UnionBank

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

August 16, 2021

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.
29/F BDO Equitable Tower
8751 Paseo de Roxas
Makati City

Attention : **ATTY. MARIE ROSE M. MAGALLEN-LIRIO**
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 Union Bank of the Philippines for the six months ended June 30, 2021.

Thank you.

Very truly yours,

FRANCIS B. ALBALATE
SVP / Financial Controller

COVER SHEET

3 6 0 7 3

S.E.C. Registration Number

U N I O N B A N K   O F   T H E   P H I L I P P I N E S

(Company's Full Name)

U N I O N B A N K   P L A Z A   M E R A L C O   A V E N U E

C O R   O N Y X   A N D   S A P P H I R E   S T R E E T S

O R T I G A S   C E N T E R ,   P A S I G   C I T Y

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

FRANCIS B. ALBALATE

Contact Person

(632)8667-6388

Company Telephone Number

1 2 | 3 1 | **SEC FORM 17Q** | 0 4 | 2 3

Month *Day* FORM TYPE *Month* *Day*

Fiscal Year Annual Meeting

UNDERWRITER OF SECURITIES

Secondary License Type, If Applicable

C F D

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

4,961

Total No. of Stockholders

Domestic Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document I.D.

Cashier

S T A M P S

Remarks = pls. use black ink for scanning purposes

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

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

1. For the quarterly period ended : June 30, 2021

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 and Sapphire Roads, Ortigas Center, Pasig

8. Registrant's telephone number, including area code : (632) 8667-6388

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	1,219,362,818	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

Annex 1

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CONDITION
June 30, 2021
(Amounts in PHP Thousands)

	June 30, 2021 (Unaudited)	December 31, 2020 (Audited)
ASSETS		
Cash and Other Cash Items	**8,456,384**	8,958,042
Due From Bangko Sentral Ng Pilipinas	**68,975,319**	103,869,770
Due From Other Banks	**58,637,749**	68,532,218
Interbank Loans Receivables	**14,981,600**	-
Trading and Investment Securities		
At fair value through profit or loss (FVTPL)	**9,022,759**	18,448,649
At amortized cost	**141,375,250**	155,810,967
At fair value through other comprehensive income (FVOCI)	**47,581,396**	31,190,259
Loans and Other Receivables - net	**336,889,596**	339,536,830
Investment in Associates	**183,711**	255,342
Bank Premises, Furniture, Fixtures And Equipment - net	**6,457,853**	6,894,768
Investment Properties	**8,884,963**	8,922,366
Goodwill	**14,818,932**	15,348,531
Other Resources - net	**17,329,697**	16,691,495
TOTAL ASSETS	**733,595,209**	774,459,237
LIABILITIES AND CAPITAL FUNDS		
Deposit Liabilities		
Demand	**181,377,746**	159,783,546
Savings	**118,230,495**	98,957,845
Time	**192,573,141**	266,043,635
Long-term negotiable certificate of deposits	**3,000,000**	3,000,000
Deposit Liabilities	**495,181,382**	527,785,026
Notes and Bonds Payable	**61,030,288**	59,853,656
Bills Payable	**41,483,651**	54,223,543
Other Liabilities	**27,061,490**	27,444,610
Total Liabilities	**624,756,811**	669,306,835
CAPITAL FUNDS		
Capital Funds Attributable to the Parent Bank's Stockholders:		
Common stock	**12,193,628**	12,184,715
Additional paid-in capital	**14,269,668**	14,214,983
Surplus free	**80,817,087**	77,096,218
Surplus reserves	**2,940,672**	2,645,080
Net unrealized fair value gains on investment securities	**(250,050)**	55,384
Other reserves	**(22,262)**	(18,886)
Remeasurement of defined benefit plan	**(1,880,650)**	(1,815,784)
Total Capital Funds Attributable to the Parent Bank's Stockholders:	**108,068,093**	104,361,710
Non-controlling Interests	**770,305**	790,692
TOTAL CAPITAL FUNDS	**108,838,398**	105,152,402
TOTAL LIABILITIES AND CAPITAL FUNDS	**733,595,209**	774,459,237

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF INCOME
For the six months ended June 30, 2021 and 2020
(Amounts in PHP Thousands, Except Earnings per Share)

	For the six months ended June 30		For the quarter ended June 30	
	2021 (Unaudited)	2020 (Unaudited)	**2021 (Unaudited)**	**2020 (Unaudited)**
INTEREST INCOME ON				
Loans and other receivables	**13,856,534**	14,829,588	7,120,140	7,317,862
Investment securities at amortized cost and FVOCI	**3,513,884**	4,216,516	1,725,656	2,208,261
Cash and cash equivalents	**361,278**	416,047	151,084	196,567
Financial assets at FVTPL	**137,468**	308,386	53,912	103,956
Interbank loans receivable	**11,979**	85,594	5,645	12,817
	17,881,143	19,856,131	**9,056,437**	**9,839,463**
INTEREST EXPENSE ON				
Deposit Liabilities	**1,436,756**	3,647,757	697,744	1,746,711
Bills payable and other liabilities	**1,627,529**	2,350,267	757,192	1,060,680
	3,064,285	5,998,024	**1,454,936**	**2,807,391**
NET INTEREST INCOME	**14,816,858**	13,858,107	7,601,501	7,032,072
PROVISION FOR CREDIT LOSSES	**3,056,396**	6,994,143	722,381	5,667,195
NET INTEREST INCOME AFTER PROVISION FOR CREDIT LOSSES	**11,760,462**	6,863,964	6,879,120	1,364,877
OTHER INCOME (EXPENSE)				
Gains (losses) on investment securities at amortized cos	**8,193,415**	4,361,843	1,987,303	2,699,809
Service charges, fees and commissions	**1,140,004**	956,310	546,680	401,368
Gains (losses) on trading and investment securities at FVTPL and FVOCI	**(3,383)**	1,921,300	360,459	2,491,299
Miscellaneous income	**1,330,440**	779,103	694,121	379,047
	10,660,476	8,018,556	**3,588,563**	**5,971,523**
OPERATING EXPENSES				
Salaries and employee benefits	**4,453,936**	3,627,044	2,258,972	1,898,008
Taxes and licenses	**1,371,870**	1,866,301	620,196	1,063,913
Depreciation and amortization	**762,908**	678,675	426,587	358,129
Occupancy	**450,437**	438,930	221,306	205,707
Miscellaneous expense	**5,028,334**	3,643,162	2,285,134	1,673,234
	12,067,485	10,254,112	**5,812,195**	**5,198,991**
INCOME BEFORE INCOME TAX	**10,353,453**	4,628,408	4,655,488	2,137,409
PROVISION FOR INCOME TAX	**2,038,654**	357,511	1,069,205	(150,551)
NET INCOME	**8,314,799**	4,270,897	**3,586,283**	**2,287,960**
Net income attributable to:				
Equity holders of the Parent Bank	**8,284,231**	4,272,700	3,568,354	2,289,174
Non-controlling Interests	**30,568**	(1,803)	17,929	(1,214)
	8,314,799	4,270,897	**3,586,283**	**2,287,960**
Basic/Diluted Earnings per Share Attributable to Equity Holders of the Parent Bank (EPS)*	**13.59**	7.01		

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME
For the six months ended June 30, 2021 and 2020
(Amounts in PHP Thousands)

	For the six months ended June 30		For the quarter ended June 30	
	2021 (Unaudited)	2020 (Unaudited)	**2021 (Unaudited)**	2020 (Unaudited)
NET INCOME	**8,314,799**	4,270,897	**3,586,283**	2,287,960
OTHER COMPREHENSIVE INCOME (LOSS)				
Items that will be reclassified subsequently to profit and loss				
Unrealized mark to market gain (loss) on investment securities at FVOCI	**(43,378)**	1,790,456	1,487,809	2,204,190
Realized gain on sale of investment securities at FVOCI recognized in profit or loss	**(262,056)**	(1,630,891)	(226,089)	(1,056,197)
Cumulative Foreign Currency Translation	**(3,376)**	5,416	(7,418)	5,416
Items that will not be classified to profit and loss				
Remeasurements of defined benefit plan	**1,564**	(48,537)	9,725	(29,711)
Tax income (expense)	**(68,086)**	14,561	(2,182)	8,913
	(66,522)	(33,976)	**7,543**	**(20,798)**
Total Other Comprenhensive Income (Loss), net of tax	**(375,331)**	131,005	**1,261,845**	**1,132,610**
TOTAL COMPREHENSIVE INCOME	**7,939,468**	4,401,902	**4,848,128**	**3,420,570**
Attributable to the:				
Parent Bank's Stockholders	**7,910,555**	4,407,224		
Non-controlling Interests	**28,913**	(5,322)		
	7,939,468	4,401,902		

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
For the six months ended June 30, 2021 and 2020
(Amounts in PHP Thousands)

	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, 2021	12,184,715	14,214,983	77,096,218	2,645,080	55,384	(1,815,784)	(18,886)	104,361,710	790,692	105,152,402
Total comprehensive income (loss) for the period	-	-	8,284,231	-	(305,434)	(64,866)	(3,376)	7,910,555	28,913	7,939,468
Cash dividends	-	-	(4,267,770)	-	-	-	-	(4,267,770)	(59,300)	(4,327,070)
Transfer to surplus reserves	-	-	(295,592)	295,592	-	-	-	-	-	-
Issuance of new shares	8,913	54,685	-		-	-	-	63,598	-	63,598
Subscription of shares of non-controlling interest	-	-	-	-	-	-	-	-	10,000	10,000
Balance at June 30, 2021	**12,193,628**	**14,269,668**	**80,817,087**	**2,940,672**	**(250,050)**	**(1,880,650)**	**(22,262)**	**108,068,093**	**770,305**	**108,838,398**
Balance at January 1, 2020	12,176,096	14,172,060	67,851,771	4,600,747	78,437	(1,379,157)	(3,549)	97,496,405	520,560	98,016,965
Total comprehensive income (loss) for the period	-		4,272,700	-	159,565	(30,457)	5,416	4,407,224	(5,322)	4,401,902
Cash dividends	-		(4,264,650)	-	-	-	-	(4,264,650)	-	(4,264,650)
Transfer to surplus reserves	-	-	291	(291)	-	-	-	-	-	-
Issuance of new shares	8,619	42,923	-	-	-	-	-	51,542	-	51,542
Effect of business combination	-	-	-	-	-	-	-	-	242,401	242,401
Balance at June 30, 2020	**12,184,715**	**14,214,983**	**67,860,112**	**4,600,456**	**238,002**	**(1,409,614)**	**1,867**	**97,690,521**	**757,639**	**98,448,160**

UNION BANK OF THE PHILIPPINES AND SUBSIDIARIES
UNAUDITED INTERIM CONSOLIDATED STATEMENTS OF CASH FLOWS
(Amounts in PHP Thousands)

	For The Six Months Ended June 30	
	2021	2020
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before income tax	10,353,453	4,628,408
Adjustments for:		
Gains on sale of investment securities at amortized cost	(8,193,415)	(4,361,843)
Provision for credit losses	3,056,396	6,994,143
Amortization of premium or discount	1,145,013	324,951
Depreciation and amortization	762,908	678,675
Losses (Gains) on disposal of investment properties and property and equipment	(1,480)	(53,848)
Gains on foreclosure of investment properties	(48,618)	(52,754)
Gains on sale of investment securities at FVOCI	(262,056)	(1,630,891)
Unrealized foreign exchange losses - net	187,219	495,801
Gain on sale of investment in associates	(165,152)	-
Share in net (profit) loss of subsidiaries and associates	(16,076)	16,711
Changes in operating assets and liabilities:		
Decreases (increases) in:		
Loans and other receivables	6,738,574	15,528,623
Financial assets at FVPTL	9,425,890	(2,316,675)
Other assets	(2,351,346)	(968,054)
Increases (decreases) in:		
Deposit liabilities	(32,603,644)	25,312,665
Other Liabilities	872,952	(6,278,114)
Net cash provided (used in) operations	(11,099,382)	38,317,798
Income taxes paid	(805,868)	(1,132,036)
Net cash provided by (used in) operating activities	(11,905,250)	37,185,762
CASH FLOWS FROM INVESTING ACTIVITIES		
Acquisitions of:		
Investment securities at amortized cost	(78,881,498)	(21,898,400)
Investment securities at FVOCI	(39,590,637)	(57,269,728)
Bank premises, furniture, fixtures and equipment	(184,531)	(471,189)
Proceeds from maturities/sale of:		
Investment securities at amortized cost	100,277,585	49,538,568
Investment securities at FVOCI	24,829,684	40,033,658
Investment properties	93,806	124,468
Bank premises, furniture, fixtures and equipment	16,249	14,155
Investment in associates	333,307	-
Acquisitions of a subsidiary and an associate, net of cash acquired	(80,448)	(57,827)
Net cash used in investing activities	6,813,516	10,013,705
CASH FLOWS FROM FINANCING ACTIVITIES		
Payments of:		
Bills payable	(87,614,777)	(516,555,423)
Cash dividends	(4,327,070)	(4,264,650)
Notes and bonds payable	(1,946,080)	(7,718,585)
Lease Liabilities	(273,645)	(294,868)
Proceeds from:		
Bills payable	74,374,562	479,062,552
Notes payable	2,459,251	7,627,251
Subscription of shares of non-controlling interest	10,000	-
Issuance of new shares	63,598	51,542
Net cash used in financing activities	(17,254,161)	(42,092,181)
EFFECTS OF FOREIGN CURRENCY TRANSLATION ADJUSTMENT	(527,613)	(189,210)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(22,873,507)	4,918,076

CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and Other Cash Items	8,958,042	8,580,709
Due from Bangko Sentral ng Pilipinas (BSP)	103,869,770	73,749,813
Due from Other Banks	68,532,218	73,675,709
Interbank Loans Receivable	-	213,062
Securities purchased under repurchase agreement (SPURA)	14,783,067	34,773,704
	196,143,097	190,992,997
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and Other Cash Items	8,456,384	11,871,284
Due from BSP	68,975,319	134,342,920
Due from Other Banks	58,637,749	33,032,221
Interbank Loans Receivable	14,981,600	1,881,581
SPURA	22,218,538	14,783,067
	173,269,590	195,911,073

UNION BANK OF THE PHILIPPINES
GENERAL NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
FOR THE SIX MONTHS ENDED JUNE 30, 2021

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 Bank provides expanded commercial banking products and services such as loans and deposits, cash management, retail banking, foreign exchange, capital markets, corporate and consumer finance, investment management and trust banking.

As of June 30, 2021, the Bank and its subsidiaries (collectively referred to as the "Group") has 387 branches and 391 onsite and 96 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 49.47% owned by Aboitiz Equity Ventures, Inc. (AEVI), a company incorporated and domiciled in the Philippines. AEVI is the holding and management company of the Aboitiz Group of Companies.

2. Summary of Significant Accounting Policies

The significant accounting policies that have been used in the preparation of these financial statements are summarized below. These policies have been consistently applied to all the years presented unless otherwise stated.

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) and derivative financial instruments that are measured at fair value. The unaudited interim 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 consolidated financial statements of the Group have been prepared in accordance with PAS 34, *Interim Financial Reporting*. Accordingly, the unaudited interim 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, 2020.

Basis of Consolidation
The Group's unaudited interim consolidated 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 Bank 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 Bank 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, except for UBX SG and UBX Remit) effective percentage of ownership and the nature of the subsidiaries' businesses as of June 30, 2021 are as follows:

Name of Subsidiary	Percentage of Ownership	Nature of Business
City Savings Bank, Inc. (CSB) [(a)]	99.79%	Thrift Bank
PetNet, Inc. (PETNET)	51.00%	Remittances/money transfer
First-Agro Industrial Rural Bank Inc. (FAIR Bank)	93.33%	Rural bank
UBP Investments Corporation (UIC)	100.00%	Holding company
First Union Plans, Inc. (FUPI) [(b)]	100.00%	Pre-need
First Union Direct Corporation (FUDC) [(b)]	100.00%	Financial products marketing
First Union Insurance and Financial Agencies, Inc. (FUIFAI) [(b)]	100.00%	Agent for insurance and financial products
UBP Securities, Inc. (UBPSI)	100.00%	Securities brokerage
UnionBank Currency Brokers Corporation (UCBC)	100.00%	Foreign currency brokerage
Union Data Corp (UDC)	100.00%	Data processing
Interventure Capital Corporation (IVCC)	60.00%	Venture capital
UBX Philippines Corporation (UBX) [(c)]	100.00%	Investment holding and innovation company
UBX Private Ltd. (UBX SG) [(d)]	100.00%	Holding company
UBX Remit Pte. Ltd. (UBX Remit) [(e)]	100.00%	Remittance company
Bangko Kabayan, Inc. (A Private Development Bank) (Bangko Kabayan) [(f)]	70.00%	Private Development bank
Progressive Bank, Inc. (PBI) [(g)]	75.00%	Rural bank

(a) On February 28, 2019, Philippine Resources Savings Bank, Inc. was merged with CSB
(b) FUPI, FUDC and FUIFAI are wholly-owned subsidiaries of UIC
(c) Incorporated on February 11, 2019
(d) Wholly-owned subsidiary of UBX
(e) UBX Remit was incorporated as a subsidiary of UBX SG on October 14, 2019 as a remittance company
(f) Acquired on March 12, 2020 through CSB and UIC with 49% and 21% share in ownership, respectively
(g) Acquired on July 13, 2020 through CSB and UIC with 49% and 26% share in ownership, respectively

Business Acquisitions and Related Investments

Other relevant information about the subsidiaries' nature of businesses and their status of operations are discussed in the sections that follow:

a. In 2020, CSB and UIC subscribed to 414,543 and 431,157 new common shares, respectively, of FAIR Bank at par value of ₱100 per share. As a result of the subscription, the percentage of ownership of UIC increased to 44.33% while CSB's ownership interest stood at 49%.

b. On February 21, 2020, UBX SG acquired 25% of Pacific Payments Pte. Ltd. (PPPL)'s outstanding capital for a total consideration amounting to $1.6 million (₱50.0 million). PPPL is a holding company that was incorporated in Singapore in November 2014.

   On June 18, 2021, UBX SG sold its 25% stake in PPPL for a total consideration of $5.4 million (₱262.4 million). UBX SG will use the proceeds to pursue growth and investments opportunities.

   On January 31, 2021, UBX SG subscribed $2.5 million to Integra Partners' Fund II as a Limited Partner. Out of the $2.5 million subscribed, UBX SG has already paid $286 thousands (₱13.7 million). Integra Partners is a venture Capital (VC) firm based out of Singapore and is considered one of SE Asia's premier Fintech and Healthtech VC funds. UBX SG's investment in the fund indicates its commitment to invest in the fintech space in Southeast Asia and drive healthcare and financial inclusion in Southeast Asia. Additionally, the partnership further cements the existing strategic relationship with Integra Partners.

   On June 11, 2021, UBX SG subscribed to a 30% shareholding in Fintech Platform Ventures (FPV) pursuant to a restructuring of its previous shareholdings in Cash Credit Mobile Philippines. FPV is a holding company established in Singapore that wholly owns Cash Credit Mobile Philippines and Finscore Inc. which are fintech companies that use data in credit scoring.

c. On November 27, 2020, the Bank's Board of Directors approved the additional capital infusion of ₱500 million into UBX. Said capital infusion was approved by the Bangko Sentral ng Pilipinas (BSP) on February 15, 2021. The additional capital is intended to grow UBX' business operations and venture platforms. UBX is a wholly-owned subsidiary of the Bank in its 3rd year of operations.

d. In February 2019, CSB and UIC executed a SPA with the majority shareholders of Bangko Kabayan to acquire 70% ownership, with CSB owning 49% and UIC owning 21%. The transaction was approved by BSP and Philippine Competition Commission (PCC) on September 19, 2019 and January 9, 2020, respectively. On March 12, 2020, the parties executed the Deed of Absolute Sale, which is determined to be the Group's acquisition date. The transaction is accounted for as a business combination. For convenience purposes, the Group used March 31, 2020 as the date of business combination.

   CSB and UIC have paid 90% of the purchase price while the remaining 10% was deposited on April 27, 2020 as a retention amount in an escrow account.

   Other than Cash and other cash items, Due from BSP, and Due from other banks, the Group determined the fair values of identifiable assets and liabilities acquired. The fair values of the identifiable assets and liabilities acquired at the date of acquisition are as follows (amounts in thousands):

	Fair values recognized on acquisition date
Assets	
Cash and other cash items	₱70,628
Due from BSP	323,440
Due from other banks	325,770
Investment securities	328,132
Loans and receivables	1,953,472
Bank premises, furniture and fixtures, and equipment	183,352
Investment properties	253,400
Other resources	41,224
Total assets	3,479,418
Liabilities	
Deposit liabilities	2,546,758
Other liabilities	124,651
Total liabilities	2,671,409
Net assets acquired	₱808,009

The goodwill as the result of the acquisition is determined as follows (amounts in thousands):

Purchase price		₱681,745
Share in fair value of net assets acquired:		
Fair values of net assets acquired	₱808,009	
Less: Proportionate share of non-controlling interest	242,403	565,606
Goodwill		₱116,139

The goodwill arising from the acquisition is attributed to expected synergies in the operations of the Group and Bangko Kabayan and the planned expansion of network to rural areas and extend the digital products offered by the Parent Bank. None of the goodwill recognized is expected to be deductible for income tax purposes.

The fair value of the loans and receivables acquired as part of the business combination amounted to ₱1.95 billion, with gross contractual amount of ₱2.04 billion. Net cash outflow related to the acquisition of Bangko Kabayan amounted to ₱38.09 million, net of cash acquired.

e. On January 5, 2018, CSB and UIC signed an SPA to acquire 75% ownership interest of Progressive Bank, Inc. (PBI) through a combination of (a) subscription to 18,000,000 new shares and (b) purchase of 11,980,916 common shares from the major stockholders of PBI pursuant to Special Powers of Attorney dated November 16, 2017.

   On March 16, 2020, the BSP approved the application of CSB and UIC to acquire 75% ownership of PBI. On July 13, 2020, BSP noted a clarification made by the PCC in its acknowledgement letter indicating that the PCC does not categorically declare that the acquisition does not breach the thresholds prescribed by PCC and its IRR, leaving the parties involved with the responsibility to ensure that they fully comply with the notification requirement. The PCC issued a Letter of Non-Coverage declaring that the transaction is not subject to compulsory notification on August 5, 2020.

   On August 7, 2020, 18 million shares of PBI was subscribed and fully paid for in the following proportions, CSB for 8,820,000 shares (22.06% of outstanding) and UPI for 9,180,000 shares (22.96% of outstanding) all at ₱1.00 per share.

   PBI was authorized to engage in the business of extending credit to farmers, tenants, and rural industries or enterprises; and to transact all business that may be legally done by the rural banks formed under and in accordance with the existing Rural Banks Act (Republic Act No. 7353). The principal office address of PBI is located at Del Rosario St., Poblacion, Balasan, Iloilo, and operates an extension office in Pototan, Iloilo, for the purpose of providing microfinance loans along with its primary banking services; and a branch at No. 243 E. Lopez St., Brgy. Lourdes, Jaro, Iloilo City.

The Group has completed the closing conditions of the agreement, including the execution of deed of absolute sale of the shares which was executed on February 4, 2021.

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 will be adjusted once relevant information has been obtained, including the valuation of external appraisers of the bank premises and investment properties.

The fair values of the identifiable assets and liabilities acquired at the date of acquisition are as follows (amounts in thousands):

	Fair values recognized on acquisition date
Assets	
Cash and other cash items	₱27,285
Due from BSP	12,994
Due from other banks	158,189
Loans and receivables	252,407
Bank premises, furniture and fixtures, and equipment	41,771
Investment properties	4,595
Other resources	22,917
Total assets	520,158
Liabilities	
Deposit liabilities	387,633
Other liabilities	21,471
Total liabilities	409,104
Net assets acquired	₱111,054

The goodwill as the result of the acquisition is determined as follows (amounts in thousands):

Purchase price		₱58,000
Share in fair value of net assets acquired:		
Provisional fair values of net assets acquired	₱111,054	
Less: Proportionate share of non-controlling interest	27,763	83,291
Gain on Bargain Purchase		₱25,291

The fair value of the loans and receivables acquired as part of the business combination amounted to ₱252.41 million, with gross contractual amount of ₱360.56 million. Net cash inflow related to the acquisition of PBI amounted to ₱140.47 million, net of cash acquired.

In a special meeting of the stockholders of the BOD of PBI held on December 18, 2020, it approved the increase in PBI's authorized capital from ₱50 million to ₱160 million. UIC and CSB subscribed to the increase and paid ₱25.7 million and ₱34.3 million, respectively.

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 the preparation of 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, 2020, except for the adoption of new standards, interpretations and amendments effective as of January 1, 2021. The Group has not early adopted any other standard, interpretation or amendment that has been issued but is not yet effective.

Unless otherwise indicated, adoption of these new standards did not have an impact on the interim condensed consolidated financial statements of the Group.

- Amendments to PFRS 9, PFRS 7, PFRS 4 and PFRS 16, *Interest Rate Benchmark Reform – Phase 2*

  The amendments provide the following temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR):
  - Practical expedient for changes in the basis for determining the contractual cash flows as a result of IBOR reform
  - Relief from discontinuing hedging relationships
  - Relief from the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

  The Group shall disclose information about:
  - The nature and extent of risks to which the entity is exposed arising from financial instruments subject to IBOR reform, and how the entity manages those risks; and
  - Their progress in completing the transition to alternative benchmark rates, and how the entity is managing that transition

  The amendments are effective for annual reporting periods beginning on or after January 1, 2021 and apply retrospectively, however, the Group is not required to restate prior periods.

3. Significant Accounting Judgments and Estimates

The preparation of the Group's interim condensed consolidated financial statements in accordance with PFRS requires management to make judgments and estimates that affect the amounts reported in the interim consolidated 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 statements.

Critical Management Judgments in Applying Accounting Policies
In the process of applying the Group's accounting policies, management has made the following judgments that are consistent with those followed in the preparation of the Group's annual consolidated financial statements for the year ended December 31, 2020, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements.

Among those significant judgements applied for the six months ended June 30, 2021 and for the year ended December 31, 2020 are discussed below:

Determining functional and presentation 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 Group has determined that its functional and presentation currency is the Philippine Peso 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.

In determining the classification of a financial instrument under PFRS 9, the Group developed business models which reflect how it manages its portfolio of financial instruments. The Group's business models need not be assessed at entity level or as a whole but 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). 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.

For the six months ended June 30, 2021, the Parent Bank sold investment securities classified as Investment securities at amortized cost with carrying amount of $913.3 million (₱44.2 billion), resulting in Gain on sale of investment securities at amortized cost totaling ₱8.2 billion. These sales were made in response to unanticipated significant changes in the current market conditions which the Parent Bank assessed to have significant impact on its operations. Certain investments were sold in order to shorten the duration of financial assets and reduce interest rate risk of the Parent Bank necessary as a response to significant changes in current market conditions.

The Parent Bank has assessed that the sales do not reflect a change in the business model of the Group. Accordingly, the remaining investment securities in the affected hold-to-collect portfolio are continued to be measured at amortized cost.

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

In view of this, the Group considers the effect of the modified time value of money element in each reporting period and cumulatively over the life of the financial instrument.

Determining the lease term of contracts with renewal and termination options – Group as lessee
The Group determines the lease term as the non-cancellable term of the lease, together with any periods covered by an option to extend the lease if it is reasonably certain to be exercised, or any period covered by an option to terminate the lease, it is reasonably certain not to be exercised.

The Group has several lease contracts that include extension and termination options. The Group determined that generally, the options to extend or terminate the lease are not included in the determination of the lease term. These optional periods are not enforceable, as the Group cannot enforce the extension of the lease without the agreement from the lessor, and therefore, the Group does have the right to use the asset beyond the non-cancellable period.

<u>Key Sources of Estimation Uncertainty</u>
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:

Estimation of impairment losses on Loans and other receivables, Financial assets at amortized cost and Financial assets at FVOCI
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 expected credit losses (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 probability of defaults (PD)s to individual grades. Since 2020, account level and portfolio credit risk rating assessments, which considered how clients are being affected by and are responding to COVID-19- related challenges, have been applied to the scorecards. Sensitivities were applied to consider uncertainties on available economic forecasts.
- The Group's criteria for assessing if there has been a significant increase in credit risk (SICR) which is the basis for measuring allowances for financial assets on a Lifetime Expected Credit Loss (LTECL) basis. In 2020, the BSP issued several memoranda granting temporary relief measures to banks and supervised financial institution (BSFI). The relief includes payment moratorium which defers payment of maturing loans. With the delay of past due information, the Group performed qualitative assessment to consider significant increase in credit risk based on the identified risk profiles of their accounts and portfolios.
- The Group's definition of default, which considers the regulatory requirement and the Bank's indicators of loss events.
- Financial assets have been segmented. In 2020, the accounts have been further segmented, and the Group identified specific accounts and portfolios that are considered severely affected by the challenges related to COVID-19.
- Development of ECL models, including the various formulas and the choice of inputs. Similar to prior years including 2020, models have been reviewed and revised as appropriate based on latest economic outlook and studies by external sources.
- Determination of associations between macroeconomic scenarios and, economic inputs, such as unemployment levels, level of government spending, and collateral values, and their effect on PDs, EADs and LGDs. As the pandemic progresses, lockdown measures were imposed and public health policy changed, the macroeconomic associations were reviewed in-depth and updated frequently. Because of the uncertainties surrounding the business landscape during the period, the quantitative overlays were complemented by an experience-based expert judgment inputs through management overlays considered integral to the systematic processes.

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 judgement to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

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.

The enactment into law of the Corporate Recovery and Tax Incentives for Enterprises Act resulted in a reduction in net deferred tax asset amounting to ₱1 billion, all of which has been fully recognized as of March 31, 2021.

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 of the related CGU is insufficient to support its carrying value. The Group determines the recoverable value of goodwill by discounting the estimated excess earnings using the weighted-average cost of capital (WACC) 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 CGUs is determined based on a value-in-use calculation using cash flow projections from financial budgets covering a five-year period. Financial budget for the immediately succeeding year is approved by senior management and the BOD of the Parent Bank, while the financial budgets for the other years of cash flows projections are determined by corporate planning group and the relevant business units. In 2020, the key assumptions used in the calculation of value-in-use, including loan and deposit growth rates, net interest margin, have been updated to consider the pandemic. The discount rates used for the computation of the value in use for various CGUs are based on the pre-tax discount rates ranging from 6.69% to 11.1% as of June 30, 2021 and December 31, 2020. The long-term growth rates used range from 0% to 1% as of June 30, 2021 and December 31, 2020.

As a result of the ongoing economic uncertainty brought about by the COVID-19 pandemic, the results of the motorcycle lending business was lower than expected. The volume of loan releases was lower and the motorcycle loans reported higher NPLs, indicating a potential impairment of goodwill.

This temporary setback on the business plans for motorcycles resulted in the recognition of impairment amounting to ₱530 million and ₱223.17 million for the quarter ended June 30, 2021 and the year ended December 31, 2020, respectively, related to a CGU where the calculated value in use is below the carrying amount, while the other remaining CGUs remain unimpaired.

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.

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, information security 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, collects consistent and understandable risk measures, decides which risks to take on or reduce 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 the soundness and profitability of its operations and sustained 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 and limits are reviewed regularly and updated to ensure that risks are well-diversified and risk mitigation measures are in place. 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 on a timely basis. Risk reporting is done on a regular basis, either daily, monthly or quarterly.

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

Risk Management Structure
The BOD of the Parent Bank exercises oversight over 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 with the risk parameters set by the BOD. The RMUs 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, proposed 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, confirming or noting approvals made by the Management within its delegated level of authority limits and 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), composed of seven (7) members of the BOD, majority of whom are Independent Directors including its Chairman, 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.

(c) The 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 ORMC, composed of seven (7) members of the BOD, majority of whom are Independent Directors including its Chairman, is responsible for reviewing risk management policies and practices relating to operational risk, including those that affect branches, online banking, central processing services and treasury operations.

(e) The Audit Committee is composed of seven (7) members, all non-executive and majority of whom are independent, including the Chairman, 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.

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 monitors and evaluates the adequacy and effectiveness of the Parent Bank's internal control. 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.

To effectively perform these functions, the Audit Committee has a good understanding of the Parent Bank's business including the following: Parent Bank's structure, businesses, controls, and the types of transactions or other financial reporting matters applicable to the Parent Bank as well as to determine whether the controls are adequate, functioning as designed, and operating effectively. It also considers the potential effects of emerging business risks and their impact on the Parent Bank's financial position and results of operations.

Among the responsibilities of the Audit Committee are:

- *Oversight of the financial reporting framework*. The Audit Committee ensures that the Parent Bank's financial reporting framework enables the generation and preparation of accurate and comprehensive information and reports. In this regard, the Audit Committee through the Controllership Group monitors the financial reporting process and the existence of significant financial reporting issues and concerns.

- *Monitors and evaluates the adequacy and effectiveness of Bank's internal control*. The Audit Committee, through the IAG, monitors and evaluates the adequacy and effectiveness of the Parent Bank's internal control framework, integrity of financial reporting, and security of physical assets. The Audit Committee ensures that a proactive and forward-looking approach on evaluation of risks and controls is taken. The Audit Committee also ensures that periodic assessment of the internal control system is conducted to identify weaknesses and evaluates its robustness considering the risk profile and strategic direction of the Parent Bank.

- *Oversees the audit function*. The Audit Committee evaluates and approves the internal audit strategies, methodology, scope and quality assurance measures, and ensures that the audit plan is aligned with the overall strategic plan of the Bank, and is based on robust risk assessment.

- *Oversees the outsourced internal audit activities*. The Audit Committee oversees the performance of the internal audit service provider and ensures that they comply with sound internal auditing standards and other supplemental standards issued by regulatory authorities/government agencies, as well as with relevant code of ethics.

- *Oversees the implementation of Group Internal Audit Policy.* The Audit Committee oversees the implementation of the policy through the periodic reports on oversight of the Group Internal Audit, and takes appropriate action on any group internal oversight issues identified. The Audit Committee reviews and evaluates the group internal audit policy, and any amendments thereto, and endorse the same to the Parent Bank for approval.

- *Oversees of the whistle-blowing mechanism.* The Audit Committee oversees the establishment of a whistle-blowing mechanism in the Parent Bank by which officers and staff shall in confidence raise concerns about possible improprieties or malpractices in matters of financial reporting, internal control, auditing or other issues to persons or entities that have the power to take corrective action. It also ensures that independent investigation, appropriate follow-up, action and subsequent resolution of complaints are in place.

(f) The Corporate Governance Committee (CGC) is primarily responsible for helping the BOD fulfil its corporate governance and compliance responsibilities. It is responsible for ensuring the BOD's effectiveness and due observance of corporate governance principles and of oversight of the compliance risk management. It assists in the establishment of a compliance program that facilitates the escalation and resolution of compliance issues expeditiously.

The CGC is composed of nine (9) members of the BOD, all non-executive, majority of whom, including its Chairman, are independent directors. Its specific duties include, among others, making recommendations to the BOD regarding continuing education of directors, overseeing the periodic performance evaluation of the 1) Board; 2) Board Committees; 3) Individual Directors; 4) Management-level Committees (through the Compliance and Corporate Governance Office; and 5) Chief Compliance and Corporate Governance Officer (CCO).

The CGC also performs oversight functions over the Compliance and Corporate Governance Office (CCGO) and the following management-level committees: 1) Anti-Money Laundering Committee and 2) Discipline Committee.

Senior management, through the CCO, periodically reports to the CGC the status of regulatory audit and compliance testing findings until their closure. Any material breaches of the compliance program are reported to and promptly addressed by the CCO within the mechanisms defined by the Compliance Manual.

The Parent Bank's CCO defines the Group's minimum governance and compliance requirements and works closely with the subsidiaries' and affiliates' Chief Compliance Officers in the execution of these standards.

The CGC assumed the functions of the Nominations Committee (NomCom) and the Compensation and Remuneration Committee (CompRem) upon the latter Committees' dissolution. The NomCom reviews the qualifications of and screens candidates for the board including nominees for independent directors and key officers of the Parent Bank. As part of its added functions, it also reviews the implementation of programs for identifying, retaining and developing critical officers and the succession plan for various units in the organization.

The functions of the CompRem includes overseeing implementation of the programs for salaries and benefits of directors and senior management, and monitoring that the performance scorecards for the Parent Bank and its officers are comprehensive and balanced, and assessing the adequacy, effectiveness for driving performance and consistency of the Parent Bank's total compensation program vis-à-vis corporate philosophy and strategy.

The Parent Bank's CCO assists the CGC in fulfilling its functions by apprising the same of (1) pertinent regulations and other issuances relating to compliance or corporate governance, (2) related regulatory issues and compliance initiatives affecting the various units of the Bank and the status of the corrective action plans, and (3) continuously giving updates thereon. In addition, the CCO keeps the CGC abreast of best governance practices and discusses issues being brought up among private organizations and individuals advocating good governance philosophy.

(g) The Related Party Transaction Committee is a board-level committee composed of three (3) members, all of whom are Independent Directors, including its Chairman. The Committee assists the BOD in the fulfillment of its corporate governance responsibilities on related party transactions by ensuring that the latter are transacted at arm's length terms. The Committee reviews and endorses the related party transactions to the BOD for approval or confirmation, as applicable.

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 and 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. The RMU also reported to the Board's Risk Management Committee the COVID-19-related overlays as well as their impact on credit impairment and credit portfolio's credit risk profiles.

Starting 2020, there were enhancements in the risk rating & SICR parameters in certain portfolios to consider the effect of COVID-19.

The RMU's portfolio management function involves the review of the Parent Bank's loan portfolio, including the portfolio risks associated with particular industry sectors, regions, loan size and maturity, and the development of a strategy for the Parent Bank to achieve its desired portfolio mix and risk profile. The RMU reviews the Parent Bank's loan portfolio quality in line with the Parent Bank's policy of avoiding significant concentrations of exposure to specific industries or groups of borrowers. Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features. Concentrations indicate the relative sensitivity of the Parent Bank's performance to developments affecting a particular industry or geographical location.

The Group and the Parent Bank consider concentration risk to be present when the total exposure to a particular industry exceeds 30.0% of the total exposure, which is similar to the BSP requirement. As of June 31, 2021 and December 31, 2020, the Group and the Parent Bank does not exceed the limit in any of its industry concentration.

In order to avoid excessive concentrations of risk, the Parent Bank's policies and procedures include guidelines for maintaining a diversified portfolio mix (e.g., concentration limits). Identified concentrations of credit risks are controlled and managed accordingly. The RMU also monitors compliance to the BSP's limit on exposures.

Credit risk management practices and credit quality disclosures

Corporate 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 currently utilizes the same single rating system for both Corporate and Commercial accounts. In addition, the result on the latter is further refined through a second model to take more careful account of the nuances between the commercial bank portfolio with that of the corporate loan book.

The 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.

Based on foregoing factors, each borrower is assigned a Borrower Risk Rating (BRR), from AAA to D. In addition to the BRR, the Parent Bank assigns a loan exposure rating (LER), a 100-point system which consists of a Facility Tenor Rating (FTR) and a Security Risk Rating (SRR). The FTR measures the maturity risk based on the length of loan exposure, while the SRR measures the quality of the collateral and risk of its potential deterioration over the term of the loan. The FTR and the SRR, each a 100-point scoring system, are given equal weight in determining the LER.

Once the BRR and the LER have been determined, the credit limit to a borrower is determined under the Risk Asset Acceptance Criteria (RAAC) which is a range of acceptable combinations of the BRR and the LER. Under the RAAC system, a borrower with a high BRR will have a broader range of acceptable LERs.

The credit rating for each borrower is reviewed annually or earlier when there are extraordinary or adverse developments affecting the borrower, the industry and/or the Philippine economy such as the COVID-19 pandemic. Any major change in the credit scoring system, the RAAC range and/or the risk-adjusted pricing system is presented to and approved by the RMC.

<u>Commercial Loans</u>
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 non-financial ComBank accounts use an adjusted obligor rating scale derived from the one applied for corporate loans, and follows the same RAAC framework, while ComBank accounts classified as banks and non-bank financial institutions are still rated using the 2018 rating scale.

<u>Retail and Small and Medium Enterprise (SME) Financial Products</u>
The Retail loan portfolio of the Parent Bank is composed of four main product lines, namely: Home Loans, Credit Cards, Auto Loans, and Quick Loans. SME portfolio is composed of Business Line Loans and a small portion from emerging products. 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.

On the other hand, CSB, an accredited lending institution of the Department of Education (DepEd), provides salary loans to teachers under an agreement with DepEd for payroll deductions. CSB also provides motorcycle loans as a result of its acquisition and subsequent merger of PR Savings Bank.

Exposure to credit risk is managed through diligent assessment upon onboarding and regular portfolio and segment analysis of the ability of 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).

The SME products, including but not limited to Business Line and Supplier Financing, uses credit scorecards developed specific for each product segment. These scorecard models updated the Business Line rating scale to 1 to 5. Meanwhile Credit cards, Mortgage loans, and Auto loans still use the existing scorecards and hence same rating scale as previous year.

Investments and Placements

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

Modification

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.

On March 24, 2020, Republic Act No. 11469 or the "Bayanihan to Heal as One Act" (Bayanihan 1) was enacted declaring a state of national emergency over the entire country to control the spread of the Coronavirus Disease 2019 (COVID-19). Among the provisions of Bayanihan 1 is the implementation of a 30-day grace period for all loans with principal and/or interest falling due within the period of the Enhanced Community Quarantine without incurring interest on interest, on penalties, fees and other charges. Further, on September 11, 2020, Republic Act No. 11494 or the "Bayanihan to Recover as One Act" (Bayanihan 2) was enacted and provided for the implementation of a one-time 60-day grace period to be granted for the payment of all existing, current and outstanding loans falling due, or any part thereof, on or before December 31, 2020, without incurring interest on interest, penalties, fees and other charges, thereby extending the maturity of said loans. In addition, Bayanihan 2 allows loans and interest due during the Bayanihan 2 period to be settled on a staggered basis without interest on interests, penalties, fees or other charges until December 31, 2020 or as may be agreed upon by both parties. Furthermore, the Bank provided additional grace period to the borrowers.

The impact of loan modifications as a result of the Bayanihan 1 and Bayanihan 2 Acts amounted to a loss of ₱506.70 million for the Group in 2020. For the year ended December 31, 2020 and the period ended June 30, 2021, accretion amounted to ₱82.83 million and ₱37.09 million, respectively, which were recognized in interest income.

Collateral Held as Security and Other Credit Enhancements

The Group holds collateral against loans and other receivables from customers in order to mitigate risk. The collateral may be in the form of mortgages over real estate property, chattels, inventory, cash, securities and/or guarantees. The Bank regularly monitors and updates the fair value of the collateral depending on the type of credit exposure. Estimates of the fair value of collateral are considered in the review and assessment of the adequacy of allowance for credit losses. In general, the Bank does not require collateral for loans and advances to other banks, except when securities are held as part of reverse repurchase agreements.

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.

Liquidity ratios are used to monitor and manage the Bank's liquidity. The MRC approves the ratios to be used for monitoring the performance of the Bank and for mapping out areas where improvements are needed. These ratios include Liquid Assets to Deposits Ratio, Liquidity ratio, Leverage Ratio and Intermediation Ratio. In June 2020, the MRC approved to set the peso liquid assets to deposits ratio limit to automatically be consistent with the reserve requirement ratio for peso deposits.

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. In June 2020, the BOD approved to change the MCO limits, providing separate limits for short term (generally less than 30 days) and medium term tenor (from 30 days to one year). Previously, the Bank has single limit for all tenors.

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 Parent Bank 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 Parent Bank 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. The Bank uses the maximum between the 1st and 99th percentile of historical changes in asset returns in the calculation of volatility as this is a more conservative approach as any potential gain may reverse to a loss.

VaR may also be underestimated or overestimated due to the assumptions placed on risk factors and the relationship between such factors for specific instruments. Even though positions may change throughout the day, the VaR only represents the risk of the portfolios at the close of each business day, and it does not account for any losses that may occur beyond the 99% confidence level.

The VaR figures are backtested daily against actual and hypothetical profit and loss of the trading book to validate the robustness of the VaR model. To supplement the VaR, the Parent Bank performs stress tests wherein the trading portfolios are valued under extreme market scenarios not covered by the confidence interval of the Parent Bank's VaR model.

Since VaR is an integral part of the Parent Bank's market risk management, VaR limits are established annually for all financial trading activities and exposures against the VaR limits and are monitored on a daily basis. Limits are based on the tolerable risk appetite of the Parent Bank.

Interest Rate Risk

Interest rate risk in the banking book (IRRBB) is the current and prospective risk to earnings and capital arising from adverse movements in interest rates that affect the bank's banking book positions. When interest rates change, the present value and timing of future cash flows change. This, in turn, changes the underlying value of the Bank's assets, liabilities and off-balance sheet items, and hence its economic value. On the other hand, changes in interest rates also affect the Bank's earnings by altering interest rate-sensitive income and expenses, affecting its net interest income (NII). The Asset and Liability Committee establishes appropriate asset and liability pricing in support of the Bank's balance sheet objectives.

The Group employs "gap analysis" to measure rate-sensitivity of the income and expenses, 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 Bank uses one-year differences in the term structure of the different benchmark curves as the bases for the calculation of interest rate risk factor across all currencies. 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.

A positive gap occurs when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities while a negative gap occurs when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. Accordingly, during a period of rising interest rates, an entity with a positive gap will have more interest rate sensitive assets repricing at a higher interest rate than interest rate sensitive liabilities which will be favorable to it. During a period of falling interest rates, an entity with a positive gap will have more interest rate sensitive assets repricing at a lower interest rate than interest rate sensitive liabilities, which will be unfavorable to it.

EAR is complemented by stress tests which are conducted quarterly. It involves subjecting the total interest rate sensitive assets and liabilities within one year to probable short-term and medium-term interest rate movements, assuming parallel and non-parallel (flatteners and steepeners) in the yield curve.

Additionally, the Bank also monitors long-term sensitivity to interest rate risk of the Bank's balance sheet through the Economic Value of Equity (EVE) method. EVE measures the economic value which provides a more comprehensive view of potential long-term effects of changes in interest rates.

The Bank's interest rate sensitive asset and liability positions are analyzed based on its cash flows, and its present value are computed using appropriate market rates which include the current risk-free rate plus the corresponding margin. On the other hand, the present values of non-interest sensitive assets and liabilities will be kept at their carrying values.

The Bank's risk management program includes measuring and monitoring the risks associated with fluctuations in market interest rates on the its net interest income and capital ensuring that the exposures in interest rates are kept within acceptable limits.

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
BSP Circular 900, Guidelines on Operational Risk Management, serve as the groundwork for the Bank's Operational Risk Management (ORM) framework. This is to standardize the approach undertaken by the Bank in order to facilitate consistently strong ORM practices across the organization.

Operational risk is defined as the risk of loss arising from direct or indirect loss from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk. Direct loss being the result primarily from an operational failure while an indirect loss relates to the impact of operational risk on other risks such as market, credit or liquidity risk.

Each specific unit of the Bank has its roles and responsibilities in the management of operational risk and these are clearly stated in the ORM 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. Key to the effective implementation of the operational risk management framework is a governance structure that transparently defines the lines of responsibility from the BOD down to the Business and Functional Units level.

The ORMC was formed and given the mandate to build and lead the roadmap in developing the foundations and systems necessary for the effective implementation of an Operational Risk Management Framework. The ORM, together with all other Risk Units, reports directly to the Chief Risk Officer.

In managing products, services and systems, these are implemented only after a thorough operational risk evaluation. As part of the product and systems approval process, product owners and managers ensure that risks are clearly identified and adequately controlled and mitigated. For existing products, services and systems, regular reviews are conducted and controls are assessed to determine continued effectiveness. The Parent Bank, as part of its continuing effort to manage operational risk, has ensured that the basic controls to manage exposure to operational risk have been embedded in its processes.

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 and its subsidiaries 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 and subsidiaries' compliance with these regulations, as well as the study of the potential impact of new laws and regulations, is the primary responsibility of the entity's Chief Compliance and Corporate Governance Officer (CCO). The CCO 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):

	June 30, 2021 (Unaudited)				December 31, 2020 (Audited)			
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Resources Financial Assets at FVTPL								
Equity securities	₱2,645	₱139	₱-	₱2,784	₱2,586	₱138	₱29	₱2,754
Debt securities	5,296	-	31	5,327	15,012	-	-	15,012
Derivative assets	-	866	46	912	-	637	45	682
Trust fund assets	66	-	-	66	66	-	-	66
Financial Assets at FVOCI								
Equity Securities	-	-	42	42	-	-	42	42
Debt securities	47,540	-	-	47,540	31,149	-	-	31,149
Liabilities								
Derivatives with negative fair values	-	961	-	961	-	747	-	747

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

	June 30, 2021 (Unaudited)		December 31, 2020 (Audited)	
	Carrying Amt	At Fair Value	Carrying Amt	At Fair Value
Financial Assets				
Cash and other cash items	₱8,456	₱8,456	₱8,958	₱8,958
Due from BSP	68,975	68,975	103,870	103,870
Due from other banks	58,638	58,638	68,532	68,532
Interbank loans receivable	14,982	14,982	-	-
Financial Assets at amortized cost	141,375	144,645	155,811	176,826
Loans and other receivables	336,890	336,922	339,537	339,481
Financial Liabilities				
Deposit liabilities	495,181	495,329	527,785	527,967
Bills payable	41,484	41,208	54,224	54,550
Notes and Bonds payable	61,030	61,945	59,854	72,726
Manager Checks	6,648	6,648	6,925	6,925
Bills Purchased-Domestic and foreign	1,138	1,138	1,002	1,002
Accounts Payable	5,143	5,143	5,028	5,028
Accrued Interest Payable	693	693	758	758
Finance Lease Payment Payable	1,177	1,177	1,220	1,220
Payment Order Payable	1,846	1,846	2,343	2,343
Due to Treasurer of the Philippines	2	2	2	2

Financial assets at amortized cost include foreign currency denominated investments in government bonds and other debt securities amounting to ₱138.91 billion as of June 30, 2021. Government bonds and other debt securities issued by resident and non-resident corporations earned interest at 1.77% to 18.25% from January 1 to June 30, 2021.

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 presented below.

(a) **Consumer Banking** – This segment 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** – This segment 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 and Trust** – This segment is principally responsible for managing the Bank's liquidity and funding requirements, and handling transactions in the financial markets covering foreign exchange, fixed income trading and investments, and derivatives.

(d) **Headquarters** – This segment 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 June 30, 2021 and December 31, 2020 and for the periods ended June 30, 2021 and 2020 is presented as follows (amounts in millions of Philippine pesos):

	Consumer Banking	Corporate & Commercial Banking	Treasury & Trust	Headquarters	Total
June 30, 2021					
Results of operations					
Net interest income and other income	₱8,776	₱4,648	₱10,483	₱1,570	₱25,477
Other expenses	5,594	758	560	5,155	12,067
Income before provision for probable losses and income tax	₱3,182	₱3,890	₱9,923	(₱3,585)	13,410
Provision for impairment					(3,056)
Tax expense					(2,039)
Net income for the period					₱8,315
Segment assets, June 30, 2021	₱202,858	₱197,226	₱274,188	₱59,323	₱733,595
Segment liabilities, June 30, 2021	₱352,064	₱135,878	₱94,397	₱42,418	₱624,757

	Consumer Banking	Corporate & Commercial Banking	Treasury & Trust	Headquarters	Total
June 30, 2020					
Results of operations					
Net interest income and other income	₱8,193	₱4,896	₱8,976	₱(188)	₱21,877
Other expenses	4,553	1,314	1,129	3,258	10,254
Income before provision for probable losses and income tax	₱3,640	₱3,582	₱7,847	(₱3,446)	₱11,623
Provision for impairment					(6,994)
Tax expense					(358)
Net income for the period					₱4,271
Segment assets, December 31, 2020	₱198,004	₱191,700	₱263,197	₱121,558	₱774,459
Segment liabilities, December 31, 2020	₱325,529	₱142,167	₱137,240	₱64,371	₱669,307

7. Capital Funds

The Bank's capital stock as of June 30, 2021 and December 31, 2020 consists of the following (amounts in thousands):

	Shares		Amount	
	June 30, 2021	2020	**June 30, 2021**	2020
Common - ₱10 par value				
Authorized	**1,311,422,420**	1,311,422,420	**₱13,114,224**	₱13,114,224
Issued and Outstanding	**1,219,362,818**	1,218,471,467	**12,193,628**	12,184,715
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 June 30, 2021 is 1,219,362,818 shares. No preferred shares have been issued to date.

On January 29, 2021, the Bank issued 891,351 common shares to qualified employees under the Bank's Employee Stock Plan.

The following is a summary of the dividends declared and distributed by the Bank in 2021 and 2020 (amounts in thousands):

Date of Declaration	Date of Record	Date of Payment	Dividend per Share	Shares Outstanding	Total Amount
29-Jan-21	**15-Feb-21**	**04-Mar-21**	**₱3.50**	**1,219,362,818**	**₱4,267,770**
24-Jan-20	07-Feb-20	24-Feb-20	₱3.50	1,218,471,467	₱4,264,650

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.

8. Related Party Transactions

Related party transactions are transfers of resources, services, or obligations between related parties, regardless of whether a price is charged.

Parties are said to be related if one party has the ability to control the other party or exercise significant influence over the other in making financial and operating decisions. These parties include: (a) individuals owning, directly or indirectly through one or more intermediaries, control or are controlled by, or under common control with the Parent Bank (b) associates, and (c) individuals owning, directly or indirectly, an interest in the voting power of the Parent Bank that gives them significant influence over the Parent Bank and close members of the family of such individual; and, (d) the Group's funded retirement plan.

In considering each possible related party relationship, attention is directed to the substance of the relationship and not merely on the legal form.

9. 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 June 30, 2021, 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:

	June 30, 2021	December 31, 2020
	(Unaudited)	(Audited)
Trust department accounts	₱80,317,977	₱74,469,549
Commitments	43,017,381	59,653,709
Forward exchange bought	23,542,406	30,396,594
Forward exchange sold	31,617,110	19,533,966
Inward bills for collections	29,753,178	25,694,563
Other derivatives	8,942,739	7,799,215
Unused commercial letters of credit	6,790,469	6.724,426
Spot exchange bought	2,917,582	3,135,021
Spot exchange sold	2,466,107	2,095,779
Outstanding guarantees issued	621,690	405,927
Other commitment and contingent accounts	110,288	72,127

10. Earnings Per Share

Basic earnings per share were computed as follows:

	June 30, 2021	June 30, 2020
Net income attributable to equity holders of the Parent Bank	₱8,284,231	₱4,272,700
Divided by the weighted average number of outstanding common shares (in thousands)	1,219,214	1,218,328
Basic earnings per share	₱6.79	₱3.51
Annualized basic and diluted earnings per share	₱13.59	₱7.01

As of June 30, 2021, and December 31, 2020, the Group has no outstanding potentially dilutive securities, hence, basic earnings per share are equal to diluted earnings per share.

11. Other Matters

None to report.

12. Events After the Reporting Period

On August 11, 2021, the Parent bank held a special stockholders meeting and approved the following matters:

a. Amendment of the Parent Bank's Articles of Incorporation to increase the authorized capital stock from ₱23,114,224,200.00 to ₱35,307,852,380.00, with the increase of ₱ 12,193,628,180.00 equivalent to 1,219,362,818 common shares with a par value of ₱10.00.

b. Declaration of 25% stock dividends in the amount of ₱3,048,407,050.00 equivalent to 304,840,705 common shares with a par value of ₱10.00, to comply with the required 25% subscription of the increase in authorized capital stock. The stock dividend will be sourced from the approved increase in authorized capital stock and paid to stockholders as of the record date and payment date to be fixed after all regulatory approvals have been secured.

Fractional shares resulting from the stock dividend declaration will be paid in cash based on the closing rate of ₱74.90 as of June 25, 2021, the date of approval by the Board of Directors of the stock dividend declaration and computed up to two (2) decimal places.

Annex 6

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

Ratios	June 30, 2021	December 31, 2020
a. Liquidity Ratio	54.9%	56.3%
b. Debt to Equity Ratio	5.8:1	6.4:1
c. Asset to Equity Ratio	6.8:1	7.4:1
d. Capital Adequacy Ratio	18.1%	17.0%
	June 30, 2021	June 30, 2020
e. Interest Rate Coverage Ratio	437.9%	177.2%
f. Return on Average Equity	15.6%	8.8%
g. Return on Average Assets	2.2%	1.1%
h. Net Interest Margin	4.7%	4.5%
i. Cost-to-Income Ratio	47.4%	46.9%

Annex 7

UNION BANK OF THE PHILIPPINES
SEC FORM 17-Q
FOR THE SIX MONTHS ENDED JUNE 30, 2021

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

Statement of Income for the Six Months Ended June 30, 2021 vs June 30, 2020

Union Bank of the Philippines registered a net income of Php8.3 billion in the first half of 2021, up 95% versus the same period last year at Php4.3 billion. Strong topline growth drove the Bank's earnings performance, with net revenues growing 16% year-on-year (YoY) to Php25.5 billion. Net interest income increased by 7% to Php14.8 billion from higher margins YoY attributed to the robust growth of CASA deposits and lower funding cost. Non-interest income also rose by 33% to Php10.7 billion on account of higher trading gains, higher fees and commissions, and higher foreign exchange income.

Total interest income went down by 10% to Php17.9 billion mainly driven by lower **interest income on loans and receivables** which declined by 7% to Php13.9 billion, as well as lower interest income on **investment securities at amortized cost and fair value through other comprehensive income (FVOCI) and financial assets at fair value through profit and loss (FVTPL)** which fell 17% and 55%, respectively, to Php3.5 billion and Php137.5 million, on account of lower average volume levels and average yields. **I nterest income on cash and cash equivalents and interbank loans receivables** were also lower by 13% and 86%, respectively, to Php361.3 million and Php12.0 million, due to lower average yields despite higher average volumes.

Total interest expense went down by 49% to Php3.1 billion in the first six months of the year from Php6.0 billion in the previous year. This resulted from the lower **interest expense on deposit liabilities**, which declined by 61% to Php1.4 billion driven by the robust growth of CASA deposits which grew 28% YoY and lower interest rates from previous policy rate and reserve requirement ratio (RRR) cuts by the BSP. **Interest expense on bills payable and other liabilities** also decreased by 31% YoY to Php1.6 billion due to lower average volume and rates of short-term borrowing and corporate bonds thus, contributing to the lower overall interest expense.

As a result, the Bank's **net interest income** increased by 7% to Php14.8 billion from Php13.9 billion a year ago.

Provision for credit losses were significantly lower by 56% to Php3.1 billion vs. the same period last year at Php7.0 billion as NPLs started to stabilize this year compared to early periods of the pandemic in 2020. The Bank's gross NPL ratio improved to 4.7% as of end-June 2021 from 5.1% in end-December 2020.

Total other income went up 33% to Php10.7 billion from Php8.0 billion a year ago with all key segments contributing to the growth. **Service charges, fees, and commissions** grew 19% to Php1.1 billion driven by higher transaction fees from Visa interchange, merchant acquiring, bills payment, ATM transactions, as well as higher bancassurance commission. The higher **gains on investment securities at amortized cost** offset the **losses on trading and investment securities at FVTPL and FVOCI** resulting to a 30% increase in total trading gains to Php8.2 billion from Php6.3 billion last year. **Miscellaneous income** increased by 71% to Php1.3 billion attributed to higher foreign exchange gains and higher income from trust operations.

Total expenses amounted to Php12.1 billion in the first six months of the year compared to Php10.3 billion in the same period last year. **Salaries and employee benefits** increased by Php826.9 million to Php4.5 billion on account of compensation-related increases and retirement benefits. **Taxes and licenses** declined by 26% to Php1.4 billion driven by lower revenue-related gross receipt taxes and documentary stamp taxes. Meanwhile, **miscellaneous expense** went up by 38% to Php5.0 billion mainly on goodwill impairment.

Provision for income tax was higher at Php2.0 billion from Php357.5 million in the same period last year as the Bank absorbed the one-time impact on deferred taxes due to the CREATE Law in the first quarter of the year.

Net income attributable to non-controlling interests grew to Php30.6 million reflecting the subsidiaries' performance for the year.

Statement of Comprehensive Income for the Six Months Ended June 30, 2021 vs June 30, 2020

The Bank recorded a **total comprehensive income** of Php7.9 billion in the first half of 2021, 80% higher than Php4.4 billion in the same period last year. This was driven by the higher **net income** for the six-month period at Php8.3 billion, partially offset by **fair market value losses on investment securities at FVOCI** amounting to Php43.4 million and **realized gains on sale of investment securities at FVOCI** amounting to Php262.1 million. **Total comprehensive income attributable to non-controlling interests** was at Php28.9 million driven by subsidiaries' performance for the year.

Statement of Condition as of June 30, 2021 vs December 31, 2020

The Bank's total assets as of June 30, 2021 was recorded at Php733.6 billion, lower by 5% compared to Php774.5 billion as of December 31, 2020 driven by lower Due from Bangko Sentral ng Pilipinas (BSP) and Due from Other Bank accounts.

Due from BSP account declined by 34% to Php69.0 billion due to the deployment of funds to higher yielding securities and loans. Similarly, **Due from other banks** went down by 14% to Php58.6 billion from lower working balances with foreign correspondent banks. **Interbank loans receivable** was at Php15.0 billion as excess liquidity was placed in other banks. **Cash and other cash items** were also down by 6% at Php8.5 billion on lower cash requirements compared to end-December 2020.

Holdings of trading and investment securities decreased by 4% to Php198.0 billion from Php205.4 billion from lower **financial assets at amortized cost and FVTPL**. **Financial assets at FVOCI**, on the other hand, increased by 53% to Php47.6 billion from the build-up of said securities.

Net loans and other receivables amounted to Php336.9 billion as of June 30, 2021, nearly flat vs. end-December 2020. Loan-to-deposit ratio was recorded at 68% as of June 30, 2021 vs. 64% at year-end 2020.

Total liabilities were lower by 7% to Php624.8 billion as of end-June 2021 compared to Php669.3 billion at end-December 2020. **Deposit liabilities** were down by 6% to Php495.2 billion from lower time deposit levels. **Demand and savings deposits**, on the other hand, posted robust growths at 14% and 20% to Php181.4 billion and Php118.2 billion, respectively. Customers' CASA balances have gone up as a result of the stability and convenience offered by the Bank's cash management platforms and digital channels amid the pandemic. With this, the Bank's CASA ratio significantly improved to 61% in June 2021 from 49% in December 2020.

Total capital funds were up 4% to Php108.8 billion compared to end-December 2020 mainly driven by the Bank's higher net income (net of dividends paid out in the first quarter of the year) which resulted to a 5% increase in **surplus free**. **Surplus reserves** also increased by 11% to Php2.9 billion on account of the appropriation for the difference between BSP's required 1% general loan loss provision (GLLP) over the Bank's computed expected credit loss (ECL) allowance for stage 1 accounts. The lower market value of the Bank's **investment securities at FVOCI**, on the other hand, resulted to a net unrealized loss balance of Php250.1 million while accumulated **remeasurements of defined benefit plan** recorded a negative balance of Php1.9 billion based on actuarial adjustments.

Key performance indicators of the Bank are as follows:

	Jun 2021*	Jun 2020*
Return on Average Assets	2.2%	1.1%
Return on Average Equity	15.6%	8.8%
Cost-to-Income Ratio	47.4%	46.9%
	Jun 2021*	Dec 2020
Net Non-Performing Loan Ratio	3.1%	3.2%
Common Equity Tier 1 Ratio	16.0%	15.0%
Capital Adequacy Ratio	18.1%	17.0%

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)
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
Aging of Accounts Receivable
As of June 30, 2021

ANNEX II

Type of Accounts Receivable	Total	Current	90 days or less	91 to 120 days	121 to 180 days	181 days to 1 year	More Than 1 year	Total Past due	ITL
1) Interbank Loans Receivable	14,981,600	14,981,600							
2) Loans	331,218,120	315,213,956	4,696,667	1,078,750	1,863,532	3,051,313	5,289,461	15,979,724	24,440
3) Accrued Interest Receivable	7,004,619	4,575,472	277,212	19,470	76,895	1,763,180	292,391	2,429,147	-
4) Sales Contract Receivable	1,423,518	1,337,168	4,266	2,544	4,107	11,431	64,002	86,350	-
5) Accounts Receivables	8,614,692	7,777,881	228,671	10,621	45,116	49,256	279,323	612,987	223,824
6) Installment Contract Receivable	3,794	-	-	-	-	-	3,794	3,794	-
Less: Allowance for Doubtful Accounts	11,375,147								
Total	351,871,196	343,886,078	5,206,816	1,111,385	1,989,650	4,875,179	5,928,971		248,264