108142018003524

SECURITIES AND EXCHANGE COMMISSION

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Company Information

SEC Registration No.	A199718963
Company Name	ASIA UNITED BANK CORP.
Industry Classification	
Company Type	Stock Corporation

Document Information

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S.E.C. Registration Number

A S I A U N I T E D B A N K
C O R P O R A T I O N

(Company's Full Name)

J O Y - N O S T A L G , N O . 1 7 A D B
A V E N U E , O R T I G A S C E N T E R
P A S I G C I T Y

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

KRISTEL D. GUTO **Officer – Corporate Planning and Investor Relations**	**(632) 631-3333 /** **(632) 638-6888**
Contact Person	Company Telephone Number

1 2	3 1	**SEC Form 17-Q**	**4TH Friday of June**
Month	*Day*	FORM TYPE	*Month* *Day*
Fiscal Year			Annual Meeting

Secondary License Type, If Applicable

M	S	R	D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

114 As of 06/30/2018		
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

STAMPS

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): **June 30, 2018**

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

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 June 30, 2018 (Unaudited), December 31, 2017 (Audited), and June 30, 2017 (Unaudited);
- Statements of income for the quarter ended June 30, 2018 (Unaudited), December 31, 2017 (Audited), and June 30, 2017 (Unaudited);
- Statements of comprehensive income for the three-month period ended June 30, 2018 and June 30, 2017
- Statements of changes in equity for the three-month period ended June 30, 2017 and June 30, 2016; and:
- Statements of cash flows for the three-month period ended June 30, 2018 (Unaudited), and June 30, 2017 (Unaudited),.

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

(in PhP Thousands)	**June 30, 2018** **(Unaudited)**	**December 31, 2017** **(Audited)**	**June 30, 2017** **(Unaudited)**
ASSETS			
Cash and Other Cash Items	3,178,045	4,323,324	3,787,468
Due from Bangko Sentral ng Pilipinas	27,035,952	26,562,142	33,589,099
Due from Other Banks	2,206,562	1,290,303	1,393,110
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	1,591,105	3,535,666	4,994,849
Financial Assets at Fair Value Through Profit or Loss	4,838,234	8,037,444	5,079,045
Financial Assets at Fair Value through Other Comprehensive Income	16,038,947	18,724,238	7,268,345
Investment Securities at Amortized Cost	13,149,743	0	18,559,590
Loans and Receivables	135,188,654	131,069,648	107,457,618
Property and Equipment	1,120,363	1,205,168	1,325,812
Investment Properties	462,077	510,392	558,306
Deferred Tax Assets	230,334	279,930	221,437
Goodwill	2,074,171	2,074,171	2,104,493
Intangible Assets	1,978,377	1,986,730	1,987,804
Other Assets	368,087	336,379	598,920
TOTAL ASSETS	**209,460,649**	**199,935,534**	**188,925,895**

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

(in PhP Thousands)	June 30, 2018 (Unaudited)	December 31, 2017 (Audited)	June 30, 2017 (Unaudited)
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand	82,812,380	73,835,472	65,734,623
Savings	46,937,005	49,577,076	44,668,345
Time	38,392,296	35,073,437	39,960,566
Long Term Negotiable Certificates of Deposits	900,000	900,000	900,000
	169,041,680	**159,385,985**	**151,263,534**
Bills Payable	3,261,674	3,851,103	2,992,832
Subordinated Debt	4,968,122	4,968,122	4,964,820
Manager's Checks	459,504	629,229	440,010
Income Tax Payable	124,789	49,178	21,863
Accrued Taxes, Interest and Other Expenses	1,162,648	1,009,037	717,492
Derivative Liabilities	19,179	0	22,825
Deferred Tax Liabilities	3,319	1,366	1,175
Other Liabilities	3,504,546	3,202,339	3,252,923
Total Liabilities	**182,545,461**	**173,096,358**	**163,677,474**
Equity			
Equity Attributable to Equity Holders of the Parent Company			
Capital stock	4,853,105	4,853,105	4,853,105
Additional paid-in capital	6,622,819	6,622,819	6,622,819
Surplus reserves	54,322	54,322	52,196
Surplus	16,089,801	15,407,164	14,618,022
Net unrealized gain (loss) on available-for-sale investments	(1,012,812)	(376,239)	(1,194,300)
Cumulative translation adjustment	111,806	94,233	113,913
	26,719,041	**26,655,403**	**25,065,757**
Non-controlling Interest	196,147	183,773	182,664
Total Equity	**26,915,188**	**26,839,176**	**25,248,421**
TOTAL LIABILITIES AND EQUITY	**209,460,649**	**199,935,534**	**188,925,895**

See accompanying Notes to Interim Consolidated Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

	Six-Month Period Ended		Quarter Ended	
	June 30, 2018	June 30, 2017	June 30, 2018	June 30, 2017
	(Unaudited)	(Unaudited)	(Unaudited)	(Unaudited)
INTEREST INCOME				
Loans and receivables	4,083,276	3,150,499	2,122,168	1,634,529
Trading and investment securities	580,472	594,718	315,533	328,095
Interbank loans receivable and securities purchased under resale agreements	29,250	21,984	14,533	11,931
Deposit with banks and others	22,894	210,528	14,962	89,353
Others	38,099	34,409	19,292	16,524
	4,753,991	**4,012,137**	**2,486,488**	**2,080,431**
INTEREST EXPENSE				
Deposit liabilities	982,822	635,215	502,796	349,206
Bills payable and other borrowings	213,656	208,778	107,843	104,597
	1,196,479	**843,992**	**610,639**	**453,803**
NET INTEREST INCOME	**3,557,512**	**3,168,145**	**1,875,850**	**1,626,627**
Trading and securities gain - net	146,425	157,637	3,427	91,395
Service charges, fees and commissions	407,272	333,318	180,373	178,841
Foreign exchange gain (loss) - net	83,037	17,620	55,449	8,756
Trust income	23,044	25,589	11,439	12,580
Miscellaneous	249,941	210,633	155,374	100,088
OTHER OPERATING INCOME	**909,718**	**744,797**	**406,061**	**391,660**
	0	**0**		
TOTAL OPERATING INCOME	**4,467,230**	**3,912,942**	**2,281,911**	**2,018,288**
Compensation and fringe benefits	733,591	674,035	375,755	343,350
Provision for credit and impairment losses	264,036	272,217	164,978	166,357
Depreciation and amortization	207,539	271,290	98,853	131,349
Taxes and licenses	294,578	226,872	138,364	107,879
Rent	198,159	174,245	100,349	87,203
Insurance	189,673	158,828	98,216	82,988
Security, messengerial and janitorial	64,563	61,179	33,178	31,091
Freight expenses	54,267	50,529	27,646	24,748
Transportation and travel	58,431	60,401	32,290	26,785
Power, light and water	33,550	29,682	18,334	15,780
Postage, telephone, cables and telegrams	49,040	40,696	24,662	20,082
Management and other professional fees	54,417	11,817	24,869	5,888
Repairs and maintenance	40,439	36,748	21,543	19,815
Amortization of intangibles	20,068	17,555	10,395	9,039
Miscellaneous	266,263	199,748	135,076	104,572
TOTAL OPERATING EXPENSES	**2,528,614**	**2,285,841**	**1,304,510**	**1,176,928**
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES	**1,938,616**	**1,627,101**	**977,401**	**841,360**
Share in Net Income of Subsidiaries	**-**	**-**	**-**	**-**
INCOME BEFORE INCOME TAX	**1,938,616**	**1,627,101**	**977,401**	**841,360**
PROVISION FOR (BENEFIT FROM) INCOME TAX	369,439	291,209	205,935	163,059
NET INCOME	**1,569,177**	**1,335,892**	**771,467**	**678,301**

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

in PhP Thousands	Six-Month Period Ended		Quarter Ended	
	June 30, 2018	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**
NET INCOME	**1,569,177**	**1,335,892**	**771,467**	**677,457**
			-	-
OTHER COMPREHENSIVE INCOME			-	-
Changes in net unrealized gain (loss) on available-for-sale investments (Note 7)	**(636,573)**	**137,478**	**(711,211)**	**54,408**
Cumulative translation adjustments	17,573	5,292	11,041	4,307
Other comprehensive loss not to be reclassified in profit or loss in subsequent periods			-	-
Loss on remeasurement of retirement obligation-net of income tax (Note 24)			-	-
	(618,999)	142,770	(700,170)	58,715
TOTAL COMPREHENSIVE INCOME	950,178	1,478,662	71,297	736,172
Attributable to:				
Equity holders of the Parent Company	937,804	1,459,402	68,479	726,006
Minority interest	12,374	19,260	2,818	10,166
	950,178	1,478,662	71,297	736,172

See accompanying Notes to Interim Consolidated Financial Statements.

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

		Capital Stock	Additional Paid in Capital	Surplus Reserve	Surplus	Measurement of Retirement obligation	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on available for Sale Investments	*Total*	Non-Controlling Interest	Total Equity
Balance at December 31, 2017 (audited, as previously reported)	₱	4,853,105	6,622,819	54,322	15,407,164	0	94,233	(376,239)	26,655,403	183,773	26,839,176
Issuance of Common Stock		-	-						-		-
Net income for the period					1,556,803				1,556,803	12,347	1,569,177
Other comprehensive income (loss) for the period					-	0	17,573	(636,573)	(618,999)	-	(618,999)
Total comprehensive income		-	-	-	1,556,803	-	17,573	(636,573)	937,804	12,347	950,178
PFRS 9 transition					(97,669)				(97,669)		(97,669)
Dividends Distribution					(776,497)				(776,497)		(776,497)
Balance at June 30, 2018	**₱**	**4,853,105**	**6,622,819**	**54,322**	**16,089,801**	**-**	**111,806**	**(1,102,812)**	**26,719,041**	**196,147**	**26,915,188**
Balance at December 31, 2016 (audited, as previously reported)	₱	4,853,105	6,622,819	52,196	13,301,391	0	108,621	(1,331,777)	23,606,355	163,404	23,769,759
Net income for the period					1,316,632				1,316,632	19,260	1,335,892
Other comprehensive income (loss) for the period					-	0	5,292	137,478	142,770		142,770
Total comprehensive income		-	-	-	1,316,632	-	5,292	137,478	1,459,402	19,260	1,478,662
Balance at June 30, 2017	**₱**	**4,853,105**	**6,622,819**	**52,196**	**14,618,022**	**-**	**113,913**	**(1,194,300)**	**2,065,757**	**201,925**	**25,248,421**

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

	Consolidated	
NET CHANGE	**Year Ended June 30, 2018 (Unaudited)**	**Year Ended June 30, 2017 (Unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	1,938,616	1,627,101
Adjustments for:		
Depreciation and Amortization	207,539	271,290
Impairment Losses	361,706	272,217
Loss on re-measurement of retirement obligation	-	-
Change in Operating Assets and Liabilities		
Increase in Financial Assets at FVTPL	3,199,210	(4,419,663)
Increase in Loans and Receivable	(4,375,676)	(9,668,363)
Increase in Other Resources	26,240	(156,357)
Increase in Deposit Liabilities	9,657,648	21,559,522
Increase in Accrued expenses and other liabilities	380,884	437,791
Cash Generated from (used in) Operations	11,396,166	9,923,537
Cash Paid for Income Taxes	(564,778)	(291,209)
Net Cash from (Used In) Operating Activities	**10,831,389**	**9,632,328**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Acquisition of Financial Assets at FVTOCI	2,048,719	(5,039,506)
Net Acquisition of Investment securities at amortized cost	(13,149,743)	(3,509,783)
Proceeds from sale (Acquisition) of investment properties	32,052	91,300
Net Acquisition of Bank Premises, FFE	(113,837)	(10,039)
Net Cash from (Used In) Investing Activities	**(11,182,808)**	**(8,468,028)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payment) of Bills Payable	(589,429)	(51,435)
Payment of cash dividends to shareholders	(776,497)	-
Net Cash from (Used In) Financing Activities	**(1,365,926)**	**(51,435)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	17,573	5,292

ASIA UNITED BANK CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS (2 of 2)

NET INCREASE IN CASH AND CASH EQUIVALENTS	**(1,699,772)**	**1,118,157**
Cash beginning of the period		
Cash and Other Cash Items	4,323,324	4,123,074
Due from BSP	26,562,142	32,854,963
Due from Banks	1,290,303	1,037,497
Interbank Loans & SPURA	3,535,666	4,630,834
	35,711,435	**42,646,367**
Cash at the end of the period		
Cash and Other Cash Items	42,646,367	3,787,468
Due from BSP	27,035,952	33,589,099
Due from Banks	2,206,562	1,393,110
Interbank Loans & SPURA	1,591,105	4,994,849
	34,011,663	**43,764,525**

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 228 and 216 domestic branches as at December 31, 2017 and 2016, 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

Basis of Preparation

The accompanying consolidated financial statements include the consolidated financial statements of the Parent Company and its subsidiaries (collectively referred to as "the Group") as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017, and of the Parent Company as at December 31, 2017 and 2016 and for each of the three years in the period ended December 31, 2017.

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), available-for-sale (AFS) investments and derivative financial instruments that are measured at fair value.

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.

The financial statements are presented in Philippine peso. All values are rounded to the nearest thousands in peso except when otherwise indicated.

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 presents its 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.

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if there is a currently enforceable legal right to set off the recognized amounts and there is intention to settle on a net basis, or to realize the asset and settle the liability simultaneously. 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.

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 statement 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, even if this results in the non-controlling interest having a deficit balance. 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

Non-controlling Interests

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.

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, 2018. Unless otherwise indicated, adoption of these amended standards did not have material impact to the Group.

- Amendments to PFRS 12, *Disclosure of Interests in Other Entities*, *Clarification of the Scope of the Standard* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
- Amendments to PAS 12, *Income Taxes*, *Recognition of Deferred Tax Assets for Unrealized Losses*
- Amendments to PAS 7, *Statement of Cash Flows*, *Disclosure Initiative*

  The amendments require entities to provide disclosure of changes in their liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes (such as foreign exchange gains or losses).

  The Group has provided the required information in Note 33 to the financial statements. As allowed under the transition provisions of the standard, the Group did not present comparative information for the year ended December 31, 2016.

Significant Accounting Policies

Foreign Currency Translation
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
As at the reporting date, the assets and liabilities of the FCDU are translated to the Parent Company's presentation currency (the Philippine peso) at the PDS closing rate prevailing at the statement of condition date, and its income and expenses are translated at 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 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.

<u>Financial Instruments - Initial Recognition and Subsequent Measurement</u>

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.

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.

'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.

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.

Other financial liabilities
Issued financial instruments or their components, which are not designated at FVPL, are classified as liabilities under 'Deposit liabilities,' 'Bills payable', 'Subordinated debt' or other appropriate financial liability accounts, where the substance of the contractual arrangement results in the Group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash.

After initial measurement, other financial liabilities are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any discount or premium on the issue and fees that are an integral part of the EIR.

<u>Derecognition of Financial Assets and Liabilities</u>
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.

<u>Repurchase and Reverse Repurchase Agreements</u>
Securities sold under agreements to repurchase 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.

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
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.

Financial assets carried at amortized cost

For financial assets 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 asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses 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.

<u>Financial Guarantees</u>

In the ordinary course of business, the Group gives financial guarantees consisting of letters of credit, letters of guarantees, and acceptances. Financial guarantees are initially recognized in the financial statements at fair value. Subsequent to initial recognition, the Group's liabilities under such guarantees are measured at the higher of the initial fair value less, when appropriate, cumulative amortization over the term of the guarantee, and the best estimate of the expenditure required tosettle any financial obligation arising as a result of the guarantee.

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 investments
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 year, the fair value of a debt instrument increased 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.

<u>Residual Value of Leased Assets and Deposits on Finance Leases</u>
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.

<u>Revenue Recognition</u>
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. The Group assesses its revenue arrangements against specific criteria in order to determine if it is acting as principal or agent. The Group has assessed that it is acting as principal in all of its revenue-related arrangements. The following specific recognition criteria must also be met before revenue is recognized:

Interest Income
For all financial instruments measured at amortized cost (i.e. Loans and receivables and HTM investments) and interest bearing financial instruments classified as AFS investments, 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.

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 FVPL and gains and losses from disposal of AFS investments. Cost of investment securities sold is determined using the specific identification method.

Fees and commissions
The Group earns fee and commission income from a diverse range of services it provides to its customers. 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 collectability. 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 and penalties
Service charges and penalties are recognized when the services are rendered and only upon collection or accrued where there is reasonable certainty as to its collectability.

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'.

Income from sale of properties
Income from sale of properties (i.e. property and equipment, investment properties and chattels) is recognized upon completion of earnings process (i.e. the risks and rewards on the property is transferred to the buyer) and the collectability of the sales price is reasonably assured.

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

Other income

Income from the sale of services is recognized upon completion of services. Recovery on charged-off asset is recognized upon collection of previously written-off accounts.

<u>Expense Recognition</u>

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 arises in the normal business operations. These expenses are recognized when incurred.

<u>Property and Equipment</u>

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.

<u>Investment Properties</u>

Investment properties are measured initially at cost, including transaction costs. An investment property acquired through an exchange transaction is measured at 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 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.

<u>Other Assets - Chattels</u>
Other assets – chattel acquired through an exchange transaction is measured at 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.

<u>Investments in subsidiaries</u>
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.

<u>Goodwill</u>
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.

<u>Intangibles</u>
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 costs are amortized over five years on a straight-line basis. Costs associated with maintaining the computer software programs are recognized as expense 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, goodwill, branch licenses and software costs

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.

Leases

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.

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 expense 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.

<u>Provisions</u>
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.

<u>Contingent Liabilities and Contingent Assets</u>
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 expense 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 amount 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 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 carry forward 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 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 '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. Financial information of business segments is presented in Note 6.

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, 2018

- Amendments to PFRS 2, *Share-based Payment*, *Classification and Measurement of Share-based Payment Transactions*

  The amendments to PFRS 2 address three main areas: the effects of vesting conditions on the measurement of a cash-settled share-based payment transaction; the classification of a share-based payment transaction with net settlement features for withholding tax obligations; and the accounting where a modification to the terms and conditions of a share-based payment transaction changes its classification from cash settled to equity settled.

  On adoption, entities are required to apply the amendments without restating prior periods, but retrospective application is permitted if elected for all three amendments and if other criteria are met. Early application of the amendments is permitted.

- PFRS 9, *Financial Instruments*

  PFRS 9 replaces PAS 39, *Financial Instruments: Recognition and Measurement* and is effective for annual periods beginning on or after January 1, 2018. Early application is permitted if an entity applies all the requirements of the standard as well as applicable BSP regulations.

  PFRS 9 is required to be applied on a retrospective basis, with certain exceptions. As permitted, the Group will apply the modified retrospective approach, where the prior period comparative consolidated financial statements are not restated when the Group adopts the requirements of the new standard.

  (a) Classification and measurement

  In the period of initial application, the requirements of PFRS 9 on the classification and measurement of financial assets will have an impact on the Group's financial statements. The 2018 opening balances of surplus and other comprehensive income in the Group's statement of financial position are expected to change as a result of applying PFRS 9's requirements on classification and measurement of financial assets. This change will result from reclassifications of financial assets depending on the Group's and the Parent Company's application of its business models and its assessment of the financial assets' cash flow characteristics.

(b) Impairment

The new impairment guidance sets out an expected credit loss (ECL) model applicable to all debt instrument financial assets classified as amortized cost and FVOCI. In addition, the ECL model applies to loan commitments and financial guarantees that are not measured at FVPL.

The application of ECL will significantly change the Group's credit loss methodology and models. The amount of impairment depends on whether there have been significant increases in the credit risk of the Group's financial assets since initial recognition and on the Group's evaluation of factors relevant to the measurement of expected credit losses such as a range of possible outcomes and information about past events, current conditions and forecasts of future economic conditions.

(c) Hedge accounting

Hedge accounting under PFRS 9 is not applicable to the Group since it is not engaged into hedging activities.

The Group is currently completing the assessment of the impact of PFRS 9.

- Amendments to PFRS 4, *Insurance Contracts*, *Applying PFRS 9, Financial Instruments, with PFRS 4*

  The amendments address concerns arising from implementing PFRS 9, the new financial instruments standard before implementing the new insurance contracts standard. The amendments introduce two options for entities issuing insurance contracts: a temporary exemption from applying PFRS 9 and an overlay approach. The temporary exemption is first applied for reporting periods beginning on or after January 1, 2018. An entity may elect the overlay approach when it first applies PFRS 9 and apply that approach retrospectively to financial assets designated on transition to PFRS 9. The entity restates comparative information reflecting the overlay approach if, and only if, the entity restates comparative information when applying PFRS 9.

  The amendments are not applicable to the Group since none of the entities within the Group have activities that are predominantly connected with insurance or issue insurance contracts.

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 establishes a new five-step model that will apply to revenue arising from contracts with customers. Under PFRS 15, revenue is recognized at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in PFRS 15 provide a more structured approach to measuring and recognizing revenue.

  The new revenue standard is applicable to all entities and will supersede all current revenue recognition requirements under PFRSs. Either a full retrospective application or a modified retrospective application is required for annual periods beginning on or after January 1, 2018. Early adoption is permitted. The Group plans to adopt the new standard on the required effective date using the modified retrospective approach.

  Based on its initial assessment, the requirements of PFRS 15 on identification of performance obligations, particularly on the Group's credit card transactions may have an impact on the Group's consolidated financial position, performance and disclosures.

In addition, as the presentation and disclosure requirements in PFRS 15 are more detailed than under current PFRSs, the Group is currently assessing what necessary changes it needs to make on its current systems, internal controls, policies and procedures to enable the Group to collect and disclose the required information.

- Amendments to PAS 28, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)

  The amendments clarify that an entity that is a venture capital organization, or other qualifying entity, may elect, at initial recognition on an investment-by-investment basis, to measure its investments in associates and joint ventures at fair value through profit or loss. They also clarify that if an entity that is not itself an investment entity has an interest in an associate or joint venture that is an investment entity, the entity may, when applying the equity method, elect to retain the fair value measurement applied by that investment entity associate or joint venture to the investment entity associate's or joint venture's interests in subsidiaries. This election is made separately for each investment entity associate or joint venture, at the later of the date on which
  (a) the investment entity associate or joint venture is initially recognized; (b) the associate or joint venture becomes an investment entity; and (c) the investment entity associate or joint venture first becomes a parent.

  The amendments should be applied retrospectively, with earlier application permitted.

- Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

  The amendments clarify when an entity should transfer property, including property under construction or development into, or out of investment property. The amendments state that a change in use occurs when the property meets, or ceases to meet, the definition of investment property and there is evidence of the change in use. A mere change in management's intentions for the use of a property does not provide evidence of a change in use. The amendments should be applied prospectively to changes in use that occur on or after the beginning of the annual reporting period in which the entity first applies the amendments. Retrospective application is only permitted if this is possible without the use of hindsight.

- Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

  The interpretation clarifies that, in determining the spot exchange rate to use on initial recognition of the related asset, expense or income (or part of it) on the derecognition of a non-monetary asset or non-monetary liability relating to advance consideration, the date of the transaction is the date on which an entity initially recognizes the nonmonetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, then the entity must determine a date of the transactions for each payment or receipt of advance consideration. Entities may apply the amendments on a fully retrospective basis. Alternatively, an entity may apply the interpretation prospectively to all assets, expenses and income in its scope that are initially recognized on or after the beginning of the reporting period in which the entity first applies the interpretation or the beginning of a prior reporting period presented as comparative information in the financial statements of the reporting period in which the entity first applies the interpretation.

Effective beginning on or after January 1, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*

  The amendments to PFRS 9 allow debt instruments with negative compensation prepayment features to be measured at amortized cost or fair value through other comprehensive income. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019. Earlier application is permitted.

- PFRS 16, *Leases*

  PFRS 16 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 similar to the accounting for finance leases under PAS 17, *Leases*. The standard includes two recognition exemptions for lessees – leases of 'low-value' assets (e.g., personal computers) and short-term leases (i.e., leases with a lease term of 12 months or less). At the commencement date of a lease, a lessee will recognize a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of- use asset). Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

  Lessees will be also required to remeasure the lease liability upon the occurrence of certain events (e.g., a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset.

  Lessor accounting under PFRS 16 is substantially unchanged from today's accounting under PAS 17. Lessors will continue to classify all leases using the same classification principle as in PAS 17 and distinguish between two types of leases: operating and finance leases.

  PFRS 16 also requires lessees and lessors to make more extensive disclosures than under PAS 17.

  Early application is permitted, but not before an entity applies PFRS 15. A lessee can choose to apply the standard using either a full retrospective or a modified retrospective approach. The standard's transition provisions permit certain reliefs.

  The Group is currently assessing the impact of adopting PFRS 16.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*

  The amendments to PAS 28 clarify that entities should account for long-term interests in an associate or joint venture to which the equity method is not applied using PFRS 9. An entity shall apply these amendments for annual reporting periods beginning on or after January 1, 2019.
  Earlier application is permitted.

- Philippine Interpretation IFRIC-23, *Uncertainty over Income Tax Treatments*

  The interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of PAS 12 and 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:

- Whether an entity considers uncertain tax treatments separately
- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

An entity must determine whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments. The approach that better predicts the resolution of the uncertainty should be followed.

The Group is currently assessing the impact of adopting this interpretation.

Deferred effectivity

- Amendments to PFRS 10 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, *Business Combinations*. 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.

Judgments

(a) Embedded derivatives

Where a hybrid instrument is not classified as financial assets at FVPL, the Group evaluates whether the embedded derivative should be bifurcated and accounted for separately. This includes assessing whether the embedded derivative has a close economic relationship to the host contract.

The Group has certain derivatives that are embedded in host financial contracts which consist of call and put options and equity conversion features. In determining whether the embedded derivative has close economic relationship to the host contract, the Group considers if the amortized cost is approximately equal to the exercise price of the call and put option on exercise date or the exercise price of a prepayment option reimburses the Group for an amount up to the approximate present value of lost interest for the remaining term of the host investment, and thus are considered as closely related to its host contract. For convertible debt instrument, as the value of the equity conversion feature changes in response to equity price rather than interest rate, the Group considers that the equity conversion feature to be not closely related to the host debt instrument. Refer to Note 8 for the details of the Group's embedded derivatives.

(b) 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

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.

(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) Contingencies

The Group is currently involved in 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).

(e) Impairment of AFS debt instruments

The Group determines that AFS debt investments are impaired when there has been a decline in the fair value of the instrument and when there are indications of impairment which are objectively related to events such as: (a) occurrence of default of the issuer in its interest and principal payments; (b) significant financial difficulty of the issuer; (c) downgrade of the issuer's credit rating; and (d) other factors within the industry of the issuer of the debt instruments.

The carrying values of AFS debt investments and related allowance for impairment losses of the Group and Parent Company are disclosed in Note 8.

(f) HTM Investments

The classification under HTM investments requires significant judgment of management in evaluating whether the Group has the positive intention and ability to hold these investments until maturity. In making this judgment, the Group considers factors such as the intention to sell the investments in response to changes in market risks, liquidity needs or yield of alternative investments, availability of the financial resources to continue financing the investment until maturity, or existing legal or other constraints that could frustrate its intention to hold the financial asset to maturity.

The carrying amounts of HTM investments are disclosed in Note 8.

Estimates

(a) Credit losses of 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 receivable tagged as past due and in litigation including accounts with objective evidences 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.

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 policy on determining collective allowance for each group of loans is discussed in Note 4.

The carrying values of the loans and receivables and related allowance for credit losses of the Group and Parent Company are disclosed in Notes 9 and 1.

(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 judgment and is based on management's assumptions.

For purposes of impairment testing, the Group measures the recoverable amounts of the Parent Company's subsidiaries and branch banking group, 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.

(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, 2017 and 2016.

The amounts of recognized and unrecognized deferred tax assets of the Group are disclosed in Note 28.

(d) Fair values of free standing and embedded derivatives

The fair values of free standing and embedded 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 is 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.

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:

June 30, 2018 Consolidated (unaudited)

			Fair Value		
	Carrying Value	Total	Quoted Prices in active market (Level 1)	Significant observable inputs (Level 2)	significant unobservable inputs (Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVPL:					
Held-for-trading securities					
Government securities	4,662	4,662	4,662		
Private bonds and commercial papers	75	75	75		
	4,737	4,737	4,737		
Deisgnated at FVPL					
Quoted equity securities	28	28	28	-	-
Derivative assets	-	-	-	-	-
Freestanding derivatives	1	1	1	-	-
Currency forwards and swaps	15	15	15	-	-
ROP warrants	58	58	-	-	58
	101	**101**	**43**	**-**	**58**
	4,838	**4,838**	**4,780**	**-**	**58**
AFS investments					
Government securities	14,709	14,709	14,709	-	-
Private bonds and commercial papers	1,279	1,279	1,279	-	-
Quoted equity securities	0.4	0	0.4	-	-
	15,988	**15,988**	**15,988**	**-**	**-**
	20,826	**20,826**	**20,769**	**-**	**58**
Assets for which fair values are disclosed					
Financial assets					
HTM Investments					
Government Securities	13,150	11,783	11,783	-	-
Private bonds and commercial papers	-	-	-	-	-
Loans and receivables					
Corporate lending	108,062	78,473	-	-	78,473
Consumer lending	20,072	17,665	-	-	17,665
Finance lease receivables	459	459	-	-	459
Loans and receivables financed	205	205	-	-	205
Customers' liabilities under acceptances and letters of credit/trust receipts	3,608	3,580	-	-	3,580
Unquoted debt securities	818	765	533	-	231
	146,374	**112,929**	**12,316**	**-**	**100,613**
Nonfinancial assets					
Investment properties	462	634			634
	146,836	**113,563**	**12,316**	**-**	**101,247**
	167,662	**134,390**	**33,084**	**-**	**101,305**
Liabilities measured at fair value					
Financial liabilities					
Derivative liabilities					

Freestanding derivatives					
Currency forwards and swaps	19	19	19	-	-
Embedded derivatives	-	-	-	-	-
	19	**19**	**19**	**-**	**-**
Liabilities for which fair values are disclosed					
Financial Liabilities					
Other liabilities					
Deposit liabilities					
Time	38,392	35,797	-	-	35,797
LTNCD	900	820	-	-	820
Unsubordinated Debt Securities	4,968	2,720	-	-	2,720
Bills Payable -PDIC	893	646	-	-	646
	45,154	**39,983**	**-**	**-**	**39,983**
	45,173	**40,003**	**19**	**-**	**39,983**

December 31, 2017 Consolidated (audited)

			Fair Value		
	Carrying Value	**Total**	**Quoted Prices in active market (Level 1)**	**Significant observable inputs (Level 2)**	**significant unobservable inputs (Level 3)**
Assets measured at fair value					
Financial assets					
Financial assets at FVPL:					
Held-for-trading securities					
Government securities	7,572	7,572	7,328	244	
Private bonds and commercial papers	375	375	375		-
	7,947	**7,947**	**7,703**	**244**	
Deisgnated at FVPL					
Quoted equity securities	27	27	27		
Derivative assets					
Freestanding derivatives					
Currency forwards and swaps	9	9	-	9	
ROP warrants	54	54	-	-	54
	90	**90**	**27**	**9**	**54**
	8,037	**8,037**	**7,731**	**253**	**54**
AFS investments					
Government securities	15,467	15,467	13,055	2,412	-
Private bonds and commercial papers	3,245	3,245	3,245	-	
Quoted equity securities	0.4	0.4	0.4		
	18,713	**18,713**	**16,301**	**2,412**	**-**
	26,750	**26,750**	**24,032**	**2,664**	**54**
Assets for which fair values are disclosed					
Financial assets					
Loans and receivables					
Corporate lending	106,289	82,032	-	-	82,032
Consumer lending	18,043	16,553	-	-	16,553
Finance lease receivables	677	607	-	-	607
Loans and receivables financed	208	224	-	-	224
Customers' liabilities under acceptances and letters of credit/trust receipts	3,332	3,315	-	-	3,315
Unquoted debt securities	785	731	-	-	731

	129,333	**103,462**	**-**	**-**	**103,462**
Nonfinancial assets					
Investment properties	510	760	-	-	760
	510	**760**	**-**	**-**	**760**
	129,843	**104,222**	**-**	**-**	**104,222**
	156,593	**130,972**	**24,032**	**2,664**	**104,276**
Liabilities for which fair values are disclosed					
Financial Liabilities					
Other liabilities					
Deposit liabilities					
Time	35,073	34,673	-	-	34,673
LTNCD	900	865	-	-	865
Unsubordinated Debt Securities	4,968	5,182	-	-	5,182
Bills Payable -PDIC	855	1,042	-	-	1,042
	41,797	**41,762**	**-**	**-**	**41,762**

As of June 30, 2018 and 2017, no transfers were made among the three levels in the fair value hierarchy.

The methods and assumptions used by the Group in estimating the fair value of the financial instruments are as follows:

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 FVPL, AFS and HTM investments
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.

Equity securities designated at FVPL and classified as AFS investments
The Group's investments in equity securities include quoted and unquoted stocks and club and golf shares. Fair values of quoted equity securities are based on quoted market prices. Unquoted equity securities are carried at cost, less any accumulated impairment in value due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables
Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using Philippine Dealing System Treasury Reference Rates and Philippine Interbank Reference Rate 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. A yield-spread analysis is being performed to derive the fair value of embedded call option as of December 31, 2017 and 2016, the fair value of warrants has been determined using the same quotes received from a third-party broker adjusted for illiquidity discount by the Parent Company. The warrants are not material to the Group.

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 and Subordinated debt

Fair values of liabilities are estimated using the discounted cash flow methodology using the Philippine Dealing System Treasury Reference Rates and Philippine Interbank Reference Rate 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 Dealing System Treasury Reference Rates and Philippine Interbank Reference Rate 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 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) roads

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 June 30, 2018 and 2017 follow (Amounts in millions):

	Six Months Ended June 30, 2018 (Unaudited) in millions					
	COMMERCIAL	CONSUMER	TREASURY	BRANCHES	OTHERS	TOTAL
Statement of Income						
Net interest income	509	478	339	2,232	(0)	3,558
Other income	90	207	183	311	118	910
Total operating income	599	685	522	2,544	118	4,467
Other operating expenses	224	391	166	1,379	104	2,265
Provisions	125	106	152	247	4	633
Net income for the period	250	188	204	917	10	1,569
Statement of Financial Position						
Total Assets	112,569	21,501	69,409	3,117	2,864	209,461
Total Liabilities	13,356	3,404	25,445	137,620	2,721	182,545
Other Segment Information						
Depreciation and Amortization	3	51	2	120	32	208
Provision for Allowance on Credit and Impairment Losses	56	62	-	146	(0)	264

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

	Six Months Ended June 30, 2017					
	(Unaudited) in millions					
	COMMERCIAL	CONSUMER	TREASURY	BRANCHES	OTHERS	TOTAL
Statement of Income						
Net interest income	601	442	499	1,626	0	3,168
Other income	66	230	141	186	122	745
Total operating income	667	672	640	1,812	122	3,913
Other operating expenses	188	345	107	1,277	97	2,014
Provision *	54	127	130	248	3	563
Net income for the period	425	199	402	287	22	1,336
Statement of Financial Position						
Total Assets	90,252	16,400	75,925	3,417	2,932	188,926
Total Liabilities	14,616	3,405	26,472	117,600	1,585	163,677
Other Segment Information						
Depreciation and Amortization	3	93	2	139	35	271
Provision for Allowance e on Credit and Impairment Losses	6	88	-	179	-	272

**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 April 27, 2018, the BOD of the Parent Company approved the declaration of cash dividends amounting to ₱776.50 million (₱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 ₱485.31 million (₱1.00 per share) and ₱242.66 million (₱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 ₱325.16 million (₱0.67 per share) and ₱160.15 million (₱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 ₱1.62 billion equivalent to 161,770,178 shares at ₱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 times.

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
The capital adequacy ratio (CAR) of the Group as at June 30, 2018, December 31, 2017, and June 30, 2017 based on Basel III are shown in the table below (amounts in millions):

in millions	June 30, 2018	December 31, 2017	June 30, 2017
Tier 1 Capital	22,280	22,544	20,827
Tier 2 Capital	6,416	6,336	6,110
Total Qualifying Capital	28,697	28,880	26,937
Total Risk Weighted Assets	188,017	184,150	154,059
Capital Ratios			
Total CAR	15.26%	15.68%	17.49%
Tier 1 Ratio	11.85%	12.24%	13.52%

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 includin 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 at December 31, 2017 and 2016, 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 December 31, 2017 and 2016, 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:

	June 30, 2018	December 31, 2017
Trust department accounts	17,078,185	19,221,247
Unused commercial letters of credit	2,602,144	1,507,592
Standby letters of credit	1,458,123	1,097,532
Spot Exchange Bought	2,189,032	1,016,711
Forward Excgange Sold	2,133,124	812,496
Outstanding guarantees issued	951,984	368,853
Inward bills for collection	180,927	119,355
Late deposits/payment received	58,328	99,977
Spot Exchange Sold	2,335,180	87,997
Outward bills for collection	23,548	37,076
Forward Excgange Bought	643,467	-
Others	397	550

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

Earnings per Share

Earnings per share amounts were computed as follows:

	June 30, 2018 (Unaudited)	**December 31, 2017 (Audited)**	**June 30, 2017 (Unaudited)**
a. Net income attributable to equity holders of the Parent Company	**1,556,803,345**	**2,800,755,278**	**1,316,631,814**
b. Net income attributable to minority interest	**12,373,999**	**25,361,528**	**19,260,404**
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)	**6.42**	**5.77**	**5.43**

**The calculation of the weighted average number of outstanding common shares considered the retroactive effect of stock dividend in 2015 (see Note 23)*
***The Group's Basic EPS is the same as its Dilutive EPS since there are no securities with dilutive properties.*

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.

Transactions with Retirement Plans

Under PFRS, certain post-employment benefit plans are considered as related parties. The Group has business relationships with a number of related party retirement plans pursuant to which it provides trust and management services to these plans.

As of December 31, 2017 and 2016, the following are the fund assets of the retirement plan with the Trust and Investments Group of the Parent Company, relating to securities issued by the Parent Company.

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 June 30, 2018 (Unaudited), December 31, 2017 (Audited) and June 30, 2017 (Unaudited) and, Statements of Income for the three-month periods ended June 30, 2018 and June 30, 2017, and the changes thereto as of and for the periods then ended.

Analysis of Changes in Financial Condition as of June 30, 2018 (Unaudited) vs. December 31, 2017 (Audited) – Exhibit A

The Group's total assets increased by 4.8% from P199.936 billion as of December 31, 2017 to P209.461 billion as of June 30, 2018.

Cash and other cash items decreased by 26.5% from P4.323 billion as of December 31, 2017 to P3.178 billion as of June 30, 2018 as the bank's cash level continue to normalize from the peak levels during year-end Holiday season. On the other hand, assets due from other banks increased by 71.0% from P1.290 Billion as of December 31, 2017 to P2.207 billion as of June 30, 2018 due to growth in deposit volumes.

Interbank loans receivable and securities purchased under resale agreements decreased by 55.0% from P3.536 billion as of December 31, 2017 to P1.591 billion as of June 30, 2018 on account of the Group's effort to deploy funds into other yielding assets.

Financial Assets at Fair Value through Other Comprehensive Income also decreased by 14.3% from P18.724 billion as of December 31, 2017 to P16.039 billion as of June 30, 2018; Investment Securities at Amortized Cost, on the other hand, increased from zero as of December 31, 2017 to P13.150 billion as of June 30, 2018 as part of the classification and implementation of PFRS9.

Financial assets at fair value through profit or loss decreased by 39.8% from P8.037 billion as of December 31, 2017 to P4.838 billion as of June 30, 2018 mainly due to the bleak outlook on fixed income trading brought about by rising interest scenario on both local and global front.

Loans and Receivables increased by 3.1% from P131.070 billion as of December 31, 2017 to P135.189 billion as of June 30, 2018 as the bank continue to grow its corporate and consumer loans recovering from a significant loan prepayment last quarter.

The bank's Property and Equipment decreased by 7.0% from P1.205 billion as of December 31, 2017 to P1.120 billion as of June 30, 2018 due to less acquisition with no change in the parent bank's number of branches.

Total liabilities increased by 5.5% from P173.096 billion as of December 31, 2017 to P182.545 billion as of June 30, 2018.

Total deposits grew by 6.1% from P159.386 billion as of December 31, 2017 to P169.042 billion as of June 30, 2018 same number of branches due to continued deposit-generation programs being done by the bank. Significant increase came from Demand deposits and Time deposits with 12.2% growth from P73.835 billion as of December 31, 2017 to P82.812 billion as of June 30, 2018, and 9.5% growth from P35.073 billion as of December 31, 2017 to P38.392 billion as of June 30, 2018, respectively.

Bills payable decreased by 15.3% from P3.851 billion as of December 31, 2017 to P3.262 billion as of June 30, 2018 as funding sources from deposits improved.

Accrued Taxes, interest and other expenses increased by 15.2% from P1.009 billion as of December 31, 2017 to P1.163 billion as of June 30, 2018 mainly due to increase in accrued taxes remitted on a quarterly basis.

The net unrealized loss on sale of available-for-sale investments increased to P1.013 billion as of June 30, 2018 from P376.239 million loss as of December 31, 2017 as fixed income securities prices widen as a result of FED and BSP rate increase.

Analysis of Changes in Financial Condition as of June 30, 2018 (Unaudited) vs. June 30, 2017 (Unaudited) – Exhibit A

The Group's total assets increased by 10.9% from P188.926 billion as of June 30, 2017 to P209.461 billion as of June 30, 2018.

Cash and other cash items decreased by 16.1% from P3.787 billion as of June 30, 2017 to P3.178 billion as of June 30, 2018, as a result of increased efforts to decrease the amount of cash in vault across all branches.

Amounts due from BSP also decreased by 19.5% from P33.589 billion as of June 30, 2017 to P27.036 billion as of June 30, 2018 primarily due to decrease in reserve requirement to 18% from 20% same period last year.

Amounts due from other banks, on the other hand, increased by 58.4% from P1.393 billion as of June 30, 2017 to P2.207 billion as of June 30, 2018 as part of the overall growth in deposits.

Interbank loans receivable and securities purchased under resale agreements decreased by 68.1% from P4.995 billion as of June 30, 2017 to P1.591 billion as of June 30, 2018 due to deployment into other yielding assets.

Investments Securities at Amortized Cost also decreased by 29.1% from P18.560 billion as of June 30, 2017 to P13.150 billion as of June 30, 2018; Financial Assets at Fair Value through Other Comprehensive Income increased by 120.7% from P7.268 billion as of June 30, 2017 to P16.039 billion as of June 30, 2018 as part of the classification and measurement of securities for PFRS9.

Financial assets at fair value through profit or loss decreased by 4.7% from P5.079 billion as of June 30, 2017 to P4.838 billion as of June 30, 2018 with the specter of successive global and local rate hikes.

Loans and receivables increased by 25.8% from P107.458 billion as of June 30, 2017 to P135.189 billion as of June 30, 2018. Propelling the growth were commercial loans and other loan segments such as auto, housing, and salary loans, which all posted double-digit growths.

The bank's Property and Equipment decreased by 15.5% from P1.326 billion as of June 30, 2017 to P1.120 billion as of June 30, 2018 due to disposal of properties sold under AULFC, a subsidiary to AUB.

Total liabilities increased by 11.5% from P163.677 billion as of June 30, 2017 to P182.545 billion as of June 30, 2018.

In particular, total deposits increased by 11.8% from P151.264 billion as of June 30, 2017 to P169.042 billion as of June 30, 2018 primarily due to the increase in branches as well as from a more intensified deposit-generation campaign for branch banking and other business segments.
Bills payable increased by 9.0% from P2.993 billion as of June 30, 2017 to P3.262 billion as of June 30, 2018 due to additional margins provided.

Accrued Taxes, interest and other expenses increased by 62.0% from P717.492 million as of June 30, 2017 to P1.163 billion as of June 30, 2018 due to accrued taxes remitted on a quarterly basis.

The bank's surplus, excluding surplus reserves, increased by 10.1% from P14.618 billion as of June 30, 2017 to P16.090 billion as of June 30, 2018 due to the 17.5% growth in Net Income as of June 30, 2018 from same period a year ago.

The net unrealized loss on sale of available-for-sale investments improved by 15.2% from P1.194 billion as of June 30, 2017 to P1.013 billion as of June 30, 2018 due to the overall improvement of bond market conditions.

Analysis of Results of Operations for the Six-month period Ended June 30, 2018 (Unaudited) vs. June 30, 2017 (Unaudited) – Exhibit B

Interest Income
Gross interest income increased by 18.5% from P4.012 billion for the period ended June 30, 2017 to P4.754 billion for the period ended June 30, 2018. This was driven by the bank's loan portfolio growth in the first half of the year, enabling the Group to reach P4.083 billion in interest income from loans versus P3.150 billion a year ago. Interest income from Interbank loans receivable and securities purchased under resale agreements increased by 33.1% from P21.984 million for period ended June 30, 2017 to P29.250 million for period ended June 30, 2018 due to the higher interbank call loan rates. Interest income from Deposits with banks and others decreased by 89.1% from P210.528 million for period ended June 30, 2017 to P22.894 million for period ended June 30, 2018 due to decrease in Overnight and Term deposits placed in BSP. Interest income from Trading and investment securities decreased by 2.4% from P594.718 million for the period ended June 30, 2017 to P580.472 million for the period ended June 30, 2018 despite increase in total volume due to increased investments in sovereign issues.

Interest Expense
Total interest expense increased by P352.486 million (+41.8%) from P843.992 million for the period ended June 30, 2017 to P1.196 billion for the period ended June 30, 2018 primarily due to the increase in interest expense from deposit liabilities to P982.822 million for the period ended June 30, 2018 from P635.215 million for the period ended June 30, 2017. This is due to growth in deposit volume.

Net Interest Income
Net interest income increased by 12.3% from P3.168 billion for the period ended June 30, 2017 to P3.558 billion same period this year. This translated to a 4.3% Net interest margin, maintaining the same level from last quarter.

Other Operating Income
AUB's other operating income increased by P164.921 million (+22.1%) from P744.797 million for the period ended June 30, 2017 to P909.718 million for the period ended June 30, 2018.

In particular, Trading and securities gain decreased by 7.1% to P146.425 million for the period ended June 30, 2018 from P157.537 million for the period ended June 30, 2017 due to lower trading volumes. Foreign exchange gain, on the other hand, increased by 371.3% from P17.620 million a year ago to P83.037 million for the period ended June 30, 2018 due to volatile movements of USD-PHP.

Service charges, fees and commissions also increased to P407.272 million for period ended June 30, 2018 from P333.318 million for period ended June 30, 2017 due to increased transactions from increase in loan and deposit volume.

Miscellaneous income increased by 18.7% from P210.633 million for period ended June 30, 2017 to P249.941 million for period ended June 30, 2018 to higher recovery income collected.

The group's total operating expenses including provision for losses increased by 10.4% to P2.529 billion for period ended June 30, 2018 from P2.286 billion same period a year ago. In particular, large increases are observed from the group's Compensation and Fringe Benefits, Taxes and Licenses, Rent, Insurance, Management and other professional fees and miscellaneous expenses.

Despite the increase in operational expenses, the group was able to effectively manage cost, as cost to income ratio continue to improve to 50.7% for period ended June 30, 2018 from 51.5% for period ended June 30, 2017.

Provision for (Benefit from) Income Tax
AUB recorded a provision for income tax of P369.439 million for the period ended June 30, 2018 which was 26.9% higher than the provision of P291.209 million recorded for the period ended June 30, 2017. This increase was due to the higher tax paid income as of June 30, 2018 versus a year ago.

Net Income
To summarize, the Group posted a net income of P1.569 billion for the first half of 2018, 17.5% higher than a year ago. Boosting its bottom line was the 29.6% growth in interest income from loans and receivables and 22.1% growth in other operating income.

The Group's net income for the first half of 2018 translated to a Return on Assets of 1.6% and Return on Equity of 12.0% versus year-ago ratios of 1.5% and 11.0%, respectively.

Analysis of Results of Operations for the Quarter Ended June 30, 2018 (Unaudited) vs. June 30, 2017 (Unaudited) – Exhibit B

Interest Income
Gross interest income increased by 13.1% from P2.080 billion for the quarter ended June 30, 2017 to P2.486 billion a year ago. This was driven by the bank's loan portfolio growth, enabling the Group to reach P2.122 billion in interest income from loans versus P1.635 billion a year ago. Interest income from Interbank loans receivable and securities purchased under resale agreements increased by 21.8% from P11.931 million for quarter ended June 30, 2017 to P14.533 million for quarter ended June 30, 2018 due to the higher interbank call loan rates. Interest income from Deposits with banks and others decreased by 83.3% from P89.353 million for quarter ended June 30, 2017 to P14.962 million for quarter ended June 30, 2018 due to decrease in Overnight and Term deposits placed in BSP. Interest income from Trading and investment securities decreased by 3.8% from P328.095 million for the quarter ended June 30, 2017 to P315.533 million for the quarter ended June 30, 2018 despite increase in total volume due to increased investments in sovereign issues.

Interest Expense
Total interest expense increased by P156.836 million (+34.6%) from P453.803 million for the quarter ended June 30, 2017 to P610.639 million for the quarter ended June 30, 2018 primarily due to the increase in interest expense from deposit liabilities to P502.796 million for the quarter ended June 30, 2018 from P349.206 million for the quarter ended June 30, 2017. This is due to growth in deposit volume.

Net Interest Income
Net interest income increased by 15.3% from P1.627 billion for the quarter ended June 30, 2017 to P1.876 billion same period this year.

Other Operating Income
AUB's other operating income increased by P14.401 million (+3.7%) from P391.660 million for the quarter ended June 30, 2017 to P406.061 million for the quarter ended June 30, 2018.

In particular, increases in Foreign exchange gain and miscellaneous income were partially offset by decrease in Gains from Trading and Securities. The first two increases were due to the significant trading activity in foreign exchange and higher recovery income collected, respectively. The decrease in the latter was due to lower trading volumes.

The group’s total operating expenses including provision for losses increased by 10.8% to P1.305 billion for quarter ended June 30, 2018 from P1.177 billion same period a year ago. In particular, large increases are observed from the group’s Compensation and Fringe Benefits, Taxes and Licenses, Rent, Insurance, Management and other professional fees and Miscellaneous expenses.

Provision for (Benefit from) Income Tax
AUB recorded a provision for income tax of P205.935 million for the quarter ended June 30, 2018 which was 26.3% higher than the provision of P163.059 million recorded for the quarter ended June 30, 2017. This increase was due to the higher tax paid income as of June 30, 2018 versus a year ago.

Net Income
To summarize, the Group posted a net income of P771.467million for the second quarter of 2018, 13.7% higher than a year ago. Boosting its bottom line was the 29.8% growth in interest income from loans and receivables.

Key Performance Indicators

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

	30-Jun-18	**31-Dec-17**
	(Unaudited)	**(Audited)**
Return on average asset ratio	1.56%	1.55%
Return on average equity	12.03%	11.17%
Net interest margin (NIM)	4.33%	4.45%
Cost-to-income ratio	50.69%	50.01%
Asset growth vs. year ago	10.87%	20.81%

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 2018, 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 nine-month period ended June 30, 2018 and June 30, 2017 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, 2016. Unless otherwise indicated, adoption of these amended standards did not have material impact to the Group.

- PFRS 11, *Joint Arrangements: Accounting for Acquisitions of Interests*
- Philippine Accounting Standards (PAS) 16 and PAS 38, *Clarification of Acceptable Methods of Depreciation and Amortization*
- PAS 16 and PAS 41, *Agriculture: Bearer Plants*
- PAS 1, *Disclosure Initiative*
- PFRS 10, PFRS 12, and PAS 28, *Investment Entities: Applying the Consolidation Exception*
- *Annual Improvements to PFRSs* (2012 - 2014 Cycle)
  - Amendment to PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations, Changes in Methods of Disposal*
  - Amendment to PFRS 7, *Financial Instruments: Disclosures, Servicing Contracts*
  - Amendment to PFRS 7, *Applicability of the Amendments to PFRS 7 to Condensed Interim Financial Statements*
  - Amendment to PAS 19, *Employee Benefits, Discount Rate: Regional Market Issue*
  - Amendment to PAS 34, *Interim Financial Reporting, Disclosure of Information 'Elsewhere in the Interim Financial Report'*

Amendments to PAS 27, *Separate Financial Statements, Equity Method in Separate Financial Statements*
The amendments allow entities to use the equity method to account for investments in subsidiaries, joint ventures and associates in their separate financial statements. Entities already applying PFRS and electing to change to the equity method in its separate financial statements will have to apply that change retrospectively.

To comply with BSP Circular No. 915, *Amendments on Accounting Guidelines for Prudential Reporting to the BSP*, the Parent Company changed its method of accounting for its investments in subsidiaries from the cost method to the equity method. The change in the accounting policy was applied retrospectively, with impact to the Parent Company's statements of condition, statements of income and statements of comprehensive income.

PART II - OTHER INFORMATION

Item 1. Financial Highlights and Indicators

During the first quarter of 2018, only 1 branch was opened by the Parent Bank. The Bank plans to open 15 new branches in 2018.

The Group closed 7 Offsite ATMs due for replacement, and increased its headcount to 2,289.

For details, please refer to the table below.

	June 30, 2018	December 31, 2017	June 30, 2017
Branches*			
Parent Bank	227	228	216
Subsidiary Banks	28	25	22
Total Group	**255**	**253**	**238**
**including 5 micro-banking offices of Rural Bank of Angeles and 1 micro-banking office of Cavite United Rural Bank.*			
Branches by location			
MM	124	123	112
Provincial	131	130	126
Total Group	**255**	**253**	**238**
% in MM	48.6	48.6	47.1
ATMs (Parent only)			
Onsite	170	170	162
Offsite	47	55	58
Total	**217**	**225**	**220**
Headcount			
Parent Bank	1,982	1,871	1,892
Subsidiary Banks	448	383	323
Total Group	**2,430**	**2,254**	**2,215**
Headcount per branch			
Parent Bank	8.7	8.2	8.8
Total Group	9.5	8.9	9.5

Item 2. Financial Highlights and Indicators

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

	June 30, 2018 (unaudited)	December 31, 2017 (audited)	June 30, 2017 (unaudited)
Liquidity (%)			
Liquid to Total Assets Ratio	32.5%	31.2%	39.5%
Loans (net) to Deposits Ratio	80.0%	82.2%	71.0%
Solvency (%)			
Debt-to-Equity Ratio	640.2%	644.9%	611.0%
Asset-to-Equity Ratio	778.2%	744.9%	748.3%
Interest Rate Coverage Ratio	262.0%	275.5%	292.8%
Profitability (%)			
Return on Assets	1.6%	1.6%	1.5%
Return on Equity	12.0%	11.2%	11.0%
Net Interest Margin	4.3%	4.5%	4.6%
Cost-to-Income Ratio	50.7%	50.0%	51.5%
Asset Quality (%)			
Non-performing Loans Ratio[2]	1.37%	0.3%	2.0%
Non-performing Loans Coverage Ratio	86.6%	181.3%	68.1%
Capital Adequacy (%)			
Total regulatory capital expressed as percentage of total risk-weighted assets	15.26%	15.68%	17.49%
Total CET 1 expressed as percentage of total risk-weighted assets	11.85%	12.24%	13.52%
Total Tier 1 expressed as percentage of total risk-weighted assets	11.85%	12.24%	13.52%

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

Up to 12 months	83,012,368	60.1%
Over 1 year to 3 years	35,431,903	25.7%
Over 3 years to 5 years	17,525,128	12.7%
Over 5 years	2,120,632	1.5%
Loans Receivables (gross)	138,090,032	100.0%
Less:		
Allowance for credit losses	2,901,378	
Loans Receivables (Net)	**135,188,654**	

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 the 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 / Principal Executive Officer /
Principal Operating Officer

SOLEDAD O. REYES
First Vice President / Chief Financial Officer /
Head of Financial Controllers Group

August 14, 2018

ASIA UNITED BANK CORPORATION

INDEX TO EXHIBITS

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ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (1 of 3)
AS OF JUNE 30, 2018

(in Php thousands)	June 30, 2018	December 31, 2017	June 30, 2017	June 30, 2018 vs. December 31, 2017		June 30, 2018 vs June 30, 2017	
	(Unaudited)	(Audited)	(Unaudited)	+/-	%	+/-	%
ASSETS							
Cash and Other Cash Items	3,178,045	4,323,324	3,787,468	(1,145,279)	-26.5%	(609,422)	-16.1%
Due from Bangko Sentral ng Pilipinas	27,035,952	26,562,142	33,589,099	473,810	1.8%	(6,553,147)	-19.5%
Due from Other Banks	2,206,562	1,290,303	1,393,110	916,258	71.0%	813,452	58.4%
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	1,591,105	3,535,666	4,994,849	(1,944,561)	-55.0%	(3,403,744)	-68.1%
Financial Assets at Fair Value Through Profit or Loss	4,838,234	8,037,444	5,079,045	(3,199,210)	-39.8%	(240,812)	-4.7%
Financial Assets at Fair Value through Other Comprehensive Income	16,038,947	18,724,238	7,268,345	(2,685,292)	-14.3%	8,770,601	120.7%
Investment Securities at Amortized Cost	13,149,743	0	18,559,590	13,149,743		(5,409,847)	-29.1%
Loans and Receivables	135,188,654	131,069,648	107,457,618	4,119,007	3.1%	27,731,036	25.8%
Property and Equipment	1,120,363	1,205,168	1,325,812	(84,805)	-7.0%	(205,450)	-15.5%
Investment Properties	462,077	510,392	558,306	(48,316)	-9.5%	(96,229)	-17.2%
Deferred Tax Assets	230,334	279,930	221,437	(49,596)	-17.7%	8,897	4.0%
Goodwill	2,074,171	2,074,171	2,104,493	-	0.0%	(30,323)	-1.4%
Intangible Assets	1,978,377	1,986,730	1,987,804	(8,352)	-0.4%	(9,427)	-0.5%
Other Assets	368,087	336,379	598,920	31,709	9.4%	(230,832)	-38.5%
				-		-	
TOTAL ASSETS	**209,460,649**	**199,935,534**	**188,925,895**	**9,525,115**	**4.8%**	**20,534,754**	**10.9%**

ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (2 of 3)
AS OF JUNE 30, 2018

(in Php thousands)	June 30, 2018	December 31, 2017	June 30, 2017	June 30, 2018 vs. December 31, 2017		June 30, 2018 vs June 30, 2017	
	(Unaudited)	(Audited)	(Unaudited)	+/-	%	+/-	%
LIABILITIES AND EQUITY							
Liabilities							
Deposit Liabilities							
Demand	82,812,380	73,835,472	65,734,623	8,976,907	12.2%	17,077,756	26.0%
Savings	46,937,005	49,577,076	44,668,345	(2,640,071)	-5.3%	2,268,660	5.1%
Time	38,392,296	35,073,437	39,960,566	3,318,858	9.5%	(1,568,270)	-3.9%
Long Term Negotiable Certificates of Deposits	900,000	900,000	900,000	-	0.0%	-	0.0%
	169,041,680	**159,385,985**	**151,263,534**	**9,655,695**	**6.1%**	**17,778,146**	**11.8%**
Bills Payable	3,261,674	3,851,103	2,992,832	(589,429)	-15.3%	268,842	9.0%
Subordinated Debt	4,968,122	4,968,122	4,964,820	-	0.0%	3,302	0.1%
Manager's Checks	459,504	629,229	440,010	(169,724)	-27.0%	19,494	4.4%
Income Tax Payable	124,789	49,178	21,863	75,611	153.7%	102,926	470.8%
Accrued Taxes, Interest and Other Expenses	1,162,648	1,009,037	717,492	153,611	15.2%	445,156	62.0%
Derivative Liabilities	19,179	0	22,825	19,179		(3,646)	-16.0%
Deferred Tax Liabilities	3,319	1,366	1,175	1,953	143.0%	2,144	182.4%
Other Liabilities	3,504,546	3,202,339	3,252,923	302,206	9.4%	251,623	7.7%
Total Liabilities	**182,545,461**	**173,096,358**	**163,677,474**	**9,449,103**	**5.5%**	**18,867,987**	**11.5%**

ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (3 of 3)
AS OF JUNE 30, 2018

(in Php thousands)	June 30, 2018	December 31, 2017	June 30, 2017	June 30, 2018 vs. December 31, 2017		June 30, 2018 vs June 30, 2017	
	(Unaudited)	(Audited)	(Unaudited)	+/-	%	+/-	%
Equity							
Equity Attributable to Equity Holders of the Parent Company							
Capital stock	4,853,105	4,853,105	4,853,105	-	0.0%	-	0.0%
Additional paid-in capital	6,622,819	6,622,819	6,622,819	-	0.0%	-	0.0%
Surplus reserves	54,322	54,322	52,196	-	0.0%	2,126	4.1%
Surplus	16,089,801	15,407,164	14,618,022	682,637	4.4%	1,471,778	10.1%
Net unrealized gain (loss) on available-for-sale investments	(1,012,812)	(376,239)	(1,194,300)	(636,573)	169.2%	181,488	-15.2%
Cumulative translation adjustment	111,806	94,233	113,913	17,573	18.6%	(2,107)	-1.9%
	26,719,041	**26,655,403**	**25,065,757**	63,638	0.2%	1,653,284	6.6%
Non-controlling Interest	196,147	183,773	182,664	12,374	6.7%	13,483	7.4%
Total Equity	**26,915,188**	**26,839,176**	**25,248,421**	**76,012**	**0.3%**	**1,666,767**	**6.6%**
				-			
TOTAL LIABILITIES AND EQUITY	**209,460,649**	**199,935,534**	**188,925,895**	**9,525,115**	**4.8%**	**20,534,754**	**10.9%**

ASIA UNITED BANK CORPORATION
EXHIBIT B - COMPARATIVE STATEMENTS OF INCOME (1 of 3)
AS OF JUNE 30, 2018

	Six-Month Period Ended		Quarter Ended		Six-Month Period Ended		Quarter Ended	
(in Php thousands)	**June 30, 2018 (Unaudited)**	**June 30, 2017 (Unaudited)**	**June 30, 2018 (Unaudited)**	**June 30, 2017 (Unaudited)**	**+/-**	**%**	**+/-**	**%**
INTEREST INCOME								
Loans and receivables	4,083,276	3,150,499	2,122,168	1,634,529	932,777	30%	487,640	30%
Trading and investment securities	580,472	594,718	315,533	328,095	(14,246)	-2%	(12,561)	-4%
Interbank loans receivable and securities purchased under resale agreements	29,250	21,984	14,533	11,931	7,267	33%	2,602	22%
Deposit with banks and others	22,894	210,528	14,962	89,353	(187,634)	-89%	(74,390)	-83%
Others	38,099	34,409	19,292	16,524	3,689	11%	2,768	17%
	4,753,991	**4,012,137**	**2,486,488**	**2,080,431**	**741,853**	**18%**	**406,058**	**20%**
INTEREST EXPENSE								
Deposit liabilities	982,822	635,215	502,796	349,206	347,608	55%	153,590	44%
Bills payable and other borrowings	213,656	208,778	107,843	104,597	4,879	2%	3,246	3%
	1,196,479	**843,992**	**610,639**	**453,803**	**352,486**	**42%**	**156,836**	**35%**
NET INTEREST INCOME	**3,557,512**	**3,168,145**	**1,875,850**	**1,626,627**	**389,367**	**12%**	**249,222**	**15%**

ASIA UNITED BANK CORPORATION
EXHIBIT B - COMPARATIVE STATEMENTS OF INCOME (2 of 3)
AS OF JUNE 30, 2018

	Six-Month Period Ended		Quarter Ended		Six-Month Period Ended		Quarter Ended	
(in Php thousands)	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**	**+/-**	**%**	**+/-**	**%**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**				
Trading and securities gain - net	146,425	157,637	3,427	91,395	(11,212)	-7%	(87,968)	-96%
Service charges, fees and commissions	407,272	333,318	180,373	178,841	73,953	22%	1,532	1%
Foreign exchange gain (loss) - net	83,037	17,620	55,449	8,756	65,417	371%	46,692	533%
Trust income	23,044	25,589	11,439	12,580	(2,545)	-10%	(1,141)	-9%
Miscellaneous	249,941	210,633	155,374	100,088	39,308	19%	55,285	55%
OTHER OPERATING INCOME	**909,718**	**744,797**	**406,061**	**391,660**	**164,921**	**22%**	**14,401**	**4%**
TOTAL OPERATING INCOME	**4,467,230**	**3,912,942**	**2,281,911**	**2,018,288**	**554,288**	**14%**	**263,623**	**13%**
Compensation and fringe benefits	733,591	674,035	375,755	343,350	59,555	9%	32,405	9%
Provision for credit and impairment losses	264,036	272,217	164,978	166,357	(8,180)	-3%	(1,378)	-1%
Depreciation and amortization	207,539	271,290	98,853	131,349	(63,751)	-23%	(32,496)	-25%
Taxes and licenses	294,578	226,872	138,364	107,879	67,706	30%	30,485	28%
Rent	198,159	174,245	100,349	87,203	23,914	14%	13,145	15%
Insurance	189,673	158,828	98,216	82,988	30,845	19%	15,228	18%
Security, messengerial and janitorial	64,563	61,179	33,178	31,091	3,384	6%	2,087	7%
Freight expenses	54,267	50,529	27,646	24,748	3,738	7%	2,899	12%
Transportation and travel	58,431	60,401	32,290	26,785	(1,970)	-3%	5,505	21%
Power, light and water	33,550	29,682	18,334	15,780	3,869	13%	2,554	16%
Postage, telephone, cables and telegrams	49,040	40,696	24,662	20,082	8,344	21%	4,580	23%

ASIA UNITED BANK CORPORATION
EXHIBIT B - COMPARATIVE STATEMENTS OF INCOME (3 of 3)
AS OF JUNE 30, 2018

	Six-Month Period Ended		Quarter Ended		Six-Month Period Ended		Quarter Ended	
(in Php thousands)	**June 30, 2018**	**June 30, 2017**	**June 30, 2018**	**June 30, 2017**	**+/-**	**%**	**+/-**	**%**
	(Unaudited)	**(Unaudited)**	**(Unaudited)**	**(Unaudited)**				
Management and other professional fees	54,417	11,817	24,869	5,888	42,600	361%	18,981	322%
Repairs and maintenance	40,439	36,748	21,543	19,815	3,691	10%	1,728	9%
Amortization of intangibles	20,068	17,555	10,395	9,039	2,513	14%	1,356	15%
Miscellaneous	266,263	199,748	135,076	104,572	66,515	33%	30,504	29%
TOTAL OPERATING EXPENSES	**2,528,614**	**2,285,841**	**1,304,510**	**1,176,928**	**242,773**	**11%**	**127,582**	**11%**
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES	**1,938,616**	**1,627,101**	**977,401**	**841,360**	**311,515**	**19%**	**136,042**	**16%**
Share in Net Income of Subsidiaries	-	-	**-**	**-**	**-**	**-**	**-**	**-**
INCOME BEFORE INCOME TAX	**1,938,616**	**1,627,101**	**977,401**	**841,360**	**311,515**	**19%**	**136,042**	**16%**
PROVISION FOR (BENEFIT FROM) INCOME TAX	369,439	291,209	205,935	163,059	78,230	27%	42,876	26%
NET INCOME	**1,569,177**	**1,335,892**	**771,467**	**678,301**	**233,285**	**17%**	**93,166**	**14%**