS for 2017) closing rate prevailing at the statement of condition date, and its income and expenses are translated at BAP weighted average rate for 2019 and 2018 while in 2017, the basis was the PDS monthly weighted average rate for the year. Exchange differences arising on translation to the presentation currency are taken to the statement of comprehensive income under 'Cumulative translation adjustment.' Upon disposal of the FCDU, the deferred cumulative amount recognized in the statement of comprehensive income is recognized in the statements of income.

Fair Value Measurement
The Group measures financial instruments such as financial assets at FVPL, AFS investments, FVOCI investments and derivative financial instruments at fair value at each reporting date. Also, fair value of financial assets and liabilities carried at amortized cost and investment properties are disclosed in Note 5.
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either:

- In the principal market for the asset or liability, or
- In the absence of a principal market, in the most advantageous market for the asset or liability

The principal or the most advantageous market must be accessible to by the Group.

The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest. A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximizing the use of relevant observable inputs and minimizing the use of unobservable inputs.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorized within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

- Level 1 - quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date
- Level 2 - inputs other than quoted prices included within Level 1 that are observable either directly or indirectly
- Level 3 - inputs are unobservable inputs for the asset or liability

For assets and liabilities that are recognized in the financial statements on a recurring basis, the Group determines whether transfers have occurred between Levels in the hierarchy by re-assessing categorization (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period. External appraisers are involved for valuation of significant assets, such as investment properties.

For the purpose of fair value disclosures, the Group has determined classes of assets and liabilities on the basis of the nature, characteristics and risks of the asset or liability and the level of the fair value hierarchy as explained above.

Financial Instruments - Initial Recognition

Date of recognition
The Group recognizes financial instruments when, and only when, the Group becomes a party to the contractual terms of the financial instruments. Regular way purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace, are recognized on settlement date - the date that an asset is delivered to by the Group. Securities transactions are also recognized on settlement date basis. Deposits, amounts due to or from banks and customers and loans are recognized when cash is received by the Group or advanced to the borrowers.

'Day 1' difference
Where the transaction price is different from the fair value or from other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable market, the Group recognizes the difference between the transaction price and fair value (a 'Day 1' difference) in the statements of income in unless it qualifies for recognition as some other type of asset or liability. In cases where use is made of data which is not observable, the difference between the transaction price and model value is only recognized in the statements of income when the inputs become observable or when the instrument is derecognized. For each transaction, the Group determines the appropriate method of recognizing the 'Day 1' difference amount.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and IBLR and SPURA with maturities of three months or less from original dates of placements and that are subject to insignificant risk of changes in value.

Policy applicable beginning January 1, 2018

Initial recognition of financial instruments
All financial instruments are initially measured at fair value. Except for financial assets and liabilities valued at FVPL, the initial measurement of financial assets and liabilities includes transaction costs. The Group categorizes its financial assets in the following categories: financial assets at FVPL, AFS investments, HTM investments and loans and receivables, while financial liabilities are classified as financial liabilities at FVPL and other financial liabilities carried at amortized cost. The classification depends on the purpose for which the financial instruments were acquired, its characteristics, and whether they are quoted in an active market. Management determines the classification of its financial instruments at initial recognition and, where allowed and appropriate, re-evaluates such designation at every reporting date.

Derivatives recorded at FVPL
The Group is a counterparty to derivative contracts, such as currency forwards and swaps warrants, and embedded call, put and equity conversion options. These derivatives are entered into as a service to customers and as a means of reducing or managing their respective foreign exchange and interest rate exposures, as well as for trading purposes. Such derivative financial instruments are initially recorded at fair value on the date at which the derivative contract is entered into and are subsequently remeasured at fair value.

Any gains or losses arising from changes in fair values of derivatives (except those accounted for as accounting hedges) are taken directly to the statements of income and are included in 'Trading and securities gain - net' for embedded derivatives and warrants, and in 'Foreign exchange gain (loss) - net' for currency forwards and swaps. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

The Group has certain derivatives that are embedded in host financial contracts which consist of call and put options and equity conversion features.

Embedded derivatives are bifurcated from their host contracts and carried at fair value, with fair value changes being reported in the statements of income, when the entire hybrid contracts (composed of both the host contract and the embedded derivative) are not accounted for as financial assets at FVPL, when their economic risks and characteristics are not closely related to those of their respective host contract and when a separate instrument with the same terms as the embedded derivatives would meet the definition of a derivative.

The Group assesses whether embedded derivatives are required to be separated from host contracts when the Group first becomes a party to the contract. Subsequent reassessment is prohibited unless there is a change in the terms of the contract that significantly modifies the cash flows that otherwise would be required under the contract, in which case reassessment is required. The Group determines whether a modification to the cash flows is significant by considering the extent to which the expected future cash flows associated with the embedded derivative and the host contract have changed, and whether the change is significant relative to the previously expected cash flows on the contract.

Financial assets held-for-trading
Financial assets held-for-trading are recorded in the statement of condition at fair value. Changes in fair value relating to the held-for-trading positions are recognized in 'Trading and securities gain - net'. Interest earned is recorded in 'Interest income', while dividend income is recorded in 'Miscellaneous income' when the right to receive payment has been established.

Included in this classification are debt securities which have been acquired principally for the purpose of selling on the near term.

- Financial assets or financial liabilities designated as FVPL
- Upon initial recognition, financial assets or financial liabilities may be designated by management on an instrument-by-instrument basis, when the following criteria are met:
- the designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis;
- the assets and liabilities are part of the Group's of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy; or
- the financial instrument contains an embedded derivative, unless the embedded derivative does not significantly modify the cash flows or it is clear, with little or no analysis, that it would not be separately recorded.

Designated financial assets and financial liabilities at FVPL are recorded in the statement of condition at fair value. Changes in fair value are recorded in 'Trading and securities gain - net'. Interest earned or incurred is recorded in 'Interest income' or 'Interest expense', respectively, while dividend income is recorded in 'Miscellaneous income' according to the terms of the contract, or when the right of payment has been established.

The Group has designated the equity securities under an investment management agreement at FVPL. The financial assets are managed and their performance is being evaluated on a fair value basis, in accordance with the Group's investment strategy.

Loans and receivables, amounts due from BSP and other banks, interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA)

These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and as such are not categorized as financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. They also do not include those for which the Group may not recover substantially all its initial investments, other than because of credit deterioration.

Loans and receivables also include finance lease receivables and loans and receivables financed. Unearned lease and finance income is shown under 'Unearned lease/finance income' account as a deduction from 'Loans and receivables'.

After initial measurement, Loans and receivables, Due from BSP, Due from other banks, IBLR and SPURA are subsequently carried at amortized cost using the effective interest method, less allowance for credit losses. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in

‘Interest income’ in the statements of income. The losses arising from impairment are recognized in ‘Provision for credit and impairment losses’ in the statements of income.

Whenever there are revisions on estimates of receipts, the Group adjusts the carrying amount of the financial asset (or group of financial instruments) to reflect actual and revised estimated cash flows. The Group recalculates the carrying amount by computing the present value of estimated future cash flows using the financial instrument's original effective interest rate. The adjustment is recognized in the profit or loss and is included in ‘Interest income’.

AFS investments

AFS investments are those which are designated as such or do not qualify to be classified as designated at FVPL, HTM investments or loans and receivables. They are purchased and held indefinitely, and may be sold in response to liquidity requirements or changes in market conditions. This category includes debt and equity instruments.

After initial measurement, AFS investments are subsequently measured at fair value. The effective yield component of AFS debt securities, as well as the impact of translation of foreign currency-denominated AFS debt securities, is reported in the statements of income. The unrealized gains and losses, net of tax, arising from the fair valuation of AFS investments are excluded from reported earnings and are reported as ‘Net unrealized gain (loss) on AFS investments’ in other comprehensive income (‘OCI’).

When the AFS investment is disposed of, the cumulative gain or loss previously recognized in other comprehensive income is recognized as ‘Trading and securities gain - net’ in the statements of income. Interest earned on holding AFS debt investments is reported as ‘Interest income’ using the effective interest method. Dividends earned on holding AFS equity investments are recognized in the statements of income as ‘Miscellaneous income’ when the right to receive payment has been established. The losses arising from impairment of such investments are recognized as ‘Provision for credit and impairment losses’ in the statements of income.

HTM investments

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group’s management has the positive intention and ability to hold to maturity. After initial measurement, these investments are subsequently carried at amortized cost using the effective interest method, less impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the effective interest rate (EIR). The amortization is included in ‘Interest income’ in the statements of income. Gains and losses are recognized in the statements of income when the HTM investments are derecognized and impaired, as well as through the amortization process. The losses arising from impairment of such investments are recognized in the statements of income under ‘Provision for credit and impairment losses’. The effects of translation of foreign currency-denominated HTM investments are recognized in the statements of income.

Reclassification of financial assets

A financial asset is reclassified out of the FVPL category only when the following conditions are met:

- the financial asset is no longer held for the purpose of selling or repurchasing it in the near term; and
- there is a rare circumstance.

A financial asset that is reclassified out of the FVPL category is measured at its fair value on the date of reclassification. Any gain or loss already recognized in the consolidated statements of income is not reversed. The fair value of the financial asset on the date of reclassification becomes its new cost or amortized cost, as applicable.

For a financial asset reclassified out of the AFS category to loans and receivables or HTM investments, any previous gain or loss on that asset that has been recognized in OCI is amortized to profit or loss over the remaining life of the investment using the effective interest method. Any difference between the new amortized cost and the expected cash flows is also amortized over the remaining life of the asset using effective interest method. If the asset is subsequently determined to be impaired, then the amount recorded in OCI is realized to the statements of income.

If the Group sells other than an insignificant amount of HTM investments (other than in specific circumstances), the entire category would be tainted and reclassified as AFS investments. Further, the Group would be prohibited to classify any financial assets as HTM investments during the year current year and two succeeding years thereafter unless for sales or reclassifications that:

- are so close to maturity or the financial asset's call date (for example, less than three months before maturity) that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- occur after the entity has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or
- are attributable to an isolated event that is beyond the entity's control, is non-recurring and could not have been reasonably anticipated by the entity.

Upon reclassification from HTM investment to AFS category, the financial asset should be remeasured to fair value and any associated gain or loss is recognized in other comprehensive income.

Reclassification is at the election of management, and is determined on an instrument by instrument basis.

Impairment of Financial Assets

PFRS 9 requires the Group to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.
Expected credit loss methodology

ECL represent credit losses that reflect an unbiased and probability-weighted amount which is determined by evaluating a range of possible outcomes, the time value of money and reasonable and supportable information about past events, current conditions and forecasts of future economic conditions. ECL allowances will be measured at amounts equal to either (i) 12-month ECL or (ii) lifetime ECL. The 12-month ECL is the portion of lifetime ECL that results from default events on a financial instrument that are possible within the 12 months after the reporting date. Lifetime ECL are credit losses that result from all possible default events over the expected life of a financial instrument and are computed for those financial instruments which have experienced a significant increase in credit risk (SICR) since initial recognition and for those financial assets which have indications of objective evidence of impairment.

Assessment of Significant Increase in Credit Risk/Staging assessment For non-credit-impaired financial instruments:
• Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
• Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:
• Financial instruments are classified as Stage 3 when there is objective evidence of impairment as a result of one or more loss events that have occurred after initial recognition with a negative impact on the estimated future cash flows of a loan or a portfolio of loans. These include those classified as non-performing loans and restructured accounts. The ECL model requires that lifetime ECL be recognized for these impaired financial assets.

Definition of "default"
The Group defines a financial instrument as in default, which is fully aligned with the definition of credit impaired, in all cases when the borrower becomes over 90 days past due on its contractual payments. As a part of a qualitative assessment of whether a customer is in default, the Group also considers a variety of instances that may indicate objective evidence of impairment, which include but not limited to, financial difficulty of the borrowers and significant problems in the operations of the counterparties. When such events occur, the Group carefully considers whether the event should

result in treating the customer as defaulted. An instrument is considered to be no longer in default (i.e., to have cured) when it no longer meets any of the default criteria and has exhibited a satisfactory track record, i.e. consistent no missed payments for a consecutive period of six (6) months for non-restructured accounts and twelve (12) month for restructured accounts.

Credit risk at initial recognition
The Group uses internal borrower rating assessment and approvals at various levels to determine the credit risk of exposures at initial recognition.
Significant increase in credit risk

The criteria for determining whether credit risk has increased significantly vary by portfolio and include quantitative changes in PD, and qualitative factors, including downgrade in risk ratings and a backstop based on delinquency. The credit risk of a particular exposure is deemed to have increased significantly since initial recognition if, based on the Group's risk rating process, the borrowers' risk rating deteriorated by certain notches or the PD increased relatively by certain percentage as of the reporting date. For exposures without internal credit risk rating, the credit risk is deemed to have increased significantly, if based on aging information, the borrower becomes past due on the contractual payments for over a certain number of days. In subsequent reporting periods, if the credit risk of the financial instrument improves such that there is no longer a SICR since initial recognition, the Group shall revert to recognizing a 12-month ECL.

Restructuring
In certain circumstances, the Group modifies the original terms and conditions of a credit exposure to form a new loan agreement or payment schedule. The modifications can be given depending on the borrower's or counterparty's current or expected financial difficulty. The modifications may include, but are not limited to, change in interest rate and terms, principal amount, maturity date, date and amount of periodic payments and accrual of interest and charges. Restructured impaired accounts are purchased or originated credit impaired accounts where lifetime ECL is provided.

ECL calculation
ECL is a function of the PD, LGD and EAD, with the timing of the loss also considered, and is estimated by incorporating forward-looking economic information and through the use of experienced credit judgment.

The PD represents the likelihood that a credit exposure will be in default either in the next 12 months for Stage 1 or during its lifetime for Stage 2. The PD for each individual financial asset is modelled based on historic data and is estimated based on current market conditions and reasonable and supportable information about future economic conditions. The Group segmented its credit exposures based on homogeneous risk characteristics (i.e. loan product basis) and developed a corresponding PD methodology for each portfolio. The PD methodology for each relevant portfolio is determined based on the underlying nature or characteristic of the portfolio, behavior of the accounts and materiality of the segment as compared to the total portfolio.

EAD is modelled on historic data and represents an estimate of the outstanding amount of credit exposure at the time a default may occur. For off-balance sheet and undrawn amounts,
EAD includes an estimate of any further amounts to be drawn at the time of default. LGD is the amount that may not be recovered in the event of default and is modelled based on historical cash flow recovery and reasonable and supportable information about future economic conditions, where appropriate. LGD takes into consideration the amount and quality of any collateral held.

The Group incorporates overlays in its measurement of ECL. These overlays are based on a broad range of macro-economic variables, which based on management's expert credit judgment and available and supportable information, reflect the reasonable expectation of future credit losses.

Collateral valuation
To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, real estates, other non-financial assets and credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's statement of condition.

Write-offs
Financial assets are written off either partially or in their entirety only when the Group has stopped pursuing the recovery. If the amount to be written off is greater than the accumulated loss allowance, the difference is first treated as an addition to the allowance that is then applied against the gross carrying amount. Any subsequent recoveries are credited to ‘Provision for credit and impairment loss’ in the profit or loss.

Policy applicable prior to January 1, 2018

The Group assesses at each statement of condition date 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 deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset (an incurred ‘loss event’) and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated.

Objective evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganization and where observable data indicate that there is measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Investment securities carried at amortized cost
For investment securities at amortized cost which includes due from BSP, due from banks, IBLR, SPURA HTM investments and loans and receivables, the Group first assesses whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset’s carrying amount and the present value of the estimated future cash flows (excluding future credit losses that have not been incurred). The present value of the estimated future cash flows are discounted at the financial asset’s original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR. 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.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of such credit risk characteristics as to total resources, industry, collateral type, past-due status and term. Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of 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 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 reflect, and are directionally consistent with changes in related observable data from period to period (such as changes in payment status, or other factors that are indicative of incurred losses and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in the statements of income. Interest income continues to be recognized based on the original EIR of the asset. Financial assets together with the associated allowance accounts are written off when there is no realistic prospect of future recovery and all collateral has been realized. If, in a subsequent year, the amount of the impairment loss decreases because of an event occurring after the impairment was recognized, the previously recognized impairment loss is credited to ‘Provision for credit and impairment losses’ in the statements of income and the allowance account is reduced. If a written-off account is later recovered, the recovery is recognized as ‘Miscellaneous income’ in the statements of income.

Restructured loans
Where possible, the Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. These loans continue to be subjected to individual or collective impairment assessment, calculated using the loan’s original EIR.

AFS investment
For AFS investments, the Group assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired.

In the case of debt instruments categorized as AFS investments, impairment is assessed based on the same criteria as financial assets carried at amortized cost. However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the statements of income. 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 purposes of measuring impairment loss. Such accrual is recorded as part of ‘Interest income’ in the statements of income.

If, in subsequent years, the fair value of a debt instrument increases and the increase can be objectively related to the actual improvement in the credit quality of the instrument and to an event occurring after the impairment loss was recognized in the statements of income, the impairment loss is reversed through the statements of income. If there is no improvement in the credit quality of the instrument, the Group recognizes the increase in fair value in other comprehensive income.

Derecognition of financial assets and liabilities 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 rights to receive cash flows from the asset have expired; or
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a “pass-through” arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained the risk and rewards of the asset but has transferred the control of the asset.

Where the Group has transferred its rights to receive cash flows from an asset or has entered into a “pass-through” arrangement, and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group’s continuing involvement in the asset. Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of original carrying amount of the asset and the maximum amount of consideration that the Group could be required to pay.

Financial liabilities
A financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in statements of income.

Repurchase and Reverse repurchase agreements
Securities sold under repurchase agreements (SSURA) at a specified future date (‘repos’) are not derecognized from the statement of condition as the Group retains substantially all of the risks and rewards of ownership. The corresponding cash received is recognized in the statement of condition as

an asset with a corresponding obligation to return it, including accrued interest as a liability, reflecting the transaction's economic substance as a loan to the Group.

Conversely, securities purchased under agreements to resell at a specified future date ('reverse repos') are not recognized in the statement of condition. The corresponding cash paid, including accrued interest, is recognized in the statement of condition as SPURA, and is considered a loan to the counterparty. The difference between the purchase price and resale price is treated as interest income and is accrued over the life of the agreement using the effective interest method.

Offsetting of financial instruments
Financial assets and liabilities are offset and the resulting net amount, considered as a single financial asset or financial liability, is reported in the statements of condition 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.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and IBLR and SPURA with maturities of three months or less from original dates of placements and that are subject to insignificant risk of changes in value.

Revenue Recognition
Prior to January 1, 2018, revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured, regardless of when payment is being made. Revenue is measured at fair value of the consideration received or receivable, taking into account contractually defined terms of payment and excluding taxes or duty.

Beginning January 1, 2018, revenue from contracts with customers (scoped in under PFRS 15) is recognized when control of the goods or services are transferred to the customer at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

The following specific recognition criteria must also be met before revenue is recognized:

- Revenues within the scope of PFRS 9
- Interest income on investment securities at amortized cost and FVOCI

For all investment securities measured at amortized cost and FVOCI, interest income is based on EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

Once the recorded value of a financial asset or group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognized using the original EIR used to discount future cash flows. Beginning January 1, 2018, interest income on Stage 1 and 2 accounts are recognized based on their gross carrying amounts while interest income on Stage 3 accounts are recognized on their net carrying amounts.

Interest income on financial assets at FVTPL
Interest income on all trading assets and financial assets mandatorily required to be measured at FVTPL is recognized using the modified EIR method which considers amortization of premium and discount and is included under "Interest income on financial assets at FVTPL".

Trading and securities gain - net
This results from trading activities including all gains and losses from changes in fair value of financial assets and financial liabilities at FVTPL and gains and losses from the disposal of financial assets at fair value through other comprehensive income. Cost of investment securities sold is determined using the specific identification method.

Gain or loss from disposals of investment securities at amortized costs are presented separately in the profit or loss.

Fees and commissions
Loan commitment fees for loans that are likely to be drawn are deferred (together with any incremental costs) and recognized as an adjustment to EIR on the loan.

Dividend income
Dividend income is recognized when the Group's right to receive the payment is established.

Penalty income
Penalty income on past due accounts are recognized only upon collection or accrued when there is reasonable certainty as to its collectibility. Penalty income is presented under "Miscellaneous income".

Recoveries from charged-off loan accounts
Recoveries are recognized upon collection of previously written-off accounts. Recoveries are presented under "Miscellaneous income".

Revenues within the scope of PFRS15
The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the services before transferring them to the customer.

Fees and commissions
The Group earns fee and commission income from a diverse range of financial services it provides to its customers. Fee and commission income is recognized at an amount that reflects the consideration to which the Group expects to be entitled in exchange for providing the services. Fee income can be divided into the following two categories:

a.Fee income earned from services that are provided over a certain period of time
Fees earned for the provision of services over a period of time are accrued over that period. Loan commitment fees in which it is unlikely that the borrower will draw down the loan, are recognized as earned on a time proportionate basis over the commitment period where there is a reasonable degree of certainty as to their collectibility. Loan commitment fees for loans that are likely to be drawn are deferred (together with any incremental costs) and recognized as an adjustment to the EIR on the loan.

b.Fee income from providing transaction services
Fees arising from negotiating or participating in the negotiation of a transaction for a third party such as fees for the arrangement of the loans are recognized on completion of the underlying transaction. Loan syndication fees are recognized in the statements of income when the syndication has been completed and the Group retains no part of the loans for itself or retains part at the same EIR as for the other participants.

Service charges, fees and commissions
Service charges, fees and commissions charged on loans- and deposits-related transactions are generally recognized when the services are rendered.

Income from sale of properties
Income from sale of properties (i.e. property and equipment, investment properties and chattels) is recognized upon transfer of control of the non-financial assets to the customers and the collectability of the sales price is reasonably assured.

Income from trust operations
Trust fees related to investment funds are recognized in reference to the net asset value of the funds. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over a period of time.

Revenues outside the scope of PFRSs 9 and 15 Leasing income

a. *Finance lease*

The excess of aggregate lease rentals plus the estimated residual value (gross finance lease receivables) over the cost of the leased asset (present value of the lease receivables) constitutes the unearned lease income. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed, using the effective interest rate method. Leasing income on finance lease receivables is included in 'Interest income'.

b. Operating lease

Rent income under operating lease is recognized on a straight-line basis over the lease terms on ongoing leases. These are recorded in statements of income under 'Miscellaneous income'.

Expense Recognition

Expenses are recognized when decrease in future economic benefits related to a decrease in an asset or an increase of a liability has arisen that can be measured reliably. Operating expenses arise in the normal business operations. These expenses are recognized when incurred.

Property and Equipment

Property and equipment are stated at cost less accumulated depreciation and amortization, and any accumulated impairment in value. The initial cost of property and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against statements of income.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives (EUL) of the respective assets. EUL of property and equipment are as follows:

- Building-20 years
- Furniture, fixtures and equipment-3 and 5 years
- Transportation equipment-5 years
- Leasehold improvements-5 years or the terms of the related leases, whichever is shorter
- Equipment for lease-5 years

The EUL and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of property and equipment.

Effective January 1, 2019, it is the Group's policy to classify right-of-use assets as part of property and equipment. Prior to that date, all of the Group's leases are accounted for as operating leases in accordance with PAS 17, hence, not recorded on the statement of financial position. Refer to accounting policy for Leases below.

Unless the Group is reasonably certain to obtain ownership of the leased asset at the end of the lease term, the recognized right-of-use assets are depreciated on a straight-line basis over the shorter of their estimated useful life and lease term. Right-of-use assets are subject to impairment.

Investment Properties

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be measured, in which case the investment property acquired is measured at the carrying amount of asset given up. Foreclosed properties are classified under investment properties from foreclosure date.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on derecognition of an investment property is recognized in the statements of income in the year of derecognition.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged against income in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties. Buildings are depreciated over a maximum useful life of ten (10) years.

Transfers are made to investment properties when, and only when, there is a change in use as evidenced by ending of owner occupation, commencement of an operating lease to another party or ending of construction or development. Transfers are made from investment properties when, and only when, there is a change in use as evidenced by commencement of owner occupation or commencement of development with a view to sale.

Other Assets - Chattels
Other assets - chattel acquired through an exchange transaction is measured at the fair value of the asset acquired unless the fair value of such asset cannot be determined, in which case, it is measured at the carrying amount of the asset given up.

Subsequent to initial recognition, repossessed chattels are stated at cost less accumulated depreciation and any impairment in value. Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the chattels. The useful lives of repossessed chattels are estimated to be ranging from 3 to 25 years.

Investments in Subsidiaries
Investments in subsidiaries in the Parent Company's separate financial statements are accounted for under the equity method.

Under the equity method, an investment in subsidiary is carried in the statement of financial position at cost plus post-acquisition changes in the Parent Company's share of the net assets of the subsidiary. Post-acquisition changes in the share of net assets of the subsidiaries include the share in the: (a) income or losses; and (b) other comprehensive income (i.e. net unrealized gains/losses in AFS investments, cumulative translation adjustments and remeasurement gains/losses on retirement obligations). Dividends received are treated as a reduction in the carrying amount of the investments. The statement of income reflects the share of the results of operations of the subsidiary. Where there has been a change recognized directly in the equity of the subsidiary, the Parent Company recognizes its share of any changes and thus, when applicable, discloses in the statement of changes in equity. If the Parent Company's share of losses in a subsidiary equals or exceeds its interest in the subsidiary, the Parent Company discontinues recognizing its share in further losses.

Goodwill
Goodwill is initially measured at cost being the excess of the acquisition cost over the net fair value of the acquired identifiable assets, liabilities and contingent liabilities.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment testing is done by comparing the recoverable amount of each CGU (i.e., the higher between the fair value less costs to sell and value in use) with its carrying amount. For the purpose of impairment testing, goodwill acquired is allocated to each of the cash generating units that are expected to benefit from the synergies of the combination, irrespective of whether the acquired other assets or liabilities are assigned to those units.

Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (or group of cash generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit (or group of cash generating units) is less than the carrying amount of the cash generating unit (or group of cash generating units) to which goodwill has been allocated, an impairment loss is recognized immediately in the statements of income. Impairment losses relating to goodwill cannot be reversed for subsequent increases in its recoverable amount in future periods.

Where goodwill forms part of a cash generating unit and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on disposal of the operation. Goodwill disposed of in this circumstance is measured based on the relative values of the operation disposed of and the portion of the cash generating unit retained.

Intangibles
Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is its fair value as at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses.

The useful lives of intangible assets are assessed as either finite or indefinite.

Intangible assets with finite lives are amortized over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing the amortization period or method, as appropriate, and are treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the statements of income.

Intangible assets with indefinite useful lives are not amortized, but are tested for impairment annually or more frequently, either individually or at the cash generating unit level. The assessment of indefinite life is reviewed annually to determine whether the indefinite life continues to be supportable. If not, the change in useful life from indefinite to finite is made on a prospective basis. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognized in the statements of income when the asset is derecognized.

Software cost
Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These are being amortized using a straight line basis over three and five years. Costs associated with maintaining the computer software programs are recognized as expenses when incurred.

Branch licenses
Branch licenses are recognized based on the cost incurred to acquire and bring to use in operation. Branch licenses acquired through business combination, including the branch licenses granted by the BSP, are recognized at fair value at the date of acquisition. Branch licenses are determined to have indefinite useful lives. These are tested for impairment annually either individually or at the cash-generating unit level.

Business Combinations
Business combinations are accounted for using the acquisition method. The cost of an acquisition is measured as the aggregate of the consideration transferred, measured at acquisition date fair value and the amount of any non-controlling interest in the acquiree. For each business combination, the acquirer measures the non-controlling interest in the acquiree either at fair value or at the proportionate share of the acquiree’s identifiable net assets. Acquisition costs incurred are expensed and included in operating expenses.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date.

If the business combination is achieved in stages, the acquisition date fair value of the acquirer's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date through statements of income.

Any contingent consideration to be transferred by the acquirer will be recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration which is deemed to be an asset or liability, will be recognized in accordance with PAS 39 either in statements of income or as a change to OCI. If the contingent consideration is classified as equity, it should not be remeasured until it is finally settled within equity.

Goodwill is initially measured at cost being the excess of the aggregate of fair value of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed. If this consideration is lower than the fair value of the net assets of the subsidiary acquired, the difference is recognized in the statements of income as gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. For the purpose of impairment testing, goodwill acquired in a business combination is allocated to each of the Group's cash-generating units that are expected to benefit from the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

Impairment of Nonfinancial Assets

Property and equipment, investment properties, investments in subsidiaries, software costs and right-of-use assets

The Group assesses impairment on nonfinancial assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. The fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction less cost of disposal while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life.

Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash generating unit to which the asset belongs.

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

Goodwill and branch licenses

Goodwill and branch licenses (arising from business combination) with no indefinite useful life are reviewed for impairment, annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of the cash generating unit (CGU) (or group of CGUs) to which the goodwill and branch licenses relates. Where the recoverable amount of the CGU (or group of CGUs) is less than the carrying amount of the CGU (or group of CGUs) to which goodwill and branch licenses have been allocated, an impairment loss is recognized immediately in the statement of income. The Group uses the higher of fair value less cost to sell and VIU using cash flow projections from financial budgets approved by senior management in determining the recoverable amount.

Leases

The Group assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

Group as lessor

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Lease income from operating leases is recognized as rental income under 'Miscellaneous income' on a straight-line basis over the lease term.

Group as a lessee

Policy applicable beginning January 1, 2019

The Group applies a single recognition and measurement approach for all leases, except for short term leases and leases of low-value assets. The Group recognizes lease liabilities to make lease payments and ROU assets representing the right to use the underlying assets.

i. Right-of-use assets

The Group recognizes ROU assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). ROU assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of ROU assets includes the amount of lease liabilities recognized, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received.

The Group presents the right-of-use assets in 'Property and equipment' and subjects it to impairment in line with the Group's policy on impairment of nonfinancial assets.

ii. Lease liabilities

At the commencement date of the lease, the Group recognizes lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable, variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Group and payments of penalties for terminating a lease, if the lease term reflects the Group exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognized as expense (unless they are incurred to produce inventories) in the period on which the event or condition that triggers the payment occurs.

In calculating the present value of lease payments, the Group uses its incremental borrowing rate at the lease commencement date because the interest rate implicit in the lease is not readily determinable. After the commencement date, the amount of lease liabilities is increased to reflect the accretion of interest recognized under 'Interest expense of bills payable, bonds payable, subordinated debt and other borrowings' and reduced for the lease payments made. In addition, the carrying amount of lease liabilities is remeasured if there is a modification, a change in the lease term, a change in the lease payments (e.g., changes to future payments resulting from a change in an index or rate used to determine such lease payments) or a change in the assessment of an option to purchase the underlying asset.

iii. Short-term leases and leases of low-value assets
The Group applies the short-term lease recognition exemption to its short-term leases for some branches and the related parking spaces (i.e., those leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option). It also applies the lease of low-value assets recognition exemption to leases of ATM offsite locations that are considered of low value (i.e. P250,000 and below). Lease payments on short-term leases and leases of low- value assets are recognized as expenses on a straight-line basis over the lease term as is recognized as part of 'Rent' in the statements of income.

<u>Policies applicable prior to January 1, 2019</u>
The determination of whether an arrangement is, or contains a lease is based on the substance of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset. A reassessment is made after inception of the lease only if one of the following applies:

a. there is a change in contractual terms, other than a renewal or extension of the arrangement;

b. a renewal option is exercised or extension granted, unless that term of the renewal or extension was initially included in the lease term;

c. there is a change in the determination of whether fulfillment is dependent on a specified asset; or

d. there is a substantial change to the asset.

Where a reassessment is made, lease accounting shall commence or cease from the date when the change in circumstances gave rise to the reassessment for scenarios (a), (c) or (d) above, and at the date of renewal or extension period for scenario (b).

Group as lessee

Leases where the lessor retains substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as an expense in the statements of income on a straight-line basis over the lease term.

Group as lessor

Finance leases, where the Group transfers substantially all the risk and benefits incidental to ownership of the leased item to the lessee, are included in the statement of condition under ‘Loans and receivables’ account. A lease receivable is recognized at an amount equivalent to the net investment in the lease. All income resulting from the receivable is included in ‘Interest income’ in the statements of income.

Leases where the Group does not transfer substantially all the risks and benefits of ownership of the assets classified as operating leases. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized on a straight-line basis over the term of the lease. Contingent rents are recognized as revenue in the year in which they are earned.

Residual Value of Leased Assets and Deposits on Finance Leases

The residual value of leased equipment, included in ‘Finance lease receivables’, is the estimated proceeds from the disposal of the leased asset at the end of the lease term which approximates the amount of guaranty deposit paid by the lessee, at the inception of the lease. At the end of the lease term, the residual value is generally applied against the guaranty deposit of the lessee

Retirement Cost Defined Benefit Plan

The net defined benefit liability or asset is the aggregate of the present value of the defined benefit obligation at the end of the reporting period reduced by the fair value of plan assets (if any), adjusted for any effect of limiting a net defined benefit asset to the asset ceiling. The asset ceiling is the present value of any economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The cost of providing benefits under the defined benefit plans is actuarially determined using the projected unit credit method.

Defined benefit costs comprise the following:

- Service cost
- Net interest on the net defined benefit liability or asset
- Remeasurements of net defined benefit liability or asset

Service costs which include current service costs, past service costs and gains or losses on non-routine settlements are recognized as expenses in profit or loss. Past service costs are recognized when plan amendment or curtailment occurs. These amounts are calculated periodically by independent qualified actuaries.

Net interest on the net defined benefit liability or asset is the change during the period in the net defined benefit liability or asset that arises from the passage of time which is determined by applying the single discount rate based on government bonds to the net defined benefit liability or asset. Net interest on the net defined benefit liability or asset is recognized as expense or income in profit or loss.

Remeasurements comprising actuarial gains and losses, return on plan assets and any change in the effect of the asset ceiling (excluding net interest on defined benefit liability) are recognized immediately in other comprehensive income in the period in which they arise. Remeasurements are not reclassified to profit or loss in subsequent periods. Remeasurements are closed to Surplus at the end of every reporting period.

Plan assets are assets that are held by a long-term employee benefit fund or qualifying insurance policies. Plan assets are not available to the creditors of the Group, nor can they be paid directly to the Group. Fair value of plan assets is based on market price information. When no market price is available, the fair value of plan assets is estimated by discounting expected future cash flows using a discount rate that reflects both the risk associated with the plan assets and the maturity or expected disposal date of those assets (or, if they have no maturity, the expected period until the settlement of the related obligations). If the fair value of the plan assets is higher than the present value of the defined benefit obligation, the measurement of the resulting defined benefit asset is limited to the present value of economic benefits available in the form of refunds from the plan or reductions in future contributions to the plan.

The Group's right to be reimbursed of some or all of the expenditure required to settle a defined benefit obligation is recognized as a separate asset at fair value when and only when reimbursement is virtually certain.

Provisions
Provisions are recognized when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provision are determined by discounting the expected future cash flows at pre-tax rate that reflects current market assessments of the time value of money and where, appropriate, the risk specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as interest expense in the statements of income.

Contingent Liabilities and Contingent Assets
Contingent liabilities are not recognized in the financial statements but are disclosed unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is probable.

Government Grants
Government grants are recognized when there is reasonable assurance that the grant will be received and all attached conditions will be complied with. When the grant relates to an expense item, it is recognized as income on a systematic basis over the periods that the costs, which it is intended to compensate, are expensed. When the grant relates to an asset, it is recognized as income in equal amounts over the expected useful life of the related asset.

When the Group receives non-monetary assets, the asset and the grant are recorded at nominal amounts and released to profit or loss over the expected useful life in a pattern of consumption of the benefit of the underlying asset.

When loans or similar assistance are provided by government or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The government grant component is measured as the difference between the fair value of the loan granted and cash received at the date of grant. Such amount shall be recognized in the statements of income on a systematic basis over the periods in which the Group recognizes the related costs as expenses for which the grants are intended to compensate.

Income Taxes

Current taxes
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws to compute such amounts are those that are enacted or substantively enacted at the statement of condition date.

Deferred taxes
Deferred tax is provided, using the balance sheet liability method, on all temporary differences at the statement of condition date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities (DTL) are recognized for all taxable temporary differences, except:

- where the deferred tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

DTL is not provided on non-taxable temporary differences associated with investments in subsidiaries as it is not expected to reverse in the foreseeable future.

Deferred tax assets (DTA) are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from MCIT and unused NOLCO can be utilized, except:

- where the DTA relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- in respect of taxable temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable income will be available against which the temporary differences can be utilized.

The carrying amount of DTA is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the DTA to be utilized. Unrecognized DTA are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable income will allow the DTA to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

Deferred tax relating to items recognized directly in equity is also recognized in equity and not in the statements of income.

Deferred tax assets and liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred taxes relate to the same taxable entity and the same taxation authority.

Equity
Capital stock is measured at par value for all shares issued and outstanding. When the shares are sold at a premium, the difference between the proceeds and the par value is credited to the 'Additional Paid-in Capital' account. Direct costs incurred related to equity issuance, such as underwriting, accounting and legal fees, printing costs and taxes are charged against 'Additional Paid-in Capital' account. If the additional paid-in capital is not sufficient, the excess is charged against the 'Surplus'.

When the Parent Company issues more than one class of stock, a separate account is maintained for each class of stock and the number of shares issued.

Surplus represents accumulated earnings of the Parent Company less dividends declared.

Earnings per Share (EPS)
Basic EPS is determined by dividing the net income for the year attributable to common shares by the weighted average number of common shares outstanding during the year while diluted EPS is computed by dividing net income for the year attributable to common shares by the weighted average number of outstanding and dilutive potential common shares. Basic and diluted EPS are given retroactive adjustments for any stock dividends declared in the current year.

Segment Reporting
A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is one that provides products or services within a particular economic environment that is subject to risks and returns that are different from those segments operating in other economic environments.

The Group’s operations are organized according to the nature of products and services provided.

Events After Statement of Condition Date
Any post year-end events that provide additional information about the Group’s position at the statement of condition date (adjusting events) are reflected in the financial statements. Any post year-end events that are not adjusting events are disclosed when material to the financial statements.

Fiduciary Activities
Assets and income arising from fiduciary activities together with related undertakings to return such assets to customers are excluded from the financial statements of the Group where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Future Changes in Accounting Policies
Standards issued but not yet effective up to the date of issuance of the Group’s financial statements are listed below. This is a listing of standards and interpretations issued, which the Group reasonably expects to be applicable at a future date. Except as otherwise indicated, the Group does not expect the adoption of these new and amended standards to have a significant impact on the financial statements.

Effective beginning on or after January 1, 2020

• *Amendments to PFRS 3, Definition of a Business*

The amendments to PFRS 3 clarify the minimum requirements to be a business, remove the assessment of a market participant’s ability to replace missing elements, and narrow the definition of outputs. The amendments also add guidance to assess whether an acquired process is substantive and add illustrative examples. An optional fair value concentration test is introduced which permits a simplified assessment of whether an acquired set of activities and assets is not a business.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted. These amendments will apply on future business combinations of the Group.

•*Amendments to PAS 1, Presentation of Financial Statements, and PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors, Definition of Material.*

The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity’s materiality judgements.

An entity applies those amendments prospectively for annual reporting periods beginning on or after January 1, 2020, with earlier application permitted.

Effective beginning on or after January 1, 2021

•*PFRS 17, Insurance Contracts*

PFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, PFRS 17 will replace PFRS 4, Insurance Contracts. This new standard on insurance contracts applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features. A few scope exceptions will apply.

The overall objective of PFRS 17 is to provide an accounting model for insurance contracts that is more useful and consistent for insurers. In contrast to the requirements in PFRS 4, which are largely based on grandfathering previous local accounting policies, PFRS 17 provides a comprehensive model for insurance contracts, covering all relevant accounting aspects. The core of PFRS 17 is the general model, supplemented by:

- A specific adaptation for contracts with direct participation features (the variable fee approach)
- A simplified approach (the premium allocation approach) mainly for short-duration contracts

PFRS 17 is effective for reporting periods beginning on or after January 1, 2021, with comparative figures required. Early application is permitted.

Deferred effectivity

Amendments to PFRS 10, Consolidated Financial Statements, and PAS 28, Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments address the conflict between PFRS 10 and PAS 28 in dealing with the loss of control of a subsidiary that is sold or contributed to an associate or joint venture. The amendments clarify that a full gain or loss is recognized when a transfer to an associate or joint venture involves a business as defined in PFRS 3. Any gain or loss resulting from the sale or contribution of assets that does not constitute a business, however, is recognized only to the extent of unrelated investors' interests in the associate or joint venture.

On January 13, 2016, the Financial Reporting Standards Council deferred the original effective date of January 1, 2016 of the said amendments until the International Accounting Standards Board (IASB) completes its broader review of the research project on equity accounting that may result in the simplification of accounting for such transactions and of other aspects of accounting for associates and joint ventures.

Significant Accounting Judgments and Estimates

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

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

Unless otherwise stated, below significant judgments and estimates apply as of and for the years ended December 31, 2019, 2018 and 2017.

Judgments

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) Evaluation of business model in managing financial instruments

Applicable beginning January 1, 2018
The Group manages its financial assets based on business models that maintain adequate liquidity level and preserve capital requirements, while maintaining a strategic portfolio of financial assets for accrual and trading activities consistent with its risk appetite.

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 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.

In addition, PFRS 9 emphasizes that if more than an infrequent and more than an insignificant sale is made out of a portfolio of investment securities. 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.

(b) Testing the cash flow characteristics of financial assets Applicable beginning January 1, 2018

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 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 addition, SPPI of instruments with embedded prepayment options are evaluated by considering whether the fair value of the option is insignificant and it does not represent additional compensation for the early termination.

(c) Functional currency

PAS 21, The Effects of Changes in Foreign Exchange Rates, requires management to use its judgment to determine the entity's functional currency such that it most faithfully represents the economic effects of the underlying transactions, events and conditions that are relevant to the entity. The Parent Company determined that the RBU and FCDU's functional currency are Philippine peso and USD, respectively. In addition, the subsidiaries determined that their respective functional currency is in Philippine peso. In making this judgment, the Group considers the following:

a. the currency that mainly influences sales prices for financial instruments and services (this will often be the currency in which sales prices for its financial instruments and services are denominated and settled);
b. the currency in which funds from financing activities are generated; and
c. the currency in which receipts from operating activities are usually retained.

(d) Leases Operating lease

Group as lessor
The Group has entered into commercial property leases of its investment properties and lease of vehicles. The Group has determined that it retains all the significant risks and rewards of ownership of these assets. Accordingly, this is accounted for as operating lease. In determining whether or not there is indication of operating lease treatment, the Group considers retention of ownership title to the leased property, period of lease contract relative to the estimated useful economic life of the leased property and the present value of minimum lease payments relative to the fair value of leased asset, among others.

Group as lessee
Applicable prior to January 1, 2019
The Group has entered into leases on premises it uses for its operations. The Group has determined, based on the evaluation of the lease agreement (i.e.the lease does not transfer ownership of the asset to the lessee by the end of the lease term and the lease term is not for the major part of the

asset's economic life), that all significant risk and rewards of ownership of the properties it leases are not transferred to the Group and thus, accounted for these arrangements as operating lease.

Finance Lease Group as lessor
As lessor, the Group has entered into finance lease arrangements of vehicles. The Group has determined based on the evaluation of terms and conditions of the arrangement, (i.e. present value of minimum lease payments amounts to at least substantially all of the fair value of leased asset) that it transfers all the significant risks and rewards of ownership of these properties and thus, accounts for these arrangements as finance leases.

(e) *Contingencies*

The Group is currently various legal proceedings arising from the ordinary course of business.

The estimate of the probable costs for the resolution of these claims and assessments has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that liabilities which may arise from these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 31).

Estimates
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 credit losses on financial assets Applicable beginning January 1, 2018

The measurement of impairment losses for financial assets at amortized cost, including investment securities and loans and receivables and FVOCI under PFRS 9 requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.
The Group's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:

- The Group's internal risk rating process and assignment of PD based on this risk rating;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The Group's definition of default, which is consistent with regulatory requirements;
- The segmentation of financial assets when the ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, and the effect on PDs, EADs and LGDs.
- Definition of forward-looking macroeconomic scenario variables.
- Applicable prior to January 1, 2018

This judgment was applied for estimating credit losses for loans and receivables. The identification of impairment and the determination of the recoverable amounts of loans are key areas of judgment and estimate for management. The use of different approaches and assumptions could produce significantly different estimates of allowance for credit losses.

For specific impairment, the Group reviews its loans and receivables tagged as past due and in litigation including accounts with objective evidence of impairment at each statement of condition date to assess whether impairment losses should be recorded in the statements of income. The factors being considered by the Group in determining the specific allowance are disclosed in Note 4 of the Audited Financial Statements.

The Group also provides collective impairment against exposures which, although not specifically identified as requiring a specific allowance, have a greater risk of default than when originally granted.

The Group's impairment policy for financial assets is discussed in Note 4. The carrying values of the investment securities at amortized costs, FVOCI and loans and receivables and related allowance for credit losses of the Group and Parent Company are disclosed in Notes 8, 9 and 16 of the Audited Financial Statements.

(b)Impairment of goodwill and branch licenses
The Group conducts a review for any impairment in value of goodwill and branch licenses annually every December 31 or frequently, if events or changes in the circumstances indicate that the carrying values may be impaired. The Group's impairment assessment requires significant judgement and is based on management's assumptions.

For purposes of impairment testing, the Group measures the recoverable amounts of the CGUs to which the goodwill and branch licenses are allocated, based on a value-in-use calculation using cash flow projections from the financial budgets covering three-to five-years, which are approved by the senior management. The value-in-use calculation is most sensitive to the following assumptions: a) revenue growth rate; b) discount rates; and c) projected growth rates used to extrapolate cash flows beyond the budget period.

The discussion of key assumptions used in the impairment calculation and the carrying values of goodwill and branch licenses are disclosed in Notes 13 and 14 of the Audited Financial Statements.

(c)Recognition of deferred tax assets
Certain subsidiaries have been in a tax loss position for the past several years. Based on this experience, the management assessed that it is not probable that certain subsidiaries will realize their deductible temporary differences, unused NOLCO and excess MCIT before expiration or reversal. Accordingly, the Group did not recognize deferred tax assets on certain deductible temporary differences, unused NOLCO and excess MCIT as of December 31, 2019 and 2018.

(d)Fair values of derivatives
The fair values of derivatives that are not quoted in active markets are determined using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that developed them. All models are reviewed before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices.

To the extent practical, models use only observable data. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 5 for information on the fair values of these instruments.

(e)Present value of retirement obligation
The cost of defined benefit obligation and other post-employment benefits is determined using actuarial valuations. The actuarial valuation involves making assumptions about discount rates and future salary increases. Due to the long-term nature of these plans and complexity of the valuation, the present value of the retirement obligation are sensitive to changes in these assumptions.

The discount rates used were determined using the market yields of Philippine government bonds with terms consistent with the expected employee benefit payout as at statement of condition date. Future salary increases are based on historical annual merit, market and promotional increase and expected future inflation rates.

The key assumptions in determining the present value of the defined benefit obligation of the Group and Parent Company are disclosed in Note 25 of the Audited Financial Statements.

f) Leases - Estimating the incremental borrowing rate Applicable beginning January 1, 2019
The Group cannot readily determine the interest rate implicit in the lease, therefore, it uses its IBR to measure lease liabilities. The IBR is the rate of interest that the Group would have to pay to borrow over a similar term, and with a similar security, the funds necessary to obtain an asset of a similar value to the right-of-use asset in a similar economic environment. The IBR therefore reflects what the Group 'would have to pay', which requires estimation when no observable rates are available (such as for subsidiaries that do not enter into financing transactions) or when they need to be adjusted to reflect the terms and conditions of the lease.

The Group estimates the IBR using observable inputs (such as market interest rates) when available and is required to make certain entity-specific estimates (such as the credit spread for a stand-alone credit rating).

A. Fair Value Measurement

The following table provides the fair value hierarchy of the Group's assets and liabilities measured at fair value and those for which fair values are required to be disclosed:

		September 30, 2020 Consolidated (unaudited)			
		Fair Value			
			Quoted Prices in active market	Significant observable inputs	Significant unobservable inputs
	Carrying Value	Total	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVPL:					
Held-for-trading securities					
Government securities	758	758	758		
Private bonds and commercial papers	224	224	224		
	982	982	982		
Deisgnated at FVPL					
Quoted equity securities	17	17	17	-	-
Unquoted debt securities	-	-	-	-	-
Derivative assets	-	-	-	-	-
Currency forwards and swaps	2	2	2	-	-
	19	19	19	-	-
	1,001	**1,001**	**1,001**	**-**	**-**
AFS investments					
Government securities	27,127	27,127	27,127	-	-
Private bonds and commercial papers	1,635	1,635	1,635	-	-
Unquoted equity securities	-	-	-	-	-
	28,762	**28,762**	**28,762**	**-**	**-**
	29,763	**29,763**	**29,763**	**-**	**-**
Assets for which fair values are disclosed					
Financial assets					
HTM Investments					
Government Securities	9,891	9,399	9,399	-	-
Private bonds and commercial papers	75	74	74	-	-
Loans and receivables					
Corporate lending	136,052	113,181	-	-	113,181
Consumer lending	23,319	21,533	-	-	21,533
Finance lease receivables	730	730	-	-	730
Loans and receivables financed	192	192	-	-	192
Customers' liabilities under acceptances and letters of credit/trust receipts	3,606	3,114	-	-	3,114
Unquoted debt securities	-	-	-	-	-
	173,864	**148,223**	**9,474**	**-**	**138,749**
Nonfinancial assets					
Investment properties	476	715			715
	174,340	**148,913**	**9,474**	**-**	**139,439**
	204,104	**178,676**	**39,237**	**-**	**139,439**
Liabilities for which fair values are disclosed					
Financial Liabilities					
Deposit liabilities					
Time	37,694	36,434	-	-	36,434
LTNCD	-	-	-	-	-
Unsubordinated Debt Securities	4,977	3,502	-	-	3,502
Bonds Payable	6,949	6,478			6,478
Lease liabilities	971	971			971
Bills Payable	2,710	2,959	-	-	2,959
	53,302	**50,345**	**-**	**-**	**50,345**

		December 31, 2020 Consolidated (audited)			
		Fair Value			
			Quoted Prices in active market	Significant observable inputs	Significant unobservable inputs
	Carrying Value	Total	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVPL:					
Held-for-trading securities					
Government securities	465	465	465	-	
Private bonds and commercial papers	380	380	380		
	845	845	845	-	-
Deisgnated at FVPL					
Quoted equity securities	27	27	27		
Unquoted debt securities	-	-		-	-
Derivative assets					
Currency forwards and swaps	13	13	-	13	
	40	**40**	**27**	**13**	**-**
	885	**885**	**872**	**13**	**-**
AFS investments					
Government securities	17,289	17,289	15,428	1,862	
Private bonds and commercial papers	825	825	825	-	
Unquoted equity securities	49.7	49.7	-		49.7
	18,164	**18,164**	**16,252**	**1,862**	**50**
	19,049	**19,049**	**17,124**	**1,875**	**50**
Assets for which fair values are disclosed					
Financial assets					
HTM Investments					
Government Securities	16,480	17,375	15,644	1,731	-
Private bonds and commercial papers	472	490	490	-	-
Loans and receivables					
Corporate lending	143,681	132,504	-	-	132,504
Consumer lending	25,013	29,184	-	-	29,184
Finance lease receivables	856	964	-	-	964
Loans and receivables financed	225	186	-	-	186
Customers' liabilities under acceptances and letters of credit/trust receipts	2,667	2,562	-	-	2,562
Unquoted debt securities	-	-	-	-	-
	189,395	**183,264**	**16,134**	**1,731**	**165,400**
Nonfinancial assets					
Investment properties	440	701	-	-	701
	440	**701**	**-**	**-**	**701**
	189,834	**183,965**	**16,134**	**1,731**	**166,101**
	208,883	**203,014**	**33,258**	**3,605**	**166,151**
Liabilities for which fair values are disclosed					
Financial Liabilities					
Deposit liabilities					
Time	37,325	38,412	-	-	38,412
LTNCD	-	-	-	-	-
Unsubordinated Debt Securities	4,975	5,006	-	-	5,006
Bonds payable	6,932	7,018			7,018
Lease Liabilities	1,169	1,254			1,254
Bills Payable	1,418	1,452	-	-	1,452
	51,818	**53,142**	**-**	**-**	**53,142**

As of September 30, 2020 and 2019, no transfers were made among the three levels in the fair value hierarchy.

Cash and other cash items, due from BSP and other banks, IBLR and SPURA
The carrying amounts approximate fair values considering that these accounts are short term in nature and consist mostly of overnight deposits and floating rate placements.

Debt securities classified as financial assets at FVTPL, investment securities at FVOCI and AC
Fair values are generally based on quoted market prices. When the market prices are not readily available, the Group used adjusted quoted market prices of comparable investments or applied discounted cash flow methodologies.

The fair value of the Parent Company's unquoted debt securities mandatorily measured at FVTPL have been measured based on quotes received from the instruments' issuer. The model and inputs used in the valuation which were developed and determined by the issuer were not made available to the Parent Company. Under such an instance, PFRS 13 no longer requires an entity to create quantitative information to comply with the related disclosure requirements.

Equity securities measured at FVOCI and designated at FVTPL
The Group's investments in equity securities include unquoted stocks. As of December 31, 2019 and 2018, unquoted equity securities pertain primarily to shares acquired only in 2018. Based on management's assessment, the recently transacted purchase price in 2018 approximates the fair value of the shares as of December 31, 2019 and 2018.

Loans and receivables
Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using Philippine BVAL Reference Rates plus estimated credit spread. Where the instrument reprices on a quarterly basis or has a relatively short maturity, the carrying amounts approximate fair values.

Derivative instruments
Fair values are estimated based on accepted market valuation models, quoted market prices or prices provided by independent parties, if available. The most frequently applied valuation techniques include forward pricing and swap model using present value calculations.
Deposit liabilities (demand and savings deposits excluding time deposits and LTNCD)
Carrying amount approximates fair values considering that these are currently due and demandable.

Time deposits, LTNCD, Subordinated debt, Bonds payable and lease liabilities
Fair values of liabilities are estimated using the discounted cash flow methodology using the Philippine BVAL Reference Rates with maturities consistent with those remaining for the liability being valued plus estimated credit spread.

Other financial liabilities
For accrued interest and other expenses and other liabilities, carrying amount approximates fair values due to their short term nature.

Bills payable
Carrying amounts approximate fair values considering that these are short-term payables, except for the bills payable obtained as an incentive from PDIC in which fair value is measured at the present value of future cash flows discounted using the Philippine BVAL Reference Rates with maturities consistent with those remaining for the liability being valued plus estimated credit spread.
Investment properties

The fair value of the investment properties, measured at Level 3, has been determined based on valuations made by accredited external and/or in-house appraisers on the basis of recent sales transactions of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made. They make use of a market data approach which involves correlation and analysis of comparable lots, either recently sold or offered for sale in the market, upon which the market value of subject property is estimated.

The significant unobservable inputs used in the valuation of the Group's investment properties are as follows

Significant Unobservable Inputs	
Price per square meter	the unit price assigned to the property
Size	Size of lot in terms of area. Evaluate if the lot size of property or comparable conforms to the average cut of the lots in the area and estimate the impact of lot size differences on land value.
Location	Location of comparative properties whether on a main road, or secondary road. Road width could also be a consideration if data is available. As a rule, properties located along a main road are superior to properties located along a secondary road.
Shape	Particular form or configuration of the lot. A highly irregular shape limits the usable area whereas an ideal lot configuration maximizes the usable area of the lot which is associated in designing an improvement which conforms to the highest and best use of the property.
Corner influence	Bounded by two (2) road

Operating Segments

The Group's main operating businesses are organized and managed primarily, according to the current organizational structure. Each segment represents a strategic business unit that caters to the Group's identified markets. The Group's business segments are:

a) Commercial Banking - this segment provides lending, trade and cash management services to corporate and institutional customers, which include large corporate, middle market clients and entrepreneurs;

b) Consumer Banking - this segment offers consumer banking services to retail customers. Consumer lending products include real estate loans, salary loans, auto loans and pension loans;

c) Treasury - this segment is responsible for the execution of the Group's strategic treasury objective set forth in the Group's Treasury Operating Plan, which outlines the Group's strategies in terms of proprietary trading, liquidity, risk, capital, tax management, among others. Treasury segment's functions include managing the Group's reserve and liquidity position and maintaining its balance sheet by investing in sovereign and corporate debt instruments, commercial paper and other securities in the Philippines and other emerging markets. The Treasury segment is also responsible for managing the Group's foreign currency exposure, engaging in proprietary trading of currencies and offering foreign exchange instruments to the Group's corporate customers, as well as the Group's investment portfolio, which is managed with a view to maximizing efficiency and return on capital;

d) Branch Banking - this segment offers retail deposit products, including current accounts (interest bearing and non-interest bearing demand deposits), savings accounts and time deposits in pesos and U.S. dollars. Branch banking segment also provides lending to corporate and institutional customers through its own lending centers situated in selected branches; and

e) Others - this segment includes the Group's income from trust activities, remittances and gains on foreclosure.

The President, being the Group's Chief Operating Decision Maker (CODM), monitors the operating results of its business units separately for the purpose of making decisions about resource allocation and performance assessment. Segment assets are those operating assets employed by a segment in its operating activities and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Segment liabilities are those operating liabilities that result from the operating activities of a segment and are either directly attributable to the segment or can be allocated to the segment on a reasonable basis. Interest income is reported net, as management primarily relies on the net interest income as performance measure, not the gross income and expense.

The Group's revenue-producing assets are located in the Philippines (i.e., one geographical location); therefore, geographical segment information is no longer presented. The Group has no significant customers which contribute 10.00% or more of the consolidated revenue, net of interest expense.

The segment results include internal transfer pricing adjustments across business units as deemed appropriate by management. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged / credited to the business units based on a pool rate which approximates the marginal cost of funds.

Segment information of the Group as at and for the three months ended September 30, 2020 follow (Amounts in millions):

	Nine Months Ended September 30, 2020					
	(Unaudited) in millions					
	COMMERCIAL	CONSUMER	TREASURY	BRANCHES	OTHERS	TOTAL
Statement of Income						
Net interest income	3,539	1,274	-54	3,319	22	8,100
Other income	105	382	2,489	279	185	3,439
Total operating income	3,644	1,656	2,434	3,598	207	11,539
Other operating expenses	546	688	396	2,630	133	4,393
Provisions	2,807	239	307	39	1	3,393
Net income for the period	292	728	1,731	929	73	3,752
Statement of Financial Position						
Total Assets	141,417	24,325	118,701	3,446	2,953	290,841
Total Liabilities	925	4,121	14,785	232,747	2,502	255,080
Other Segment Information						
Depreciation and Amortization	10	83	3	328	62	486
Provision for Allowance on Credit and Impairment Losses	2,748	209	0	-	-	2,957

**Includes provision for credit and impairment losses and provision for (benefit from) income tax.*

	Nine Months Ended September 30, 2019					
	(Unaudited) in millions					
	COMMERCIAL	CONSUMER	TREASURY	BRANCHE S	OTHERS	TOTAL
Statement of Income						
Net interest income	1,850	1,215	-52	3,868	28	6,908
Other income	105	429	1,253	364	149	2,299
Total operating income	1,955	1,644	946	4,232	177	8,953
Other operating expenses	449	747	300	2,501	128	4,126
Provisions	595	226	332	138	4	1,296
Net income for the period	910	671	568	1,592	45	3,786
Statement of Financial Position						
Total Assets	133,611	25,478	105,120	3,440	3,588	271,237
Total Liabilities	472	4,691	7,520	224,032	1,708	238,423
Other Segment Information						
Depreciation and Amortization	5	86	3	337	57	487
Provision for Allowance on Credit and Impairment Losses	482	165	45	-	-	693

**Includes provision for credit and impairment losses and provision for (benefit from) income tax.*

Equity

With the approval of the SEC on May 6, 2013, a total of 88,000,000 offer shares consisting of 80,000,000 firm shares and 8,000,000 optional shares pursuant to the over-allotment option were issued and offered by the Parent Company, with 10.00 par value per share through an initial public offering at 95.00 per share from May 7 to 14, 2013. The Parent Company's shares were listed and commenced trading at the PSE on May 17, 2013.

The net proceeds from the IPO amounted to 7.46 billion, net of direct costs related to equity issuance of 0.48 billion.

Retained Earnings

On May 30, 2019, the BOD of the Parent Company approved the declarations of cash dividends amounting to =P873.56 million (or =P1.80 per share) payable on July 11, 2019 and October 16, 2019 to stockholders of record as of July 17, 2019 and September 20, 2019, respectively.

On April 27, 2018, the BOD of the Parent Company approved the declaration of cash dividends amounting to P=776.50 million (P=1.60 per share) to stockholders to be paid in two tranches. The first tranche is as of record date May 15, 2018 with payment date May 31, 2018. The second tranche is as of record date August 3, 2018 with payment date August 10, 2018.

On June 22, 2017 and September 25, 2017, the BOD of the Parent Company approved the declaration of cash dividends amounting to P=485.31 million (P=1.00 per share) and P=242.66 million (P=0.50 per share) to stockholders of record as of July 7, 2017 and October 6, 2017, payable on July 26, 2017 and October 26, 2017, respectively.

On June 24, 2016 and August 26, 2016, the BOD of the Parent Company approved the declarations of cash dividends amounting to P=325.16 million (P=0.67 per share) and P=160.15 million (P=0.33 per share) to stockholders of record as of August 5, 2016 and September 12, 2016, payable on September 1, 2016 and October 6, 2016, respectively.

On May 15, 2015, the BOD of the Parent Company approved the declaration of the 50% stock dividend amounting to P=1.62 billion equivalent to 161,770,178 shares at P=10 par value to stockholders of record as of October 29, 2015 which was fully distributed on November 26, 2015.

Capital Management

The primary objective of the Group's capital management is to ensure that the Parent Company complies with externally imposed capital requirements and that the Group maintains strong credit ratings and healthy capital ratios in order to support its business and to maximize shareholders' value.

The Group manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities and assessments of prospective business requirements or directions. In order to maintain or adjust the capital structure, the Group may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes were made in the objectives, policies and processes from the previous years.

Regulatory Qualifying Capital

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's unimpaired capital (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from PFRS in some respects.

Effective January 1, 2014, the Group complied with BSP issued Circular No. 781, Basel III Implementing Guidelines on Minimum Capital Requirements, which provides the implementing guidelines on the revised risk-based capital adequacy framework particularly on the minimum capital and disclosure requirements for universal banks and commercial banks, as well as their subsidiary banks and quasi-banks, in accordance with the Basel III standards. The Circular sets out a minimum Common Equity Tier 1 (CET1) ratio of 6.00% and Tier 1 capital ratio of 7.50% and also introduced a capital conservation buffer of 2.50% comprised of CET1 capital. The existing requirement for Total Capital Adequacy Ratio (CAR) remains unchanged at 10.00% and these ratios shall be maintained at all time.

On June 27, 2014, the BSP issued Circular No. 839, REST Limit for Real Estate Exposures which provides the implementing guidelines on the prudential REST limit for universal, commercial, and thrift banks on their aggregate real estate exposures. The Group should maintain CET1 and CAR levels at the regulatory prescribed minimums, on a solo and consolidated basis, even after the simulated results of a 25.00% write-off to the Group's real estate exposures. These shall be complied with at all times.

Capital Adequacy Ratio (CAR)
The capital adequacy ratio (CAR) of the Group as at Sept 30, 2020, December 31, 2019, and Sept 30, 2019 based on Basel III are shown in the table below (amounts in millions):

in Php millions	Sept 30, 2020	Dec 31, 2020	Sep 30, 2019
Tier 1 Capital	30,190	28,734	27,905
Total Qualifying Capital	36,895	35,382	34,337
Total Risk Weighted Assets	199,004	196,696	192,422
Capital Ratios			
Total CAR	18.54%	17.99%	17.84%
Tier 1 Ratio	15.17%	14.61%	14.50%

Qualifying capital and risk-weighted assets (RWA) are computed based on BSP regulations.

Under Basel III, the regulatory qualifying capital of the Parent Company consists of CET1 capital, which comprises paid-up common stock, surplus including current year profit, surplus reserves, other comprehensive income (net unrealized gains or losses on AFS securities and cumulative foreign currency translation) and non-controlling interest less required deductions such as unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI), deferred income tax, other intangible assets, defined benefit pension fund assets and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes subordinated debt and general loan loss provision.

Risk-weighted assets are determined by assigning defined risk weights to the balance sheet exposure and to the credit equivalent amounts of off-balance sheet exposures. Certain items are deducted from risk-weighted assets, such as the excess of general loan loss provision over the amount permitted to be included in Tier 2 capital. The risk weights vary from 0.00% to 150.00% depending on the type of exposure, with the risk weights of off-balance sheet exposures being subjected further to credit conversion factors.

The risk-weighted CAR is calculated by dividing the sum of its Tier 1 and Tier 2 capital by its risk-weighted assets, as defined under BSP regulations. The determination of compliance with regulatory requirements and ratios is based on the amount of the Group's and Parent Company's 'unimpaired capital' (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from PFRS in some respects.

As of December 31, 2019 and 2018, the Group and the Parent Company were in compliance with the minimum CAR.

With the issuance of BSP Circular No. 639 covering the Internal Capital Adequacy Assessment Process (ICAAP) in 2009, which supplements the BSP's risk-based capital adequacy framework under Circular No. 538, the Group has adopted and developed its ICAAP framework to ensure that appropriate level and quality of capital are maintained by the Group on an ongoing basis. The level and structure of capital are assessed and determined in light of the Group's business environment, plans, performance, risks and budget, as well as regulatory edicts.

Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying financial statements. The Group does not anticipate material unreserved losses as a result of these transactions.

The Group has several loan-related suits, pending cases and claims arising from the Group's normal course of business. The effects of these, if any, are not reflected in the financial statements. As of Sept. 30, 2020 and December 31,2019, management assessed that estimates of potential financial impact of these contingencies are not yet determinable. Further, in the opinion of management and in consultation with its legal counsel, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

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

In Php Thousands	**September 30, 2020**	**December 31, 2019**
Trust department accounts	25,267,271	23,687,378
Unused commercial letters of credit	2,876,126	1,968,451
Standby letters of credit	2,761,330	2,400,594
Spot Exchange Bought	3,509,639	3,569,701
Forward Exchange Sold	1,824,064	2,663,904
Outstanding guarantees issued	2,503,348	916,292
Inward bills for collection	308,884	204,753
Late deposits/payment received	910	2,616
Spot Exchange Sold	3,680,047	3,998,363
Outward bills for collection	4,046	21,261
Forward Exchange Bought	367,854	1,135,148
Others	684	794
Total	**43,104,203**	**40,569,253**

Others include items held for safekeeping and items held as collateral.

Earnings per Share

	EARNING PER SHARE		
	September 30, 2020 (unaudited)	**December 31, 2019 (audited)**	**September 30, 2019 (unaudited)**
a. Net income attributable to equity holders of the Parent Company	**3,753,172,246**	**4,446,771,658**	**3,776,037,567**
b. Net income attributable to minority interest	**-868,170**	**-5,951,511**	**9,501,334**
c. Total weighted average number of outstanding common*	**485,310,538**	**485,310,538**	**485,310,538**
d. Basic EPS (*Annualized Net Income/average no. of outstanding common shares)	**10.31**	**9.16**	**10.37**
** The calculation of the weighted average number of outstanding common shares considered the retroactive effect of stock dividend in 2015 (see Note 23)*			
Net Income attributable to Parent	3,753,172,246	4,446,771,658	3,776,037,567
Average Net Income	5,004,229,661	4,446,771,658	5,034,716,756

* *The calculation of the weighted average number of outstanding common shares considered the retroactive effect of stock dividend in 2015 (see Note 23)*

Material Contingencies

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements including several suits and claims which remain unsettled. No specific disclosures on such unsettled assets and claims are made because any such specific disclosures would prejudice the Group's position with the other parties with whom it is in dispute. Such exemption from disclosures is allowed under PAS 37, *Provisions, Contingent Liabilities and Contingent Assets.* The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect on the financial statements.

Related Party Transactions

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

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

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

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

Financial Condition and Results of Operations

The tables in Exhibit A and B present the Group's consolidated Statements of Condition as of September 30, 2020 (Unaudited), December 31, 2019 (Audited) and September 30, 2019 (Unaudited) and, Statements of Income for the three-month periods ended September 30, 2020 and September 30, 2019 and the changes thereto as of and for the periods then ended.

Analysis of Changes in Financial Condition as of September 30, 2020(Unaudited) vs. December 31, 2019 (Audited) – Exhibit A

The Group's total assets increased by 9% from P266.0 billion as of December 31, 2019 to P290.8 billion as of September 30, 2020.

Cash and other cash items decreased by 12% from P4.1 billion as of December 31, 2019 to P3.6 billion as of September 30, 2020 due to lower cash requirements compared to year-end demand.

Due from Banko Sentral ng Pilipinas increased by 49% from P39.1 billion as of December 31, 2019 to P58.1 billion as of September 30, 2020. Interbank loans receivable and securities purchased under resale agreements rose by 288% from P3.5 billion as of December 31, 2019 to P13.7 billion as of September 30, 2020 driven by growth in deposits.

Due from other banks decreased by 9% from P3.7 billion as of December 31, 2019 to P3.3 billion as of September 30, 2020 caused by lower level of working balances with corresponding banks.

Financial Assets at Fair Value through Profit or Loss increased by 13% from P885.0 million as of December 31, 2019 to P1.0 billion as of September 30, 2020 in line with the Group's trading strategy. Financial Assets at Fair Value through Other Comprehensive Income increased by 59% from P18.2 billion as of December 31, 2019 to P28.8 billion as of September 30, 2020 due to significant holdings of cash-like securities.

Investment Securities at Amortized Cost alsodecreased41% from P17.0 billion as of December 31, 2019 to P10.0 billion as of September 30, 2020 as the Bank manages its credit risk exposure as consistent with the portfolio's business model.

Loans and Receivables decreased 4%, from P172.5 billion as of December 31, 2019 to P165.4 billion as of September 30, 2020. This is due to slowdown of lending activities during the pandemic.

Property and equipment decreased 17% from P2.1 billion as of December 31, 2019 to P1.7 billion as of September 30, 2020 mainly due to higher accumulated depreciation of Rights of Use Assets.

Deferred tax assets increased 521% from P71.3 million as of December 31, 2019 to P442.4 million as of September 30, 2020 mostly from tax timing differences based on existing accounting treatment.

Other assets decreased by 55% from P531.2 million as of December 31, 2019 to P238.2 million mainly due to decreased sundry debits and prepaid expenses.

Total liabilities increased by 10% from P232.8 billion as of December 31, 2019 to 255.1 billion as of September 30, 2020.

Total deposits increased by 10% from P210.2 billion as of December 31, 2019 to P232.0 billion as of September 30, 2020 mainly coming from P31.3 billion increase in Demand Deposits.

Bills payable decreased by 16% from P3.2 billion as of December 31, 2019 to P2.7 billion as of September 30, 2020 as funding sources from deposits improved.

Income tax payable increased 152% from P21.2 million as of December 31, 2019 to P53.4 million as of September 30, 2020 due to higher taxable income.

Accrued Taxes, interest and other expenses, on the other hand, decreased by 10% from P1.5 billion as of December 31, 2019 to P1.4 billion as of September 30, 2020 mostly from decrease in accrued interest and other expenses payables.

Other liabilities increased 26% from P5.2 billion as of December 31, 2019 to P6.6 billion as of September 30, 2020 mostly due to increase in accounts payable and dividends payable as the bank declared P2.0 per share cash dividend last June 30, 2020.

Total Equity increased 8% from P33.2 billion as of December 31, 2019 to P35.8 billion as of September 30, 2020.

The 14% increase in Surplus excluding Surplus reserves from P20.1 billion as of December 31, 2019 to P22.9 billion as of September 30, 2020 mainly came from the net income for the period.

Net unrealized loss on FVOCI increased 14% from P170.7 million gain as of December 31, 2019 to a P0.9 million loss September 30, 2020 driven by bond market conditions both globally and locally.

Analysis of Changes in Financial Condition as of September 30, 2020 (Unaudited) vs. September 30, 2019 (Unaudited) – Exhibit A

The Group's total assets increased by 7% from P271.2 billion as of September 30, 2019 to P290.8 billion as of September 30, 2020.

Cash and other cash items increased 8% from P3.3 billion as of September 30, 2019 to P3.6 billion as of September 30, 2020 driven by demand on cash operational requirements.

Amounts due from the BSP increased by 26% from P46.0 billion as of September 30, 2019 to P58.1 billion as of September 30, 2020. Interbank loans receivable and securities purchased under resale agreements increased by 701% from P1.7 billion as of September 30, 2019 to P13.7 billion as of September 30, 2020 sustained by growth in deposits.

Due from other banks increased 42% from P2.3 billion as of September 30, 2019 to P3.3 billion as of September 30, 2020 in line with the increase in placements with corresponding banks.

Financial assets at fair value through profit or loss decreased by 57% from P2.3 billion as of September 30, 2019 to P1.0 billion as of September 30, 2020. Financial Assets at Fair Value through Other Comprehensive Income decreased by 10% from P31.9 billion as of September 30, 2019 to P28.8 billion as of September 30, 2020; Investments Securities at Amortized Cost decreased by 42% from P17.2 billion as of September 30, 2019 to P10.0 billion as of September 30, 2020 arising from the disposal of various securities consistent with its business models.

Loans and receivables increased by 4% from P158.6 billion as of September 30, 2019 to P165.4 billion as of September 30, 2020. Propelling the growth were commercial loans and other loan segments such as housing, auto, and salary loans.

Property and Equipment decreased 13% from P2.0 billion as of September 30, 2019 to P1.7 billion as of September 30, 2020. The decrease is mainly due to higher accumulated depreciation of rights of use assets and furniture, fixtures and equipment.

Deferred tax assets increased 315% from P106.7 million as of September 30, 2019 to P442.4 million as of September 30, 2020 from timing difference based on existing accounting standards.

Other assets decreased 82% from P1.3 billion as of September 30, 2019 to P238.2 billion as of September 30, 2020 due to 1-day clearing difference..

Total liabilities increased by 7% from P238.4 billion as of September 30, 2019 to P255.1 billion as of September 30, 2020.

In particular, total deposits increased by 4% from P222.9 billion as of September 30, 2019 to P232.0 billion as of September 30, 2020. Most of it came from demand deposits which increased by 47%, from P86.9 billion in September 30, 2019 to P128.0 billion in September 30, 2020.

As of September 30, 2020, Bills payable decreased by 23% from P3.5 billion as of September 30, 2019 to P2.7 billion as funding sources from deposits improved.

Bonds Payable came from the P6.9 billion bond issued last November 7, 2019 to be used for general corporate purposes.

Other Liabilities increased 33% from P5.0 billion as of September 30, 2019 to P6.6 billion as of September 30, 2020 due mainly to higher accounts payable.

Total Equity increased 9% from P32.8 billion as of September 30, 2019 to P35.8 billion as of September 30, 2020.

The bank’s surplus, excluding surplus reserves, increased by 16% from P20.0 billion as of September 30, 2019 to P22.9 billion as of September 30, 2020 coming from retained earnings.

The net unrealized loss on FVTOCI increased 47% from P189.7 million gain as of September 30, 2019 to P0.9 million loss as of September 30, 2020 due to market volatility driven by the impact of COVID-19.

Analysis of Results of Operations for the Nine-month period Ended September 30, 2020(Unaudited) vs. September 30, 2019 (Unaudited) – Exhibit B

Interest Income

Gross interest income had a flattish growth from P10.4 billion for the period ended September 30, 2019 to P10.5 billion as of September 30, 2020. This was mainly due to decrease in interest income from Loans and Receivables was offset by increase in interest income from Deposit with banks and others.

In particular, interest income from Loans and receivables decreased slightly by 2% to P8.6 billion for period ended September 30, 2020 from P8.8 billion for period ended September 30, 2019 despite 4% increase in volume due to decreasing interest rates.

Interest income from Trading and investment securities flattish at P1.3 billion for the period ended September 30, 2020 vs. a year ago. Interest income from Interbank loans receivable and securities purchased under resale agreements increased by 32% from P97.8 million for period ended September 30, 2019 to P129.2 million for period ended September 30, 2020; Interest income from Deposits with banks and others increased by 146% from P140.6 million for period ended September 30, 2019 to P345.1 million for period ended September 30, 2020 due to increase in volume of securities purchased under resale agreements.

Interest Expense

Total interest expense decreased by 33%, from P3.5 billion for the period ended September 30, 2019 to P2.4 billion for the period ended September 30, 2020. This is primarily due to the decrease in interest expense from deposit liabilities from P3.1 billion for the period ended September 30, 2019 to P1.7 billion for the period ended September 30, 2020, mainly coming from retirement of high-cost time deposits and increase in low-cost deposits.

Bills payable and other borrowings increased 42% from P453.3 million for the period ended September 30, 2019 to P644.6 million for the period ended September 30, 2020 relating to bonds issued last November 2019.

Net Interest Income

The decrease in interest expense more than compensates to the flattish growth of interest income, resulting in a 17% increase in net interest income from P6.9 billion for the period ended September 30, 2019 to P8.1 billion in the same period this year. This translated to a net interest margin ratio of 4.3%, the same level a year ago.

Other Operating Income

AUB's other operating income increased by 50% from P2.3 billion for the period ended September 30, 2019 to P3.4 billion for the period ended September 30, 2020.

In particular, Trading and securities gain increased 109% from P1.1billion gain for the period ended September 30, 2019 to P2.4 billion for the period ended September 30, 2020 attributable to proper execution of the Group's strategy to maximize market opportunities. Foreign exchange gain decreased by 18% from P147.9million a year ago to P120.6 million for the period ended September 30, 2020 mainly due to fluctuations in the currency market.

Service charges, fees and commissions decreased 16% from P645.2 million for period ended September 30, 2019 to P542.7 million for period ended September 30, 2020 due to lower fee income from remittance, credit card and other branch transactions brought about by the pandemic.

Trust income increased 33% from P50.0 million for period ended September 30, 2019 to P66.6 million for period ended September 30, 2020 due to higher trust volume.

The group's total operating expenses including provision for losses increased by 53% from P4.8 billion for period ended September 30, 2019 to P7.4 billion for period ended September 30, 2020. This is mainly due to the 327% increase in provision for credit and impairment losses as the bank considered the effect of the pandemic.

Without provision for losses, other operational expenses increased by a total of 6%, from increase in compensation and fringe benefits.

Provision for (Benefit from) Income Tax

AUB recorded a provision for income tax of P436.1 million for the period ended September 30, 2020 which was 28% lower than the provision of P602.6 million recorded for the period ended September 30, 2019. This decrease was due to the lower tax paid income for the period ended September 30, 2020 versus a year ago.

Net Income

To summarize, the Group posted a net income of P3.8 billion as of September 30, 2020, flattish to year ago levels. The 25% increase in its operating income was offset by the P2.3 billion additional provision for losses.

This result translated to a Return on Assets of 1.8% and Return on Equity of 14.6% versus year-ago ratios of 2.0% and 16.7%, respectively.

Analysis of Results of Operations for the Three-month period Ended September 30, 2020(Unaudited) vs. September 30, 2019 (Unaudited) – Exhibit B

Interest Income

Gross interest income decreased to P3.4 billion for the quarter ended September 30, 2020 from P3.7 billion in the same quarter a year ago. This is mainly due to decrease in interest income from Loans and Receivables and Trading and Investment Securities.

In particular, interest income from Loans and receivables decreased by 7% from P3.0 billion for quarter ended September 30, 2019 to P2.8 billion for quarter ended September 30, 2020 due to slow down in lending activity during the pandemic.

Interest income from Trading and investment securities decreased 23% from P458.5 million for the quarter ended September 30, 2019 to P355.0 million for the quarter ended September 30, 2020 primarily due to lower volume of investment securities.

Interest income from Interbank loans receivable and securities purchased under resale agreements increased by 59% from P41.3 million for quarter ended September 30, 2019 to P65.7 million for quarter ended September 30, 2020 Interest income from Deposits with banks and others increased by 19% from P113.4 million for quarter ended September 30, 2019 to P134.5 million for quarter ended September 30, 2020 led by higher level of short term deposits in BSP.

Interest Expense

Total interest expense decreased by 46%, from P1.2 billion for the quarter ended September 30, 2019 to P653.8 million for the quarter ended September 30, 2020. This is primarily due to the decrease in interest expense from deposit liabilities from P1.0 billion for the quarter ended September 30, 2019 to P439.4 million for the quarter ended September 30, 2020, mainly coming from retirement of high-cost time deposits and increase in low-cost deposits.

Bills payable and other borrowings decreased 3% from P220.9 million for the quarter ended September 30, 2019 to P214.4 million for the quarter ended September 30, 2020 ---due to less volume on BSP rediscounting.

Net Interest Income

Net interest income increased by 11% from P2.5 billion for the quarter ended September 30, 2019 to P2.7 billion in the same quarter this year due mainly to decrease in interest expense.

Other Operating Income

AUB's other operating income increased by 126% from P767.2 million for the quarter ended September 30, 2019 to P1.7 billion for the quarter ended September 30, 2020.

In particular, Trading and securities gain increased 308% from P317.3 million gain for the quarter ended September 30, 2019 to P1.3 billion for the quarter ended September 30, 2020; Foreign exchange gain increased by 23% from P47.1 million a year ago to P57.7 million for the quarter ended September 30, 2020 increased trading frequency turn over and overall bond market improvement.

Service charges, fees, and commissions decreased 27% from P259.8 million for the quarter ended September 30, 2019 to 190.4 million for quarter ended September 30, 2020 due to lower fee-based transactions during the pandemic.

Trust income increased 10% from P20.7 million for quarter ended September 30, 2019 to P22.7 million for quarter ended September 30, 2020 due to higher trust volume.

Miscellaneous income increased 38% from P122.2 million for quarter ended September 30, 2019 to P168.6 million for quarter ended September 30, 2020 from higher recovery income and other miscellaneous income.

The group’s total operating expenses including provision for losses increased by 65% from P1.8 billion for quarter ended September 30, 2019 from P3.0 billion for quarter ended September 30, 2020. The increase is mainly due to the 288% increase in provision for credit and impairment losses as the bank factored in the effect of the pandemic.

Minus the provision for credit and impairment losses, operational expenses increased only by 8% mostly coming from increase in Rent, Compensation and fringe benefits and taxes and licenses.

Provision for (Benefit from) Income Tax

AUB recorded a provision for income tax of P9.3 million for the quarter ended September 30, 2020 which was 95% lower than the provision of P181.8 million recorded for the quarter ended September 30, 2019. This decrease was due to the lower tax paid income for quarter ended September 30, 2020 versus a year ago.

Net Income

To summarize, the Group posted a net income of P1.5 billion for the third quarter of 2020, 19% higher than the same quarter a year ago. The 39% increase in its operating income offset the 288% increase in its provision for losses.

Key Performance Indicators

The table below presents the Group’s key performance indicators for the periods indicated.

	September 30, 2020	**September 30, 2019**
	(Unaudited)	**(Unaudited)**
Return on average asset ratio	1.78%	2.01%
Return on average equity	14.59%	16.74%
Net interest margin (NIM)	4.28%	4.34%
Cost-to-income ratio	38.07%	44.81%
Asset growth vs year ago	7.23%	17.79%

Notes:

(1) Return on average net income divided by average total assets for the periods indicated. Average total assets are based on balances at the beginning and end of the period divided by two.

(2) Net income divided by average total equity for the periods indicated. Average total equity is based on balances at the beginning and end of the period divided by two.

(3) Net interest income divided by average interest-earning assets (excluding the Demand Deposit Account). Interest-earning assets includes due from BSP, due from other banks, interbank loans, receivables and securities purchased under resale agreement ("SPURA"), trading and investment securities, loans and receivables. Average interest-earning assets are equivalent to the total interest-earning assets at the beginning and end of the period divided by two.

(4) Total operating expenses less provision for credit and impairment losses and divided by total operating income for the periods indicated.

(5) Total assets at end of current period less total assets at end of previous period balance divided by balance at end of previous period.

C. *Key Variables and Other Qualitative and Quantitative Factors*

Liquidity

As indicated in Note 4 of the Audited Financial Statements, it is the Group's primary objective to ensure payment of maturing financial obligations and commitments as these fall due and be able to fund contingency requirements as well when these arise. To limit this risk, management has arranged diversified funding sources in addition to its core deposit base, manages assets with liquidity in mind, and monitors future cash flows and liquidity on a daily basis. This incorporates an assessment of expected cash flows and the availability of high grade collateral which could be used to secure additional funding if required.

The ALCO shall continue to ensure that at all times, the Group maintains adequate liquidity, has sufficient capital and appropriate funding. The balance between cost and liquidity as well as any issues among business lines are resolved by the ALCO.

The Treasury Group uses liquidity forecast models that estimate the Parent Company's cash flow needs based on the observed behavior of the deposits under normal circumstances and extraordinary circumstances. The plans and strategies in the liquidity risk management are contained on the Board-approved Treasury Operational and Contingency Funding Plan. The RMU prepares a Maximum Cumulative Outflow (MCO) report, which quantifies the Parent Company's liquidity mismatch risk monthly. Liquidity is monitored by the Group on a daily basis and further analyzed at predetermined scenarios/situations.

Events that will Trigger Direct or Contingent Financial Obligation

AUB does not expect any event that will trigger a direct or contingent financial obligation, including any default or acceleration of an obligation, that will have a material effect on the Group's financial statements,

Material Off-Balance Sheet Transactions, Arrangements and Obligations

Please refer to Note G of the Group's Interim Financial Statements.

Material Commitment for Capital Expenditures

In 2020, AUB shall fund its commitments for capital expenditures related to branch expansion, Information Technology infrastructure, and other purposes from cash flows out of operations

Known Trends, Events or Uncertainties

AUB is not aware of 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 or revenues or income from continuing operations should be described.

Significant Elements of Income or Loss

Significant elements of the Group's net income for the three-month period ended Sept. 30, 2020 and Sept. 30,2019 came from its continuing operations.

Causes for Any Material Changes from Period to Period of Financial Statements

The causes for any material changes from period to period of interim financial statements have been provided in the Interim Analysis of Changes in Financial Condition and Analysis of Results of Operations of this report.

Seasonal Aspects

In terms of seasonality, AUB's results have historically been stronger during the annual year-end holiday season and the school enrollment season in the Philippines, which are in the fourth and second quarter of the calendar year, respectively.

Changes in Accounting Policies and Disclosures

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the following amended standards, which became effective beginning January 1, 2019. Unless otherwise indicated, adoption of these amended standards did not have material impact to the Group.

New and Amended Standards
- Amendments to PFRS 9, Financial Instruments - Prepayment Features with Negative Compensation
- Amendments to PAS 28, Investments in Associates and Joint Ventures - Long-term Interests in Associates and Joint Ventures
- Amendments to PAS 19, Employee Benefits - Plan Amendment, Curtailment or Settlement

Annual Improvements to PFRSs (2015-2017 Cycle)
- PFRS 3, Business Combinations and PFRS 11, Joint Arrangements - Previously held interest in a joint operation
- PAS 12, Income Taxes - Income tax consequence of payments on financial instruments classified as equity
- PAS 23, Borrowing Costs - Borrowing costs eligible for capitalization

Standard that has been adopted and that is deemed to have an impact on the financial statements or performance of the Group is described below:

PFRS 16, Leases
PFRS 16 supersedes PAS 17 Leases, Philippine Interpretation IFRIC 4, Determining Whether an Arrangement Contains a Lease, SIC-15, Operating Leases - Incentives, and SIC-27, Evaluating the Substance of Transactions Involving the Legal Form of a Lease. This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model.

Lessor accounting under PFRS 16 is substantially unchanged under PAS 17. Lessors will continue to classify leases as either operating leases using similar principles as in PAS 17. Therefore, PFRS 16 did not have an impact for leases where the Group is the lessor.

The Group has lease contracts for various office spaces used as branch offices and parking lots. Prior to the adoption of PFRS 16, the Group classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of IFRS 16, the Group applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. Refer to page 30 for the accounting policy beginning January 1, 2019.

The Group adopted PFRS 16 using the modified retrospective method approach and applied certain transition reliefs with the date of initial application on January 1, 2019. The Group elected to use the practical expedient allowing the standard to be applied only to contracts that were previously identified as leases applying the old standards at the date of initial application. The

Group also elected to use the recognition exemptions for lease contracts that have lease term of 12 months or less and do not contain a purchase option ('short-term leases'), and for which the underlying assets are of low value ('low-value assets').

Lease liabilities were recognized based on the present value of the remaining lease payments, discounted using the incremental borrowing rate (IBR) at the date of initial application. The right of use (ROU) assets were recognized based on the amount equal to the lease liabilities, adjusted for any related prepaid and accrued lease payments previously recognized.
The Group has also applied the following practical expedients, apart from those already mentioned above, as permitted by the standard, wherein it:

- Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- Excluded the initial direct costs from the measurement of the ROU asset at the date of initial application

As of January 1, 2019, the effect of adopting PFRS 16 is an increase (decrease) in the following accounts in the Group's and the Parent Company's statement of financial position:

	Consolidated	Parent Company
Assets		
Right of use asset under 'Property and equipment'	₱1,028,023	₱992,389
Prepaid rent under 'Other assets'	(14,868)	(14,868)
	₱1,013,155	₱977,521
Liabilities		
Lease liabilities	₱1,060,495	₱1,024,861
Accrued taxes, interest, and other expenses	(47,340)	(47,340)
	₱1,013,155	₱977,521

A reconciliation of the opening lease liabilities recognized at January 1, 2019 and the total operating lease commitments determined under PAS 17 as at December 31, 2018 is shown below.

	Consolidated	Parent Company
Operating lease commitments, December 31, 2018 (PAS 17)	₱1,497,885	₱1,445,377
Short-term and low value assets recognition exemption	(80,107)	(70,075)
Operating lease liabilities before discounting	1,417,778	1,375,302
Discount using incremental borrowing rates	(357,283)	(350,441)
Weighted average incremental borrowing rate as at January 1, 2019	7.51% to 7.74%	7.51%
Lease liabilities, January 1, 2019	₱1,060,495	₱1,024,861

The adoption of PFRS 16 did not have an impact on equity as at January 1, 2019, since the Group elected to measure the ROU assets at an amount equal to the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognized in the statement of condition immediately before the date of initial application.

Philippine Interpretation IFRIC 23, Uncertainty over Income Tax Treatment

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12, Income Taxes. It does not apply to taxes or levies outside the scope of PAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The Interpretation specifically addresses the following:

- the assumptions the Group makes about the examination of tax treatments by taxation authorities;
- how the Group determines taxable income (tax loss), tax bases, unused tax losses, unused tax credits and tax rates; and
- how the Group considers changes in facts and circumstances

The Group determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty. The Group assumes that the taxation authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the Group concludes that it is not probable that the taxation authority will accept an uncertain tax treatment, the Group shall reflect the effect of the uncertainty for each uncertain tax treatment using the method the Group expects to better predict the resolution of the uncertainty.

Upon adoption of the Interpretation, the Group has assessed whether it has any uncertain tax position and applies significant judgment in identifying uncertainties over its income tax treatments.

Since the Group operates in a complex and regulated environment, it assessed whether the Interpretation had an impact on its financial statements. Based on its assessment, the Group determined that it is probable that its income tax treatments (including those for the subsidiaries) will be accepted by the taxation authorities. Accordingly, the Interpretation did not have an impact on the Group and Parent Company’s financial statements.

PART II - OTHER INFORMATION

Item 1. Financial Highlights and Indicators

During the third quarter of 2020, there were 2 new branches which were opened and two were merged as the total branches of the group still remain at 272 which include 1 microbanking office.

For details, please refer to the table below.

	September 30,2020	December 31, 2019	September 30, 2019
Branches*			
Parent Bank	230	226	228
Subsidiary Banks	41	41	41
Total Group	**272**	**266**	**269**
	**includes 1 micro-banking office from Cavite United Rural Bank.*	**includes 1 micro-banking office from Cavite United Rural Bank.*	**includes 1 micro-banking office from Cavite United Rural Bank.*
Branches by location			
MM	123	122	122
Provincial	149	144	146
Total Group	**272**	**266**	**268**
% in MM	45.22	45.86	45.52
ATMs (Parent only)			
Onsite	172	170	170
Offsite	38	38	42
Total	**210**	**208**	**212**
Headcount			
Parent Bank	2,091	2,177	2,146
Subsidiary Banks	605	614	605
Total Group	**2,696**	**2,791**	**2,751**
Headcount per branch			
Parent Bank	9.09	9.6	9.41
Total Group	9.91	10.5	10.26

Item 2. Financial Highlights and Indicators

The table below presents the Group's financial highlights and indicators for the periods indicated.

	September 30, 2020 (unaudited)	December 31, 2019 (audited)	September 30, 2019 (unaudited)
Liquidity (%)			
Liquid to Total Assets Ratio	40.70%	26.10%	38.60%
Loans (net) to Deposits Ratio	71.30%	82.10%	71.20%
Solvency (%)			
Debt-to-Equity Ratio	656.30%	702.20%	690.00%
Asset-to-Equity Ratio	813.30%	802.20%	826.60%
Interest Rate Coverage Ratio	278.00%	220.60%	224.40%
Profitability (%)			
Return on Assets	1.80%	1.80%	2.00%
Return on Equity	14.60%	14.20%	16.70%
Net Interest Margin	4.30%	4.40%	4.30%
Cost-to-Income Ratio	38.10%	46.10%	44.80%
Asset Quality (%)			
Non-performing Loans Ratio2	2.21%	0.96%	1.00%
Non-performing Loans Coverage Ratio	96.30%	115.90%	109.30%
Capital Adequacy (%)			
Total regulatory capital expressed as percentage of total risk-weighted assets	18.54%	17.99%	17.84%
Total CET 1 expressed as percentage of total risk-weighted assets	15.17%	14.61%	14.50%
Total Tier 1 expressed as percentage of total risk-weighted assets	15.17%	14.61%	14.50%

Notes:
(1)Total Deposits + Bills Payable over Total Equity.
(2) *Non-performing Loans net of Specific Allowance divided by Total Gross Loans.*

Item 3. Aging of Loans and Other Receivables

PSE Requirement per Circular No. 2164-99
As of September 30, 2020
in Php Thousands

Up to 12 months	100,430,897	59.30%
Over 1 year to 3 years	41,542,805	24.50%
Over 3 years to 5 years	15,401,880	9.10%
Over 5 years	12,058,282	7.10%
Loans Receivables (gross)	169,433,864	100.00%
Less:		
Allowance for credit losses	3,987,472	
Loans Receivables (Net)	**165,446,392**	

Item 4. Use of IPO Proceeds

Background

AUB's shares were listed and commenced trading at the Philippine Stock Exchange (PSE) on May 17, 2013. The bank initially planned to use the IPO to further solidify the Bank's capital adequacy and financial strength and more importantly, allow AUB to pursue its strategic growth initiatives. During the meeting of the Board of Directors of AUB held on June 27, 2014, the Board approved revisions to the original utilization plan of the IPO. Upon approval, the bank informed its shareholders, SEC, and PSE of the approved revisions.

Update

The table below shows that based on the revised use, AUB has fully utilized the IPO proceeds as of September 30, 2014.

In Philippine pesos	**Original Use of IPO Proceeds**	**Revised Use of IPO Proceeds**	**Cumulative as of September 30, 2014**
Branch Expansion[1]	890,000,000	360,000,000	360,000,000
General Corporate Purposes[3]	5,077,484,420	6,956,124,439	6,956,124,439
Information Technology Infrastructure[4]	578,640,019	120,000,000	120,000,000
Payment of Branch Licenses	890,000.00	0.00	0.00
TOTAL	**7,436,124,439**	**7,436,124,439**	**7,436,124,439**

[1] *Pertains to capital expenditures for the construction and purchase of furniture, fixtures, and equipment of branches to be opened.*
[2] *Adjustment in use of proceeds for branch expansion to agree with the amount per Board-approved revision.*
[3] *Used for growing AUB's interest-earning asset-base, specifically through the extension of more commercial and consumer loans as well as the purchase of investment securities and others.*
[4] *IT projects / structure will be applied toward the enhancement of AUB's technical hardware and software.*

There were no payments for branch licenses for the years ended December 31, 2015 and 2014 as the bank used its existing branch licenses, including those obtained from its acquisitions of Cooperative Bank of Cavite Inc. and Asiatrust Development Bank. The Bank opened 81 new branches from the time of its IPO in May 2013 up to September 30, 2014.

Item 5. Board Resolutions

All material information and transactions of AUB had been made under SEC 17-C.

SIGNATURES

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

Issuer: ASIA UNITED BANK

By:

____

Manuel A. Gomez
President

____

Soleded O. Reyes
Senior Vice President/ Chief Financial Officer
Head of Financial Controllers Group

November 16, 2020

ASIA UNITED BANK CORPORATION

INDEX TO EXHIBITS

ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (1 of 2)
AS OF SEPTEMBER 30, 2020

in Php Mio	September 30, 2020	December 31, 2019	September 30, 2019	September 30, 2020 vs. December 31, 2019		September 30, 2020 vs September 30, 2019	
	(Unaudited)	(Audited)	(Unaudited)	+/-	%	+/-	%
ASSETS							
Cash and Other Cash Items	3,556.2	4,050.1	3,290.9	(493.9)	-12%	265.3	8%
Due from Bangko Sentral ng Pilipinas	58,122.9	39,089.5	45,994.8	19,033.4	49%	12,128.1	26%
Due from Other Banks	3,317.7	3,662.4	2,331.6	(344.7)	-9%	986.2	42%
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	13,734.0	3,541.2	1,714.0	10,192.7	288%	12,019.9	701%
Financial Assets at Fair Value Through Profit or Loss (FVTPL)	1,000.9	885.0	2,330.6	115.9	13%	(1,329.7)	-57%
Financial Assets at Fair Value through Other Comprehensive Income (FVTOCI)	28,810.0	18,163.6	31,939.0	10,646.4	59%	(3,129.0)	-10%
Investment Securities at Amortized Cost	9,966.2	16,951.5	17,205.8	(6,985.4)	-41%	(7,239.6)	-42%
Loans and Receivables	165,446.4	172,539.3	158,604.8	(7,092.9)	-4%	6,841.6	4%
Property and Equipment	1,742.7	2,104.3	2,012.5	(361.6)	-17%	(269.8)	-13%
Investment Properties	475.9	439.6	453.7	36.4	8%	22.2	5%
Deferred Tax Assets	442.4	71.3	106.7	371.1	521%	335.7	315%
Goodwill	1,961.4	1,961.4	1,961.4	-	0%	-	0%
Intangible Assets	2,026.0	2,003.7	1,958.8	22.3	1%	67.1	3%
Other Assets	238.2	531.2	1,332.5	(293.0)	-55%	(1,094.3)	-82%
	0.0	0.0	0.0	-		-	
TOTAL ASSETS	**290,840.9**	**265,994.2**	**271,237.1**	**24,846.7**	**9%**	**19,603.8**	**7%**

ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (2 of 2)
AS OF SEPTEMBER 30, 2020

in Php Mio	September 30, 2020 (Unaudited)	December 31, 2019 (Audited)	September 30, 2019 (Unaudited)	September 30, 2020 vs. December 31, 2019		September 30, 2020 vs September 30, 2019	
				+/-	%	+/-	%
LIABILITIES AND EQUITY							
Liabilities							
Deposit Liabilities							
Demand	128,021.3	96,699.9	86,911.9	31,321.4	32%	41,109.4	47%
Savings	66,289.5	76,201.2	83,031.3	(9,911.7)	-13%	(16,741.8)	-20%
Time	37,693.8	37,324.8	52,930.7	369.0	1%	(15,236.9)	-29%
	232,004.6	**210,225.9**	**222,873.9**	**21,778.7**	**10%**	**9,130.7**	**4%**
Bills Payable	2,710.4	3,208.0	3,537.9	(497.5)	-16%	(827.5)	-23%
Manager's Checks	393.7	717.3	587.9	(323.6)	-45%	(194.2)	-33%
Income Tax Payable	53.4	21.2	21.9	32.2	152%	31.5	144%
Accrued Taxes, Interest and Other Expenses	1,358.8	1,507.6	1,451.6	(148.8)	-10%	(92.8)	-6%
Subordinated Debt	4,977.5	4,974.7	4,976.2	2.8	0%	1.2	0%
BONDS PAYABLE	6,949.5	6,932.4	**0.0**	17.0	0%	6,949.5	#DIV/0!
Other Liabilities	6,632.1	5,248.0	4,973.8	1,384.1	26%	1,658.3	33%
Total Liabilities	**255,080.0**	**232,835.1**	**238,423.2**	**22,245.0**	**10%**	**16,656.8**	**7%**
Equity							
Equity Attributable to Equity Holders of the Parent Company							
Capital stock	4,853.1	4,853.1	4,853.1	-	0%	-	0%
Additional paid-in capital	6,622.8	6,622.8	6,622.8	-	0%	-	0%
Surplus reserves	1,202.2	1,202.2	1,034.3	-	0%	167.8	16%
Surplus	22,889.3	20,106.7	19,858.4	2,782.6	14%	3,030.9	15%
Net unrealized gain (loss) on FVTOCI	-0.9	170.7	189.7	(171.6)	-101%	(190.6)	-100%
Cumulative translation adjustment	51.5	59.8	96.2	(8.3)	-14%	(44.7)	-46%
	35,617.9	**33,015.3**	**32,654.5**	2,602.6	8%	2,963.4	9%
Non-controlling Interest	143.0	143.8	159.3	(0.9)	-1%	(16.4)	-10%
Total Equity	**35,760.9**	**33,159.1**	**32,813.8**	**2,601.8**	**8%**	**2,947.0**	**9%**
TOTAL LIABILITIES AND EQUITY	**290,840.9**	**265,994.2**	**271,237.1**	**24,846.7**	**9%**	**19,603.8**	**7%**

ASIA UNITED BANK CORPORATION
EXHIBIT B - COMPARATIVE STATEMENTS OF INCOME (1 of 2)
AS OF SEPTEMBER 30, 2020

in Php Mio	Nine-month Period Ended		Three-month Period Ended		Nine-month Period September 30, 2020 vs September 30, 2019		Three-month Period September 30, 2020 vs September 30, 2019	
	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)	+/-	%	+/-	%
INTEREST INCOME								
Loans and receivables	8,638.7	8,811.5	2,807.5	3,032.3	-172.8	-2%	-224.8	-7%
Trading and investment securities	1,268.9	1,322.7	355.0	458.5	-53.8	-4%	-103.6	-23%
Interbank loans receivable and securities purchased under resale agreements	129.2	97.8	65.7	41.3	31.4	32%	24.4	59%
Deposit with banks and others	345.1	140.6	134.5	113.4	204.6	146%	21.1	19%
Others	71.0	64.1	24.3	21.9	6.9	11%	2.3	11%
	10,452.9	**10,436.6**	**3,386.9**	**3,667.4**	**16.3**	**0%**	**-280.5**	**-8%**
INTEREST EXPENSE								
Deposit liabilities	1,708.7	3,074.8	439.4	989.5	-1,366.1	-44%	-550.1	-56%
Bills payable and other borrowings	644.6	453.3	214.4	220.9	191.3	42%	-6.5	-3%
	2,353.3	**3,528.1**	**653.8**	**1,210.4**	**-1,174.8**	**-33%**	**-556.6**	**-46%**
NET INTEREST INCOME	**8,099.6**	**6,908.4**	**2,733.1**	**2,457.0**	**1,191.1**	**17%**	**276.1**	**11%**
Trading and securities gain - net	2,408.2	1,149.5	1,294.7	317.3	1,258.6	109%	977.4	308%
Service charges, fees and commissions	542.7	645.2	190.4	259.8	-102.6	-16%	-69.5	-27%
Foreign exchange gain (loss) - net	120.6	147.9	57.7	47.1	-27.3	-18%	10.6	23%
Trust income	66.6	50.0	22.7	20.7	16.5	33%	2.0	10%
Miscellaneous	301.0	306.3	168.6	122.2	-5.4	-2%	46.4	38%
OTHER OPERATING INCOME	**3,439.0**	**2,299.1**	**1,734.1**	**767.2**	**1,139.9**	**50%**	**967.0**	**126%**
TOTAL OPERATING INCOME	**11,538.5**	**9,207.5**	**4,467.3**	**3,224.2**	**2,331.0**	**25%**	**1,243.1**	**39%**

ASIA UNITED BANK CORPORATION
EXHIBIT B - COMPARATIVE STATEMENTS OF INCOME (2 of 2)
AS OF SEPTEMBER 30, 2020

in Php Mio	Nine-month Period Ended		Three-month Period Ended		Nine-month Period September 30, 2020 vs September 30, 2019		Three-month Period September 30, 2020 vs September 30, 2019	
	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)	September 30, 2020 (Unaudited)	September 30, 2019 (Unaudited)	+/-	%	+/-	%
Compensation and fringe benefits	1,484.5	1,268.7	508.4	460.4	215.9	17%	48.0	10%
Provision for credit and impairment losses	2,957.1	693.1	1,447.2	373.2	2,264.0	327%	1,074.0	288%
Depreciation and amortization	485.9	486.6	161.4	299.7	-0.7	0%	-138.3	-46%
Taxes and licenses	832.2	772.5	330.6	287.0	59.7	8%	43.6	15%
Rent	58.2	87.2	16.5	-122.7	-29.0	-33%	139.3	-113%
Insurance	423.9	371.4	145.1	128.2	52.5	14%	16.9	13%
Security, messengerial and janitorial	110.8	109.6	41.4	38.2	1.3	1%	3.2	8%
Freight expenses	51.3	50.8	18.6	17.8	0.5	1%	0.8	5%
Transportation and travel	100.9	85.1	40.1	27.7	15.9	19%	12.4	45%
Power, light and water	43.7	52.7	15.3	17.6	-9.1	-17%	-2.3	-13%
Postage, telephone, cables and telegrams	104.9	92.0	37.5	31.5	12.9	14%	6.0	19%
Management and other professional fees	17.8	21.5	5.9	8.9	-3.8	-18%	-3.1	-34%
Repairs and maintenance	87.7	79.1	28.6	31.0	8.6	11%	-2.4	-8%
Amortization of intangibles	39.2	32.2	13.1	10.9	7.0	22%	2.2	20%
Miscellaneous	552.0	616.8	192.7	210.4	-64.8	-11%	-17.6	-8%
TOTAL OPERATING EXPENSES	**7,350.1**	**4,819.3**	**3,002.3**	**1,819.6**	**2,530.8**	**53%**	**1,182.7**	**65%**
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES	**4,188.4**	**4,388.2**	**1,464.9**	**1,404.6**	**-199.7**	**-5%**	**60.3**	**4%**
Share in Net Income of Subsidiaries								
INCOME BEFORE INCOME TAX	**4,188.4**	**4,388.2**	**1,464.9**	**1,404.6**	**-199.7**	**-5%**	**60.3**	**4%**
PROVISION FOR (BENEFIT FROM) INCOME TAX	436.1	602.6	9.3	181.8	-166.5	-28%	-172.5	-95%
NET INCOME	**3,752.3**	**3,785.5**	**1,455.6**	**1,222.8**	**-33.2**	**-1%**	**232.8**	**19%**