COVER SHEET

A	1	9	9	7	1	8	9	6	3

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)

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

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

Secondary License Type, If Applicable

M S R D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders	Domestic	Foreign
111 As of 03/31/2019		

**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):	**March 31, 2019**
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 periodthat the registrant was required to file suchreports);

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 conditionas at March 31,2019 (Unaudited), December 31, 2018 (Audited), and March 31,2018 (Unaudited);
- Statements of income for the quarter ended March 31,2019 (Unaudited), December 31, 2018 (Audited), and March 31,2018 (Unaudited);
- Statements of comprehensive income for the three-month period ended March 31,2019 and March 31,2018
- Statements of changes in equity for the three-month period ended March 31,2019 and March 31,2018, and:
- Statements of cash flows for the three-month periodended March 31,2019 (unaudited) and March 31,2018 (unaudited).

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

In thousands (PHP)	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
ASSETS			
Cash and Other Cash Items	3,206,696	3,764,798	3,301,643
Due from Bangko Sentral ng Pilipinas	28,913,960	29,011,848	25,816,309
Due from Other Banks	1,901,060	3,551,322	1,619,201
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	731,372	2,808,893	2,034,870
Financial Assets at Fair Value Through Profit or Loss	1,451,083	878,095	15,770,333
Financial Assets at Fair Value through Other Comprehensive Income	21,152,593	20,904,786	11,445,497
Investment Securities at Amortized Cost	17,004,430	15,117,415	11,436,182
Loans and Receivables	153,860,322	155,701,605	129,615,561
Investment in Subsidiaries	0	0	0
Property and Equipment	1,020,794	1,077,009	1,152,708
Investment Properties	409,108	420,330	473,483
Deferred Tax Assets	40,197.25	14,539.19	305,562.71
Goodwill	1,961,445.54	1,961,445.54	2,074,170.84
Intangible Assets	1,971,224.67	1,977,676.56	1,980,094.63
Other Assets	407,556.38	452,823.38	339,684.32
	0	0	0
TOTAL ASSETS	234,031,842	237,642,585	207,365,298

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

In thousands (PHP)	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
LIABILITIES AND EQUITY			
Liabilities			
Deposit Liabilities			
Demand	77,525,496	74,482,376	80,441,462
Savings	71,075,483	70,290,548	45,387,132
Time	38,293,575	47,410,944	39,734,526
Long Term Negotiable Certificates of Deposits	0	900,000	900,000
	186,894,554	193,083,868	166,463,119
Bills Payable	5,235,812	4,922,286	3,236,436
Subordinated Debt	4,971,427	4,971,427	4,968,122
Manager's Checks	402,125	319,388	414,814
Income Tax Payable	200,287	46,889	186,815
Accrued Taxes, Interest and Other Expenses	1,464,411	1,393,977	1,053,668
Derivative Liabilities	8,236	0	16,401
Deferred Tax Liabilities	3,300	0	1,378
Other Liabilities	3,634,615	3,688,489	3,403,765
Total Liabilities	202,814,768	208,426,323	179,744,518
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	1,034,313	1,034,313	54,322
Surplus	18,060,959	16,955,885	16,103,028
Net unrealized gain (loss) on available-for-sale investments	405,047	(491,308)	(306,588)
Cumulative translation adjustment	99,290	96,640	100,764
	31,075,534	29,071,454	27,427,450
Non-controlling Interest	141,540	144,807	193,329
Total Equity	31,217,074	29,216,262	27,620,780
TOTAL LIABILITIES AND EQUITY	234,031,842	237,642,585	207,365,298

See accompanying Notes to Interim Consolidated Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF INCOME

In thousands (PHP)	Three-month Period Ended	
	March 31, 2019 (Unaudited)	March 31, 2018 (Unaudited)
INTEREST INCOME		
Loans and receivables	2,923,714	1,961,108
Trading and investment securities	372,857	264,939
Interbank loans receivable and securities purchased under resale agreements	32,917	14,718
Deposit with banks and others	16,929	7,932
Others	20,823	18,807
	3,367,241	**2,267,502**
INTEREST EXPENSE		
Deposit liabilities	1,081,168	480,027
Bills payable and other borrowings	115,812	105,813
	1,196,980	**585,840**
NET INTEREST INCOME	**2,170,261**	**1,681,662**
Trading and securities gain - net	254,149	142,998
Service charges, fees and commissions	191,798	226,899
Foreign exchange gain (loss) - net	23,940	27,588
Trust income	12,962	11,605
Gain on asset foreclosures and dacion transactions	0	0
Gain on bargain purchase (Note 36)	0	0
Miscellaneous	75,272	94,567
OTHER OPERATING INCOME	**558,121**	**503,657**
TOTAL OPERATING INCOME	**2,728,382**	**2,185,319**
Compensation and fringe benefits	387,706	357,836
Provision for credit and impairment losses	146,236	99,058
Depreciation and amortization	94,151	108,686
Taxes and licenses	238,790	156,214
Rent	104,548	97,810
Insurance	120,790	91,457
Security, messengerial and janitorial	37,275	31,385
Freight expenses	16,495	26,621
Transportation and travel	23,233	26,142
Power, light and water	17,622	15,216
Postage, telephone, cables and telegrams	30,648	24,378
Management and other professional fees	4,431	29,548
Repairs and maintenance	23,185	18,896
Amortization of intangibles	10,634	9,673
Miscellaneous	166,154	131,187
TOTAL OPERATING EXPENSES	**1,421,898**	**1,224,104**
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES	**1,306,484**	**961,215**
Share in Net Income of Subsidiaries	0	0
INCOME BEFORE INCOME TAX	1,306,484	961,215
PROVISION FOR (BENEFIT FROM) INCOME TAX	204,685	163,504
NET INCOME	**1,101,799**	**797,711**

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

In thousands (PHP)	Three-Month Period Ended	
	March 31, 2019	March 31, 2018
NET INCOME	**1,101,799**	797,711
OTHER COMPREHENSIVE INCOME		
Changes in net unrealized gain (loss) on available-for-sale investments	**896,364**	74,639
Cumulative translation adjustments	**2,650**	6,532
Other comprehensive loss not to be reclassified in profit or loss in subsequent periods		
Loss on remeasurement of retirement obligation-net of income tax		
	899,013	81,171
TOTAL COMPREHENSIVE INCOME	**2,000,812**	878,881
Attributable to:		
Equity holders of the Parent Company	**2,004,080**	869,325
Minority interest	**(3,268)**	9,556
	2,000,812	878,881

See accompanying Notes to Interim Consolidated Financial Statements.

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

In thousands (PHP)	Capital Stock	Additional Paid in Capital	Suplus Reserve	Surplus	Measurement of Retirement obligation	Cumulative Translation Adjustment	Net Unrealized Gain (Loss) on FVOCI/ Other OCI	Total	Non-Controlling Interest	Total Equity
Balance at December 31, 2018 (audited, as previously reported)	₱ 4,853,105	6,622,819	1,034,312	16,955,885	0	96,640	(491,308)	29,071,453	144,807	29,216,261
Issuance of Common Stock	-	-						-		-
Net income fot the period				1,105,074				1,105,074	(3,276)	1,101,799
Other comprehensive income (loss) for the period				-	-	2,650	896,356	899,006	8	899,013
Total comprehensive income	-	-	-	1,105,074	-	2,650	896,356	2,004,080	(3,268)	2,000,812
PFRS 9 transition				-	-			-		-
Dividends distribution				-				-		-
Balance at March 31, 2019	**₱ 4,853,105**	**6,622,819**	**1,034,312**	**18,060,959**	**-**	**99,290**	**405,048**	**31,075,533**	**141,540**	**31,217,073**
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
Net income for the period				793,142				793,142	4,568	797,711
Other comprehensive income (loss) for the period				-	0	6,532	69,651	76,183	4,988	81,171
Total comprehensive income	-	-	-	793,142	-	6,532	69,651	869,325	9,556	878,881
PFRS 9 transition				(97,278)				(97,278)	-	(97,278)
Balance at March 31, 2018	**₱ 4,853,105**	**6,622,819**	**54,322**	**16,103,028**	**-**	**100,764**	**(306,588)**	**27,427,450**	**193,329**	**27,620,780**

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

In thousands (PHP)	Consolidated	
NET CHANGE	**March 31, 2019 (Unaudited)**	**March 31, 2018 (Unaudited)**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	1,306,484	961,215
Adjustments for:		
Depreciatiom and Amortization	94,151	108,686
Provision for impairment and credit losses	146,236	99,058
Change in Operating Assets and Liabilities		
Increase in Financial Assets at FVTPL	(572,988)	(7,732,889)
Increase in Loans and Receivable	1,679,634	1,339,616
Increase in Other Resources	26,061	(22,304)
Increase in Deposit Liabilites	(6,189,314)	7,077,134
Increase in Accrued expenses and other liabilities	264,232	185,693
Cash Generated from (used in) Operations	(3,245,504)	2,016,209
Cash Paid for Income Taxes	(204,685)	(158,516)
Net Cash from (Used In) Operating Activities	**(3,450,189)**	**1,857,692**
CASH FLOWS FROM INVESTING ACTIVITIES		
Net Acquisition of FVTOCI	648,556	7,251,114
Net Acquisition of Investment Securities at Amortized Cost	(1,887,015)	(11,436,182)
Proceeds from sale (Acquisition) of investment properties	22,687	47,920
Net Acquisition of Bank Premises, FFE	(33,989)	(51,823)
Net Cash from (Used In) Investing Activities	**(1,249,760)**	**(4,188,970)**
CASH FLOWS FROM FINANCING ACTIVITIES		
Net borrowings (payment) of Bills Payable	313,527	(614,667)
Payment of cash dividends to shareholders	-	-
Net Cash from (Used In) Financing Activities	**313,527**	**(614,667)**
EFFECT OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	2,650	6,532
NET INCREASE IN CASH AND CASH EQUIVALENTS	**(4,383,773)**	**(2,939,413)**
Cash beginning of the period		
Cash and Other Cash Items	3,764,798	4,323,324
Due from BSP	29,011,848	26,562,142
Due from Banks	3,551,322	1,290,303
Interbank Loans & SPURA	2,808,893	3,535,666
	39,136,861	**35,711,435**
Cash at the end of the period		
Cash and Other Cash Items	3,206,696	3,301,643
Due from BSP	28,913,960	25,816,309
Due from Banks	1,901,060	1,619,201
Interbank Loans & SPURA	731,372	2,034,870
	34,753,089	32,772,022

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 225 and 228 domestic branches as at March 31 2019 and December 31, 2018, respectively.

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

Summary of Significant Accounting Policies

<u>Basis of Preparation</u>
The accompanying 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, 2018 and 2017 and for each of the three years in the period ended December 31, 2018, and of the Parent Company as at December 31, 2018 and 2017 and for each of the three years in the period ended December 31, 2018.

The accompanying financial statements have been prepared on a historical cost basis except for financial assets at fair value through profit or loss (FVPL), financial assets at fair value through other comprehensive income (FVOCI), 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 theinvestee)
- Exposure, or rights, to variable returns from its involvement with the investee,and
- The ability to use its power over the investee to affect itsreturns

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 theinvestee
- Rights arising from other contractualarrangements
- The Group's voting rights and potential votingrights

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 thesubsidiary
- derecognizes the carrying amount of any non-controllinginterest
- derecognizes the cumulative translation differences recorded inequity
- recognizes the fair value of the considerationreceived
- recognizes the fair value of any investmentretained
- recognizes any surplus or deficit in profit orloss
- 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.

- *New and Amended Standards*
  - Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  - Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
  - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*

- *Annual Improvements to PFRSs (2014-2017 Cycle)*
  - Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  - Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

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

- PFRS 9, *Financial Instruments*

  PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

  The Group and the Parent Company has adopted PFRS 9 effective January 1, 2018 using the modified retrospective approach. The Group and the Parent Company has not restated the comparative information for 2017, which continued to be reported under PAS 39. Accordingly, the comparative information for 2017 is not comparable with the information presented for 2018. Adjustments arising from the adoption of PFRS 9 have been recognized in surplus and other comprehensive income, as applicable, as of January 1, 2018.

  Classification and Measurement

  Under PFRS 9, the classification is based on the Group's and the Parent Company's business model for managing the financial assets and whether the financial instrument's contractual cash flows represent "solely payments of principal and interests" or "SPPI" on the principal amount outstanding. The SPPI and business model assessments are applied to all financial assets, except equity instruments and derivatives.

  The PAS 39 measurement categories of financial assets (i.e. fair value through profit or loss, available-for-sale, held-to-maturity and loans and receivables) have been replaced by:
  - Debt instruments at amortized cost (AC);
  - Debt instruments at fair value through other comprehensive income (FVOCI) with gains or losses recycled to profit or loss on derecognition;
  - Equity instruments at FVOCI, with no recycling of gains or losses in profit or loss on derecognition; and
  - Financial assets at fair value through profit or loss (FVTPL)

  The accounting for financial liabilities remains largely the same as it was under PAS 39, except for the treatment of gains or losses arising from an entity's own credit risk relating to liabilities designated at FVPL. Such movements are presented in other comprehensive income with no subsequent reclassification to profit or loss.

  Under PFRS 9, embedded derivatives are no longer separated from the host financial asset. Instead, financial assets are classified based on the business model and their contractual terms. The accounting for derivatives embedded in financial liabilities and in non-financial host contracts has not changed.

The assessment of the Group's and the Parent Company's business model was made as at January 1, 2018. The assessment of whether the instruments' contractual cash flows are SPPI was made based on the facts and circumstances as at the initial recognition of the financial assets.

Impairment
The adoption of PFRS 9 has fundamentally changed the Group's and the Parent Company's measurement of impairment losses for its financial assets – from PAS 39's incurred loss approach to a forward-looking expected credit loss (ECL) approach. Under PFRS 9, the Group and the Parent Company are required to provide ECL for all loans and other debt financial assets not held at FVPL, which include, but are not limited to, commercial loans, consumer loans, and investment in bonds, together with loan commitments and financial guarantee contracts. The allowance is based on the ECLs associated with the risk of default in the next twelve months unless there has been a significant increase in credit risk since origination or the financial assets are impaired where lifetime ECL is provided. If the financial asset meets the definition of purchased or originated credit impaired (POCI), the allowance is based on the change in the ECLs over the life of the asset. On the other hand, the previous incurred loss approach under PAS 39 recognized credit losses only when there is an objective evidence of impairment.

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The cash shortfall is then discounted at the financial asset's original effective interest rate. Under the general approach that considers assessment of the significant increase in credit risk, the ECL calculation is comprised of three components - probability of default (PD), loss given default (LGD), and exposure at default (EAD). PD captures the counterparty's risk of default. LGD reflects the amount of expected losses upon default. EAD is largely the on-balance sheet amounts and off-balance sheet amounts in the event of a default.

In the staging assessment, the Group determines if the financial assets demonstrate significant increase/improvement in credit risk as of the reporting dates. A combination of quantitative thresholds and expert judgment is applied in classifying the financial assets into stages. Financial assets that do not demonstrate significant increase in credit risk are classified under Stage 1, while financial assets that demonstrate significant increase in credit risk since origination but there is no objective evidence of impairment as of reporting date are classified under Stage 2. Financial assets with objective evidence of impairment are classified under Stage 3.

Accordingly, the 12-month ECL is computed for Stage 1 accounts, while the lifetime ECL is calculated for Stage 2 and Stage 3 accounts. Furthermore, in computing for the probability-weighted ECL, calibration factors, such as point-in-time PD as of the reporting date, forward looking inputs such as macro-economic factors and scenario weights are imputed into the baseline model.

The Group's and the Parent Company's impairment methodology is disclosed in Note 4.

A reconciliation between the carrying amounts under PAS 39 to the balances reported under PFRS 9 as of January 1, 2018 is as follows:

	Ref	*PAS 39 Measurement*		*Reclassification*	*Remeasurement*		*PFRS 9*	
		Category	*Amount*		*ECL*	*Other*	*Category*	*Amount*
Financial assets								
Cash and other cash items	A	L&R	₱4,323,324	₱–	₱–	₱–	AC	₱4,323,324
Due from BSP	A	L&R	26,562,142	–	–	–	AC	26,562,142
Due from Other Banks	A	L&R	1,290,303	–	–	–	AC	1,290,303
IBLR and SPURA	A	L&R	3,535,666	–	–	–	AC	3,535,666
		L&R	**₱35,711,435**	**₱–**	**₱–**	**₱–**	**AC**	**₱35,711,435**
Financial assets at FVPL								
Financial assets held for trading								
Debt instruments		FVPL	₱7,947,236	(₱103,137)	₱–	₱–	FVPL	₱7,844,099
From: AFS Investments	D			140,600	–	–		
To: Investment securities at AC	B			(243,737)	–	–		
Designated at FVPL								
Quoted equity securities		FVPL	27,171	(27,171)	–	–	N/A	–
To: Financial assets at FVPL				(27,171)	–	–		
Derivative assets		FVPL	63,037	–	–	–	FVPL (mandatory)	63,037
Financial assets at fair value through profit or loss (mandatory)				1,035,175	–	(153,500)	FVPL (mandatory)	881,675
From: Designated at FVPL				27,171	–	–		
From: Loans and receivables	C			499,300	–	(153,500)		
From: AFS Investments	D			508,704	–	–		
		FVPL	**₱8,037,444**	**₱904,867**	**₱–**	**(153,500)**	**FVPL**	**₱8,788,811**
AFS investments								
Debt instruments		AFS	₱18,712,150	(₱18,712,150)	₱–	₱–	N/A	₱–
To: Financial assets at FVPL	D			(649,304)	–	–		
To: Investment securities at FVOCI	F			(8,891,404)	–	–		
To: Investment securities at AC	E			(9,171,442)	–	–		
Equity instruments		AFS	12,088	(12,088)	–	–	N/A	–
To: Investment securities at FVOCI	G			(12,088)	–	–		
		AFS	**₱18,724,238**	**(₱18,724,238)**	**₱–**	**₱–**	**N/A**	**₱–**
Investment securities at FVOCI								
Debt instruments			₱–	₱8,891,404	(₱415,237)	₱–	FVOCI	₱8,476,167
To: Investment securities at FVOCI	F			8,891,404	(415,237)	–		
Equity instruments				12,088	–	–	FVOCI	12,088
To: Investment securities at FVOCI	G			12,088	–	–		
			₱–	**₱8,903,492**	**(₱415,237)**	**₱–**	**FVOCI**	**₱8,488,255**
Investment securities at AC								
Debt instruments			₱–	₱9,415,179	₱–	₱544,213	AC	₱9,959,392
From: Financial assets at FVPL	B			243,737	–	–		
From: AFS investments	E			9,171,442	–	544,213		
			₱–	**₱9,415,179**	**₱–**	**₱544,213**	**AC**	**₱9,959,392**
Loans and receivables								
Debt instruments		L&R	₱131,069,648	(₱499,300)	₱768,790	–	AC	₱131,339,138
To: Financial assets at FVTPL	C			(499,300)	**768,790**	–		
		L&R	**₱131,069,648**	**(₱499,300)**	**₱768,790**	**–**	**AC**	**₱131,339,138**

	Ref	PAS 39 Measurement		Reclassification	Remeasurement		PFRS 9	
		Parent Company						
		Category	*Amount*		*ECL*	*Other*	*Category*	*Amount*
Financial assets								
Cash and other cash items	A	L&R	₱4,294,228	₱–	₱–	₱–	AC	₱4,294,228
Due from BSP	A	L&R	26,512,281	–	–	–	AC	26,512,281
Due from Other Banks	A	L&R	773,174	–	–	–	AC	773,174
IBLR and SPURA	A	L&R	3,535,666	–	–	–	AC	3,535,666
		L&R	**₱35,115,349**	**₱–**	**₱–**	**₱–**	**AC**	**₱35,115,349**
Financial assets at FVPL								
Financial assets held for trading								
Debt instruments		FVPL	₱7,947,236	(₱103,137)	₱–	₱–	FVTPL	₱7,844,099
From: AFS Investments	D			140,600	–	–		
To: Investment securities at AC	B			(243,737)	–	–		
Derivative assets		FVPL	63,037	–	–	–	FVTPL (mandatory)	63,037
Financial assets at fair value through profit or loss (mandatory)				1,008,004	–	(153,500)	FVTPL (mandatory)	854,504
From: Loans and receivables	C			499,300	–	(153,500)		
From: AFS Investments	D			508,704	–	–		
		FVPL	**₱8,010,273**	**₱904,867**	**₱–**	**(153,500)**	**FVTPL**	**₱8,761,640**
AFS investments								
Debt instruments		AFS	₱18,426,563	(₱18,426,563)	₱–	₱–	N/A	₱–
To: Financial assets at FVTPL	D			(649,304)	–	–		
To: Investment securities at FVOCI	F			(8,605,817)	–	–		
To: Investment securities at AC	E			(9,171,442)	–	–		
Equity instruments		AFS	12,088	(12,088)	–	–	N/A	–
To: Financial assets at FVOCI	G			(12,088)	–	–		
		AFS	**₱18,438,651**	**(₱18,438,651)**	**₱–**	**₱–**	**N/A**	**₱–**
Investment securities at FVOCI								
Debt instruments			₱–	₱8,605,817	(₱415,237)	₱–	FVOCI	₱8,190,580
To: Investment securities at FVOCI	F			8,605,817	(415,237)	–		
Equity instruments				12,088	–	–	FVOCI	12,088
To: Investment securities at FVOCI	G			12,088	–	–		
			₱–	**₱8,617,905**	**(₱415,237)**	**₱–**	**FVOCI**	**₱8,202,668**
Investment securities at AC								
Debt instruments			₱–	₱9,415,179	₱–	₱544,213	AC	₱9,959,392
From: Financial assets at FVPL	B			243,737	–	–		
From: AFS investments	E			9,171,442	–	544,213		
			₱–	**₱9,415,179**	**₱–**	**₱544,213**	**AC**	**₱9,959,392**
Loans and receivables								
Debt instruments		L&R	₱128,446,863	(₱499,300)	₱809,187	–	AC	₱128,756,750
To: Financial assets at FVTPL	C			(499,300)	**809,187**	–		
		L&R	**₱128,446,863**	**(₱499,300)**	**₱809,187**	**–**	**AC**	**₱128,756,750**

The following are the changes in the classification and measurement of the Group's and Parent Company's financial assets as a result of the adoption of PFRS 9:

A. Cash and other cash items, Due from Bangko Sentral ng Pilipinas (BSP), Due from Other Banks, Interbank Loans and Receivables (IBLR) and Securities Purchased under Repurchase Agreements (SPURA) classified as "Loans and receivables" under PAS 39 as of December 31, 2017 are held to collect contractual cash flows and give rise to cash flows that are SPPI. Accordingly, these financial assets continue to be carried at amortized cost, and are classified as "Financial assets at amortized cost" under PFRS 9 starting January 1, 2018.

B. As of January 1, 2018, the Group and the Parent Company classified a portion of its FVTPL assets to financial assets at amortized cost. These instruments meet the SPPI criterion and are held in a business model to collect contractual cash flows. These investments matured on
September 12, 2018.

C. Unquoted debt securities classified as loans and receivables under PAS 39 that did not meet the SPPI criterion were classified as at FVPL as of January 1, 2018.

D. As of January 1, 2018, the Group and the Parent Company have classified a portion of its AFS portfolio debt instruments to FVPL. Debt instruments amounting to ₱508.70 million did not meet the SPPI criterion, while debt instruments with fair value of ₱140.60 million will be held for trading starting January 1, 2018.

E. As of January 1, 2018, the Group and the Parent Company have classified a portion of its previous AFS portfolio debt instruments to financial assets at amortized cost and presented them under "Investment securities at amortized cost". These instruments meet the SPPI criterion, are not actively traded and are held in a business model to collect contractual cash flows. The fair value of these instruments as of December 31, 2018 amounted to ₱8.44 billion. The change in fair value that would have been recorded in other comprehensive income in 2018 had these investments continued to be remeasured through OCI, would have been ₱736 million loss.

F. As of January 1, 2018, the Group and the Parent Company have assessed the portfolio being held to manage their liquidity and capital requirements, which had previously been classified as AFS debt instruments. The Group and the Parent Company concluded that these instruments are managed within the business model of collecting contractual cash flows and selling financial assets. Accordingly, the Group and the Parent Company classified them as FVOCI.

G. The Group and the Parent Company has elected the option to irrevocably designate some of its previous AFS equity instruments as Equity instruments at FVOCI. They were classified as such as these are being held primarily for strategic purposes. The cumulative impairment losses previously recognized under PAS 39 amounting to ₱9,732 and ₱9,332 for the Group and Parent Company, respectively, has been transferred from Surplus to fair value reserves under other comprehensive income.

H. Loans and receivables classified as such as of December 31, 2017 under PAS 39 continue to be carried at amortized cost and are classified as "Financial assets at amortized cost" under PFRS 9 starting January 1, 2018, except for certain unquoted debt securities discussed in Note C above.

I. Equity investments designated as FVPL under PAS 39 have been reclassified to financial assets mandatorily classified at FVTPL. Beginning January 1, 2018, the criterion for designating these investments at FVTPL (i.e. eliminates or reduces significant accounting mismatch) is no longer met.

The following table reconciles the aggregate opening loan loss provisions under PAS 39 and provisions for loan commitments and financial guarantee contracts in accordance with PAS 37 to the ECL allowances under PFRS 9.

Impairment for:	Impairment under PAS 39 as of Dec 31, 2017	Re-measurement	ECLs under PFRS 9 as of January 1, 2018
	Consolidated		
Loans and receivables per PAS 39/ Financial assets at amortized cost under PFRS 9	**₱2,612,966**	**(₱768,790)**	**₱1,844,176**
Available-for-sale debt investments per PAS 39/ Debt instruments at FVOCI under PFRS 9	**–**	**415,246**	**415,246**
	₱2,612,966	**(₱353,544)**	**₱2,259,422**

Impairment for:	Impairment under PAS 39 as of Dec 31, 2017	Re-measurement	ECLs under PFRS 9 as of January 1, 2018
	Parent Company		
Loans and receivables per PAS 39/ Financial assets at amortized cost under PFRS 9	**₱2,484,612**	**(₱809,187)**	**₱1,675,425**
Available-for-sale debt investments per PAS 39/ Debt instruments at FVOCI under PFRS 9	**–**	**415,246**	**415,246**
	₱2,484,612	**(₱393,941)**	**₱2,090,671**

As of January 1, 2018, the Group and the Parent Company assessed that the impact of ECLs on debt instruments at amortized costs (i.e. investment securities at amortized costs, Due from BSP, Due from Other Banks, IBLR and SPURA) is not significant, as these are considered low credit risk financial assets.

The impact of transition to PFRS 9 related to classification and measurement and impairment on the Group's and Parent Company's surplus, other comprehensive income and other items within equity as of January 1, 2018 is as follows:

Consolidated

	Equity Attributable to Parent Company					
	Surplus	Fair value reserves on Financial Assets at FVOCI	Fair value reserves on AFS Investments	Total	Non-controlling Interest	Total
Classification and measurement						
Reclassification of net unrealized loss for debt securities reclassified from AFS investments to financial assets at FVOCI	**₱–**	**₱183,430**	**(₱183,430)**	**₱–**	**₱–**	**₱–**
Reclassification of net unrealized loss for debt securities reclassified from AFS investments to financial assets at FVPL	**(15,456)**	**–**	**15,456**	**–**	**–**	**–**
Reversal of net unrealized losses for debt securities reclassified from AFS investments to financial assets at amortized cost	**–**	**–**	**544,213**	**544,213**	**–**	**544,213**
Recognition of fair value losses of financial assets reclassified from loans and receivables to FVPL	**(153,500)**	**–**	**–**	**(153,500)**	**–**	**(153,500)**
Reversal of previously recognized impairment losses on AFS equity investments and recognition of fair value losses on equity investments at FVOCI	**9,332**	**(9,332)**	**–**	**–**	**–**	**–**
	(159,624)	**174,098**	**376,239**	**390,713**		**390,713**

Expected credit loss						
ECL adjustments on financial assets at amortized costs	781,889	–	–	781,889	(13,099)	768,790
ECL adjustments on financial assets at FVOCI	(415,246)	415,246	–	–	–	–
Deferred tax impact of the above adjustments	(238,158)	–	–	(238,158)	–	(238,158)
	128,485	415,246	–	543,731	(13,099)	530,632
	(₱31,139)	₱589,344	₱376,239	₱934,444	(₱13,099)	₱921,345

	Parent Company			
	Surplus	Fair value reserves on Financial Assets at FVOCI	Fair value reserves on AFS Investments	Total
Classification and measurement				
Reclassification of net unrealized loss for debt securities reclassified from AFS investments to financial assets at FVOCI	₱–	₱183,430	(₱183,430)	₱–
Reclassification of net unrealized loss for debt securities reclassified from AFS investments to financial assets at FVPL	(15,456)	–	15,456	–
Reversal of net unrealized losses for debt securities reclassified from AFS investments to financial assets at amortized cost	–	–	544,213	544,213
Recognition of fair value losses of financial assets reclassified from loans and receivables to FVPL	(153,500)	–	–	(153,500)
Reversal of previously recognized impairment losses on AFS equity investments and recognition of fair value losses on equity investments at FVOCI	9,332	(9,332)	–	–
	(159,624)	174,098	376,239	390,713
Expected credit loss				
ECL adjustments on financial assets at amortized costs	₱809,187	₱–	₱–	₱809,187
ECL adjustments on financial assets at FVOCI	(415,246)	415,246	–	–
Deferred tax impact of the above adjustments	(238,158)	–	–	(238,158)
	155,783	415,246	415,246	571,029
Share in impact of PFRS 9 adoption by the subsidiaries	(27,298)		–	(27,298)
	(₱31,139)	₱589,344	₱376,239	₱934,444

- PFRS 15, *Revenue from Contracts with Customers*

  PFRS 15 supersedes PAS 11 *Construction Contracts*, PAS 18 *Revenue* and related interpretations. It applies, with limited exceptions, to all revenue arising from contracts with customers. Under PFRS 15's new five-step model, 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 Group adopted PFRS 15 effective January 1, 2018 using a modified retrospective approach. Under this method, the standard can be applied either to all contracts at the date of initial application or only to contracts that are not completed at this date. The Group applied this method for all contracts at the date of initial application.

  The adoption of PFRS 15 has no significant impact on the Group's and Parent Company's financial statements since majority of the Group's and Parent Company's revenues are interest income and related to financial instruments, which are outside the scope of this standard (i.e. scoped in under PFRS 9). In addition, the Group and Parent Company assessed that the revenue recognition for other types of income such as service charges, fees and commissions and gain on sale of non-financial assets remain the same when the Group and Parent Company apply the five-step model under PFRS 15.

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

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

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

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

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

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

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

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

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

Financial Instruments - Initial Recognition

Date of recognition

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

'Day 1' difference

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

Cash and Cash Equivalents

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

Policy applicable beginning January 1, 2018

Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on their contractual terms and the business model for managing the instruments, as described below. Financial instruments are initially measured at their fair value; except in the case of financial assets and financial liabilities recorded at FVTPL, transaction costs are added to, or subtracted from, this amount. When the fair value of financial instruments at initial recognition differs from the transaction price, the Group accounts for the Day 1 profit or loss, as described above.

Measurement categories of financial assets and liabilities

Beginning January 1, 2018, financial assets are classified in their entirety based on the contractual cash flows characteristics of the financial assets and the Group's business model for managing financial assets. The Group classifies its financial assets into financial assets into the following categories: financial assets at FVPL, FVOCI and AC. The Group classifies and measures its derivative and trading portfolio at FVPL. The Group may designate financial instruments at FVPL, if so doing eliminates or significantly reduces measurement or recognition inconsistencies.

Contractual cash flows characteristics
If the financial asset is held within a business model whose objective is to hold assets to collect contractual cash flows or within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets, the Group assesses whether the cash flows from the financial asset represent solely payments of principal and interest (SPPI) on the principal amount outstanding.

'Principal' for the purpose of the SPPI test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (e.g. if there are repayments of principal or amortization of the premium or discount). In making the assessment of 'interest', the Group determines whether the contractual cash flows are consistent with a basic lending arrangement, i.e., interest includes consideration only for the time value of money, credit risk and other basic lending risks and costs associated with holding the financial asset for a particular period of time.

Instruments with cash flows that do not represent as such are classified as at FVPL.

Business model
The Group's business model is determined at a level that reflects how groups of financial assets are managed together to achieve a particular business objective. The Group's business model does not depend on management's intentions for an individual instrument, rather it refers to how it manages its financial assets in order to generate cash flows.

The Group's business model determines whether cash flows will result from collecting contractual cash flows, selling financial assets or both. Relevant factors considered by the Group in determining the business model for a group of financial assets include:
- how the performance of the business model and the financial assets held within that business model are evaluated and reported to the Group's key management personnel;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how these risks are managed;
- how managers of the business are compensated; and
- the expected frequency, value and timing of sales are also important aspects of the Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'worst case' or 'stress case' scenarios into account. If cash flows after initial recognition are realized in a way that is different from the Group's original expectations, the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets going forward.

The Group's measurement categories are described below:

Financial assets at amortized cost
A debt financial asset is measured at amortized cost if (i) it is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows and (ii) the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the Effective Interest Rate (EIR) method, less any impairment in value. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are integral part of the EIR. The amortization is included in 'Interest Income' in the profit or loss and is calculated by applying the EIR to the gross carrying amount of the financial asset, except for (i) purchased or originated credit-impaired financial assets and (ii) financial assets that have subsequently become credit-impaired, where, in both cases, the EIR is applied to the amortized cost of the financial asset. Losses arising from impairment are recognized in 'Provision for credit and impairment losses' in profit or loss.

The Group's financial assets at amortized costs comprised of Due from BSP, Due from other banks, IBLR, SPURA, Investment securities at amortized cost, Loans and receivables and certain financial assets under 'Other assets'.

Financial assets at fair value through other comprehensive income (FVOCI)
Debt financial assets
A debt financial asset is measured at FVOCI if (i) it is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets and (ii) its contractual terms give rise on the specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding. These financial assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at fair value. Gains and losses arising from changes in fair value are included in other comprehensive income within a separate component of equity. Interest income and foreign exchange gains and losses are recognized in profit and loss until the financial asset is derecognized. Impairment losses or reversals are based on ECL and recognized in 'Provision for credit and impairment losses' in profit or loss, with corresponding credit to other comprehensive income. Upon derecognition, the cumulative gain or loss previously recognized in other comprehensive income is reclassified from equity to profit or loss under 'Trading and securities gain – net'.

Equity instruments
The Group may also make an irrevocable election to measure at FVOCI on initial recognition with investments in equity instruments that are neither held for trading nor contingent consideration recognized in a business combination in accordance with PFRS 9. Amounts recognized in OCI are not subsequently transferred to profit or loss. However, the Group may transfer the cumulative gain or loss within equity upon adoption date. Dividends on such investments are recognized in profit or loss, unless the dividend clearly represents recovery of part of the cost of the investment.

Dividends are recognized in profit or loss only when:
- the Group's right to receive payment of the dividend is established
- it is probable that the economic benefits associated with the dividend will flow to the Group; and
- the amount of the dividend can be measured reliably.

Financial assets at fair value through profit or loss (FVTPL)
Financial assets are measured at FVTPL unless these are measured at amortized cost or at FVOCI. Included in this classification are equity and debt investments held for trading and debt instruments with contractual terms that do not represent SPPI.

A financial asset is considered as held for trading if:

- it has been acquired principally for the purpose of selling it in the near term;
- on initial recognition, it is part of a portfolio of identified financial instruments that the Group manages together and has evidence of a recent actual pattern of short-term profit-taking; or,
- it is a derivative that is not designated as a hedging instrument or financial guarantee.

Financial assets held at FVTPL are initially recognized at fair value, with transaction costs recognized in the statement of income as incurred. Subsequently, they are measured at fair value and any gains or losses are recognized under 'Trading and securities gain – net' in profit or loss.

Additionally, even if the asset meets the amortized cost or the FVOCI criteria, the Group may choose at initial recognition to designate the financial asset at FVTPL if doing so eliminates or significantly reduces a measurement or recognition inconsistency (an accounting mismatch) that would otherwise arise from measuring financial assets on a different basis.

Interest earned on these investments is measured using the modified effective interest rate method, where premiums and discounts, excluding origination fees and transaction costs are considered in the effective interest rate, and is reported under 'Interest income' in profit or loss while dividend income is reported under 'Miscellaneous income' in profit or loss when the right of payment has been established.

Furthermore, the Group is a counterparty to derivative contracts, such as currency forwards and swaps and warrants. 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 re-measured 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 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.

Reclassifications of financial instruments
The Group reclassifies its financial assets when, and only when, there is a change in the business model for managing the financial assets. Reclassifications shall be applied prospectively by the Group and any previously recognized gains, losses or interest shall not be restated.
I
mpairment of Financial Assets
PFRS 9 requires the Group to record ECL for all loans and other debt financial assets not classified as at FVTPL, together with loan commitments and financial guarantee contracts.

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

Assessment of Significant Increase in Credit Risk/Staging assessment
For non-credit-impaired financial instruments:

- Stage 1 is comprised of all non-impaired financial instruments which have not experienced a SICR since initial recognition. The Group recognizes a 12-month ECL for Stage 1 financial instruments.
- Stage 2 is comprised of all non-impaired financial instruments which have experienced a SICR since initial recognition. The Group recognizes a lifetime ECL for Stage 2 financial instruments.

For credit-impaired financial instruments:

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

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

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

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

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

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

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

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

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

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

Collateral valuation
To mitigate its credit risks on financial assets, the Group seeks to use collateral, where possible. The collateral comes in various forms, such as cash, real estates, other non-financial assets and

credit enhancements such as netting agreements. Collateral, unless repossessed, is not recorded on the Group's statement of condition.

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

Financial guarantees, letters of credit and undrawn loan commitments
The Group issues financial guarantees, letters of credit and loan commitments.

Financial guarantees are initially recognized in the financial statements at fair value, being the premium received. Subsequent to initial recognition, the Group's liability under each guarantee is measured at the higher of the amount initially recognized less cumulative amortization recognized in the statement of income and an ECL provision.

The premium received is recognized in the statement of income on a straight line basis over the life of the guarantee.

Undrawn loan commitments and letters of credits are commitments under which, over the duration of the commitment, the Group is required to provide a loan with pre-specified terms to the customer. Similar to financial guarantee contracts, these contracts are in the scope of the ECL requirements.

The nominal contractual value of financial guarantees, letters of credit and undrawn loan commitments, where the loan agreed to be provided is on market terms, are not recorded on in the statement of condition.

<u>Policy applicable prior to January 1, 2018</u>

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

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

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

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

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

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

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

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

Financial assets or financial liabilities designated as FVPL
Upon initial recognition, financial assets or financial liabilities may be designated by management on an instrument-by-instrument basis, when the following criteria are met:

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

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

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

Loans and receivables, amounts due from BSP and other banks, interbank loans receivable (IBLR) and securities purchased under resale agreements (SPURA)
These are financial assets with fixed or determinable payments and fixed maturities that are not quoted in an active market. They are not entered into with the intention of immediate or short-term resale and as such are not categorized as financial assets held for trading, designated as AFS investments or financial assets designated at FVPL. They also do not include those for which the Group may not recover substantially all its initial investments, other than because of credit deterioration.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Impairment of Financial Assets

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.

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>Policy applicable before and after January 1, 2018</u>
Classification of financial liabilities
Financial liabilities are measured at amortized cost, except for the following:
- financial liabilities measured at fair value through profit or loss;
- financial liabilities that arise when a transfer of a financial asset does not qualify for derecognition or when the Bank retains continuing involvement;
- financial guarantee contracts;
- commitments to provide a loan at a below-market interest rate; and
- contingent consideration recognized by an acquirer in accordance with PFRS 13, *Business Combinations*.

Financial liabilities measured at amortized costs

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.

Derecognition of Financial Assets and Liabilities
Financial assets
A financial asset (or, where applicable a part of a financial asset or part of a group of financial assets) is derecognized when:

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

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

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

Repurchase and Reverse Repurchase Agreements
Securities sold under 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.

Financial Guarantees
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 to settle any financial obligation arising as a result of the guarantee.

Offsetting Financial Instruments

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

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

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

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

Revenues within the scope of PFRS 9
Interest income on financial assets at amortized cost and FVOCI
For all financial instruments measured at amortized cost and FVOCI, interest income is based on EIR. EIR is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument (for example, prepayment options), includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

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

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

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 the disposal of financial assets at fair value through other comprehensive income. Cost of investment securities sold is determined using the specific identification method.

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

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

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

Penalty income

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

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

Revenues within the scope of PFRS 15
The performance obligations, as well as the timing of their satisfaction, are identified, and determined, at the inception of the contract. When the Group provides a service to its customers, consideration is invoiced and generally due immediately upon satisfaction of a service provided at a point in time or at the end of the contract period for a service provided over time.

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

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

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

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

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

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

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

Revenues outside the scope of PFRSs 9 and 15
Leasing income
a. Finance lease
   The excess of aggregate lease rentals plus the estimated residual value (gross finance lease receivables) over the cost of the leased asset (present value of the lease receivables) constitutes the unearned lease income. The unearned lease income is amortized over the term of the lease, commencing on the month the lease is executed, using the effective interest rate method. Leasing income on finance lease receivables is included in 'Interest income'.

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

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

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

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

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

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

Investment Properties
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.

Other Assets - Chattels

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.

Investments in subsidiaries

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

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

Goodwill

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

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

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

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

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

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

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

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

Software cost
Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These 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.

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased equipment, included in 'Finance lease receivables', is the estimated proceeds from the disposal of the leased asset at the end of the lease term which approximates the amount of guaranty deposit paid by the lessee, at the inception of the lease. At the end of the lease term, the residual value is generally applied against the guaranty deposit of the lessee.

<u>Retirement Cost</u>
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.

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

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

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

When loans or similar assistance are provided by government or related institutions, with an interest rate below the current applicable market rate, the effect of this favorable interest is regarded as a government grant. The government grant component is measured as the difference between the fair value of the loan granted and cash received at the date of grant. Such amount shall be recognized in the statements of income on a systematic basis over the periods in which the Group recognizes the related costs as 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 carryforward of unused tax credits from MCIT and unused NOLCO can be utilized, except:

- where the DTA relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting income nor taxable income; and
- in respect of taxable temporary differences associated with investments in subsidiaries, deferred tax assets are recognized only to the extent that 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, 2019

- Amendments to PFRS 9, *Prepayment Features with Negative Compensation*
  Under PFRS 9, a debt instrument can be measured at amortized cost or at fair value through other comprehensive income, provided that the contractual cash flows are 'solely payments of principal and interest on the principal amount outstanding' (the SPPI criterion) and the instrument is held within the appropriate business model for that classification. The amendments to PFRS 9 clarify that a financial asset passes the SPPI criterion regardless of the event or circumstance that causes the early termination of the contract and irrespective of which party pays or receives reasonable compensation for the early termination of the contract. The amendments should be applied retrospectively and are effective from January 1, 2019, with earlier application permitted.

  These amendments have no impact on the consolidated financial statements of the Group.

- 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 re-measure 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 re-measurement 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.

  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 19, *Employee Benefits, Plan Amendment, Curtailment or Settlement*

The amendments to PAS 19 address the accounting when a plan amendment, curtailment or settlement occurs during a reporting period. The amendments specify that when a plan amendment, curtailment or settlement occurs during the annual reporting period, an entity is required to:

- Determine current service cost for the remainder of the period after the plan amendment, curtailment or settlement, using the actuarial assumptions used to remeasure the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event

- Determine net interest for the remainder of the period after the plan amendment, curtailment or settlement using: the net defined benefit liability (asset) reflecting the benefits offered under the plan and the plan assets after that event; and the discount rate used to remeasure that net defined benefit liability (asset).

The amendments also clarify that an entity first determines any past service cost, or a gain or loss on settlement, without considering the effect of the asset ceiling. This amount is recognized in profit or loss. An entity then determines the effect of the asset ceiling after the plan amendment, curtailment or settlement. Any change in that effect, excluding amounts included in the net interest, is recognized in other comprehensive income.

The amendments apply to plan amendments, curtailments, or settlements occurring on or after the beginning of the first annual reporting period that begins on or after January 1, 2019, with early application permitted. These amendments will apply only to any future plan amendments, curtailments, or settlements of the Group.

- Amendments to PAS 28, *Long-term Interests in Associates and Joint Ventures*
  The amendments clarify that an entity applies PFRS 9 to long-term interests in an associate or joint venture to which the equity method is not applied but that, in substance, form part of the net investment in the associate or joint venture (long-term interests). This clarification is relevant because it implies that the expected credit loss model in PFRS 9 applies to such long-term interests.

  The amendments also clarified that, in applying PFRS 9, an entity does not take account of any losses of the associate or joint venture, or any impairment losses on the net investment, recognized as adjustments to the net investment in the associate or joint venture that arise from applying PAS 28, *Investments in Associates and Joint Ventures*.

  The amendments should be applied retrospectively and are effective from January 1, 2019, with early application permitted. Since the Group does not have such long-term interests in its associate and joint venture, the amendments will not have an impact on its consolidated financial statements.

- 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, *Income Taxes,* 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.

This interpretation is not relevant to the Group because there is no uncertainty involved in the tax treatments made by management in connection with the calculation of current and deferred taxes as of December 31, 2018 and 2017.

- *Annual Improvements to PFRSs* 2015-2017 Cycle

  - Amendments to PFRS 3, *Business Combinations,* and PFRS 11, *Joint Arrangements*, *Previously Held Interest in a Joint Operation*
    The amendments clarify that, when an entity obtains control of a business that is a joint operation, it applies the requirements for a business combination achieved in stages, including remeasuring previously held interests in the assets and liabilities of the joint operation at fair value. In doing so, the acquirer remeasures its entire previously held interest in the joint operation.

    A party that participates in, but does not have joint control of, a joint operation might obtain joint control of the joint operation in which the activity of the joint operation constitutes a business as defined in PFRS 3. The amendments clarify that the previously held interests in that joint operation are not remeasured.

    An entity applies those amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after January 1, 2019 and to transactions in which it obtains joint control on or after the beginning of the first annual reporting period beginning on or after January 1, 2019, with early application permitted. These amendments are currently not applicable to the Group but may apply to future transactions.

  - Amendments to PAS 12, *Income Tax Consequences of Payments on Financial Instruments Classified as Equity*

    The amendments clarify that the income tax consequences of dividends are linked more directly to past transactions or events that generated distributable profits than to distributions to owners. Therefore, an entity recognizes the income tax consequences of dividends in profit or loss, other comprehensive income or equity according to where the entity originally recognized those past transactions or events.

    An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application is permitted. These amendments are not relevant to the Group because dividends declared by the Group do not give rise to tax obligations under the current tax laws.

  - Amendments to PAS 23, *Borrowing Costs, Borrowing Costs Eligible for Capitalization*
    The amendments clarify that an entity treats as part of general borrowings any borrowing originally made to develop a qualifying asset when substantially all of the activities necessary to prepare that asset for its intended use or sale are complete.

    An entity applies those amendments to borrowing costs incurred on or after the beginning of the annual reporting period in which the entity first applies those amendments. An entity applies those amendments for annual reporting periods beginning on or after January 1, 2019, with early application permitted.

    Since the Group's current practice is in line with these amendments, the Group does not expect any effect on its consolidated financial statements upon adoption.

Effective beginning on or after January 1, 2020

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

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

These amendments will apply on future business combinations of the Group.

- Amendments to PAS 1, *Presentation of Financial Statements*, and PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, *Definition of Material*
  The amendments refine the definition of material in PAS 1 and align the definitions used across PFRSs and other pronouncements. They are intended to improve the understanding of the existing requirements rather than to significantly impact an entity's materiality judgements.

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

Effective beginning on or after January 1, 2021

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

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

  The core of PFRS 17 is the general model, supplemented by:
  - A specific adaptation for contracts with direct participation features (the variable fee approach)
  - A simplified approach (the premium allocation approach) mainly for short-duration contracts

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

Deferred effectivity

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

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

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

Significant Accounting Judgments and Estimates

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

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

Judgments

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

Judgments applicable beginning January 1, 2018

(a) Evaluation of business model in managing financial instruments

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

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

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

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

(b) Testing the cash flow characteristics of financial assets

In determining the classification of financial assets under PFRS 9, the Group assesses whether the contractual terms of the financial assets give rise on specified dates to cash flows that are SPPI on the principal outstanding, with interest representing time value of money and credit risk associated with the principal amount outstanding. The assessment as to whether the cash flows meet the test is made in the currency in which the financial asset is denominated. Any other contractual term that changes the timing or amount of cash flows (unless it is a variable interest rate that represents time value of money and credit risk) does not meet the amortized cost criteria. In addition, SPPI of instruments with embedded prepayment options are evaluated by considering whether the fair value of the option is insignificant and it does not represent additional compensation for the early termination.

Judgments applicable prior to January 1, 2018

(c) 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.

(d) 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.

(e) 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.

Judgments applicable before and after January 1, 2018

(f) 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.

(g) 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.

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

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

(a) Estimation of credit losses on financial assets

Applicable beginning January 1, 2018
The measurement of impairment losses for financial assets at amortized cost, including investment securities and loans and receivables and FVOCI under PFRS 9 requires judgment, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment losses and the assessment of a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

The Group's ECL calculations are outputs of models with a number of underlying assumptions regarding the choice of variable inputs and their interdependencies. Significant factors affecting the estimates on the ECL model include:
- The Group's internal risk rating process and assignment of PD based on this risk rating;
- The Group's criteria for assessing if there has been a significant increase in credit risk;
- The Group's definition of default, which is consistent with regulatory requirements;
- The segmentation of financial assets when the ECL is assessed on a collective basis;
- Development of ECL models, including the various formulas and the choice of inputs;
- Determination of associations between macroeconomic scenarios and economic inputs, and the effect on PDs, EADs and LGDs.
- Definition of forward-looking macroeconomic scenario variables.

Applicable prior to January 1, 2018
This judgment was applied for estimating credit losses for loans and receivables. The identification of impairment and the determination of the recoverable amounts of loans are key areas of judgment and estimate for management. The use of different approaches and assumptions could produce significantly different estimates of allowance for credit losses.

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

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

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

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

(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, 2018 and 2017.

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

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

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

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

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

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

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:

		March 31, 2019 Consolidated (unaudited)			
		Fair Value			
				Significant observable	Significant unobservable
			Quoted Prices in	inputs	inputs
	Carrying Value	Total	(Level 1)	(Level 2)	(Level 3)
Assets measured at fair value					
Financial assets					
Financial assets at FVPL:					
Held-for-trading securities					
Government securities	901	901	901		
Private bonds and commercial pape	63	63	63		
	964	964	964		
Deisgnated at FVPL					
Quoted equity securities	27	27	27	-	-
Unquoted debt securities	442	442	-	-	442
Derivative assets	-	-	-	-	-
Currency forwards and swaps	18	18	18	-	-
		-			
	1,451	**1,451**	**1,009**	**-**	**442**
AFS investments					
Government securities	19,119	19,119	19,119	-	-
Private bonds and commercial pape	1,983	1,983	1,983	-	-
Unquoted equity securities	-	-	-	-	-
	21,102	**21,102**	**21,102**	**-**	**-**
	22,553	**22,553**	**22,111**	-	**442**
Assets for which fair values					
Financial assets					
HTM Investments					
Government Securities	16,238	14,337	14,337	-	-
Private bonds and commercial pap	766	699	699	-	-
Loans and receivables					
Corporate lending	123,740	84,528	-	-	84,528
Consumer lending	22,392	18,758	-	-	18,758
Finance lease receivables	670	672	-	-	672
Loans and receivables financed	174	182	-	-	182
Customers' liabilities under acceptan	4,785	5,849	-	-	5,849
Unquoted debt securities	-	-	-	-	-
	168,765	**125,025**	**15,036**	-	**109,989**
Nonfinancial assets					
Investment properties	409	580			580
	169,174	**125,605**	**15,036**	**-**	**110,569**
	191,727	**148,158**	**37,146**	**-**	**111,011**
Liabilities for which fair values are disclosed					
Financial Liabilities					
Other liabilities					
Deposit liabilities					
Time	38,294	34,835	-	-	34,835
LTNCD	-	-	-	-	-
Unsubordinated Debt Securities	4,971	2,379	-	-	2,379
Bills Payable	5,236	4,916	-	-	4,916
	48,501	**42,129**	-	-	**42,129**

		December 31, 2018 Consolidated (audited)			
		Fair Value			
	Carrying Value	Total	Quoted (Level 1)	Significant observable inputs (Level 2)	Significant unobservable inputs (Level 3)
Assets measured at fair					
Financial assets					
Financial assets at FVPL:					
Held-for-trading securities					
Government securities	364	364	364	-	
Private bonds and commercial pap	39	39	39		
	403	403	403	-	-
Deisgnated at FVPL					
Quoted equity securities	27	27	27		
Unquoted debt securities	442	443		-	443
Derivative assets					
Currency forwards and swaps	5	5	-	5	
	475	**475**	**27**	**5**	**443**
	877	**878**	**430**	**5**	**443**
AFS investments					
Government securities	19,536	19,536	19,536	0	
Private bonds and commercial pa	1,318	1,318	1,318	-	
Unquoted equity securities	50.7	50.7	-		50.7
	20,905	**20,905**	**20,854**	**0**	**51**
	21,782	**21,783**	**21,284**	**6**	**493**
Assets for which fair values are disclosed					
Financial assets					
HTM Investments					
Government Securities	14,760	13,479	12,087	1,392	-
Private bonds and commercial p	357	263	-	-	263
Loans and receivables					
Corporate lending	127,872	85,743	-	-	85,743
Consumer lending	22,560	16,149	-	-	16,149
Finance lease receivables	702	689	-	-	689
Loans and receivables financed	192	172	-	-	172
Customers' liabilities under accepta	3,831	4,464	-	-	4,464
Unquoted debt securities	-	-	-	-	-
	170,275	**120,959**	**12,087**	**1,392**	**107,480**
Nonfinancial assets					
Investment properties	420	440	-	-	440
	420	**440**	**-**	**-**	**440**
	170,696	**121,399**	**12,087**	**1,392**	**107,920**
	192,478	**143,182**	**33,372**	**1,398**	**108,414**
Liabilities for which fair values are disclosed					
Financial Liabilities					
Other liabilities					
Deposit liabilities					
Time	47,411	43,669	-	-	43,669
LTNCD	900	789	-	-	789
Unsubordinated Debt Securities	4,971	2,377	-	-	2,377
Bills Payable	4,922	4,529	-	-	4,529
	58,205	**51,364**	**-**	**-**	**51,364**

As of March 31, 2019 and 2018, no transfers were made among the three levels in the fair valuehierarchy.

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 landvalue.
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 secondaryroad.
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 theproperty.
Cornerinfluence	Bounded by two (2)road

Operating Segments

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

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 pensionloans;

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 oncapital;

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 March 31, 2019 follow(Amounts in millions):

	Three Months Ended March 31, 2019					
	(Unaudited) in millions					
	COMMERCIAL	CONSUMER	TREASURY	BRANCHES	OTHERS	TOTAL
Statement of Income						
Net interest income	62	236	365	(12)	1,519	2,170
Other income	12	116	263	47	121	558
Total operating income	74	352	628	34	1,640	2,728
Other operating expenses	134	243	92	43	762	1,276
Provisions	172	137	88	(92)	47	351
Net income for the period	(232)	(28)	448	83	831	1,102
Statement of Financial Position						
Total Assets	70,592	13,814	74,770	6,250	68,607	234,032
Total Liabilities	12,634	3,880	23,935	3,188	159,179	202,815
Other Segment Information						
Depreciation and Amortization	2	27	1	19	46	94
Provision for Allowance on Credit and Impairment Losses	131	117	-	(97)	(5)	146

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

	Three Months Ended March 31, 2018 (Unaudited) in millions					
	COMMERCIAL	CONSUMER	TREASURY	BRANCHES	OTHERS	TOTAL
Statement of Income						
Net interest income	233	228	142	1,076	3	1,682
Other income	80	115	153	99	57	504
Total operating income	313	343	295	1,176	59	2,185
Other operating expenses	113	194	84	681	52	1,125
Provision *	4	47	66	143	2	263
Net income for the period	195	101	145	351	5	798
Statement of Financial Position						
Total Assets	108,136	20,658	72,499	2,992	3,080	207,365
Total Liabilities	15,001	3,705	26,377	132,946	1,716	179,745
Other Segment Information	-	-	-	-	-	
Depreciation and Amortization	2	30	1	60	17	109
Provision for Allowance e on Credit and Impairment Losses	(26)	27	-	98	0	99

**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 time.

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

Capital Adequacy Ratio

The capital adequacy ratio (CAR) of the Group as at March 31,2019, December 31, 2018, and March 31, 2018 based on Basel III are shown in the table below (amounts in millions):

in millions (PHP)	March 31, 2019	December 31,2018	March 31, 2019
Tier 1 Capital	25,766	24,409	23,168
Tier 2 Capital	6,451	6,209	6,405
Total Qualifying Capital	32,217	30,618	29,573
Total Risk Weighted Assets	203,344	202,637	177,423
Capital Ratios			
Total CAR	15.84%	15.11%	16.67%
Tier 1 Ratio	12.67%	12.05%	13.06%

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

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

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

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

As of December 31, 2018 and 2017, 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 March 31,2019 and December 31,2018, 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:

	March 31, 2019	December 31, 2018
Trust department accounts	20,919,022	17,205,226
Unused commercial letters of credit	995,265	1,728,642
Standby letters of credit	1,266,573	2,184,596
Spot Exchange Bought	2,261,197	1,163,068
Forward Exchange Sold	3,665,385	2,399,247
Outstanding guarantees issued	340,263	477,654
Inward bills for collection	144,202	162,949
Late deposits/payment received	26,230	127,819

Spot Exchange Sold	669,029	661,782
Outward bills for collection	36,444	49,525
Forward Exchange Bought	1,460,238	1,214,578
Others	838	822

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

Earnings per Share

Earnings per share amounts were computed as follows:

	March 31 2019 (Unaudited)	December 31, 2018 (Audited)	March 31, 2018 (Unaudited)
a. Net income attributable to equity holders of the Parent Company	1,105,074,278	3,313,340,815	793,142,254
b. Net income attributable to minority interest	(3,275,540)	(25,874,858)	4,568,446
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)	9.11	6.83	6.54

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

Material Contingencies

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

Related Party Transactions

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

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

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

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

Financial Condition and Results of Operations

The tables in Exhibit A and B present the Group's consolidated Statements of Condition as of March 31, 2019 (Unaudited), December 31, 2018 (Audited) and March 31, 2018 (Unaudited) and, Statements of Income for the three-month periods ended March 31,2019 and March 31,2018 and the changes thereto as of and for the periods then ended.

Analysis of Changes in Financial Condition as of March 31, 2019 (Unaudited) vs. December 31, 2018 (Audited) – Exhibit A

The Group's total assets decreased by 1.5% from P237.643 billion as of December 31, 2018 to P234.032 billion as of March 31, 2019.

Cash and other cash items decreased by 14.8% from P3.765 billion as of December 31, 2018 to P3.207 billion as of March 31, 2019 as the bank's cash level normalizes from the peak levels during year-end Holiday season. Due from other banks also decreased by 46.5% from 3.551 billion as of December 31, 2018 to 1.901 billion as of March 31, 2019 due to an overall drop of deposit volumes.

Interbank loans receivable and securities purchased under resale agreements decreased by 74% from P2.809 billion as of December 31, 2018 to P731 million as of March 31, 2019. Meanwhile, Financial Assets at Fair Value through Other Comprehensive Income increased by 1.2% from P20.905 billion as of December 31, 2018 to P21.152 billion as of March 31, 2019 on account of the Group's effort to deploy funds into other yielding assets.

Investment Securities at Amortized Cost, on the other hand, increased from P15.117 billion as of December 31, 2018 to P17.004 billion as of March 31, 2019 to enhance the Bank's ability to provide a more stable income flow.

Likewise, financial assets at fair value through profit or loss increased by 65.3% from P878.095 million as of December 31, 2018 to P1.451 billion as of March 31, 2019 in anticipation of better trading opportunities.

Meanwhile, loans and Receivables slightly decreased by 1.2% from P155.702 billion as of December 31, 2019 to P153.860 billion as of March 31, 2019 due to net pay down in corporate loans during the period.

Property and equipment decreased 5.2% from P1.077 billion as of December 31, 2018 to P1.021 billion as of March 31, 2019.

Total liabilities decreased by 2.7% from P208.426 billion as of December 31, 2018 to 202.815 billion as of March 31, 2019.

Total deposits decreased by 3.2% from P193.083 billion as of December 31, 2018 to P186.895 billion as of March 31,2019 as the Bank did not rollover high cost deposits. This can be attributed to the decrease in time deposits of 19.2%, with P47.411 Billion in December 31, 2018 to P38.294

Billion in March 31, 2019. Moreover, there was also a decrease in the long term negotiable certificate as it has matured.

Bills payable increased by 6.4% from P4.922 billion as of December 31, 2018 to P5.236 billion as of March 31, 2019 mainly to avail of alternative funding sources such as BSP Rediscounting.

Accrued Taxes, interest and other expenses increased by 5.1% from P1.394 billion as of December 31, 2018 to P1.464 billion as of March 29, 2019 mainly due to increase in accrued taxes remitted on a quarterly basis.

The net unrealized gain on sale of available-for-sale investments improved to P405.047 million as of March 31, 2019 from a loss of P491.308 million as of December 31, 2018 as global bond market conditions improve.

Analysis of Changes in Financial Condition as of March 31, 2019 (Unaudited) vs. March 31, 2018 (Unaudited) – Exhibit A

The Group's total assets increased by 12.9% from P207 billion as of March 31,2018 to P234 billion as of March 31,2019.

Cash and other cash items decreased by 2.9% from P3.302 billion as of March 31, 2018 to P3.207 billion as of March 31, 2019 as the bank continue to manage non-earning cash in vaults of its branches.

Amounts on due from other banks increased by 17.4% from P1.619 billion as of March 31, 2018 to P1.901 billion as of March 31, 2019. Meanwhile, due from the BSP also increased by 12% from P25.816 billion as of March 31, 2018 to P28.913 billion as of March 31, 2019. The increase can be attributed mainly due to sustained growth in deposit volumes.

Interbank loans receivable and securities purchased under resale agreements decreased by 64.1% from P2.035 billion as of March 31, 2018 to P731 million as of March 31, 2019 due to deployment into other yielding assets.

Investments Securities at Amortized Cost increased by 48.7% from P11.436 billion as of March 31, 2018 to P17.004 billion as of March 31, 2019; Financial Assets at Fair Value through Other Comprehensive Income increased by 84.8% from P11.455 billion as of March 31, 2018 to P21.153 billion as of March 31, 2019 due to significant holdings on cash like securities.

Financial assets at fair value through profit or loss decreased by 90.8% from P15.770 billion as of March 31, 2018 to P1.451 billion as of March 31, 2019 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 18.7% from P129.616 billion as of March 31, 2018 to P153.860 billion as of March 31, 2019. Propelling the growth were commercial loans and other loan segments such as housing, and salary loans, which all posted double-digit growth.

Total liabilities increased by 12.8% from P179.745 billion as of March 31, 2019 to P202.815 billion as of March 31, 2018

In particular, total deposits increased by 12.3% from P166.463 billion as of March 31, 2018 to P186.895 billion as of March 31, 2019. Most of it came from savings deposits which increased by 56.6%, from P45.387 billion in March 31, 2018 to P71.075 million in March 31, 2019.

Bills payable increased by 61.8% from P3.236 billion as of March 31, 2019 to P5.235 billion as of March 31, 2018 mainly to availment of alternative funding sources such as BSP Rediscounting.

The bank's surplus, excluding surplus reserves, increased by 12.2% from P16.103 billion as of March 31, 2018 to P18.061 billion as of March 31, 2019 mainly due to the 38.1% growth in Net Income as of March 31, 2019 from same period a year ago.

The net unrealized gain on sale of available-for-sale investments continues to improve from a loss of P306.588 million as of March 31, 2018 to a gain of P405.047 million as of March 31, 2019 due to the overall improvement of bond market conditions.

Analysis of Results of Operations for the Three-month Period Ended March 31, 2019 (Unaudited) vs. March 31, 2018 (Unaudited) – Exhibit B

Interest Income
Gross interest income increased by 48.5% from P2.268 billion for the quarter ended March 31, 2018 to P3.367 billion in March 31, 2019. This was driven by the bank's loan portfolio growth in the first quarter, enabling the Group to reach P2.924 billion in interest income from loans versus P1.961 billion a year ago.

Interest income from Interbank loans receivable and securities purchased under resale agreements increased by 123.7% from P14.718 billion for period ended March 31, 2018 to P32.917 billion for period ended March 31, 2019; Interest income from Deposits with banks and others increased by 113.4% from P7.931 million for period ended March 31, 2018 to P16.929 million for period ended March 31, 2019 due to overall increase in interest rates as BSP increased overnight rates by 175 bps. Interest income from Trading and investment securities also increased 40.7% from P264.939 million for the period ended March 31, 2018 to P372.857 million for the period ended March 31, 2019 due to overall increase in volume.

Interest Expense
Total interest expense increased by 104.3%, from P585.840 million for the quarter ended March 31, 2018 to P1.197 billion for the quarter ended March 31, 2019. This is primarily due to the increase in interest expense from deposit liabilities from P480.027 million for the quarter ended March 31, 2018 to P1.081 Billion for the quarter ended March 31, 2019, due to growth in deposit volume.

Net Interest Income
Net interest income increased by 29.1% from P1.681 billion for the quarter ended March 31, 2018 to P2.170 billion same period this year. This translated to a Net Interest margin of 4.7%, higher than the 4.3% a year ago.

Other Operating Income
AUB's other operating income increased by 10.8% increase from P503.657 million for the period ended March 31, 2018 to P558.121 million for the period ended March 31, 2019.

In particular, Trading and securities gain increased by 77.7% to P142.998 million for the period ended March 31, 2018 to P254.149 million for the period ended March 31, 2019 due to improved bond market conditions. Meanwhile, Foreign exchange gain decreased by 13.2% from 27.588 million a year ago to P23.940 million for the period ended March 31, 2019 due to volatile movement of local currency.

Service charges, fees and commissions decreased by 15.5% from P226.899 million for quarter ended March 31, 2018 to P191.798 million for quarter ended March 31, 2019 due to increased transactions from increase in loan and deposit volume.

The group's total operating expenses including provision for losses increased by 16.2% to P1.421 billion for quarter ended March 31, 2019 from P1.224 billion of the same period a year ago. In particular, large increases are observed from the group's Compensation, Loss Provisions, Taxes and Licenses, and Insurance.

Despite the increase in operational expenses, the group was able to effectively manage cost, as cost to income ratio continue to improve to 46.8% for quarter ended March 31, 2019 from 51.5% for quarter ended March 31, 2018.

Provision for (Benefit from) Income Tax
AUB recorded a provision for income tax of P204.685 million for the period ended March 31, 2019 which was 25.2% higher than the provision of P163.504 million recorded for the period ended March 31, 2018. This increase was due to the higher tax paid income as of March 31, 2019 versus a year ago.

Net Income
To summarize, the Group posted a net income of P1.102 billion for the first quarter of 2019, 38.1% higher than a year ago. Boosting its bottom line was the 49.1% growth in interest income from loans and receivables and 10.8% growth in other operating income.

The Group's net income for the first quarter of 2019 translated to a Return on Assets of 2% and Return on Equity of 15.1% versus year-ago ratios of 1.7% and 12.2%, respectively.

Key Performance Indicators

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

	March 31 2019	**Dec 31 2018**
	(Unaudited)	**(Audited)**
Return on average asset ratio	2.00%	1.50%
Return on average equity	15.11%	11.73%
Net interest margin (NIM)	4.71%	4.28%
Cost-to-income ratio	46.76%	49.77%
Asset growth	12.9%	18.9%

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 endedMarch 31, 2019 and March 31,2018came 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, 2018. Unless otherwise indicated, adoption of these amended standards did not have material impact to the Group.

New and Amended Standards

- Amendments to PFRS 2, *Share-based Payment, Classification and Measurement of Share-based Payment Transactions*
  - Amendments to PFRS 4, *Applying PFRS 9 Financial Instruments with PFRS 4 Insurance Contracts*
  - Philippine Interpretation IFRIC-22, *Foreign Currency Transactions and Advance Consideration*
  - *Annual Improvements to PFRSs (2014-2017 Cycle)*
  - Amendments to PAS 28, *Investments in Associates and Joint Ventures*, *Measuring an Associate or Joint Venture at Fair Value* (Part of *Annual Improvements to PFRSs* 2014 - 2016 Cycle)
  - Amendments to PAS 40, *Investment Property*, *Transfers of Investment Property*

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

- PFRS 9, *Financial Instruments*

PFRS 9 reflects all phases of the financial instruments project and replaces PAS 39, *Financial Instruments: Recognition and Measurement* and all previous versions of PFRS 9. The standard introduces new requirements for classification and measurement, impairment, and hedge accounting.

The Group and the Parent Company has adopted PFRS 9 effective January 1, 2018 using the modified retrospective approach. The Group and the Parent Company has not restated the comparative information for 2017, which continued to be reported under PAS 39. Accordingly, the comparative information for 2017 is not comparable with the information presented for 2018. Adjustments arising from the adoption of PFRS 9 have been recognized in surplus and other comprehensive income, as applicable, as of January 1, 2018.

PART II-OTHER INFORMATION

Item 1. Financial Highlights and Indicators

During the first quarter of 2019, there were 3 branches which merged with other branches and there was 1 branch was opened by a subsidiary bank.

The Group closed 2 Offsite and 3 onsite ATMs due for replacement. Moreover, Consolidated headcount increased to 2,527.

For details, please refer to the table below.

	March 31,2019	December 31, 2018	March 31, 2018
Branches*			
Parent Bank	225	228	227
Subsidiary Banks	35	34	28
Total Group	**260**	**262**	**255**
	**includes 1 micro-banking office from Cavite United Rural Bank.*	**includes 1 micro-banking office from Cavite United Rural Bank.*	**including 5 micro-banking offices of Rural Bank of Angeles and 1 micro-banking office of Cavite United Rural Bank.*
Branches by location			
MM	123	124	122
Provincial	137	137	105
Total Group	**260**	**261**	**227**
% in MM	47.31	47.5	49.3
ATMs (Parent only)			
Onsite	170	173	171
Offsite	45	47	48
Total	**215**	**220**	**219**
Headcount			
Parent Bank	2008	2,014	1,871
Subsidiary Banks	519	509	418
Total Group	**2,527**	**2,523**	**2,289**
Headcount per branch			
Parent Bank	8.9	8.8	8.2
Total Group	9.7	9.6	9.0

Item 2. Financial Highlights and Indicators

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

	March 31, 2019 (unaudited)	December 31, 2018 (audited)	March 31, 2018 (unaudited)
Liquidity (%)			
Liquid to Total Assets Ratio	31.8%	25.6%	34.4%
Loans (net) to Deposits Ratio	82.3%	80.6%	77.9%
Solvency (%)			
Debt-to-Equity Ratio	615.5%	713.4%	614.4%
Asset-to-Equity Ratio	749.7%	813.4%	750.8%
Interest Rate Coverage Ratio	209.1%	237.2%	264.1%
Profitability (%)			
Return on Assets	2.0%	1.5%	1.7%
Return on Equity	15.1%	11.7%	12.2%
Net Interest Margin	4.7%	4.3%	4.3%
Cost-to-Income Ratio	46.8%	49.8%	51.5%
Asset Quality (%)			
Non-performing Loans Ratio[2]	1.37%	1.2%	1.7%
Non-performing Loans Coverage Ratio	59.0%	60.0%	81.4%
Capital Adequacy (%)			
Total regulatory capital expressed as percentage of total risk-weighted assets	15.84%	15.11%	16.67%
Total CET 1 expressed as percentage of total risk-weighted assets	12.67%	12.05%	13.06%
Total Tier 1 expressed as percentage of total risk-weighted assets	12.67%	12.05%	13.06%

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

Item 3. Aging of Loans and Other Receivables

PSE Requirement per Circular No. 2164-99
As of March 2019
In thousands (PHP)

Up to 12 months	96,186,060	61.7%
Over 1 year to 3 years	33,646,914	21.6%
Over 3 years to 5 years	21,671,282	13.9%
Over 5 years	4,323,691	2.8%
Loans Receivables (gross)	155,827,947	100.0%
Less:		
Allowance for credit losses	1,967,625	
Loans Receivables (Net)	**153,860,322**	

Item 4. Use of IPO Proceeds

Background

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

Update

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

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

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

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

Item 5. Board Resolutions

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

SIGNATURES

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

Issuer: ASIA UNITED BANK

By:

Manuel A. Gomez
President/Principal Executive Officer
Principal Operating Officer

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

June 3, 2019

ASIA UNITED BANK CORPORATION

INDEX TO EXHIBITS

ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (1 of 3)
AS OF March 31,2019

In thousands (PHP)	March 31,2019	December 31, 2018	March 31, 2018	March 31, 2019 vs. December 31, 2018		March 31, 2019 vs March 31, 2018	
Assets	**(Unaudited)**	**(Audited)**	**(Unaudited)**	**+/-**	**%**	**+/-**	**%**
Cash and Other Cash Items	3,206,696	3,764,798	3,301,643	(558,102)	-14.8%	(94,947)	-2.9%
Due from Bangko Sentral ng Pilipinas	28,913,960	29,011,848	25,816,309	(97,888)	-0.3%	3,097,651	12.0%
Due from Other Banks	1,901,060	3,551,322	1,619,201	(1,650,262)	-46.5%	281,860	17.4%
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	731,372	2,808,893	2,034,870	(2,077,521)	-74.0%	(1,303,498)	-64.1%
Financial Assets at Fair Value Through Profit or Loss	1,451,083	878,095	15,770,333	572,988	65.3%	(14,319,250)	-90.8%
Financial Assets at Fair Value through Other Comprehensive Income	21,152,593	20,904,786	11,445,497	247,807	1.2%	9,707,096	84.8%
Investment Securities at Amortized Cost	17,004,430	15,117,415	11,436,182	1,887,015	12.5%	5,568,248	48.7%
Loans and Receivables	153,860,322	155,701,605	129,615,561	(1,841,283)	-1.2%	24,244,761	18.7%
Investments in Subsidiaries	0	0	0	-			
Property and Equipment	1,020,794	1,077,009	1,152,708	(56,215)	-5.2%	(131,914)	-11.4%
Investment Properties	409,108	420,330	473,483	(11,222)	-2.7%	(64,375)	-13.6%
Deferred Tax Assets	40,197.25	14,539.19	305,562.71	25,658.06	176.5%	(265,365.47)	-86.8%
Goodwill	1,961,445.54	1,961,445.54	2,074,170.84	-	0.0%	(112,725.30)	-5.4%
Intangible Assets	1,971,224.67	1,977,676.56	1,980,094.63	(6,451.89)	-0.3%	(8,869.96)	-0.4%
Other Assets	407,556.38	452,823.38	339,684.32	(45,267.00)	-10.0%	67,872.06	20.0%
	0	0	0	-		-	
TOTAL ASSETS	234,031,842	237,642,585	207,365,298	**(3,610,743)**	**-1.5%**	**26,666,543**	**12.9%**

ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (2 of 3)
AS OF March 31, 2019

In thousands (PHP)	**March 31,2019**	**December 31, 2018**	**March 31,2018**	**March 31, 2019 vs. December 31, 2018**		**March 31,2019 vs March 31, 2018**	
	(Unaudited)	**(Audited)**	**(Unaudited)**	**+/-**	**%**	**+/-**	**%**
LIABILITIES AND EQUITY							
Liabilities							
Deposit Liabilities							
Demand	77,525,496	74,482,376	80,441,462	3,043,120	4.1%	(2,915,966)	-3.6%
Savings	71,075,483	70,290,548	45,387,132	784,935	1.1%	25,688,351	56.6%
Time	38,293,575	47,410,944	39,734,526	(9,117,369)	-19.2%	(1,440,951)	-3.6%
Long Term Negotiable Certificates of Deposits	0	900,000	900,000	(900,000)	-100.0%	(900,000)	-100.0%
	186,894,554	193,083,868	166,463,119	**(6,189,314)**	**-3.2%**	**20,431,435**	**12.3%**
Bills Payable	5,235,812	4,922,286	3,236,436	313,527	6.4%	1,999,376	61.8%
Subordinated Debt	4,971,427	4,971,427	4,968,122	-	0.0%	3,305	0.1%
Manager's Checks	402,125	319,388	414,814	82,737	25.9%	(12,688)	-3.1%
Income Tax Payable	200,287	46,889	186,815	153,398	327.2%	13,472	7.2%
Accrued Taxes, Interest and Other Expenses	1,464,411	1,393,977	1,053,668	70,434	5.1%	410,743	39.0%
Derivative Liabilities	8,236	0	16,401	8,236		(8,165)	-49.8%
Deferred Tax Liabilities	3,300	0	1,378	3,300			
Other Liabilities	3,634,615	3,688,489	3,403,765	(53,873)	-1.5%	230,851	6.8%
Total Liabilities	202,814,768	208,426,323	179,744,518	**(5,611,555)**	**-2.7%**	**23,070,249**	**12.8%**

ASIA UNITED BANK CORPORATION
EXHIBIT A - COMPARATIVE STATEMENT OF CONDITION (3 of 3)
AS OF March 31,2019

In thousands (PHP)	March 31, 2019	December 31, 2018	March 31, 2018	March 31, 2019 vs. December 31, 2018		March 31,2019 vs March 31, 2018	
	(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	1,034,313	1,034,313	54,322	-	0.0%	979,992	1804.0%
Surplus	18,060,959	16,955,885	16,103,028	1,105,074	6.5%	1,957,931	12.2%
Net unrealized gain (loss) on available-for-sale investments	405,047	(491,308)	(306,588)	896,356	-182.4%	711,636	-232.1%
Cumulative translation adjustment	99,290	96,640	100,764	2,650	2.7%	(1,475)	-1.5%
	31,075,534	29,071,454	27,427,450	2,004,080	6.9%	3,648,084	13.3%
Non-controlling Interest	141,540	144,807	193,329	(3,268)	-2.3%	(51,790)	-26.8%
Total Equity	31,217,074	29,261,262	27,620,780	**2,000,812**	**6.8%**	**3,596,294**	**13.0%**
				-			
TOTAL LIABILITIES AND EQUITY	234,031,842	237,642,585	207,365,298	**(3,610,743)**	**-1.5%**	**26,666,543**	**12.9%**

ASIA UNITED BANK CORPORATION
EXHIBIT B - COMPARATIVE STATEMENTS OF INCOME (1 of 2)
AS OF March 31, 2019

In thousands (PHP)	March 31, 2019	December 31, 2018	March 31, 2018	March 31, 2019 vs. December 31, 2018		March 31, 2019 vs March 31, 2018	
	(Unaudited)	(Audited)	(Unaudited)	+/-	%	+/-	%
INTEREST INCOME							
Loans and receivables	2,923,714	9,177,691	1,961,108	(6,253,977)	-68.1%	962,606	49.1%
Trading and investment securities	372,857	1,268,328	264,939	(895,471)	-70.6%	107,919	40.7%
Interbank loans receivable and securities purchased under resale agreements	32,917	95,475	14,718	(62,558)	-65.5%	18,199	123.7%
Deposit with banks and others	16,929	63,641	7,932	(46,711)	-73.4%	8,998	113.4%
Others	20,823	78,188	18,807	(57,365)	-73.4%	2,017	10.7%
	3,367,241	10,683,323	2,267,502	(7,316,082)	-68.5%	1,099,738	48.5%
INTEREST EXPENSE							
Deposit liabilities	1,081,168	2,477,772	480,027	(1,396,604)	-56.4%	601,141	125.2%
Bills payable and other borrowings	115,812	442,903	105,813	(327,090)	-73.9%	9,999	9.4%
	1,196,980	2,920,674	585,840	(1,723,695)	-59.0%	611,140	104.3%
NET INTEREST INCOME	2,170,261	7,762,648	1,681,662	(5,592,387)	-72.0%	488,599	29.1%
Trading and securities gain - net	254,149	269,232	142,998	(15,083)	-5.6%	111,151	77.7%
Service charges, fees and commissions	191,798	825,514	226,899	(633,716)	-76.8%	(35,100)	-15.5%
Foreign exchange gain (loss) - net	23,940	197,555	27,588	(173,614)	-87.9%	(3,648)	-13.2%
Trust income	12,962	47,051	11,605	(34,089)	-72.5%	1,357	11.7%
Gain on asset foreclosures and dacion transactions	0	0	0	0		-	
Gain on bargain purchase (Note 36)	0	0	0	0		-	
Miscellaneous	75,272	464,037	94,567	(388,765)	-83.8%	(19,295)	-20.4%
OTHER OPERATING INCOME	558,121	1,803,388	503,657	(1,245,267)	-69.1%	54,464	10.8%
TOTAL OPERATING INCOME	2,728,382	9,566,036	2,185,319	(6,837,654)	-71.5%	543,063	24.9%
						-	

ASIA UNITED BANK CORPORATION
EXHIBIT B - COMPARATIVE STATEMENTS OF INCOME (2 of 2)
AS OF March 31, 2019

In thousands (PHP)	March 31, 2019	December 31, 2018	March 31, 2018	March 31, 2019 vs. December 31, 2018		March 31, 2019 vs March 31, 2018	
	(Unaudited)	(Audited)	(Unaudited)	+/-	%	+/-	%
Compensation and fringe benefits	387,706	1,509,685	357,836	(1,121,979)	-74.3%	29,870	8.3%
Provision for credit and impairment losses	146,236	796,825	99,058	(650,589)	-81.6%	47,178	47.6%
Depreciation and amortization	94,151	410,149	108,686	(315,997)	-77.0%	(14,534)	-13.4%
Taxes and licenses	238,790	658,042	156,214	(419,252)	-63.7%	82,576	52.9%
Rent	104,548	398,259	97,810	(293,711)	-73.7%	6,737	6.9%
Insurance	120,790	430,985	91,457	(310,195)	-72.0%	29,333	32.1%
Security, messengerial and janitorial	37,275	136,631	31,385	(99,356)	-72.7%	5,890	18.8%
Freight expenses	16,495	88,610	26,621	(72,115)	-81.4%	(10,125)	-38.0%
Transportation and travel	23,233	112,001	26,142	(88,768)	-79.3%	(2,909)	-11.1%
Power, light and water	17,622	69,780	15,216	(52,158)	-74.7%	2,406	15.8%
Postage, telephone, cables and telegrams	30,648	105,743	24,378	(75,096)	-71.0%	6,270	25.7%
Management and other professional fees	4,431	125,692	29,548	(121,262)	-96.5%	(25,117)	-85.0%
Repairs and maintenance	23,185	91,387	18,896	(68,202)	-74.6%	4,290	22.7%
Amortization of intangibles	10,634	40,541	9,673	(29,906)	-73.8%	961	9.9%
Miscellaneous	166,154	583,649	131,187	(417,494)	-71.5%	34,968	26.7%
TOTAL OPERATING EXPENSES	1,421,898	5,557,980	1,224,104	(4,136,081)	-74.4%	197,794	16.2%
INCOME BEFORE SHARE IN NET INCOME OF SUBSIDIARIES	1,306,484	4,008,057	961,215	(2,701,573)	-67.4%	345,269	35.9%
Share in Net Income of Subsidiaries	0	0	0	0	0	0	0
INCOME BEFORE INCOME TAX	1,306,484	4,008,057	961,215	(2,701,573)	-67.4%	345,269	35.9%
PROVISION FOR (BENEFIT FROM) INCOME TAX	204,685	720,591	163,504	(515,906)	-71.6%	41,181	25.2%
NET INCOME	1,101,799	3,287,466	797,711	(2,185,667)	-66.5%	304,088	38.1%