UnionBank Plaza, Meralco Avenue cor. Onyx
& Sapphire Roads, Ortigas Center, Pasig City 1605

May 15, 2019

SECURITIES AND EXCHANGE COMMISSION
Secretariat Building, PICC Complex
Roxas Boulevard, Pasay City

Attention : **DIRECTOR VICENTE GRACIANO P. FELIZMENIO**
Markets and Securities Regulation Department

via PSE EDGE
THE PHILIPPINE STOCK EXCHANGE, INC.
6th Floor, PSE Tower
28th Street corner 5th Avenue
Bonifacio Global City, Taguig City

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

via electronic mail
PHILIPPINE DEALING AND EXCHANGE CORP.
37/F Tower 1, The Enterprise Center
6766 Ayala Avenue corner Paseo de Roxas
Makati City

Attention : **ATTY. JOSEPH B. EVANGELISTA**
Head, Issuer Compliance and Disclosure Department

Gentlemen:

In compliance with the SEC reportorial requirements, we are pleased to submit the SEC Form 17-Q of the Unionbank of the Philippines for the three months ended March 31, 2019.

Thank you.

Very truly yours,

FRANCIS B. ALBALATE
SVP / Financial Controller

COVER SHEET

3	6	0	7	3

S.E.C. Registration Number

UNIONBANK OF THE PHILIPPINES

(Company's Full Name)

UNIONBANK PLAZA MERALCO AVENUE
COR ONYX AND SAPPHIRE STREETS
ORTIGAS CENTER, PASIG CITY

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

FRANCIS B. ALBALATE
Contact Person

(632)667-6388
Company Telephone Number

1 2 | 3 1
Month *Day*
Fiscal Year

SEC FORM 17Q
FORM TYPE

0 5 | 2 5
Month *Day*
Annual Meeting

UNDERWRITER OF SECURITIES
Secondary License Type, If Applicable

C F D
Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

4,897
Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended : **March 31, 2019**

2. Commission identification number : **36073**

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

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

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

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

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

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

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

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

Title of Each Class	Number of Share of Common Stock Outstanding	Amount of Debt Outstanding (Unpaid Subscription)
Common Stock P10 par value	**1,217,609,561**	**None**

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

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

12. Indicate by check mark whether the registrant:

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

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

PART I – FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

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

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

PART II - OTHER INFORMATION

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

SIGNATURES

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

EDWIN R. BAUTISTA
President, Chief Executive Officer

FRANCIS B. ALBALATE
SVP, Financial Controller

Date: May 15, 2019

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENT OF CONDITION
(With Comparative Audited Figures as at March 31, 2019
(Amounts in Thousands of Philippine Pesos)

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
ASSETS		
Cash and Other Cash Items	14,364,329	10,916,533
Due From Bangko Sentral Ng Pilipinas	50,739,048	56,510,701
Due From Other Banks	24,397,776	14,942,213
Interbank Loans Receivables	5,328,312	-
Trading and Investment Securities		
At fair value through profit or loss	19,188,197	8,283,695
At amortized cost	210,822,184	200,173,730
At fair value through other comprehensive income	11,853,064	9,815,040
Loans and Other Receivables - Net	314,984,564	326,199,466
Investment in Subsidiaries	21,421	29,558
Bank Premises, Furniture, Fixtures And Equipment - Net	6,043,971	5,108,843
Assets Held For Sale - Net	251,770	-
Investment Properties	15,161,754	15,253,451
Goodwill	15,726,267	15,726,267
Other Assets	15,643,374	10,823,188
TOTAL ASSETS	**704,526,033**	**673,782,685**
LIABILITIES AND EQUITY		
Deposit Liabilities		
Demand	120,230,426	119,253,735
Savings	64,943,940	67,348,145
Time	234,362,009	228,100,653
Long term negotiable certificate of deposits	6,000,000	6,000,000
Total Deposit Liabilities	425,536,374	420,702,533
Bills Payable	118,067,053	90,964,473
Notes Payable	44,855,610	44,522,066
Other Liabilities	25,096,970	26,632,712
Total Liabilities	613,556,008	582,821,784
EQUITY		
Equity Attributable to the Parent Bank's Stockholders:		
Common stock	12,176,096	12,171,495
Additional paid-in capital	14,172,060	14,146,988
Surplus free	61,346,164	61,456,681
Surplus reserves	3,472,227	3,502,769
Net unrealized fair value gains on investment securities	285,008	75,165
Other reserves	50,121	50,121
Remeasurement of defined benefit plan	(1,066,990)	(985,496)
Total Equity Attributable to the Parent Bank's Stockholders:	90,434,686	90,417,723
Non-controlling Interests	535,339	543,178
TOTAL EQUITY	90,970,025	90,960,901
TOTAL LIABILITIES AND EQUITY	**704,526,033**	**673,782,685**

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

	FOR THE QUARTER ENDED MARCH 31	
	2019	**2018 (As Restated)****
INTEREST INCOME ON		
Loans and other receivables	6,301,474	5,070,750
Investment securities at amortized cost and FVOCI	2,468,042	1,705,853
Cash and cash equivalents	124,398	131,693
Financial assets at fair value through profit and loss	94,403	73,846
Interbank loans receivable	31,961	53,461
	9,020,278	**7,035,603**
INTEREST EXPENSE ON		
Deposit Liabilities	2,896,782	1,874,628
Bills payable and other liabilities	1,467,828	541,763
	4,364,609	**2,416,391**
NET INTEREST INCOME	4,655,669	4,619,212
IMPAIRMENT LOSSES	174,638	-
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES	4,481,032	4,619,212
OTHER INCOME		
Service charges, fees and commissions	530,121	313,174
Gain on trading and non trading financial assets	1,189,501	1,477,188
Miscellaneous	600,056	476,909
	2,319,678	**2,267,272**
OPERATING EXPENSES		
Salaries and employee benefits	1,641,080	1,396,601
Taxes and licenses	728,886	604,820
Depreciation and amortization	316,111	169,484
Occupancy	162,625	187,288
Miscellaneous	1,460,290	1,122,036
	4,308,992	**3,480,229**
INCOME BEFORE INCOME TAXES	2,491,719	3,406,255
PROVISION FOR INCOME TAX	328,034	471,799
NET INCOME	**2,163,685**	**2,934,456**
Net income attributable to:		
Equity holders of the Parent Bank	2,171,524	2,933,867
Non-controlling Interests	(7,839)	589
	2,163,685	**2,934,456**
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Bank (EPS)*	**7.14**	**11.09**

*Basic and Diluted EPS is based on annualized figures.

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
(Amounts in Thousands of Philippine Pesos, Except Earnings per Share)

	FOR THE THREE MONTHS ENDED MARCH 31	
	2019	**2018**
NET INCOME	**2,163,685**	**2,934,456**
OTHER COMPREHENSIVE INCOME (LOSS)		
Items that will be reclassified subsequently to profit and loss		
Mark-to-market gains on reclassified investment securities	-	1,352,846
Unrealized mark to market gain (loss) on investment securities at FVOCI	27,087	157,101
Realized loss (gain) on sale of investment securities at FVOCI recognized in profit or loss	182,757	(1,323,503)
Items that will not be classified to profit and loss		
Remeasurements of defined benefit plan	(116,420)	(92,147)
Tax income effect	34,926	27,644
	(81,494)	**(64,503)**
Total Other Comprenhensive Income(Loss), net of tax	**128,350**	**121,941**
TOTAL COMPREHENSIVE INCOME	**2,292,035**	**3,056,396**
Attributable to the:		
Parent Bank's Stockholders	2,299,874	3,055,807
Non-controlling Interests	(7,839)	589
	2,292,035	**3,056,396**

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
FOR THE THREE MONTHS ENDED MARCH 31, 2019
(Amounts in Thousands of Philippine Pesos)

	Common Stock	Additional Paid-in Capital	Surplus Free	Surplus Reserves	Net Unrealized Fair Value Gains (Losses) on Investment Securities	Remeasurements of Defined Benefit Plan	Other Reserves	Total	Non-controlling Interests	Total Capital Funds
Balance at January 1, 2019, as previously reported	12,171,496	14,146,987	61,456,681	3,502,769	75,165	(985,496)	50,121	90,417,723	543,178	90,960,901
Total comprehensive income (loss) for the period	-	-	2,171,524	-	209,843	(81,494)	-	2,299,873	(7,839)	2,292,035
Cash dividends	-	-	(2,312,584)	-	-	-	-	(2,312,584)	-	(2,312,584)
Appropriations during the year	-	-	30,542	(30,542)	-	-	-	-	-	-
Issuance of new shares	4,600	25,073	-	-	-	-	-	29,673	-	29,673
Balance at March 31, 2019	**12,176,096**	**14,172,060**	**61,346,164**	**3,472,227**	**285,008**	**(1,066,990)**	**50,121**	**90,434,686**	**535,339**	**90,970,025**
Balance at January 1, 2018	10,583,439	5,819,861	57,739,780	1,959,939	1,365,526	(1,175,320)	50,121	76,343,345	52,850	76,396,195
Total comprehensive income (loss) for the period	-	-	2,933,867	-	186,443	(64,503)	-	3,055,807	589	3,056,396
Cash dividends	-	-	(2,010,853)	-	-	-	-	(2,010,853)	-	(2,010,853)
Appropriations during the year	-	-	-	-	-	-	-	-	-	-
Issuance of new shares	-	-	-	-	-	-	-	-	-	-
Balance at March 31, 2018	**10,583,439**	**5,819,861**	**58,662,794**	**1,959,939**	**1,551,969**	**-1,239,823**	**50,121**	**77,388,299**	**53,439**	**77,441,738**

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES

UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS

(Amounts in Thousands of Philippine Pesos)

	For the Three Months Ended March 31	
	2019	**2018**
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	2,491,719	3,406,255
Adjustments for:		
Loss (gain) on sale of investment securities at FVOCI	182,757	(1,323,503)
Unrealized foreign exchange loss-net	136,418	1,115,000
Depreciation and amortization	316,111	169,484
Gain on forclosure and sale of investment properties	(17,989)	(369)
Loss (gain) on sale of investment properties	(91,720)	10,481
Loss (gain) on disposal of property and equipment	(1,283)	205
Amortization of premium or discount	(409,240)	-
Gain on sale of investment securities at amortized cost	(217,512)	(158,355)
Provision for impairment losses	174,638	-
Changes in operating assets and liabilities:		
Decrease (increase) in:		
Financial assets at fair value through profit and loss	(10,904,502)	218,726
Loans and other receivables	(2,104,087)	(20,300,271)
Other assets	(5,177,562)	253,939
Increase (decrease) in:		
Deposit liabilities	4,833,842	(11,025,352)
Other Liabilities	(1,504,104)	(646,082)
Net cash used in operations	(12,292,515)	(28,279,842)
Income taxes paid	(165,555)	(148,786)
Net cash used in operating activities	(12,458,070)	(28,428,628)
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment securities at FVOCI	(16,172,800)	(1,171,779)
Investment securities at amortized cost	(10,710,000)	(10,025,187)
Bank premises, furniture, fixtures and equipment	(1,222,182)	(123,301)
Investment properties	-	(31,192)
Proceeds from sale of:		
Investment properties	91,697	135,809
Bank premises, furniture, fixtures and equipment	-	5,742
Proceeds from maturities/sale of:		
Investment securities at FVOCI	14,764,133	17,736,647
Investment securities at amortized cost	-	691,004
Net cash provided by (used in) investing activities	(13,249,152)	7,217,743

CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Bills payable	(917,387,636)	(56,965,215)
Cash dividends	(2,312,584)	(2,010,853)
Proceeds from		
UnionBank Employees Stock Plan	29,673	-
Bills payable	944,490,217	49,725,229
Long Term Negotiable Certificate of Deposits	-	3,000,000
Net cash from financing activities	24,819,670	(6,250,839)
EFFECT OF FOREIGN CURRENCT TRANSLATION ADJUSTMENT	46,570	151,524
NET INCREASE(DECREASE) IN CASH AND CASH EQUIVALENTS	(840,982)	(27,310,200)
CASH AND CASH EQUIVALENTS AT		
BEGINNING OF YEAR		
Cash and Other Cash Items	10,916,533	6,633,237
Due from Bangko Sentral ng Pilipinas	56,510,701	66,276,960
Due from Other Banks	14,942,213	54,520,482
Interbank Loans Receivable	-	4,793,280
SPURA	18,882,000	13,572,371
	101,251,447	145,796,330
CASH AND CASH EQUIVALENTS AT		
END OF YEAR		
Cash and Other Cash Items	14,364,329	5,818,158
Due from Bangko Sentral ng Pilipinas	50,739,048	63,939,927
Due from Other Banks	24,397,776	27,266,768
Interbank Loans Receivable	5,328,312	16,081,293
SPURA	5,581,000	5,379,984
	100,410,465	118,486,130

UNION BANK OF THE PHILIPPINES
GENERAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED MARCH 31, 2019

1. Corporate Information

Union Bank of the Philippines (the Bank, UnionBank or the Parent Bank) was incorporated in the Philippines on August 16, 1968 and operates as a universal bank through its universal banking license acquired in July 1992. The Philippine Securities and Exchange Commission (SEC) has approved the Bank's amendment of its Articles of Incorporation on October 31, 2013 for the extension of the Bank's corporate life for another 50 years until August 16, 2068. The Bank's registered address, which is also its principal place of business, is at UnionBank Plaza, Meralco Avenue corner Onyx Street and Sapphire Road, Ortigas Center, Pasig City.

The Bank provides expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking. As of March 31, 2019, the Bank and its subsidiaries (collectively referred to as the "Group") has 433 branches and 348 on-site and 82 off-site automated teller machines (ATMs), located nationwide.

The Bank's common shares are listed in the Philippine Stock Exchange (PSE). The Bank is effectively 49.34% owned by Aboitiz Equity Ventures, Inc. (AEVI), a company incorporated and domiciled in the Philippines. AEVI is the holding and management company of the Aboitiz Group of Companies. AEVI's registered address is located at NAC Tower, 32nd Street, Bonifacio Global City, Taguig City, Metro Manila.

2. Summary of Significant Accounting Policies

Basis of Preparation

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), derivative financial instruments and investment properties that are measured at fair value. The unaudited interim condensed consolidated 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 unaudited interim condensed consolidated financial statements of the Group have been prepared in accordance with PAS 34, *Interim Financial Reporting*. Accordingly, the unaudited interim condensed consolidated financial statements do not include all of the information and disclosures required in the annual audited financial statements and should be read in conjunction with the Groups' annual audited financial statements as at and for the year ended December 31, 2018.

Basis of Consolidation

The Group's unaudited interim condensed financial statements comprise the accounts of the Parent Bank and its subsidiaries, after the elimination of material intercompany transactions. All intercompany resources and liabilities, equity, income, and expenses and cash flows relating to transactions with subsidiaries are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in the separate financial statements are also eliminated in full. Intercompany losses that indicate impairment are recognized in the Group's unaudited interim condensed financial statements.

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

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

The financial statements of the subsidiaries are prepared on the same reporting period as the Parent Company using consistent accounting policies. When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies in line with the Group's 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. 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.

The Bank's subsidiaries' (all incorporated in the Philippines) effective percentage of ownership and the nature of the subsidiaries' businesses as of March 31, 2019 and December 31, 2018 are as follows:

Name of Subsidiary	Percentage of Ownership	Nature of Business
City Savings Bank, Inc. (CSB)	99.78%	Thrift Bank
Philippine Resources Savings Banking Corp, (PR Savings Bank)*	100.00%	Thrift Bank
PetNet, Inc. (PETNET)*	51.00%	Remittances/money transfer
First-Agro Industrial Rural Bank, Inc. (FAIR Bank)**	87.53%	Rural Bank
Union Properties, Inc. (UPI)	100.00%	Real estate administration
First Union Plans, Inc. (FUPI)***	100.00%	Pre-need
First Union Direct Corporation (FUDC)***	100.00%	Financial products marketing
First Union Insurance and Financial Agencies, Inc. (FUIFAI)***	100.00%	Agent for insurance and financial products
UBP Insurance Brokers, Inc. (UBPIBI)****	-	Insurance brokerage
UBP Securities, Inc. (UBPSI)	100.00%	Securities brokerage
UnionBank Currency Brokers Corporation (UCBC)	100.00%	Foreign currency brokerage
UnionDataCorp (UDC)	100.00%	Data processing
Interventure Capital Corporation (IVCC)	60.00%	Venture capital

* *Acquired in 2018 through CSB, and 51% of PETNET through CSB and UPI with 40% and 11% share in ownership, respectively.*
** *Acquired in 2017 through CSB and UPI with 49% and 38.53% share in ownership, respectively.*
****FUDC, FUPI and FUIFAI are wholly-owned subsidiaries of UPI.*
*****Dissolved in 2018.*

Business Acquisitions

a. In 2018, CSB acquired 100% ownership of PR Savings Bank with par value of ₱10 per share or a total par value of ₱1,277.23 million. The transaction is accounted for as a business combination. The acquisition date, which is the final approval of the BSP, is on June 14, 2018. For convenience purposes, CSB used June 30, 2018 as the date of the business combination. On December 27, 2018, the Bank also received BSP's approval for the merger between CitySavings and PR Savings, with CitySavings as the surviving entity. The Securities and Exchange Commission has approved the merger in February 28, 2019.

The total consideration for the acquisition of PR Savings Bank amounted to ₱7.02 billion, ₱300.00 million of which shall be released by CSB directly to a Joint Venture (JV) Company. As part of the other undertakings relevant to the SPA, the sellers shall cause the relevant Ropali Group entity to execute a joint venture agreement with CSB to form an incorporated JV Company within one year from closing date or such longer period as the parties may agree upon in writing. The JV Company shall engage in motorcycle dealership. The parties agree that the remaining balance of ₱300.00 million shall be utilized exclusively to fund the capital subscription of the relevant Ropali Group entity in the JV Company.

Other than Cash and other cash items, Due from BSP, and Due from other banks, the Group determined the provisional fair values of identifiable assets and liabilities acquired, which shall be adjusted once relevant information has been obtained, including the valuation of external appraisers. The provisional fair values of the identifiable assets and liabilities acquired at the date of acquisition are as follows (amounts in thousands):

	Provisional fair values recognized on acquisition date
Assets	
Cash and other cash items	60,096
Due from Bangko Sentral ng Pilipinas	352,563
Due from other banks	518,126
Loans and receivables	8,699,868
Property and equipment	823,439
Investment properties	926,208
Deferred tax assets	100,703
Other resources	692,945
Total assets	12,173,948
Liabilities	
Deposit liabilities	4,419,570
Bills payable	4,323,572
Other liabilities	196,603
Total liabilities	8,939,745
Net assets acquired	**3,234,203**

The acquisition resulted in provisional goodwill determined as follows:

Consideration for the common shares	6,127,727
Consideration for the preferred shares held by IFC	888,274
Purchase price	7,016,001
Fair value of net assets acquired	3,234,203
Goodwill	**3,781,798**

The goodwill arising from the acquisition is attributed to expected synergies from combining operations of the acquiree and the acquirer.

The fair value of the loans and receivables acquired as part of the business combination amounted to ₱8.7 billion, with gross contractual amount of ₱9.5 billion.

Net cash outflow related to the acquisition of PR Savings Bank amounted to ₱5.79 billion, net of cash acquired and unpaid consideration amounting to ₱300 million which shall be released by CSB directly to the JV Company.

In 2018, PR Savings Bank reported a total operating income and net income of ₱1.1 billion and ₱22.6 million, respectively. Had the acquisition occurred at the beginning of 2018, the consolidated net income would have decreased by ₱24.2 million.

b. In February 2018, CSB and UPI purchased of 2,461,338 common shares representing 51% ownership of AEVI on PETNET. The transaction is accounted for as a business combination. The acquisition date, which is the settlement of purchase price, is on December 17, 2018. For convenience purposes, the Group used December 31, 2018 as the date of the business combination.

Other than Cash and other cash items, Due from other banks, Other resources, Notes and bonds payable and Other liabilities, the Group determined the provisional fair values of identifiable assets and liabilities acquired, which shall be adjusted once relevant information has been obtained, including the valuation of external appraisers. The provisional fair values of the identifiable assets and liabilities acquired at the date of acquisition are as follows (amounts in thousands):

	Provisional fair values recognized on acquisition date
Assets	
Cash and other cash items	103,920
Due from other banks	516,883
Loans and receivables	459,982
Investment in an associate	27,098
Property and equipment	49,384
Other resources	154,393
Total assets	1,311,660
Liabilities	
Notes and bonds payable	36,806
Other liabilities	267,436
Total liabilities	304,242
Net assets acquired	**1,007,418**

The acquisition resulted in provisional goodwill determined as follows:

Purchase price		1,200,001
Shares in fair value of net assets acquired:		
Fair values of net assets acquired	1,007,418	
Less: Proportionate share of non-controlling interest	493635	513,783
Goodwill		**686,218**

Net cash outflow related to the acquisition PETNET amounted to ₱579.20 million, net of cash acquired.

In 2018, PETNET reported a total operating income and net loss of ₱282.3 million and ₱32.6 million, respectively. Had the acquisition occurred at the beginning of 2018, the consolidated net income would have decreased by ₱16.7 million.

Non-controlling Interests

Non-controlling interest represents the portion of profit or loss and net assets not owned, directly or indirectly, by the Parent Bank.

The Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transaction with the owners of the Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the net assets of the subsidiary is recognized in capital funds. Disposals of equity investments to non-controlling interests may result in gains and losses for the Group that are also recognized in capital funds.

When the Group ceases to have control over a subsidiary, any retained interest in the entity is remeasured to its fair value at the date when control is lost, with the change in carrying amount recognized in the statements of income. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the Group had directly disposed of the related resources or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

Changes in Accounting Policies and Disclosures

The accounting policies adopted in preparation of unaudited interim condensed consolidated financial statements are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2018, except for the adoption of new standards and amendments effective as of January 1, 2019. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

PFRS 16, Leases
This new standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model 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.

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

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

The Group adopted PFRS 16, Leases, effective January 1, 2019.

The Group's recognition of this standard resulted in recognition of right-of-use of assets and lease liability. The Group applied the modified retrospective application in adopting PFRS 16, which allowed the Group not to restate comparative periods for the effect of the adoption.

Impact on the statement of condition as of January 1, 2019 (amounts in millions):

	Increase (Decrease)
Right of Use of Assets	925.98
Total assets	₱925.98
Lease Liability	925.98
Total Liabilities	₱925.98

3. Significant Accounting Judgments and Estimates

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

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:

Critical Management Judgments in Applying Accounting Policies

Determining functional and presentation currency

PAS 21 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 Group has determined that its functional and presentation currency is the Philippine pesos, considering the following:

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

Evaluation of business model in managing financial instruments

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

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.

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 cases where the relationship between the passage of time and the interest rate of the financial instrument may be imperfect, known as modified time value of money, the Group assesses the modified time value of money feature to determine whether the financial instrument still meets the SPPI criterion. The objective of the assessment is to determine how different the undiscounted contractual cash flows could be from the undiscounted cash flows that would arise if the time value of money element was not modified (the benchmark cash flows). If the resulting difference is significant, the SPPI criterion is not met. In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

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

Key Sources of Estimation Uncertainty
The measurement of impairment losses under PFRS 9 across all categories of financial assets 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 complex 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 grading model, which assigns PDs to individual grades.
- The Group's criteria for assessing if there has been a significant increase in credit risk and so allowances for financial assets should be measured on a Lifetime Expected Credit Loss (LTECL) basis and the qualitative assessment.
- 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, such as unemployment levels and collateral values, and the effect on PDs, EADs and LGDs.
- Definition of forward-looking macroeconomic scenario variables.

Fair value of derivatives
Management applies valuation techniques to determine the fair value of derivatives that are not quoted in active markets. This requires management to develop estimates and assumptions based on market inputs, using observable data that market participants would use in pricing the instrument. Where such data is not observable, management uses its best estimate. Estimated fair values of financial instruments may vary from the actual prices that would be achieved in an arm's length transaction at the reporting date.

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

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

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

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

Recognition of deferred tax assets
Deferred tax assets are recognized for all unused tax losses and temporary differences to the extent that it is probable that future taxable profit will be available against which the losses can be utilized. Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and level of future taxable income together with future tax planning strategies.

Based on forecast, management assessed that it is probable that future taxable income will be available to utilize the deferred tax assets.

Impairment of goodwill
The Group conducts an annual review for any impairment in the value of goodwill. Goodwill is written down for impairment where the recoverable amount is insufficient to support their carrying value. The Group determines the recoverable value of goodwill by discounting the estimated excess earnings using the Group's cost of capital as the discount rate. The Group estimates the discount rate used for the computation of the net present value by reference to industry cost of capital.

The recoverable amount of the CGU is determined based on a value-in-use calculation using cash flow projections from financial budgets approved by senior management and BOD of the Parent Bank. The assumptions used in the calculation of value-in-use are sensitive to estimates of future cash flows from business, interest margin, average yields and long-term growth rate used to project cash flows. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

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

The Group also estimates other employee benefit obligations and expenses, including the cost of paid leaves based on historical leave availments of employees, subject to the Group and the Parent Bank policies. These estimates may vary depending on future changes in salaries and actual experiences during the year.

4. Financial Risk Management Objectives and Policies

Risks are inherent in the business activities of the Group. Among its identified risks are credit risk, liquidity risk, market risk, interest rate risk, foreign exchange risk, operational risk, legal risk, and regulatory risk. These are managed through a risk management framework and governance structure that provides comprehensive controls and management of major risks on an ongoing basis.

Risk management is the process by which the Group identifies its key risks, obtains consistent and understandable risk measures, decides which risks to take on or reduce and how this will be done, and establishes procedures for monitoring the resulting risk positions. The objective of risk management is to ensure that the Group conducts its business within the risk levels set by the BOD while business units pursue their objective of maximizing returns.

Risk Management Strategies

The Group maintains a prudent risk management strategy to ensure its soundness and profitability. Business units are held accountable for all the risks and related returns, and ensure that decisions are consistent with business objectives and risk tolerance. Strategies, policies and limits are reviewed regularly and updated to ensure that risks are well-diversified and risk mitigation measures are undertaken when necessary. A system for managing and monitoring risks is in place so that all relevant issues are identified at an early stage and appropriate actions are taken. The risk policies, guidelines and processes are designed to ensure that risks are continuously identified, analyzed, measured, monitored and managed. Risk reporting is done on a regular basis, either monthly or quarterly.

Although the BOD is primarily responsible for the overall risk management of the Group's activities, the responsibility rests at all levels of the organization. The risk appetite is defined and communicated through an enterprise-wide risk policy framework.

Risk Management Structure

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

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

The Parent Bank's BOD is primarily responsible for setting the risk appetite, approving risk parameters, credit policies, and investment guidelines, as well as establishing the overall risk-taking capacity of the Parent Bank. To fulfill its responsibilities in risk management, the BOD has established the following committees, whose functions are described below.

(a) The Executive Committee (EXCOM), composed of seven (7) members of the BOD, exercises certain functions as delegated by the BOD including, among others, the approval of credit proposals, asset recovery and real and other properties acquired (ROPA) sales within its delegated limits.

(b) The Risk Management Committee (RMC) is composed of seven (7) members of the BOD, majority of whom are independent directors, including the Chairman. The RMC shall advise the BOD of the Parent Bank's overall current and future risk appetite, oversee Senior Management's adherence to the risk appetite statement, and report on the state of risk culture of the Parent Bank. The RMC shall oversee the risk management framework, adherence to the risk appetite of the Parent Bank and the risk management function.

(c) The Market Risk Committee (MRC) is composed of nine (9) members of the BOD, majority of whom are independent directors, including the Chairman. The MRC is primarily responsible for reviewing the risk management policies and practices relating to market risk including interest rate risk in the banking book and liquidity risk.

(d) The Operations Risk Management Committee (ORMC), composed of seven (7) members of the BOD, reviews various operations risk policies and practices.

(e) The Audit Committee is a committee of the BOD that is composed of seven (7) members, most of whom are with accounting, auditing, or related financial management expertise or experience. The skills, qualifications, and experience of the committee members are appropriate for them to perform their duties as laid down by the BOD. Four of the seven members are independent directors, including the Chairman.

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

(f) The Executive Committee (EXCOM), composed of seven (7) members of the BOD, exercises certain functions as delegated by the BOD including, among others, the approval of credit proposals, asset recovery and real and other properties acquired (ROPA) sales within its delegated limits.

(g) The Corporate Governance Committee (CGC) is primarily responsible for helping the BOD fulfill its corporate governance responsibilities. It is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and of oversight over the compliance risk management.

The CGC is composed of nine (9) members of the BOD, majority of whom, including its Chairman, are independent directors.

CGC's specific duties include, among others, making recommendations to the BOD regarding continuing education of directors, overseeing the periodic performance evaluation of the BOD, its committees, senior management, and the function of the Chief Compliance and Corporate Governance Officer. It also performs oversight functions over the Compliance and Corporate Governance Office (CCGO) and the Anti-Money Laundering Committee of the Parent Bank.

The Nominations Committee (NOMCOM) and the Compensation and Remuneration Committee (COMPREM) have been subsumed into the CGC.

The CGC'c nomination function covers the review of the qualifications of and screening candidate for the BOD, key officers of the Parent Bank and nominees for independent directors. It oversees the implementation of programs for identifying, retaining and developing the critical officers and the succession plan for various units in the organization.

The Compensation and Remuneration Sub-committee of CGC is composed of seven (7) members of the BOD, two (2) of whom are independent directors, including its Chairman. It is responsible for the overseeing implementation of the programs for salaries and benefits of directors and senior management. It monitors adequacy, effectiveness and consistency of the Parent Bank's compensation program vis-à-vis corporate philosophy and strategy.

(h) The Related Party Transaction Committee is a board-level committee composed of five (5) members, three (3) of whom are independent directors including its Chairman. The other two (2) members are the Head of Internal Audit Division and the Chief Compliance and Corporate Governance Officer who are both non-voting members. The Committee assists the BOD in the fulfillment of its corporate governance responsibilities on related party transactions by ensuring that these are transacted at arm's length terms. Where applicable, the Committee reviews and approves related party transactions or endorses them to the BOD for approval or confirmation.

The major risk types identified by the Group are discussed in the following sections:

Credit Risk

Credit risk is the risk of loss resulting from the failure of a borrower or counterparty to honor its financial or contractual obligation to the Group. The risk may arise from lending, trade finance, treasury, investments, derivatives and other activities undertaken by the Group. Credit risk is managed through strategies, policies and limits that are approved by the respective BOD of the various companies within the Group. With respect to the Parent Bank, it has a well-structured ad standardized credit approval process and credit scoring system for each of its business and/or product segments.

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

Credit risk management practices and credit quality disclosures

Corporate Loans and Commercial Loans

Corporate lending activities are undertaken by the Parent Bank's Corporate Banking Center. The customer accounts under this group belong to the top tier corporations, conglomerates and large multinational companies.

The Parent Bank undertakes a comprehensive procedure for the credit evaluation and risk assessment of large corporate borrowers based on its obligor risk rating master scale.

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

The Parent Bank transitioned to a new internal rating system in 2018 and currently utilizes a single rating system for both Corporate and Commercial accounts.

The new rating system assesses default risk based on financial profile, management capacity, industry performance, and other factors deemed relevant. Significant changes in the credit risk considering movements in credit rating, among other account-level profile and performance factors, define whether the accounts are classified in either Stage 1, Stage 2, or Stage 3 per PFRS 9 loan impairment standards.

Retail Financial Products

The consumer loan portfolio of the Parent Bank is composed of four main product lines, namely: Home Loans, Credit Cards, Auto Loans, and Business Line Loans. Each of these products has established credit risk guidelines and systems for managing credit risk across all businesses. Scoring models have been revised and fine-tuned while data analytics have been enhanced to improve portfolio quality and product offers.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate.

The Retail products' respective masterscale is defined by the credit scoring models, which consider demographic variables and behavioral performance, to segment the portfolio according to risk masterscale per product. The stages are defined by the approved Significant Increase in Credit Risk (SICR) for Retail which takes into account the following: NPL status, months on books, and credit score rating for Application score (point of application) and Behavior Score (monthly credit performance).

Investments and Placements

Investments and Placements include financial assets at amortized cost, debt financial assets through other comprehensive income, due from BSP and due from other banks. Each has established credit risk guidelines and systems for managing credit risk across all businesses.

Liquidity Risk

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

The Group also manages its liquidity risks through the use of a Maximum Cumulative Outflow (MCO) limit which regulates the outflow of cash on a cumulative basis and on a tenor basis. To maintain sufficient liquidity in foreign currencies, the Group has also set an MCO limit for certain designated foreign currencies. The MCO limits are endorsed by the MRC and approved by the BOD.

Market Risk

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rate, foreign exchange rates and equity prices. The Group classifies exposures to market risk into either trading book or banking book. The market risk for the trading portfolio is managed and monitored based on a Value-at-Risk (VaR) methodology. Meanwhile, the market risk for the non-trading positions are managed and monitored using other sensitivity analyses.

The Group applies a VaR methodology to assess the market risk of positions held and to estimate the potential economic loss based upon a number of parameters and assumptions for various changes in market conditions. VaR is a method used in measuring financial risk by estimating the potential negative change in the market value of a portfolio at a given confidence level and over a specified time horizon.

The Group uses the historical VaR approach in assessing the possible changes in the market value of investment securities based on historical data for a rolling one-year period. The VaR models are designed to measure market risk in a normal market environment. The models assume that any changes occurring in the risk factors affecting the normal market environment will have the same distribution as they had in the past. This involves running the portfolio across a set of historical price changes, thus creating a distribution of changes in portfolio value which may or may not be normal. The historical approach does not make any assumptions regarding the distribution of the risk factors and therefore can accommodate any type of distribution.

Interest Rate Risk

A critical element of the Group's risk management program consists of measuring and monitoring the risks associated with fluctuations in market interest rates on the Group's net interest income and ensuring that the exposure in interest rates is kept within acceptable limits.

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

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

Foreign Exchange Risk

Foreign exchange risk is the risk to earnings or capital arising from changes in foreign exchange rates.

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

Operational Risk

To standardize the practice and to conform to international standards, the Parent Bank has adopted the Basel Committee's definition of operational risk. This is formalized in the Parent Bank's approved Operational Risk Management Framework. Operational risk is the risk of loss arising from inadequate or failed internal processes, people, and systems or from external events. This definition also covers legal risk, as well as, the risk arising from dealings with Outsourced Service Providers (OSPs) and the use of technology-related products, services, delivery channels, and processes. This definition excludes strategic and reputational risk.

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

Legal Risk and Regulatory Risk Management

Legal risk pertains to the Parent Bank's exposure to losses arising from cases decided not in favor of the Parent Bank where significant legal costs have already been incurred, or in some instances, where the Parent Bank may be required to pay damages. The Parent Bank is often involved in litigation in enforcing its collection rights under loan agreements in case of borrower default. The Parent Bank may incur significant legal expenses as a result of these events, but the Parent Bank may still end up with non-collection or non-enforcement of claims. The Parent Bank has established measures to avoid or mitigate the effects of these adverse decisions and engages several qualified legal advisors, who were endorsed to and carefully approved by senior management. At year-end, the Parent Bank also ensures that material adjustments or disclosures are made in the financial statements for any significant commitments or contingencies which may have arisen from legal proceedings involving the Parent Bank

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

5. Fair Value Measurement

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

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the resource or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

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

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

	March 31, 2019 (Unaudited)				December 31, 2018 (Audited)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Resources								
Financial Assets at FVTPL								
Equity securities	2,566		120	2,687	2,570	120		2,690
Debt securities	16,172			16,172	5,219			5,219
Derivative assets		280	50	329		325	50	375
Trust fund assets	171			171	2,436			2,436
	18,909	**280**	**170**	**19,359**	**10,225**	**445**	**50**	**10,720**
Financial Assets at FVOCI								
Equity Securities			53	53			53	53
Debt securities	11,800			11,800	9,762			9,762
Private bonds and commercial papers								
	11,800	**-**	**53**	**11,853**	**9,762**	**-**	**53**	**9,815**
	30,710	**280**	**223**	**31,212**	**19,987**	**445**	**102**	**20,535**
Liabilities								
Derivatives with negative fair values	-	137	-	137	-	407	-	407

The following table summarizes the carrying amounts and fair values of those financial resources and liabilities not presented in the statement of financial position at their fair values (amounts in millions of Philippines pesos):

	March 31, 2019 (Unaudited)		December 31, 2018 (Audited)	
	Carrying Amt	At Fair Value	Carrying Amt	At Fair Value
Financial Assets				
Cash and other cash items	14,364	14,364	10,916	10,916
Due from BSP	50,739	50,739	56,510	56,510
Due from other banks	24,398	24,398	14,942	14,942
Interbank loans receivable	5,328	5,328	0	0
Financial Assets at amortized cost	210,822	205,757	200,173	179,655
Loans and other receivables	314,985	312,709	326,199	329,757
Financial Liabilities				
Deposit liabilities	425,536	425,388	420,702	420,448
Bills payable	118,067	118,067	90,964	90,964
Loans and Notes payable	44,856	44,347	44,522	43,197
Manager Checks	7,633	7,633	9,417	8,677
Bills Purchased-Domestic and foreign	2,950	2,950	2,733	3,463
Accounts Payable	3,906	3,906	3,955	2,854
Accrued Interest Payable	1,623	1,623	1,368	941
Payment Order Payable	384	384	1,335	431
Due to Treasurer of the Philippines	0	0	3	3

Financial assets at amortized cost investment securities includes foreign currency denominated investments in government bonds and other debt securities amounting to ₱144.19 billion. Government bonds and other debt securities issued by resident and non-resident corporations earned interest at 2.25% to 9.50% from January 1 to March 31, 2019.

6. Segment Information

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

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

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

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

Segment information of the Group as of March 31, 2019 and March 31, 2018 and for the periods ended March 31, 2019 and 2018 is presented as follows (amounts in millions of Philippine pesos):

Segment Information as of March 31, 2019	Consumer Banking	Corporate & Commercial Banking	Treasury & Trust	Headquarters	Total
Results of operations					
Net interest income and other income	3,019	1,328	2,129	499	6,975
Other expenses	1,825	434	364	1,686	4,309
Income before provision for probable losses and income tax	1,195	894	1,765	(1,187)	2,666
Provision for impairment					(175)
Tax expense					(328)
Net income for the year					**2,164**
Segment assets	161,386	219,083	278,627	45,430	704,526
Segment liabilities	246,182	133,770	160,885	72,718	613,556

Segment Information as of March 31, 2018	Consumer Banking	Corporate & Commercial Banking	Treasury & Trust	Headquarters	Total
Results of operations					
Net interest income and other income	2,998	1,268	2,224	397	6,886
Other expenses	1,776	416	351	938	3,480
Income before provision for probable losses and income tax	1,222	852	1,873	(541)	3,406
Provision for probable losses					-
Income tax					(472)
Net income for the year					**2,934**
Segment assets, December 31, 2018	160,639	218,001	255,622	39,521	673,783
Segment liabilities, December 31, 2018	251,495	134,105	137,054	60,168	582,822

8. Capital Funds

The Bank's capital stock as of March 31, 2019 and December 31, 2018 consists of the following:

	Shares		Amount	
	March 31, 2019	2018	**March 31, 2019**	2018
Common - ₱10 par value				
Authorized	**1,311,422,420**	1,311,422,420	**₱13,114,224**	₱13,114,224
Issued and Outstanding	**1,217,609,561**	1,217,149,512	**12,176,095**	12,171,495
Preferred - ₱100 par value, non-voting				
Authorized	**100,000,000**	100,000,000	**₱10,000,000**	₱10,000,000
Issued and Outstanding	**-**	-	**-**	-

The authorized capital stock of the Bank is ₱23,114,224 divided into 1,311,422,420 common shares at ₱10 par value and 100,000,000 preferred shares at ₱100 par value. The Bank's outstanding common stock as of March 31, 2019 is 1,217,149,512 shares. No preferred shares have been issued to date.

On March 8, 2019, the Bank issued 460,049 common shares which were subscribed by 47 eligible employees of the bank under the 1st tranche of the Employee Stock Plan.

The following is a summary of the dividends declared and distributed by the Bank in 2019 and 2018:

Date of Declaration	Date of Record	Date of Payment	Dividend per Share	Shares Outstanding	Total Amount
25-Jan-19	11-Feb-19	28-Feb-19	₱1.90	1,217,149,512	₱2,312,584.00
26-Jan-18	12-Feb-18	27-Feb-18	₱1.90	1,058,343,929	₱2,010,853.00

Beginning 2015, BSP approval is no longer necessary on dividend recognition in accordance with the liberalized rules for banks and quasi-banks on dividend declaration (BSP Circular no. 888 dated Oct 9, 2015).

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

9. Related Party Transactions

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

10. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, which are not reflected in the accompanying financial statements. The Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of March 31, 2019, no additional material losses or liabilities are required to be recognized in the accompanying financial statements as a result of the above commitments and transactions.

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

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

	March 31, 2019 (Unaudited)	December 31, 2018 (Audited)
Trust department accounts	50,118,439	45,568,784
Unused commercial letters of credit	3,371,621	3,041,698
Inward bills for collections	31,816,035	32,323,461
Outstanding guarantees issued	538,250	573,842
Late deposits/payments received	22,944	63,446
Outward bills for collection	152,155	41,377
Other contingent accounts	3,013	3,148

11. Earnings Per Share

Basic earnings per share were computed as follows:

	March 31, 2019	March 31, 2018
Net income Attributable to Equity Holders Of the Parent Company	₱ 2,171,524	₱ 2,933,866
Divided by the weighted average number of outstanding common shares	1,217,303	1,058,344
Basic earnings per share	₱ 1.78	₱ 2.77
Annualized basic and diluted earnings per share	₱ 7.14	₱ 11.09

As of March 31, 2019, and December 31, 2018, the Group has no outstanding potentially dilutive securities, hence, basic earnings per share are equal to diluted earnings per share.

12. Other Matters

As of 1Q19, the Bank's LCR and NSFR exceed the prescribed minimum requirement set by the BSP.

13. Events After the Reporting Period

None to report

Annex 6

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

Ratios	March 31, 2019	December 31, 2018
a. Liquidity Ratio	30.1%	37.3%
b. Debt to Equity Ratio	678.5%	643.6%
c. Asset to Equity Ratio	779.0%	743.7%
d. Capital Adequacy Ratio	14.3%	15.2%
	March 31, 2019	**March 31, 2018**
e. Interest Rate Coverage Ratio	157.1%	241.0%
f. Return on Average Equity	9.6%	15.8%
g. Return on Average Assets	1.3%	1.9%
h. Net interest Margin	**3.4%**	3.8%
i. Cost-to-income Ratio	61.8%	50.5%

UNION BANK OF THE PHILIPPINES
SEC FORM 17-Q
FOR THE THREE MONTHS ENDED MARCH 31, 2019

Item 2. Management's Discussion and Analysis or Plan of Operation.

Statement of Income for the Quarter Ended March 31, 2019 vs March 31, 2018

Union Bank of the Philippines posted a net income of Php2.16 billion for the first three months of 2019. Net income for the same period last year amounted to Php2.93 billion mainly driven by the adoption of the amended PFRS 9 accounting standards which allowed the Bank to adopt the FVOCI business model and book trading gains on the disposal of FVOCI securities.

Total interest income increased by 28.2% to Php9.02 billion from Php7.04 billion recorded in the comparable period a year ago. **Interest income on loans and receivables** was up by 24.3% to Php6.30 billion due to higher average volume levels and yields. For the same reason, **interest income on investment securities at amortized cost and fair value through other comprehensive income (FVOCI)** and **interest income on financial assets at fair value through profit and loss (FVPL)** rose by 44.7% and 27.8% to Php2.47 billion and Php94.4 million, respectively. **Interest income on cash and cash equivalents** and **interbank loans receivable**, on the other hand, declined by 5.5% and 40.2% to Php124.4 million and Php32.0 million, respectively, due to lower average levels despite higher yields.

Total interest expense rose to Php4.36 billion in the first quarter of this year from Php2.42 billion incurred in the same period a year ago. This resulted from higher **interest expense on deposit liabilities** of Php2.90 billion on account of higher rates; and higher **interest expense on bills payable and other liabilities** which increased to Php1.47 billion attributed to the higher average volume and rates of borrowings, including the Bank's Php11.0 billion corporate bonds issued in December 2018.

Notwithstanding the increase in the Bank's funding cost, **net interest income** increased by 0.8% to Php4.66 billion from Php4.62 billion a year ago.

The Bank set aside Php174.6 million for **impairment losses** in the first quarter of 2019.

Total other income increased by 2.3% in the first quarter of 2019 to Php2.32 billion from Php2.27 billion in the same period a year ago, as the decline in securities trading gains was offset by the increases in fee income and miscellaneous income. **Gains from sale of trading and non-trading financial assets** were down by 19.5% to Php1.19 billion from Php1.48 billion in the same period last year. Meanwhile, **service charges, fees, and commissions** rose by 69.3% to Php530.1 million driven by the higher service charges and transaction fees across the Parent Bank and its subsidiaries. **Miscellaneous income** was up by 25.8% to Php600.1 million attributed to the fair value gain on investment properties, foreign exchange gains from Petnet, and recovery from FUPI's losses in the same period last year.

Total expenses amounted to Php4.31 billion in the first three months of the year, 23.8% higher compared to the Php3.48 billion incurred in the comparable period a year ago. **Salaries and employee benefits** rose to Php1.64 billion from Php1.40 billion mainly on higher headcount, mostly in sales and marketing functions due to business expansion. **Taxes and licenses** increased by 20.5% to Php728.9 million from Php604.8 million, as a result of higher volume-related gross receipt taxes. **Occupancy** went down by 13.2% to Php162.6 million due to the adoption of PFRS 16 accounting standards on leases starting January 1, 2019. The new standard requires measurement of lease liabilities at the present value of the lease payments, and recognition of amortization charges on the right-of-use asset instead of occupancy costs. As a consequence, **depreciation and amortization** grew by 86.5% to Php316.1 million from Php169.5 million. **Miscellaneous expenses** also increased by 30.1% to Php1.46 billion from Php1.12 billion on account of higher business-related costs such as advertising and publicity expenses, management and professional fees, as well as the consolidation of expenses from PR Savings Bank and Petnet in the first quarter of 2019.

Tax expense amounted to Php328.0 million, lower by 30.5% from Php471.8 million in the same period last year.

Net losses attributable to non-controlling interests was at Php7.8 million compared to the net income of Php0.59 million incurred in 2018 due net losses from subsidiaries.

Statement of Comprehensive Income for the Quarter Ended March 31, 2019 vs March 31, 2018

The Bank posted a **total comprehensive income** of Php2.29 billion in the first quarter of 2019, 25.0% lower than P3.06 billion in the same period last year. This was primarily driven by lower mark-to-market gain on FVOCI securities in 2019. **Losses on remeasurements of defined benefit plan, net of tax**, was up by 26.3% to Php81.5 million based on actuarial adjustments. **Total comprehensive losses attributable to non-controlling interests** was at Php7.8 million reflective of subsidiaries' performance for the year.

Statement of Condition as of March 31, 2019 vs December 31, 2018

The Bank's total assets breached the Php700 billion level for the first quarter of 2019 at Php704.53 billion. This is 4.6% higher compared to Php673.78 billion recorded as of end-December 2018, primarily due to the Bank's higher investment securities portfolio for the year, as well as higher amounts in due from other bank accounts.

Cash and other cash items went up by 31.6% to Php14.36 billion due to higher cash requirements compared to end-December 2018. Similarly, **due from other banks** rose by 63.3% to Php24.40 billion from Php14.94 billion from higher working balances with foreign correspondent banks. Meanwhile, **due from Bangko Sentral ng Pilipinas** declined by 10.2% to Php50.74 billion due to the deployment of funds to higher yielding securities and loans. **Interbank loans receivable** was posted at Php5.33 billion from nil as of end-December 2018 as excess liquidity was placed in other banks.

Holdings of trading and investment securities increased to Php241.86 billion from Php218.27 billion as the Bank continued to build-up its **financial assets at amortized cost** which increased by 5.3% to Php210.82 billion, as well as **financial assets at FVPL** which went up by 2.3x to Php19.19 billion. **Financial assets at FVOCI** also grew by 20.8% to Php11.85 billion resulting from the purchase of such securities.

Loans and receivables amounted to Php314.98 billion for the first quarter of the year, recording a loan-to-deposit ratio of 74.0%.

Investment in subsidiaries and associates declined by 27.5% to Php21.4 million from Php29.6 million on account of net losses from subsidiaries. **Bank premises, furniture, and fixtures**, on the other hand, grew by 18.3% to Php6.04 billion from Php5.11 billion. **Other assets** also increased by 44.5% to Php15.64 billion from Php10.82 billion due to the timing of clearing of checks that were cleared on the subsequent day.

Total liabilities inched up by 5.3% to Php613.56 billion as of end-March 2019 compared with the Php582.82 billion reckoned at end-December 2018, as **bills payable** increased by 29.8% to Php118.07 billion from Php90.96 billion on higher short-term funding requirements.

Total capital funds were higher by 0.01% as of end-March 2019 at Php90.97 billion compared to end-December 2018 figures at Php90.96 billion. The increase in **net unrealized fair value gains on investment securities (**from the higher market value of the Bank's investments at FVOCI), and increase in **additional paid-in capital** of the Bank, were partially offset by the decline in the **surplus free** (driven by dividends paid out in the first quarter of 2019), lower **surplus reserves** (from the lower appropriations for the year), and accumulated **remeasurements of defined benefit plan** (from actuarial adjustments).

Key performance indicators of the Bank are as follows:

	Mar 2019*	Mar 2018*
Return on Average Assets	1.3%	1.9%
Return on Average Equity	9.6%	15.8%
Cost-to-Income Ratio	61.8%	50.5%

	Mar 2019*	Dec 2018
Net Non-Performing Loan Ratio	2.2%	2.3%
Capital Adequacy Ratio	14.3%	15.2%

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

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

**Based on unaudited figures*

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

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

UNIONBANK OF THE PHILIPPINES						ANNEX II
Aging of Accounts Receivable						
As of March 31, 2019						
			90 days	91 to	181 days	more than
Type of Accounts Receivable	Total	Current	or less	180 days	to 1 year	1 year
1) Interbank Loans Receivable	5,328,312	5,328,312	-	-	-	-
2) Loans	312,425,367	293,567,589	6,209,832	2,674,221	1,055,408	8,918,316
3) Accrued Interest Receivable	5,148,260	4,569,295	4,877	6,477	19,358	548,253
4) Sales Contract Receivable	1,640,051	1,055,007	15,990	3,575	1,338	564,142
5) Accounts Receivable	5,012,115	2,483,757	668,805	120,035	261,791	1,477,727
6) Installment Contract Receivab	6,536	-	-	-	-	6,536
Less: Allow. For Doubtful Accou	9,247,765					
TOTAL	320,312,876	307,003,960	6,899,504	2,804,308	1,337,895	11,514,974