

**STANDARD DOCUMENT COVER SHEET  
FOR SEC FILINGS**

All documents should be submitted under a cover page which clearly identifies the company and the specific document form as follows:

**SEC Number \* 121 (required)**  
**File Number \*\***

**BANK OF THE PHILIPPINE ISLANDS**  
**6768 BPI BUILDING, AYALA AVENUE, MAKATI CITY**  
**818-5541 to 48**  
**December 31, 2012**  
**SEC FORM I7 -A (Form type)**

**AMENDMENT DESIGNATION "A"**

**FOR THE PERIOD ENDED DECEMBER 31, 2012**  
(if a report, financial statement, GIS, or related amendment or show-cause filing)

**NONE**  
**EACH ACTIVE SECONDARY LICENSE TYPE AND FILE NUMBER**  
(state "NONE" if that is the case)

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- \* SEC will assign SEC No. to new companies.
- \*\* SEC will assign File No. to new applications or registrations.
- \*\*\* Companies should display the File No. on any filing which is an amendment to an application or registration

**SECURITIES AND EXCHANGE COMMISSION  
SEC FORM 17-A  
ANNUAL REPORT PURSUANT TO SECTION 17  
OF THE SECURITIES REGULATION CODE AND SECTION 141  
OF THE CORPORATION CODE OF THE PHILIPPINES**

1. For the fiscal year ended : **DECEMBER 31, 2012**
2. SEC Identification Number : **121**
3. BIR Tax Identification No. : **TIN: 000-438-366-000**
4. **BANK OF THE PHILIPPINE ISLANDS**  
Exact name of issuer as specified in its charter
5. **Ayala Avenue, Makati City, Metro Manila, Philippines**  
Province, Country or other jurisdiction of incorporation or organization
6. Industry Classification Code  : (SEC Use Only)
7. **BANK OF THE PHILIPPINE ISLANDS BUILDING**  
**Cor. Ayala Avenue & Paseo de Roxas**  
**Makati City, Metro Manila** **ZIP Code 0720**  
Address of principal office Postal Code
8. **(02) 818-5541 to 48**  
Issuer's telephone number, include area code
9. **Not Applicable**  
Former name, former address, and former fiscal year, if changed since last report.
10. Securities registered pursuant to Sections 8 and 12 of the SRC, or Sections 4 and 8 of the RSA  

Title of Each Class	Number of Shares of Common Stock Outstanding and Amount of Debt Outstanding
<b>Common</b>	<b>3,556,356,173</b>
11. Are any or all of these 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:

**Philippine Stock Exchange**

**Common**

12. Check whether the issuer:

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

Yes [ **X** ]

No [ ]

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

Yes [ **X** ]

No [ ]

13. State the aggregate market value of the voting stock held by non-affiliates of the registrant. The aggregate market value shall be computed by reference to the price at which the stock was sold, or the average bid and asked prices of such stock, as of a specified date within sixty (60) days prior to the date of filing. If a determination as to whether a particular person or entity is an affiliate cannot be made without involving unreasonable effort and expense, the aggregate market value of the common stock held by non-affiliates may be calculated on the basis of assumptions reasonable under the circumstances, provided the assumptions are set forth in this Form. (See definition of "affiliate" in "Annex B").

<b>Shares Held by Non-Affiliates</b>	<b>Market Value per share as of 04/08/13</b>	<b>Total Market Value</b>
<b>3,556,356,173</b>	<b>P103.10</b>	<b>P 366,660,321,436.30</b>

**APPLICABLE ONLY TO ISSUERS INVOLVED IN  
INSOLVENCY/SUSPENSION OF PAYMENTS PROCEEDINGS  
DURING THE PRECEDING FIVE YEARS:**

14. Check whether the issuer has filed all documents and reports required to be filed by Section 17 of the Code subsequent to the distribution of securities under a plan confirmed by a court or the Commission.

Yes [ ]

No [ ]

**DOCUMENTS INCORPORATED BY REFERENCE**

15. If any of the following documents are incorporated by reference, briefly describe them and identify the part of SEC Form 17-A into which the document is incorporated:

**X** (a) Any annual report to security holders;

(b) Any information statement filed pursuant to SRC Rule 20 and 17.1(b);

(c) Any prospectus filed pursuant to SRC Rule 8.1-1.

## PART 1 - BUSINESS AND GENERAL INFORMATION

### Item 1. Business

#### (A) Description of business

##### (1) Business Development

BPI is the third largest commercial bank in the country in terms of total assets but is the largest bank in terms of market capitalization. It has a significant market share in deposits, lending, and asset management and trust business. It is recognized as one of the top commercial banks in overseas Filipino (OF) remittances and enjoys a significant presence in the finance and operating lease business, government securities dealership, securities distribution and foreign exchange business. BPI is a recognized leader in electronic banking, having introduced most of the firsts in the industry, such as the automated teller machines (ATMs), a point-of-sale debit system, kiosk banking, phone banking, internet banking and mobile banking.

*Historical Background.* Founded in 1851, BPI is the country's oldest bank and was the issuer of the country's first currency notes in 1855. It opened its first branch in Iloilo in 1897 and pioneered in sugar crop loans thus paving the way for Iloilo and Negros to emerge as prime sugar exporters. It also financed the first tram service, telephone system, and electric power utility in Manila and the first steamship in the country.

*Business Evolution.* In the post World War II era, BPI evolved from a purely commercial bank to a fully diversified universal bank with activities encompassing traditional commercial banking as well as investment and consumer banking. This transformation into a universal bank was accomplished mainly through mergers and acquisitions in the eighties when it absorbed an investment house, a stockbrokerage company, a leasing company, a savings bank, and a retail finance company.

BPI consummated three bank mergers since the late 1990s. In 1996, it merged with City Trust Banking Corporation, a medium sized bank, which further solidified its stronghold in consumer banking, and in 2000, it consummated the biggest merger then in the banking industry when it merged with the former Far East Bank & Trust Company (FEBTC). This merger established its dominance in the asset management & trust services and branch banking as well as enhanced its penetration of the middle market. In 2000, it also formalized its acquisition of three major insurance companies in the life, non-life and reinsurance fields, a move that further broadened its basket of financial products. In 2005, BPI acquired and merged with Prudential Bank, a medium sized bank with a clientele of middle market entrepreneurs.

BPI evolved to its present position of eminence via a continuing process of enhancing its array of products and services while attaining a balanced and diversified risk structure that guaranteed the stability of its earning streams.

##### Business Milestones (2010-2012).

In March 2011, BPI became the first bank in the Philippines to acquire the trust business of a foreign bank when it purchased the trust and investment management business and other related assets of ING Bank N.V. Manila.

Principal Subsidiaries. The bank's principal subsidiaries are:

- (1) BPI Family Savings Bank, Inc. (BFSB) serves as BPI's primary vehicle for retail deposits, housing loans and auto finance. It has been in the business since July 1, 1985.

- (2) BPI Capital Corporation is an investment house focused on corporate finance and the securities distribution business. It began operations as an investment house in December 1994. It merged with FEB Investments Inc. on December 27, 2002. It wholly owns BPI Securities Corporation, a stock brokerage company.
- (3) BPI Leasing Corporation is a non-bank financial institution (NBFI) registered with SEC to generally carry on the business of a financing company under the Financing Company Act. It was originally established as Makati Leasing and Finance Corporation in 1970. It merged with FEB Leasing & Finance Corporation on February 20, 2001. It wholly owns BPI Rental Corporation which offers operating leases.
- (4) BPI Direct Savings Bank is a savings bank that provides internet and mobile banking services to its customers. It started operating as such on February 17, 2000 upon approval by the Bangko Sentral ng Pilipinas.
- (5) BPI International Finance Limited, Hong Kong is a deposit taking company in Hong Kong. It was originally established in August 1974.
- (6) BPI Express Remittance Corp. (U.S.A) is a remittance center for overseas Filipino and was incorporated on September 24, 1990.
- (7) Bank of the Philippine Islands (Europe) Plc was granted a UK banking license by the Financial Services Authority (FSA) on April 26, 2007. It was officially opened to the public on October 1, 2007. In July 2008, BPI Europe was permitted by the FSA to carry out cross-border services in other EEA Member States.
- (8) Ayala Plans, Inc. is BPI's majority owned pre-need insurance company acquired through the merger with Ayala Insurance Holdings Corp (AIHC) in April 2000.
- (9) BPI/MS Insurance Corporation is a non-life insurance company formed through a merger of FGU Insurance Corporation and FEB Mitsui Marine Insurance Company on January 7, 2002. FGU and FEB Mitsui were acquired by BPI through its merger with AIHC and FEBTC in April 2000.

## (2) **Business of Issuer**

### **Principal Products & Services**

The bank has two major categories for products & services. The first category covers its deposit taking and lending / investment activities. Revenue from this category is collectively termed as net interest income and accounts for about 58% of revenues. The second category covers services other than and auxiliary to the core deposit taking, lending, and investing business and from which it derives commissions, service charges & fees from turnover volume. These include investment banking & corporate finance fees, asset management & trust fees, foreign exchange, securities distribution fees, securities trading gains, credit card membership fees, rental of bank assets, income from insurance subsidiaries and service charges/ commissions earned on international trade transactions, drafts, fund transfers, various deposit related services, etc. Non-recurring gains are derived from the disposal of foreclosed/acquired properties.

### Foreign Offices Contribution

	2010	2011	2012
Share in Total Revenue (%)	1.33	1.19	0.98
Hong Kong	0.27	0.30	0.31
USA	0.30	0.29	0.28
Europe	0.76	0.60	0.39
Share in Total Net Income (%)	(0.27)	0.06	0.05
Hong Kong	0.23	0.25	0.31
USA	(0.07)	(0.02)	0.03
Europe	(0.43)	(0.17)	(0.29)

### Distribution Network

BPI has 809 branches across the country, including 74 kiosks branches by the end of 2012. Kiosks are branches much smaller than the traditional branch but fully equipped with terminals allowing direct electronic access to product information and customers' accounts as well as processing of self service transactions. They serve as sales outlets in high foot traffic areas such as supermarkets, shopping malls, transit stations, and large commercial establishments. Additionally, there are 6 BPI Globe BanKO (BanKO) branches set up in strategic locations in the country. BanKO, a joint venture with Ayala Corp. and Globe Telecom, is the country's first mobile-based savings bank whose goal is to extend financial services to the lower end of the market. Overseas, BPI has five (5) branches through BPI International Finance Limited in Hong Kong and BPI Europe Plc's four (4) branches in London.

BPI's ATM network of 2,068 terminals complements the branch network by providing banking services to its customers at any place and time of the day. The interconnection with Megalink and Bancnet in 1997 and 2006, respectively, gives BPI ATM cardholders access to over 14,200 ATMs. BPI's ATM network is likewise interconnected with the Cirrus International ATM network, China Union Pay (CUP), Discover/Diners, JCB, and Visa International. In addition, BPI operates Express Payment System (point-of-sale/debit card system) terminals in major department stores, supermarkets, gas stations, and merchant establishments. This facility, interconnected with the Maestro international POS network, allows customers to pay for purchases electronically through their ATM cards. Real-time Cardless Deposit is also made available in about 200 Express Deposit Machines in the country,

The BPI Express Phone Facility enables BPI depositors to inquire account balances and latest transactions, transfer funds to other BPI accounts real time, pay for their various bills (e.g., credit cards, electricity, cable company, Telco/ISP, condominium dues, insurance premiums) and reload prepaid cell phones. To further enhance the Express Phone facility, a Contact Center, formerly known as Call Center, was established in 1998 to provide phone banker assisted services to its customers.

In 2000, BPI launched its B2C web-based platform, Express Online (EOL), which provides all the transactional services available through the Express Phone plus the real-time convenience of viewing transactional history and balances on screen. EOL now offers BPI Investment Online, the first full-service online investment fund facility where clients can now access portfolio information, apply for an investment fund account, subscribe to additional funds, redeem investments, and make regular contributions via the Regular Subscription Plan (RSP). EOL also allows investment transactions through its BPI Trade platform where customers can invest in equities without the need of any dealer or broker.

BPI Express Mobile, the bank's mobile banking platform, introduced a mobile banking app which runs on iPhones, iPads, Android devices, and Java-enabled phones, including BlackBerry. The bank also launched BPI Mobile Wallet, a product that allows clients to use Smartphones as a "virtual wallet" for contactless payments.

BPI also maintains a specialized network of remittance centers for servicing overseas remittances from Filipinos working abroad. To date, BPI has 17 Remittance Centers and Desks located in Hong Kong, USA and Europe. BPI also maintains tie-ups with various foreign entities in locations where this mode of operation is more effective and cost-efficient.

On the lending side, BPI maintains 18 Business Centers across the country to process loan applications, loan releases, and international trade transactions, and provide after-sales servicing to both corporate and retail loan accounts.

### **Competition**

Mergers, acquisitions and closures trimmed down the number of players in the industry from a high of 50 upon the liberalization of rules on the entry of foreign banks to 38 universal and commercial banks in 2012. Competition has remained intense despite the industry consolidation.

Lending by universal and commercial banks, excluding thrift banks grew by 15.4% in 2012. Loan requirements, especially from the top tier corporate sector, while still predominantly for working capital, have recovered on stronger credit demand from power, real estate, business process outsourcing, as well as tourism related sectors. The top corporations though have the option of accessing the capital market for their funding needs. Hence it is in the SME and middle market where lending opportunities are better, and where most of the domestic banks' focus has been directed. BPI, being a well-entrenched, long-term player enjoys the advantage of having an undisputed depth of experience in this demanding business that spans origination/credit selection, collection, and asset recovery activities.

Based on required published statements by the Bangko Sentral ng Pilipinas (BSP) as of December 2012, BPI is the third largest bank operating in the country in terms of assets, and capital and second in terms of deposits, loans and asset management and trust business. Total assets of BPI based on Philippine Financial Reporting Standards (PFRS) compliant audited financial statement are higher though than the published statements prepared along BSP standards.

### **Patents, Trademarks, Licenses, Franchises, etc.**

BPI sells its products and services through the BPI trademark and/or trade name. All its major financial subsidiaries carry the BPI name e.g. BPI Family Savings Bank, BPI Capital, BPI Securities, BPI Leasing, BPI Direct Savings, and so do its major product & service lines.

In addition to the BPI trademark, it markets its products through the "Express" brand name e.g.,

- (1) BPI Express Banking Center, for its banking kiosks
- (2) Express Teller, for its ATM
- (3) Express Deposit, for its cash acceptance machine
- (4) Express Payment System or EPS, for its debit card payment facility
- (5) ExpressNet, for its shared ATM network
- (6) Express Credit, for its credit cards
- (7) Express Cash, for its electronic cash card
- (8) Express Phone, for its call center facility
- (9) Express Online, for its internet based transaction platform for retail customers
- (10) Express Mobile, for its mobile banking facility

- (11) ExpressLink, for its internet based transaction platform for corporate customers
- (12) Expresslink Mobile, for its mobile banking for corporate customers
- (13) Express Collect, for its corporate deposit related services

At BPI Family Savings Bank, the product trademarks include the BPI Family Housing Loan, the BPI Family Auto Loan, the BPI Family Ka-Negosyo Business Loan, the BPI Family Ka-Negosyo Credit Line, the BPI Family Ka-Negosyo Franchising Loan and the BPI Family Motorcycle Loan. Other product brands of BPI, BFSB and BPI Direct are Maxi-One, Save-up, and Maxi-Saver.

All the Bank's Trademark registrations are valid for 10 years with years of expiration varying from year 2013 to 2030. The Trademark Registration for Express Cash and Logo has been released by the Intellectual Property Office (IPO) last August 2011. To secure these rights, the Bank files and pays corresponding fees within 1 year from the Trademark's 5<sup>th</sup> Anniversary of use at the IPO. The Bank closely monitors the expiry/renewal dates of these trademark names to protect the Bank's brand equity.

In terms of corporate business licenses, BPI has an expanded commercial banking license while BPI Family Savings Bank and BPI Direct Savings have savings bank licenses. Both BPI and BPI Direct Savings have e-banking licenses. BPI Capital Corporation has an investment house license. BPI Leasing has a finance company license.

### **Related Parties**

In the ordinary course of business, the Bank has entered into various transactions with its Directors, Officers, Stockholders and their Related Interests or DOSRI including loan transactions. BPI and all its subsidiaries have always been in compliance with the General Banking Act and the Bangko Sentral ng Pilipinas Circulars and regulations on DOSRI loans and transactions. As of December 31, 2012, DOSRI loans amounted to 1.24% of loans and advances as per Note 32 of the 2012 Audited Financial Statements.

### **Government Regulations**

Under the General Banking Act, the Monetary Board of the BSP is responsible for regulating and supervising financial intermediaries like BPI. The implementation and enforcement of the BSP regulations is primarily the responsibility of the supervision and examination sector of the BSP.

The General Banking Act was revised in 2000. The revisions allow (1) the issuance of tier 2 capital and its inclusion in the capital ratio computation, and (2) the 100% acquisition of a local bank by a foreign bank. The second item removes the advantage of a local bank over a foreign bank in the area of branching. In 2005, the BSP issued Circular no. 494 covering the guidelines in adopting the provision of Philippine Financial Reporting Standards (PFRS) and Philippine Accounting Standards (PAS) effective the annual financial reporting period beginning 1 January 2005. These new accounting standards aim to promote fairness, transparency and accuracy in financial reporting.

In July 2007, the risk-based Capital Adequacy Ratio (CAR) under the Basel II accord, which assigns risk weights for credit, market and operational risks, was implemented by the BSP through BSP Circular 538. The circular, which covers all universal and commercial banks including their subsidiary banks and quasi-banks, also maintained the 10% minimum capital adequacy ratio for both solo and consolidated basis. Subsequently, the Internal Capital Adequacy Assessment Process (ICAAP) guidelines were issued in 2009 for adoption by January 2011.



## Research and Development Activities

BPI spent the following for the last three years:

	In P M	% of Revenues
2010	220.4	0.6
2011	206.1	0.5
2012	273.4	0.6

## Employees

Below is a breakdown of the manpower complement of BPI in 2012 as well as the approved headcount for 2013.

	December 31, 2012 Actual			December 31, 2013 Plan		
	Officers	Staff	Total	Officers	Staff	Total
Unibank	3,814	8,226	12,040	4,336	8,713	13,049
Consumer Banking	2,688	5,827	8,515	3,021	6,136	9,157
Corporate Banking	603	1,605	2,208	670	1,684	2,354
Investment Banking	112	22	134	151	28	179
Support	411	772	1,183	494	865	1,359
Insurance Companies	65	301	366	79	322	401
TOTAL	3,879	8,527	12,406	4,415	9,035	13,450

Majority or 80% of the staff are members of various unions and are subject to Collective Bargaining Agreements (CBAs). The CBA of the parent company was concluded / signed last May 31, 2011 for the various BPI Provincial Employees Unions and June 9, 2011 for the BPI Metro Manila Employees Union. The new BPI CBA covers the period April 1, 2011 to March 31, 2014.

CBA for BPI Family Savings Bank was concluded / signed last February 21, 2011. The new BFSB CBA covers the period November 1, 2010 to October 31, 2013.

## Risk Management

The Bank employs a disciplined approach to managing all the risks pertaining to its business to protect and optimize shareholder value. The risk management infrastructure covers all identified risk areas. Risk management is an integral part of day-to-day business management and each operating unit measures, manages and controls the risks pertaining to its business. Functional support on policy making and compliance at the corporate level is likewise provided for the major risk categories: credit risks, market risks and operating risks. Finally, independent reviews are regularly conducted by the Internal Audit group, regulatory examiners and external auditors to ensure that risk controls are in place and functioning effectively.

Credit risk, the largest single risk for a bank, involves the thorough evaluation, appropriate approval, management and continuous monitoring of exposure risks, such as counterparty or borrower risk, facility risk, and industry risk relating to each loan account. In BPI, the entire credit risk management process is governed by policies, standards and procedures which are regularly reviewed and updated given regulatory requirements and market developments. The loan portfolio is continuously monitored and reviewed as to quality, concentration and utilization of limits. For large corporate borrowers, the new credit scoring model based on Basel Foundation Internal Ratings Based (FIRB) approach will be completing its first year of implementation by March 2013. The new model was submitted in November to the Bangko Sentral ng Pilipinas (BSP) for assessment with the end in view of adopting the ratings model for capital allocation. The Bank also started on the development of the FIRB

approach for the SME segment. For consumer loans, credit risk management is additionally supported by regular portfolio reviews and established credit scoring models which are monitored on a quarterly basis.

Market risk management involves liquidity risk and price risk. Both risks are managed using a set of established policies and procedures guided by the Bank's overall market risk management framework set by the Board. Liquidity risk is the risk that the Bank will be unable to meet its financial obligation to a customer or market. Liquidity exposures on funding mainly come from the mismatches of asset, liability, and exchange contract maturities. The Bank manages liquidity risk by setting a minimum cumulative liquidity net inflow limit, conducting liquidity stress tests, and designing a contingency funding plan. Price risk is the risk that the Bank's earnings will decline immediately or over time because of a change in the level or volatility of interest rates, foreign exchange rates, or equity prices. The Bank employs various methodologies in measuring and managing price risks, such as Value at Risk, Management Action Triggers and Earnings at Risk, and is supplemented by regular stress tests.

Operational risk management involves creating and maintaining an operating environment that ensures and protects the integrity of the assets, transactions, records and data of the Bank and its customers, the enforceability of the Bank's claims, and compliance with all pertinent legal and regulatory parameters.

## **Item 2. Properties**

BPI's Head Office is located at the BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. Of the 809 local branches, 671 operate as BPI branches: 352 in Metro Manila/Greater Metro Manila Area and 319 in the provincial area. The parent bank owns 33% of these branches and leases the remaining 67%. Total annual lease amounted to Php 630 million. Expiration dates of the lease contracts vary from branch to branch.

BPI Family Savings Bank (BFSB) operates 138 branches of which 22% are bank owned while 78% are leased. Total annual lease amounted to Php 117 million.

The head offices of BPI and BPI Family Savings Bank as well as the 809 branches are maintained in good condition for the benefit of both the employees and the transacting public. The bank enforces standards for branch facade, layout, number and types of equipment and upkeep of the premises.

All of the bank-owned properties are free from any lien.

The Bank will continue to reconfigure the mix of its traditional branches, and kiosk branches as it adjusts to the needs of its customers. To date, the Bank had not identified any property to acquire. BFSB though had obtained approval of the BSP for five (5) new branch licenses in 2012. In February 2013, it opened one (1) new branch in Vigan. This branch is currently under lease and its rental cost will form part of the Bank's operating expenses in 2013. The remaining four (4) branches will be located in Bacolod, Iloilo, Cagayan de Oro, and San Fernando, La Union. The Bacolod branch site is an existing bank property, hence there is no cost to the Bank. When all these branches are fully operational, additional annual lease expense will amount to P3.27 million.

Total lease expense for 2012 for BPI and its subsidiaries amounted to P936 million as per Note 26 of Audited Financial Statement. Lease payments vary from one property to another, ranging from a low P5 thousand to P1.1 Million, the average of which was P107 thousand in 2012.

**Item 3. Legal Proceedings**

The Bank does not have any material pending legal proceedings to which the registrant or any of its subsidiaries or affiliates is a party or of which any of their property is the subject.

**Item 4. Submission of Matters to a Vote of Security Holders**

NONE

**PART II - OPERATIONAL AND FINANCIAL INFORMATION****Item 5. Market for Issuer's Common Equity and Related Stockholders Matters****Market Information**

The common shares of BPI have been listed on the Philippine Stock Exchange (PSE) since 1966.

The table below shows the high and low prices of BPI shares transacted at the PSE for each quarter within the last two (2) fiscal years.

	<b>High</b>	<b>Low</b>
Year Ended December 31, 2011		
1st Quarter	P 59.50	51.40
2 <sup>nd</sup> Quarter	60.65	53.95
3 <sup>rd</sup> Quarter	61.00	51.00
4th Quarter	58.50	52.30
Year Ended December 31, 2012		
1st Quarter	P 75.50	55.55
2 <sup>nd</sup> Quarter	76.15	65.20
3 <sup>rd</sup> Quarter	79.80	71.70
4th Quarter	96.60	77.60

The high and low sales prices of BPI at the Philippine Stock Exchange on April 8, 2013 were P103.50 and P103.20, respectively, with a closing price of P103.10.

**Holders of Common Equity**

There were approximately 12,447 common share holders of BPI as of December 31, 2012.

Please refer to Exhibit C for the top twenty (20) shareholders with their corresponding shares and percentage ownership of BPI.

Please see Exhibit D for a Statistical Report by Sharelots as of December 31, 2012.

**Dividends**

Cash dividends declared and paid during the years ending December 31, 2011 & 2012 are as follows:

<u>BPI</u>	<u>Amount Declared</u>	<u>Amount Paid</u>
Year Ending December 31, 2011	6,401 Million	3,201 Million
Year Ending December 31, 2012	8,180 Million	11,380 Million

The difference between the amount declared and paid per year is due to the time lag in obtaining BSP approval to pay out the dividends.

There are no known restrictions or impediments to the company's ability to pay dividends on common equity, whether current or future.

### Recent Sales of Unregistered or Exempt Securities

There were no unregistered securities sold during the year.

## Item 6. Management Discussion and Analysis of Financial Condition and Results of Operations (Last Three Years: 2010, 2011, and 2012)

The highlights of the balance sheet and income statement of BPI for each year and the compounded growth rate over the three year period (2009 - 2011) are shown below:

In Million Pesos	2009	2010	2011	2012	CAGR
Assets	724,420	878,146	842,616	985,069	10.79 %
Deposits	579,471	719,766	681,101	802,274	11.45 %
Loans (Net)	327,474	378,728	454,499	526,640	17.16 %
Capital	67,765	82,274	90,530	98,523	13.29 %

The compounded annual growth rate (CAGR) of the bank's asset levels from 2010 to 2012 was 10.8% brought about by the 11.4% increase in deposits. Loans grew at a faster rate over the same period by 17.2%. Capital was up by 13.3% coming from the profits generated annually, net of cash dividends paid.

### 2010

**Total Resources** reached P878.1 billion, P153.7 billion or 21.2% more than last year's P724.4 billion. **Total Deposits** grew by P140.3 billion or 24.2% coming from all types of deposits. **Demand, Savings, and Time Deposits** expanded by P12.5 billion, P43.1 billion and P84.8 billion, respectively. **Derivative Financial Liability** was up by P3.7 billion or 2.3x on increased volume and market valuation of derivative products. **Manager's Checks and Demand Draft Outstanding** rose by P1.1 billion or 36.9% due to the higher balance of non-negotiated manager's checks issued for the year. **Accrued Taxes, Interest and Other Expenses** also went up by P671 million on accruals of interests on time deposits and interest rate swaps relative to volume growth, and of taxes and licenses as well as income taxes in view of the positive tax position of the bank. **Liabilities Attributable to Insurance Operations** likewise grew by P451 million or 5.1% on increased reserves corresponding to new policies issued at BPI/MS Insurance Corp (BPI/MS). On the other hand, **Bills Payable** contracted P7.1 billion due to maturities of borrowings under the BSP rediscounting facility.

**Capital Funds** amounted to P82.3 billion, P14.5 billion or 21.4% higher than last year's P67.8 billion. The bulk of the increase came from **Paid-in Surplus** and **Capital Stock**, which expanded by P6.9 billion and P3.1 billion, respectively, on account of stock rights issue of P10 billion at P32.50 per share in August 2010. **Surplus** was up by P2.2 billion or 6.5% on the back of the year's earnings net of cash dividend paid. **Accumulated other comprehensive income (loss)** ended at P467 million, a P2.1 billion or 128.6% reversal of last year's debit balance of P1.6 billion on account of the favorable mark-to-market valuation of available-for-sale securities of the bank and investment securities of the insurance subsidiaries. **Non-controlling interest** increased by P277 million or 28.7%, a large portion representing the interest of the other shareholders of BPI Globe BanKO (BanKO) which was reconsolidated with the BPI Parent company, and balance pertaining to the interest of Mitsui Sumitomo in BPI/MS.

On the asset side, funds derived from higher deposit and capital were redeployed to loan expansion of P51.2 billion or 15.6% across all market segments. Funds were also placed in **Due from Bangko**

**Central ng Pilipinas (BSP)**, which grew by P65.7 billion or 104.8% to cover the reserve requirement on the incremental deposits, and place excess funds in BSP Special Deposit Accounts. Other favored investments were **Available for Sale Securities**, **Held-to-maturity Securities** and **Interbank Loans Receivable and Securities Purchased under Agreements to Resell** which increased by P40.8 billion, P20.4 billion and P14.3 billion, respectively. Available for sale securities rose as the bank increased its portfolio holdings of longer duration government securities. The increase in held-to-maturity securities was due to additional investments in higher yielding foreign currency bank bonds while interbank loans receivable and securities purchased under agreements to resell growth was attributed to investments in RRP. **Derivative Financial Asset** likewise rose by P3.9 billion on increased volume and market valuation gains of derivative products. **Assets Attributable to Insurance Operations** moved up by P966 million or 8.8% on higher investments of Ayala Plans Inc. and BPI/MS, driven by the increased gross premium written for the year, and prepaid re-insurance premiums at BPI/MS. **Equity Investments** were P869 million or 53.0% more than previous year on account of the bank's share in the net income and market valuation of investment securities of BPI-Philamlife Assurance Corporation (BPI-Philam). **Other resources** was also ahead of the previous year by P644 million or 8.3% due to the increase in miscellaneous assets.

On the other hand, **Trading Securities** dropped by P41.8 billion or 78.5% on the sell down of peso and foreign currency government securities. **Assets Held for Sale** also decreased by P2.5 billion or 17.3% following the continuous disposal of the bank's foreclosed properties. **Due from Other Banks** reflected a P599 million or 19.6% decline as the bank's deposits maintained in foreign banks partially funded the acquisition of foreign currency securities booked in held-to-maturity inventory .

## **2011**

**Total Resources** ended at P842.6 billion, P35.5 billion or 4.0% lower than last year's level of P878.1 billion. The Bank focused on the safety of its assets and the maintenance of yields at the expense of assets growth. **Total Deposits** contracted by P38.7 billion or 5.4% due to the P95.1 billion or 26.9% drop in **Time deposits** net of P45.7 and P10.7 billion increase in **Savings** and **Demand Deposits**, respectively. Demand and savings deposits grew by 8.9% and 18.6%, respectively following the Bank's thrust to grow low cost deposits to fund its loans growth. **Bills Payable** likewise contracted P5.7 billion or 23.0% due to settlement of borrowings under the BSP rediscounting facility. **Accrued Taxes, Interest and Other Expenses** also went down by P1.1 billion on lower accruals of interests on time deposits due to lower volume and interest rate and lower year-end accruals of operating expenses. **Derivative Financial Liability** likewise contracted by P516 million or 9.7% due to lower mark-to-market valuation of foreign exchange swaps and reduced non-deliverable forward position. **Due to Bangko Sentral ng Pilipinas (BSP) and Other Banks** also declined by P283 million or 14.1% mainly on lower deposits maintained by foreign banks. On the other hand, **Deferred Credits and Other Liabilities** grew by P1.8 billion basically on account of the recognition of the P3.2 billion dividend payable net of the decline in the Bill Purchased - Contra account level. **Liabilities Attributable to Insurance Operations** grew by P724 million or 7.9% on increased claims due to typhoon-related losses, reinsurance liabilities and reserves corresponding to new policies issued at BPI/MS.

**Capital Funds** this year amounted to P90.5 billion, P8.2 billion or 10.0% higher than last year's P82.3 billion. **Surplus** was up by P6.3 billion or 17.9% from this year's profits net of cash dividends paid. **Accumulated other comprehensive income (loss)** also went up by P1.7 billion or 365.0% on account of the favorable mark-to-market valuation of the bank's available-for-sale securities as well as the insurance companies' investment securities. **Reserves** was also up by P94 million or 6.9% due to additional reserves set up for the trust business this year, a requirement whenever the Bank declares dividend. **Non-controlling interest** increased by P134 million or 10.7%, representing the interest of the other shareholders of BanKO and of Mitsui Sumitomo in BPI/MS.

On the asset side, **Loans and Advances, net** were ahead of last year by P75.8 billion or 20.0% on higher corporate and retail loan portfolio. **Cash and Other Cash Items** increased by P4.2 billion or 23.4% on higher level of cash requirement at year end. **Other resources** was also ahead of last year by P3.8 billion or 45.3% due to the unamortized purchase price of ING investment management business, increase in

miscellaneous assets and business related account receivable. **Due from Other Banks** grew by P2.7 billion or 42.0% due to higher working balances maintained with correspondent banks. **Bank Premises, Furniture, Fixtures and Equipment, net** also increased by P716 million or 6.2% with the upgrade of the bank's mainframes, purchase of new computers and the higher equipments for lease. **Equity investments, net** likewise went up by P561 million or 22.4% on account of the bank's share in the net income and market valuation of investment securities of BPI-Philam. **Trading Securities** also went up by P826 million or 7.2% due to the purchase of long term government securities.

On the other hand, **Due from BSP** went down by P44.7 billion or 34.8% on lower term placements with the BSP. **Available for Sale Securities, net** decreased by P38.4 billion or 34.2% due to sale of peso and foreign currency securities. **Interbank Loans Receivable and Securities Purchased under Agreements to Resell** dropped by P31.6 billion or 47.2% as interbank placements were shifted in favor of higher yielding loans. **Held-to-Maturity Securities, net** also declined by P5.7 billion or 6.0% on maturities. **Assets Held for Sale, net** likewise decreased by P2.6 billion or 22.3% following the continuous disposal of the bank's foreclosed properties. **Deferred Income Tax Assets, net** also went down by P687 million or 13.7% due to the utilization of the minimum corporate income tax (MCIT). **Derivative Financial Assets** also dropped by P670 million or 11.1% on lower mark-to-market valuation of foreign currency swaps and structures.

## **2012**

**Total Resources** stood at P985.1 billion, P142.5 billion or 16.9% higher than last year's P842.6 billion. **Total Deposits** grew by P121.2 billion or 17.8% due to the increases in **Time, Savings and Demand** deposits by P52.9 billion or 20.5%, P50.5 billion or 17.3%, and P17.8 billion or 13.6%, respectively. **Bills Payable** likewise increased by P7.1 billion or 37.3% due to additional funding requirements. **Manager's Checks and Demand Draft Outstanding** grew by P1.7 billion or 40.3% due to the higher balance of non-negotiated manager's checks issued. **Deferred Credits and Other Liabilities** rose by P1.5 billion or 6.7% on higher bill purchased - contra account. **Derivative Financial Liabilities** was likewise up by P1.0 billion or 21.0% due to higher mark-to-market valuation of interest rate and cross currency swaps payable. **Liabilities Attributable to Insurance Operations** went up by P857 million or 8.6% due to the increase in reserves of BPI/MS and Ayala Plans. **Accrued Taxes, Interest and Other Expenses** went up by P794 million or 19.7% due to higher accrual of year end expenses, and interests on time deposits and interest rates swaps relative to increased volume. **Due to BSP and Other Banks** also increased by P318 million or 18.5% mainly on higher tax collections for the Bureau of Internal Revenue and higher deposit balances maintained by foreign banks.

**Capital Funds** amounted to P98.5 billion, P8.0 billion or 8.8% higher than last year's P90.5 billion. **Surplus** was up by P8.0 billion or 19.1% from this year's profits net of cash dividends paid. **Reserves** also went up by P141 million or 9.6% due to additional reserves set up for the trust business this year. **Accumulated other comprehensive income (loss)**, however, went down by P168 million or 7.7% on account of the lower market valuation of the bank's available-for-sale securities.

On the asset side, **Loans and Advances, net** were up from last year by P72.1 billion or 15.9% on higher corporate and retail loan portfolio. **Due from BSP** also went up by P35.3 billion or 42.2% on account of reserves relative to the higher deposit volume. **Available for Sale Securities, net** increased by P32.3 billion or 43.6% due to higher inventory of local and foreign currency denominated bonds. **Trading Securities** likewise improved by P9.8 billion or 80.0% due to the purchase of government bonds. **Interbank Loans Receivable and Securities Purchased under Agreements to Resell** was higher by P3.7 billion or 10.4% due to increase of placements with the BSP. **Other resources** were also ahead of last year by P2.8 billion or 23.0% due higher accounts receivable and miscellaneous assets. **Assets Attributable to Insurance Operations** also rose by P1.2 billion or 9.9% on higher investments by the Bank's insurance subsidiaries. **Equity investments, net** also went up by P612 million or 19.9% on account of the increase in the bank's share in the net income as well as the market valuation of investment securities of BPI-Philam. **Deferred Income Tax Assets, net** likewise went up by P579 million or 13.4% due to higher impairment losses set up for the year and various accounts with timing

difference. **Derivative Financial Assets** also went up by P531 million or 9.8% on higher mark-to-market valuation of interest rate swaps receivable and foreign currency swaps.

On the other hand, **Held-to-Maturity Securities, net** dropped by P13.5 billion or 15.0% on maturities. **Assets Held for Sale, net** likewise declined by P2.3 billion or 24.7% following the continuous disposal of the bank's foreclosed properties. **Due from Other Banks** went down by P1.7 billion or 18.4% on lower working balances with local and correspondent banks.

*Asset Quality.* The bank sustained its broad mix of loan portfolio broken down into top corporations at 33%, middle market commercial at 28%, SMEs at 15%, and consumer at 24%.

Allowance for Impairment of P11.1B was up by P436 million from last year's P10.7 billion and also higher than 2010's P10.2 billion.

Gross 90 days non-performing loans (NPL) ratio improved to 2.1% from last year's 2.5% and 2010's 3.1%. This year's 30 day net NPL ratio (net of fully reserved accounts) per BSP definition ended at 1.5%, an improvement from last year's 1.9% and 2010's 2.1%. The bank's NPL ratio was better than industry's average of 2.0% as of October 2012.

BPI shall prudently manage its lending activity and always be mindful of the credit risks, potential or otherwise, that may be posed by the shifting environment. It will regularly assess its portfolio quality and ensure adequate collateral and reserve coverage. It will continue to resolve outstanding delinquent loans through collection or restructuring, where appropriate.

*Liquidity.* BPI is one of the industry's most liquid banks as it derives 96% of its funding from deposits. Its loan to deposit ratio was 67% in 2012, a little lower than 2011's 68% but higher than 2010's 54%, still with adequate room to actively finance any surge in loan demand. Currently, excess funds are invested in cash and highly liquid assets as well as in non-risk government securities.

## Results of Operations

In Million Pesos	2009	2010	2011	2012	CAGR
Net Interest Income	21,402	23,628	25,867	27,454	8.66 %
Non-Interest Income	12,993	14,779	15,891	19,930	15.33 %
Impairment Losses	2,535	3,454	2,150	2,923	4.86 %
Operating Expenses	19,676	20,954	23,465	24,888	8.15 %
Net Income	8,516	11,312	12,822	16,291	24.14 %

The bank's net income from 2010 to 2012 grew by a CAGR of 24.1% as net interest income and non-interest income improved by 8.7% and 15.3%, respectively. However, these increases were partly reduced by higher operating expenses and impairment losses which rose by 8.2% and 4.9%, respectively.

**2010 vs. 2009.** The bank's 2010 **Net Income** amounted to P11.3 billion, a P2.8 billion or 32.8% improvement over last year's P8.5 billion. The improvement in net income was attributed to the growth in revenues by P4.0 billion and the decline in income taxes by P998 million. These positive variances were partly tempered by the rise in operating expenses and impairment losses by P1.3 billion and P919 million, respectively.

The growth in **Revenues** came from the increase in net interest income of P2.2 billion and non-interest income of P1.8 billion.

**Net Interest Income** at P23.6 billion was higher by 10.4% from last year's P21.4 billion. This improvement was driven by the P79.5 billion increment in average asset base partly softened by the 17 basis points drop in net interest margin.

- **Interest Income** was up by P3.1 billion or 9.1% to P37.0 billion from previous year's P33.9 billion. This growth was propelled by increases in the interest income of all interest bearing assets ranging from P221 million to P1.2 billion mostly due to higher level of balances. The increase of P221 million in interest income **on trading securities** however was brought about by higher interest yield. Consequent to the increase in interest income, **GRT** rose by P50 million.
- **Interest Expense** was likewise higher by P874 million compared to the previous year largely on the P839 million rise in interest expense on **Deposits** corresponding to the volume increase.

**Other Income** grew to P14.8 billion, 13.8% better than 2009's P13.0 billion. **Trading gain (loss) on securities** was the biggest contributor to other income growth with a P1.4 billion or 93.0% increment to P2.9 billion from last year's P1.5 billion. The bank sold down part of its trading portfolio following a declining interest rate environment. **Income from foreign exchange trading** rose by P511 million or 30% on higher realized gains on forwards and swaps. **Fees and commissions** also improved by P731 million on higher service charges and bancassurance fees. Other operating income reflected a drop of P593 million or 9.2% on substantial non-recurring gain on bank asset sales last year. The overall increase in other income resulted in a higher **GRT** of P286 million or 32.8%.

**Other Expenses** at P21.0 billion was up by P1.3 billion or 6.5% against last year's P19.7 billion. **Other operating expenses** increased by P858 million or 17.6% on higher regulatory costs, and variable product and service costs. **Occupancy and equipment-related expenses** also went up by P438 million or 7.8% on higher premises related costs and hardware and software maintenance costs.

This year's **impairment losses** reached P3.4 billion, P919 million or 36.2 % more than the previous year, inclusive of reserves for write-off of the goodwill of P274 million on the Prudential Bank acquisition.

**Provision for Income Tax** was down by P998 million or 28.4% to P2.5 billion against last year's P3.5 billion. The decline in the tax line was primarily due to the lower **deferred taxes** of P1.3 billion or 137.5% for the year as last year carried the tax effect of a relatively large net operating loss carry over (NOLCO) write-off. **Current taxes** were higher by 269 million or 10.4% due to higher taxable income of the Parent bank and some subsidiaries.

**Income attributable to Non-Controlling Interest** was higher by P18 million or 12.2% on the insurance subsidiaries' improved operating performance.

### Comprehensive Income

**Total Comprehensive Income** ended at P13.4 billion, P3.7 billion or 37.8% higher than previous year's P9.7 billion. This improvement came from higher net income before minority interest on account of the bank's better operating performance this year, and the P881 million increase in **Other Comprehensive Income** from P1.3 billion last year to this year's P2.1 billion.

Contributing to the growth of other comprehensive income was the **Share in other comprehensive income of associates** of P964 million attributed to the improved market valuation of investments of BPI-Philam. Additionally, there was the P817 million or more than 2x increase in **Net change in available for sale securities** to P1.2 billion for the year compared to previous year's P390 million on the back of favorable market valuation of the bank's and its subsidiaries' investment securities. **Fair value reserve on investments of insurance subsidiaries** ended lower by P606 million or 65.2% compared to previous year. **Currency translation differences** on the bank's foreign subsidiaries exhibited a loss of P215 million, a P294 million or 3.7x reversal of last year's P79 million gain due to the weakening of the US dollar against the Peso and Euro.

Correspondingly, **comprehensive Income of Non-Controlling Interest** was up by P13 million or 6.6% on account of better operating earnings and favorable market valuation of the combined investments of the insurance companies.



**2011 vs. 2010.** **Net Income** for 2011 amounted to P12.8 billion, P1.5 billion or 13.4% higher than last year's P11.3 billion. This increase was driven by the P3.3 billion growth in revenues and the P1.3 billion drop in impairment losses but partly tempered by the P2.5 billion rise in operating expenses.

**Revenue** increase came from the improvements in both net interest income (up by P2.2 billion) and non-interest income (up by P1.1 billion).

**Net Interest Income** at P25.9 billion was up by 9.5% from last year's P23.6 billion. This growth was fuelled by the P48.7 billion average asset base expansion and the 12 basis points increase in net interest margin.

- **Interest Income** increased by P1.7 billion or 4.6% to P38.7 billion from previous year's P37 billion as the interest income of almost all interest bearing assets grew. The bulk of the increase came from interest income **on loans and advances** which grew by P1.9 billion despite the 65 basis points drop in loan yield as the loan average volume rose by P57.2 billion. Interest on **available-for-sale securities** and **trading securities** went up by P259 and P230 million, respectively, on higher yields. Interest income on **held-to-maturity securities** also went up by P236 million due to the growth of P6 billion in average volume partly tempered by a 18 basis points drop in yield. Above increases were partly toned down by lower interest income **on deposits with BSP and other banks** which went down by P921 million or 27.0% on lower yield on deposits with BSP.
- **Interest Expense** was lower by P535 million to P12.8 billion from last year's P13.4 billion as interest expense in both **deposits and bills payable and other borrowings** fell by P348 million and P187 million due lower interest cost.

**Other Income** increased by P1.1 billion or 7.5% to P15.9 billion. **Other operating income** improved by P862 million or 14.8% mainly due to higher trust fees, credit card income and bank premises and equipment rental. **Fees and commissions** rose by P447 million or 10.8% on increased service charges due to higher ATM and remittance fees. **Income attributable to insurance operations** was also higher by P147 million or 18.3% on higher premiums earned by BPI/MS and BPI Philam. These increases were partly reduced by the P433 million or 19.7% drop in **income from foreign exchange trading** on lower trading gain from forwards and swaps. **GRT** was down by P87 million or 7.5% on lower realized foreign exchange income.

**Other Expenses** at P23.5 billion was up by P2.5 billion or 12.0% against last year's P21.0 billion. **Compensation and fringe benefits** increased by P1.2 billion or 13.6% due to salary adjustments and CBA related expenses. **Other operating expenses** was P876 million or 15.3% up on ex-ING investment management business acquisition related expenses and higher advertising, regulatory and miscellaneous expenses. **Occupancy and equipment-related expenses** likewise grew by P393 million or 6.5% on increased equipment depreciation, software costs, rent and contractual costs.

This year's **impairment losses** of P2.1 billion was P1.3 billion or 37.7% less than the previous year in view of the bank's relatively stable asset quality and the sufficient reserve cover on non-performing loans (NPLs).

**Provision for Income Tax** was up by P610 million or 24.2% to P3.1 billion. **Current taxes** increased by P704 million or 24.6% on higher taxable income but was partly offset by the P95 million or 27.4% decline in **deferred taxes** as last year included the corresponding tax relative to the utilized remaining NOLCO.

**Income attributable to Non-Controlling Interest** was higher by P23 million or 13.9% on BPI/MS' improved operating performance tempered by BPI Globe BankO's (BankO) lower income this year compared to last year.

## Comprehensive Income

**Total Comprehensive Income** for 2011 stood at P14.5 billion, P1.1 billion or 8.3% higher than last year's P13.4 billion. The P1.5 billion or 13.4% increase in **net income before minority interest** was partially negated by the P442 million decline in **other comprehensive income**, from P2.1 billion last year to this year's P1.7 billion.

Contributing to the decline in **other comprehensive income** was the P479 million or 57.7% drop in **share in other comprehensive income of associates** on lower incremental investment valuation at BPI Philam relative to last year. **Fair value reserve on investments of insurance subsidiaries** also went down by P386 million or 1.2x following the downward valuation of their investments. On the other hand, **net change in fair value reserve on available-for-sale securities** went up by P214 million or 17.7% on upward market valuation of the bank's securities. **Currency translation differences** also went up by P211 million due to the strengthening of the British pounds and the Hong Kong dollar against the US dollar.

**Comprehensive Income of Non-Controlling Interest** went down by P17 million or 8.1% corresponding to the drop in the fair value reserve of insurance subsidiaries.

**2012 vs. 2011.** This year's **net income** reached P16.3 billion, P3.5 billion or 27.0% higher than last year's P12.8 billion on the back of the P5.6 billion or 13.5% growth in revenues. This strong performance was, however, partly reduced by the rise in operating expenses and impairment losses by P1.4 billion or 6.1% and P773 million or 36.0%, respectively.

**Revenue** growth came from increases in both net interest income (up by P1.6 billion) and non-interest income (up by P4.0 billion).

**Net Interest Income** at P27.4 billion was up by 6.1% from last year's P25.9 billion as the average asset base expanded by P64.2 billion.

- **Interest Income** increased by P1.4 billion or 3.7% to P40.1 billion from previous year's P38.7 billion. The increase came from interest income **on loans and advances** which grew by P3.6 billion or 13.4% as the loan average volume rose by P68.8 billion, partly tempered by the 27 basis points drop in loan yield. On the other hand, interest income **on deposits with BSP and other banks** went down by P1.3 billion or 50.6% due to non-remuneration of reserves on deposits effective 6 April 2012. Interest income on **held-to-maturity securities** also went down by P832 million or 13.8% due to the P12.5 billion drop in average volume.
- **Interest Expense** at P12.6 billion was lower by P168 million from last year's P12.8 billion as interest expense on **bills payable and other borrowings** dropped by P95 million due to lower volume. Despite the P57.6 billion increase in average volume, interest expense on **deposits** also fell by P73 million due to the 18 bps drop in cost.

**Other Income** increased by P4.0 billion or 25.4% to P19.9 billion. The bulk of the increase came from the surge in **trading gain on securities**, which doubled from last year to P5.9 billion as the bank sold down its inventory to take advantage of the favorable market condition. **Other operating income** also rose by P1.2 billion or 17.8% mainly due to higher profit from assets sold, trust fees, and miscellaneous income. **Fees and commissions** improved by P504 million or 10.9% on increased bank commissions, service charges, and underwriting fees. These increases were partly tempered by the decline in **income attributable to insurance operations** which went down by P256 million or 27.0% on higher actuarial reserves of Ayala Plans. The overall increase in other income resulted in a higher **GRT** of P272 million or 25.4%.

**Other Expenses** at P24.9 billion was up by P1.4 billion or 6.1% against last year's P23.5 billion. **Occupancy and equipment-related expenses** increased by P717 million or 11.1% on increased computer equipment and software costs, contractual, and utilities cost. **Other operating expenses** was

also up by P529 million or 8.0% on higher regulatory cost, management and other professional fees, insurance others, a quarter worth more in amortization of the acquisition cost of the ex-ING investment management business, and other miscellaneous transaction related expenses.

**Impairment losses** stood at P2.9 billion, P773 million or 36.0% more than the previous year due to additional provisions set up for non credit related items and foreclosed assets.

**Income attributable to Non-Controlling Interest** was lower by P41 million or 21.3% on BanKO's lower income this year compared to last year, brought about by higher operating costs.

### Comprehensive Income

**Total Comprehensive Income** was at P16.1 billion, P1.6 billion or 11.0% higher than last year's P14.5 billion. **Net income before minority interest** was up by P3.4 billion or 26.3% but this was partially reduced by the P1.9 billion decline in **other comprehensive income**, from P1.7 billion last year to this year's loss of P158 million.

The decline in **other comprehensive income** was due to the P2.1 billion or 150.6% drop in **net change in fair value reserve on available-for-sale securities** on lower market valuation of the bank's securities inventory. **Currency translation differences** were also down by P99 million due to the general strengthening of the Philippine Peso. **Fair value reserve on investments of insurance subsidiaries**, however, went up by P224 million largely due to the upward valuation of Ayala Plan's investments. **Share in other comprehensive income of associates** was also up by P152 million or 43.2% on higher valuation of BPI Philam's investments relative to last year.

**Comprehensive Income of Non-Controlling Interest** went down by P34 million or 17.4% corresponding to the drop in income of BanKO.

### Key Performance Indicators

	2010	2011	2012
Return on Equity (%)	15.6	15.2	17.5
Return on Assets (%)	1.5	1.6	1.9
Net Interest Margin (%)	3.6	3.7	3.6
Operating Efficiency Ratio (%)	54.6	56.2	52.5
Capital Adequacy Ratio (%)	15.4	14.9	14.2

The bank's key financial performance ratios for the last three years showed consistent profitability and adequate capitalization. The same ratios are also used to evaluate the performance of the bank's subsidiaries.

**Return on equity (ROE)**, the ratio of net income to average equity, from 2010 to 2012, showed the bank's efficient utilization of capital. ROE for 2012 at 17.5% was higher than last year's 15.2% and 2010's 15.6%. **Return on assets (ROA)**, the ratio of net income to average assets was up at 1.9% from last year's 1.6%, and 2010's 1.5% This was indicative of the bank's effective use of its resources

**Net interest margin (NIM)**, the ratio of net interest income to interest bearing assets was slightly down against last year's 3.7% to 3.6%, the same as that of 2010. The stable results of the bank's net interest differential business demonstrated the bank's ability to manage its balance sheet in spite of the prevailing low interest rate environment.

The **operating efficiency (cost to income) ratio**, the ratio of operating expenses to income, decreased from last year's 56.2% to this year's 52.5% as revenues grew at a faster pace than operating expenses. Operating efficiency ratio in 2010 was at 54.6%.

**Capital adequacy ratio (CAR)**, computed using the standard risk weights assigned to the bank's assets compared with its qualifying capital, measures the capability of bank's capital funds to cover its various business risks. The bank's CAR under the Basel II framework was recorded at 14.2%. Last year's CAR was at 14.9% and 2010's was at 15.4%. This year's CAR was lower than last year as the risk weighted assets increased largely due to higher loan portfolio. This year's CAR remained substantially higher than the BSP requirement of 10%. The bank's capital is composed largely of Tier 1 capital and includes P5.0 billion unsecured subordinated debt in the Tier 2 capital.

#### **Material Event/s and Uncertainties:**

Other than the disclosure enumerated above, the bank has nothing to report on the following:

- a) Any known trends, demands, commitments, events or uncertainties that will have a material impact on its liquidity.
- b) Events that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- c) Material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the bank with unconsolidated entities or other persons created during the reporting period.
- d) Any material commitments for capital expenditures.
- e) 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.
- f) Any significant elements of income or loss that did not arise from the bank's continuing operations.
- g) Any seasonal aspects that had a material effect on the financial condition or results of operations.

#### **Future Prospects**

##### *Near Term Prospects.*

The Philippine economy is expected to sustain in 2013 the high growth trajectory attained in the previous year. The near-term outlook will continue to be bright as the brisk domestic markets negate the lackluster prospects pervading the global economy. GDP growth is forecasted by the Philippine government at 6 - 7% while the inflation rate is pegged at 3 - 5%. The Philippine economic activity will be driven by the construction boom due to higher infrastructure budget, early approval of the 2013 budget, and the expected roll-out of more Public-Private Partnership (PPP) projects. Other foreseen growth factors are midterm election spending and higher demand and/or investments in growth industries such as BPO, Tourism, Power, Transport, Finance, and construction-related sectors. The local economy, however, faces head winds in the near future. Further peso appreciations to be induced by the spate of short term foreign capital could erode the competitiveness of export, BPO and tourism industries and dampen incomes of household beneficiaries dependent on Overseas Filipino (OF) remittances. The power struggle in US Congress over fiscal spending cuts and the lingering Euro Zone sovereign debt issues could brew uncertainty in the global economy and cloud confidence among international investors and consumers.

The biggest threat to the Philippine banking industry in 2013, however, will remain to be the declining net interest margins due to the prevailing low interest rate environment. BPI will continue to anchor its growth on prudent but diversified lending. BPI is aiming for a 12 - 15% loan growth in 2013. The Bank's overall thrust will be continuous customer experience innovation and team oriented employee and community engagement to achieve quality sustainable growth.

Medium to Long Term Prospects.

In the medium-term, the Aquino administration's line-up of PPP projects until 2015 provides a support base for sustainable economic growth. These are badly needed to improve the country's competitiveness in the global arena, especially in the light of the much anticipated ASEAN Economic Community (AEC) 2015. This looks forward to the integration of the ASEAN member-countries into a single market and production base, the liberalization of services, investments, and labor mobility including the mutual recognition arrangements (MRA) on professional services. The AEC opens windows of opportunity for the financial services industry in terms of expansion within the ASEAN region. GDP growth is projected at an annual average of 6.5 – 7.5% in 2014 with inflation between 3 – 5%.

The key to sustaining income growth is diversification, which is gaining acceptable exposure in all areas. BPI will continue to focus on serving the needs of its wide-range of customers and preserve its healthy mix of loan portfolio across market segments. This will be achieved through the continued growth of its consumer, middle market and SME segments. For its green contribution, the Bank will continue to expand its sustainable energy financing projects, and, in coordination with World Wide Fund for Nature, share with local governments the results of the Bank's continuing Climate Risk Adaptation project. For a well engaged team BPI, the Bank will aim for a continuous learning environment, making sure that training and development, wellness, communication and industrial peace are propagated to all employees.

**Item 7. Financial Statements**

Please refer to Exhibit A for the Audited Financial Statements for 2012 audited by the principal accountant, Accounting Firm of Isla Lipana & Co. and signed by partner Ms. Blesilda A. Pestaño, which also include the required Schedules under Annex 68-E.

**Audit and Audit-Related Fees**

BPI has paid the following fees to its external auditors in the past two (2) years:

Fiscal Year	Audit Fees and Other-related Fees	Tax Fees
2010 paid in 2011	PhP 11,706,617.65	-
2011 paid in 2012	PhP 13,175,561.28	-

The above audit fees are inclusive of the following: (a) other assurance and related services by the external auditor that are reasonably related to the performance of the audit or review of the Bank's financial statements and (b) all other fees.

The appointment or re-appointment of the Bank's External Auditor is subject to the approval and endorsement by the Audit Committee for subsequent confirmation and approval by the Board of Directors and finally the Stockholders. The Audit Committee likewise reviews and approves all audit and non-audit services, including fees, to be provided by the external auditor to the Bank and its subsidiaries. The Committee shall disallow any non-audit work that will conflict with the duties of an external auditor or may pose a threat to their independence. Said fees are to be endorsed for approval of the Board of Directors. The Audit Committee is chaired by Mr. Xavier P. Loinaz with Mr. Khoo Teng Cheong, Mr. Octavio V. Espiritu, and Mr. Oscar S. Reyes as members.

**Item 8. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

None.

## PART III – CONTROL AND COMPENSATION INFORMATION

### Item 9. Directors and Executive Officers of the Issuer

#### A-1. The Board of Directors and Executive Officers (as of December 31, 2012)

##### The Board of Directors and Nominees

##### **Jaime Augusto Zobel de Ayala II**

<b>Directors' term of Office</b>	-	<b>April 19, 2012 to April 18, 2013</b>
<b>Period Served</b>	-	<b>April 19, 2012 to Present</b>

1. **JAIME AUGUSTO ZOBEL DE AYALA II**, 54 years old, Filipino, is the Chairman of the Board of Directors of BPI and has been the Chairman since March 25, 2004. He has served as Member of the Board of BPI since 1994 and as Vice-Chairman from 1995 to March 2004. He is also currently the Chairman of the Executive Committee and member of the Nomination Committee of BPI. He also holds the following positions: Chairman of the Board of Directors and Chief Executive Officer of Ayala Corporation; Chairman of the Board of Directors of BPI Family Savings Bank, Inc., BPI Capital Corporation, Globe Telecom, Inc., and Integrated Micro-Electronics, Inc.; Co-Chairman of Ayala Foundation, Inc.; Vice Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Alabang Commercial Corporation, Ayala International Pte Ltd., and AC Energy Holdings, Inc.; Chairman of Harvard Business School Asia-Pacific Advisory Board, Children's Hour Philippines, Inc.; Vice Chairman of the Asia Business Council, Makati Business Club, and Asia Society Philippine Foundation, Inc.; Member of The Asia Society, Eisenhower Fellowships, Harvard University Asia Advisory Committee, Harvard Business School Social Enterprises Initiative Advisory Board, Harvard Global Advisory Council, Harvard Global Advisory Council, Mitsubishi Corporation International Advisory Committee, JP Morgan International Council, International Business Council of the World Economic Forum, Asia Pacific Basin Economic Council, Philippine Economic Society, World Wildlife Fund Philippine Advisory Council, Pacific Basin Economic Council and Toshiba International Advisory Group; and Philippine Representative for APEC Business Advisory Council. He graduated with B.A. in Economics (Cum Laude) at the Harvard University in 1981 and took up his MBA at the Harvard Graduate School of Business Administration in 1987.

##### **Aurelio R. Montinola III**

<b>Directors' term of Office</b>	-	<b>April 19, 2012 to April 18, 2013</b>
<b>Period Served</b>	-	<b>April 19, 2012 to Present</b>

2. **AURELIO R. MONTINOLA III**, 61 years old, Filipino, assumed his post as President of BPI on January 01, 2005. He has been a Member of the Board of Directors of BPI since January 2004. He is the Chairman of Credit Committee and member of the Executive Committee, Trust Committee, Risk Management Committee and Retirement/Pension Committee of BPI. He is the Chairman and Executive Director of BPI Europe Plc. He is also the Chairman of the Board of Directors of the following corporations: BPI Direct Savings Bank, Inc., BPI-Philam Life Assurance Corporation, BPI Computer Systems Corporation, BPI/MS Insurance Corporation, Amanda Carina Holdings, Inc., Amon Trading Corporation, Armon Realty, Derrc, Inc., Desrey, Inc., Monti-rey, Inc., Seyrel Investment & Realty Corporation, and East Asia Educational Foundation. He also sits as Vice-Chairman/Trustee of the following corporations: BPI Globe BankO, Inc., A Savings Bank (formerly Pilipinas Savings Bank, Inc.), Mastercard Incorporated Asia/Pacific Regional Advisory Board, LGU Guarantee Corporation, Philippine Business for Education, Inc., Far Eastern University and Lafarge Republic, Inc.. He also holds the following positions: Senior Managing Director of Ayala Corporation; Director of BPI Family Savings Bank, Inc.; BPI Capital Corporation; Ayala Land, Inc., Mere, Inc. and Western Resources

Corporation; Vice-Chairman & President of BPI Foundation, Inc.; Member of the Board of Trustees of Ayala Foundation, Inc., Makati Business Club, Pres. Manuel A. Roxas Foundation, Philippine Trade Foundation, Inc., and Anita Magsaysay Ho Foundation. He is also a member of the Management Association of the Philippines. He graduated with BS Management Engineering degree at the Ateneo de Manila University in 1973 and obtained his MBA at the Harvard Business School in 1977.

**Fernando Zobel de Ayala**

<b>Directors' term of Office</b>	-	<b>April 19, 2012 to April 18, 2013</b>
<b>Period Served</b>	-	<b>April 19, 2012 to Present</b>

3. **FERNANDO ZOBEL DE AYALA**, 52 years old, Filipino, has been a member of the Board of Directors of BPI since 1994. He also holds the following positions in BPI: Chairman of the Personnel and Compensation Committee and Vice-Chairman of the Executive Committee and Trust Committee. Has been a director of Ayala Corporation since May 1994. At present, he is the President and Chief Operating Officer of Ayala Corporation since April 2006. He is also: Chairman of Ayala Land, Inc., Manila Water Company, Inc., AC International Finance Ltd., Ayala International Pte Ltd., Ayala DBS Holdings, Inc., Alabang Commercial Corporation, AC Energy Holdings, Inc., BPI Foundation, Inc. and Hero Foundation, Inc.; Co-Chairman of Ayala Foundation, Inc.; Co-Vice Chairman of Mermac, Inc.; Director of Globe Telecom, Inc., Integrated Micro-Electronics, Inc., LiveIt Investments, Ltd., Asiacom Philippines, Inc., AG Holdings Limited, Ayala International Holdings Limited, AI North America, Inc., Vesta Property Holdings Inc., Honda Cars Philippines, Inc., Isuzu Philippines Corporation, Pilipinas Shell Petroleum Corp., and Manila Peninsula; Member of The Asia Society, World Economic Forum, INSEAD East Asia Council, and World Presidents' Organization; Chairman of Habitat for Humanity's Asia-Pacific Capital Campaign Steering Committee; Vice Chairman of Habitat for Humanity International; and Member of the Board of Trustees of Caritas Manila, Pilipinas Shell Foundation, Kapit Bisig para sa Ilog Pasig Advisory Board and National Museum. He graduated with B.A. Liberal Arts degree at the Harvard College in 1982. In 1993, he received a Certificate in International Management (CIM) Programme from INSEAD.

**Romeo L. Bernardo**

<b>Directors' term of Office</b>	-	<b>April 19, 2012 to April 18, 2013</b>
<b>Period Served</b>	-	<b>April 19, 2012 to Present</b>

4. **ROMEO L. BERNARDO\*** (Independent Director), 58 years old, Filipino, has served as a Member of the Board of Directors of BPI from February 1998 to April 2001. He was again re-elected as an Independent Director since August 2002 up to present. He is a Chairman of the Nomination Committee and member of the Corporate Governance Committee, Personnel & Compensation Committee, Risk Management Committee and Trust Committee of BPI. He also sits as Independent Director of BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation, BPI Globe BankO, Inc., A Savings Bank (previously known as Pilipinas Savings Bank, Inc.), BPI-Philam Life Assurance Corporation (previously known as Ayala Life Assurance, Inc.), Philippine Investment Management, Inc., Aboitiz Power Corporation, National Reinsurance Corporation of the Philippines, Globe Telecom, Inc. and RFM Corporation; Chairman of the Board of Directors (Independent) of Ayala Life Fixed-Income Fund Peso, Dollar, Growth, Money Market and Euro Bond Funds and Philippine Stock Index Fund, Inc.; Vice-Chairman and Founding Fellow of Foundation for Economic Freedom; President and Managing Director of Lazaro Bernardo Tiu & Associates, Inc.; Member of the Board of Trustee of Financial Executives Institute of the Philippines (FINEX) Foundation, Philippine Institute for Development Studies and Institute for Development & Econometric Analysis, Inc.; Advisor of Global Source/Latin Source; and Governor of Management Association of the Phils. He graduated with B.S. Business

Economics degree (Magna Cum Laude) from the University of the Philippines in 1974. He obtained his M.A. Development Economics (Top of the Class) at the Williams College, Williamstown, Massachusetts, USA in 1977.

**Chng Sok Hui**

**Directors' term of Office** - **April 19, 2012 to April 18, 2013**  
**Period Served** - **April 19, 2012 to Present**

5. **CHNG SOK HUI**, 52 years old, Singaporean, has been a Member of the Board of Directors of BPI since April 2003. She is a Member of the Executive Committee, Corporate Governance Committee, Nomination Committee and Personnel & Compensation Committee of BPI and currently a Managing Director and Chief Financial Officer of DBS Bank Ltd. (Singapore). At present, she is the Director of Ayala DBS Holdings, Inc. She is also a Member of Housing & Development Board and Accounting Standards Council and a Supervisor in DBS China Ltd. She was awarded a DBS scholarship and joined DBS Bank, Ltd. in 1983. She finished Accountancy at the National University of Singapore and was a recipient of several awards including the Harvard Club of Singapore Prize, the Tan Siak Kew Gold Medal Award and the Singapore International Chamber of Commerce Prize. She is a CFA charterholder, as well as a Certified Financial Risk Manager.

**Cezar P. Consing**

**Directors' term of Office** - **April 19, 2012 to April 18, 2013**  
**Period Served** - **April 19, 2012 to Present**

6. **CEZAR P. CONSING**, 53 years old, Filipino, was elected as Independent Director of BPI on April 15, 2010. With his nomination as the next President of BPI, he became a Director effective December 12, 2012. At present, he is a member of Personnel and Compensation Committee and Risk Management Committee of BPI. He has served as a Member of the Advisory Board of BPI from May 2000 to May 2001 and as a Member of its Board of Directors from February 1995 to January 2000 and from August 18, 2004 to January 01, 2007. He was also elected as a Member of the Risk Management Committee of BPI in December 2004 up to 01 January 2007. He was elected as Member of the Board of BPI Capital Corporation, a wholly-owned subsidiary of BPI, from February 1995 to January 2000. He is a Partner of The Rohatyn Group and serves as Head of the Hong Kong office. The Rohatyn Group is a \$3.0 billion hedge fund and private equity firm focused exclusively on the emerging markets. He has over 25 years of experience in international finance and has spent his career focused on markets in the Asia Pacific region. Mr. Consing is currently the Partner/Managing Director of TRG Management Hongkong Limited and serves as an Independent Director of First Gen Corporation, CIMB Group Holdings Berhad, CIMB Group Sdn Bhd, and Jollibee Foods Corporation. He is also a member of the Board of Director and Non Executive Chairman of the Filgifts.com and a member of the Board of Director of TRG Management Principals LP, TRG Allocation Principals LLC, Arch Capital Management Co., Ltd.; Arch Capital Asian Partners, G.P., Capital Advisors Partners Asia Sdn Bhd, Capital Asean Infrastructure Fund III (General Partner) Limited, and Capital Islamic Infrastructure Fund (General Partner), Limited, and also a Board of Partners of TRG Management LP and member of the Advisory Committee of CIMB Securities International Pte Limited. He graduated with an M.A. Applied Economics Degree from the University of Michigan in 1980 and he finished A.B. (Accelerated Program) Economics from the De La Salle University in 1979.

**Octavio V. Espiritu**

**Directors' term of Office** - **April 19, 2012 to April 18, 2013**  
**Period Served** - **April 19, 2012 to Present**



7. **OCTAVIO V. ESPIRITU\*** (Independent Director), 69 years old, Filipino, has served as a Director of BPI since April 2000. He is an Independent Director of BPI since April 2002 and was last re-elected on 31 March 2009. He is the Chairman of the Risk Management Committee and a Member of the Executive Committee and Audit Committee of BPI. He also holds the following positions: Chairman of Delphi Group, Inc.; Chairman & President of MAROV Holding Company, Inc.; Director of International Container Terminal Services, Inc., Netvoice, Inc., Pueblo de Oro Golf and Country Club and SM Development Corporation. He graduated with an AB Economics degree from the Ateneo de Manila University in 1963 and obtained his M.A. Economics degree from the Georgetown University, USA in 1966.

**Rebecca G. Fernando**

<b>Directors' term of Office</b>	-	<b>April 19, 2012 to April 18, 2013</b>
<b>Period Served</b>	-	<b>April 19, 2012 to Present</b>

8. **REBECCA G. FERNANDO**, 64 years old, Filipino, was re-elected Director of BPI and BPI Capital Corporation since 2009 and has served as Director of BPI and BPI Capital Corporation since 1995 up to December 2007. She is a Director and Member of the Executive Committee, Trust Committee and Retirement/Pension Committee of BPI; Member of the Board of Directors BPI Capital Corporation and BPI Family Savings Bank, Inc.; and Chairman of LAIKA Intertrade Corporation. She is also the Financial Consultant and member of the Finance Board of The Roman Catholic Archbishop of Manila and Finance Board Member of The Roman Catholic Archbishop of Antipolo. She graduated with BSBA degree major in Accounting from the University of the Philippines in 1970. She is a Certified Public Accountant.

**Khoo Teng Cheong**

<b>Directors' term of Office</b>	-	<b>April 19, 2012 to April 18, 2013</b>
<b>Period Served</b>	-	<b>April 19, 2012 to Present</b>

9. **KHOO TENG CHEONG**, 49 years old, Singaporean, was elected as Member of the Board of Directors of BPI on 16 June 2010. He is a member of the Audit Committee and Risk Management Committee of BPI. He is the Head and Senior Vice President of DBS Bank. Ltd. Group Planning since November 2008 and was promoted in March 2011 as Head and Managing Director of DBS Bank, Ltd., Planning Group. Mr. Khoo was from the Office of the Chairman, President and CEO of Citibank and the Senior Vice Chairman of Citigroup New York in 2008. Mr. Khoo holds a degree in BSC (2:1) Hons. Banking and Finance at Loughborough University in 1989. He also holds a degree in Master of Letters in Bible and Contemporary World with distinction in the dissertation at the University of St. Andrews, FIFE, UK in 2010.

**Xavier P. Loinaz**

<b>Directors' term of Office</b>	-	<b>April 19, 2012 to April 18, 2013</b>
<b>Period Served</b>	-	<b>April 19, 2012 to Present</b>

10. **XAVIER P. LOINAZ\*** (Independent Director), 69 years old, Filipino, has served as the President of BPI from 1982 to 2004. He has been a member of the Board of Directors of BPI since 1982 up to the present and starting 31 March 2009 was elected as Independent Director of BPI. Concurrently, he holds the following corporate positions: Chairman of the Audit Committee, Member of the Executive Committee and Nomination Committee of BPI; Independent Director of BPI Family Savings Bank, Inc., BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation, Ayala Corporation and Globe Telecom, Inc.; Chairman of the Board of Directors of Alay Kapwa Kilusan Pangkalusugan and Member of the Board of Trustees of BPI Foundation, Inc., E. Zobel Foundation and PETA. He graduated with an A.B. Economics degree from the Ateneo de Manila University in 1963 and obtained his MBA Finance at the Wharton School of Pennsylvania in 1965.

**Mercedita S. Nollo****Directors' term of Office**- **April 19, 2012 to April 18, 2013****Period Served**- **April 19, 2012 to Present**

11. **MERCEDITA S. NOLLEDO**, 71 years old, Filipino, has served as a Director of BPI since 1991 and has been a director since that time. She is the Chairman of the Trust Committee and Retirement/Pension Committee, Member of Corporate Governance Committee and Alternate Member of Executive Committee of BPI. She also holds the following positions: Chairman of the Board of Directors of BPI Investment Management, Inc. and AG Counselors Corporation; Director of BPI Family Savings Bank, Inc., BPI Capital Corporation, Ayala Land, Inc., Anvaya Cove Beach & Nature Club, Ayala Automotive Holdings, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., Isuzu Automotive Dealership, Inc., and Isuzu Cebu, Inc; Member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc.; and President of Sonoma Properties, Inc. She graduated with the degree of Bachelor of Science in Business Administration major in Accounting from the University of the Philippines in 1960 and topped the CPA exams (second place) given in the same year. In 1965, she finished Bachelor of Laws also from the University of the Philippines where she also topped the Bar exams (second place) given in the same year.

**Artemio V. Panganiban****Directors' term of Office**- **April 19, 2012 to April 18, 2013****Period Served**- **April 19, 2012 to Present**

12. **ARTEMIO V. PANGANIBAN\*** (Independent Director), 76 years old, Filipino, was elected as Independent Director of BPI since April 15, 2010. He is the Chairman of the Corporate Governance Committee of BPI. At present, he is also an Independent Director of the following listed corporations: Manila Electric Company, Petron Corporation, First Philippine Holdings Corporation, Metro Pacific Investments Corporation, Metro Pacific Tollways Corporation, Robinsons Land Corporation, GMA Network, Inc., GMA Holdings, Inc., Tollways Management Corporation and Asian Terminals. Likewise, he holds the following positions in various companies, to wit: Independent Adviser, Philippine Long Distance Telephone Company and Jollibee Food Corporation; Senior Adviser, V. Mapa Blue Falcon Honor Society and Metropolitan Bank and Trust Company; Chairman, Board of Advisers, Metrobank Foundation, Inc. and Asian Institute of Management Ramon V. Del Rosario, Sr.- C.V. Starr Center for Good Governance; Chairman of the Board, Philippine Dispute Resolution Center, Inc.; President, Manila Metropolitan Cathedral – Basilica Foundation, Inc.; Member, Board of Advisers of Dela Salle University College of Law and Johann Strauss Society; Member, Advisory Board of The World Bank (Philippines), and Chairman of the Board of Trustee of Foundation for Liberty and Prosperity. He is also a Columnist in the Philippine Daily Inquirer and Member of Philippine National Committee of Asean Law Association. He has held various positions in government offices from 2003 to 2006, such as Chief Justice and Associate Justice of the Supreme Court, Chairman of the Presidential Electoral Tribunal, Judicial and Bar Council, Philippine Judicial Academy and House of Representatives Electoral Tribunal and Member of the Senate Electoral Tribunal. He graduated with the degree of Bachelor of Laws from Far Eastern University in 1960 and obtained his Doctor of Laws (Honoris Causa) degree at the various universities, to wit: University of Iloilo (1997), Far Eastern University (2002), University of Cebu (2006) Angeles University (2006) and Bulacan State University (2006).

**Antonio Jose U. Periquet****Directors' term of Office**- **April 19, 2012 to April 18, 2013****Period Served**- **April 19, 2012 to Present**

13. **ANTONIO JOSE U. PERIQUET\*** (Independent Director), 51 years old, Filipino, was elected as Independent Director of BPI on April 19, 2012. He is a member of Risk Management

Committee and Trust Committee of BPI. Currently, he holds the following positions: Independent Director of BPI Capital Corporation, BPI Family Savings Bank, Inc., ABS-CBN Holdings Corporation, Philippine Seven Corporation, Ayala Corporation and DMCI Holdings, Inc.; Chairman of the Board of Directors of Pacific Main Holdings, Inc., Campden Hill Group, Inc. and Regis Financial Advisers, Inc.; Member of the Board of Directors of The Straits Wine Co. and member of the Board of Trustees of Lyceum University of the Philippines. He is also a member of the Board of Advisers of ABS-CBN Broadcasting Corporation. He graduated with A.B. Economics degree at the Ateneo de Manila University in 1982 and took up his MBA at the University of Virginia in 1990. He also took up Master of Science in Economics at the Oxford University in 1988.

**Oscar S. Reyes**

**Directors' term of Office**

- **April 19, 2012 to April 18, 2013**

**Period Served**

- **April 19, 2012 to Present**

- 14. OSCAR S. REYES**, 66 years old, Filipino, was elected as Member of the Board of Directors of BPI in April 2003 and has been a director since that time. He is a member of the Audit Committee, Corporate Governance Committee and Personnel & Compensation Committee of BPI. Among his other positions are: Chairman of Link Edge, Inc. and MRL Gold Philippines, Inc.; Independent Director of the following Companies: Ayala Land, Inc., Alcorn Gold Resources Corporation, Manila Water Company, Pepsi Cola Products Philippines, Inc., Basic Energy Corporation, Sun Life Financial Plans, Inc., Sunlife Prosperity Dollar Abundance Fund, Sunlife Prosperity Dollar Advantage Fund, Petrolift Corporation, Sun Life of Canada Prosperity Bond Fund, Inc., Sun Life Prosperity Money Market Fund, Inc., and Sun Life GS Fund, Inc.; Director of Philippine Long Distance Telephone Co., SMART Communications, Inc., and Mindoro Resources Ltd; and Chief Operating Officer of Manila Electric Company. He finished Bachelor of Arts Major in Economics (Cum Laude) from the Ateneo de Manila University in 1965. He also took up the following courses: Business Management Consultants and Trainers Program from the Japan Productivity Center/Asian Productivity Organization, Tokyo, Japan and Hongkong in 1968; International Management Development Program leading to (1) Diploma in Business Administration and (2) Certificate in Export Promotion from the Waterloo University, Ontario, Canada in 1969-1970; European Business Program from UK, Netherlands, France, Germany, Switzerland in 1970; Master of Business Administration (Academic report completed) from the Ateneo Graduate School of Business Administration in 1971; Program for Management Development from the Harvard Business School, Boston, USA in 1976; and Commercial Management Study Program from the Lensbury Centre, Shell International Petroleum Co., United Kingdom.

**Tan Kong Khoon**

**Directors' term of Office**

- **August 17, 2012 to April 18, 2013**

**Period Served**

- **August 17, 2012 to October 18, 2012**

- 15. TAN KONG KHOON**, 55, Singaporean, was elected as Member of the Board of Directors of BPI on 17 August 2011. He is a member of the Trust Committee of BPI. He is also the Group Executive of DBS Bank. Ltd. Consumer Banking Group and a Director of Network for Electronic Transfers (Singapore) Pte Ltd. Mr. Tan hold a degree of Bachelor of Business Administration at Bishop's University, Canada in 1981.

*\*Independent Director as defined in Sec. 38 of the Securities Regulation Code and BSP Circular No. 296*

**The Executive Officers**

- 1. JAIME AUGUSTO ZOBEL DE AYALA II\* - Chairman of the Board of Directors**
- 2. AURELIO R. MONTINOLA III\* - President & Chief Executive Officer**

**3. ANTONIO V. PANER - Executive Vice-President, Treasurer  
And Head of Global Banking**

54 years old, Filipino, is the Treasurer and Head of Global Banking of the Bank of the Philippine Islands. He is the Chairman of the Asset and Liability Committee and the Capital Management Committee of the Bank. Currently, he is the Chairman of the Board of Directors of BPI International Finance, Ltd., BPI Forex Corporation, and Santiago Land Development Corporation. He is also a member of the Board of Directors of the following corporations: AF Money Brokers, Inc., Citytrust Securities Corporation, BPI Direct Savings Bank, Inc., BPI Europe Plc, BPI Express Remittance Corp Spain S.A. and Prudential Investments, Inc. He is also the Director and Treasurer of Citytrust Realty Corporation and Treasurer of BPI Computer Systems Corporation, BPI Operations Management Corporation and BPI Foundation, Inc. He served as President for the Money Market Association of the Philippines (MART) in 1998 and remains an active member of the BAP's Open Market Committee. His other affiliations include: Member – Money Markets Association of the Philippines (MART), ACI, Makati Business Club, (MBC) and Philippine British Business Council (PBBC). He has also held various positions in BPI since 1989 such as but not limited to the following: Head of Risk Taking Business, Local Currency Portfolio Management Desk, Money Management Division. He finished AB Economics from the Ateneo de Manila University in 1979 and took up various courses in Business and Finance including Strategic Financial Management in 2006 and Advanced Management Program in 2009 from Harvard Business School in Boston, USA.

**4. NATIVIDAD N. ALEJO - Executive Vice-President**

56 years old, Filipino, is the Head of Consumer Banking Group of BPI. She served as the President and Director of BPI Capital Corporation from 2001 to 2006 and BPI Securities Corporation from 2004 to 2006. She has also served as President of the Investment Houses Association of the Philippines in 2004 to 2006. She joined BPI in 1989 with the rank of Senior Manager. Currently, she is also a member of the Board of Directors of the following corporations: BPI Family Savings Bank, Inc., BPI Direct Savings Bank, Inc., BPI-Philam Life Assurance Corporation (formerly Ayala Life Assurance, Inc.), BPI Operations Management Corporation, Beacon Property Ventures, Inc., Santiago Land Development Corporation, FEB Speed International, Inc., Shemberg Biotech, and An Waray Party List. She is the Private Sector Representative to the Board of Regents of Leyte Normal University. She graduated with AB Economics degree (Summa Cum Laude) from the Divine Word University (Tacloban City) in 1976. She took up MA Economics (candidate) at the University of the Philippines in 1977 and completed the Advanced Management Program at the Harvard Business School, Massachusetts in Fall 2005.

**5. ALFONSO L. SALCEDO, JR. - Executive Vice-President**

57 years old, Filipino, is the Head of the Corporate Banking Division of BPI. At present he is the Chairman of the Board of Directors of the following corporations: BPI Leasing Corporation, BPI Rental Corporation, and FGU Insurance Corporation. He is also a member of the Board of Directors of BPI Capital Corporation, BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation, BPI-Philam Life Assurance Corporation (previously known as Ayala Life Assurance, Inc.) and National Reinsurance Corporation of the Philippines. Currently, he is a member of the Board of Director and Treasurer of Santiago Land Development Corporation. He graduated from Ateneo de Manila in 1977 with a degree of AB Economics Honors Program (graduated with honors) and took up Advanced Management Program at the Harvard Business School in 2006.

6. **FIDELINA A. CORCUERA** - **Senior Vice-President**  
 55 years old, Filipino, is the Head for the Human Resources Management Group of BPI. She joined BPI in 2007 with the rank of Vice President. She has over 30 years career in human resources from various multinationals both in the Philippines and in the US, including an international stint as an Asia Pacific Regional HR leader. She graduated with an AB Psychology degree from the University of the Philippines, Diliman campus in 1979. She also holds a Masters in Education degree, with academic distinction from the University of the Philippines conferred in 1985. She is a founding member of the Organizational Development Network of the Philippines (ODPN) and the current Vice President for the Bankers Council of People Management (BCPM).
  
7. **MA. CRISTINA L. GO** - **Senior Vice-President**  
 43 years old, Filipino, is the Group Head of BPI Cardbanking since 2012. Currently, she is a member of the Visa Regional Marketing Council for Asia Pacific, Central Europe, Middle East and Africa and also of the MasterCard Asia Pacific, Middle East and Africa Chip Committee. Her other affiliations include: President & Director, BPI Card Finance Corporation, Director, BPI Operations Management Corporation and member of the Board of Trustees of BPI Paseo de Roxas Condominium Corporation. Before BPI, she worked for the countries' leading companies, namely, Procter & Gamble Philippines, Ayala Land, Inc. and Citibank, N.A. Her last stint, prior to joining BPI in 2003, was in Citibank New York as Vice President in the Cross Sell Division of Citi Cards. She graduated Magna Cum Laude from the University of the Philippines, Diliman in 1991 with a double degree in B.S. Business Administration and Accountancy. She was the board topper in the October 1991 CPA Licensure Examination. She was awarded as one of the Ten Outstanding Students of the Philippines in 1990 and 1991. Recently, the UP College of Business Administration recognized her as one of the Distinguished Alumni Awardees of the school. She earned her Masters in Business Administration with second year honors from the Harvard Business School, Boston, MA in 1996. She is the incumbent co-President of the Harvard Business School Club of the Philippines.
  
8. **MARIA THERESA MARCIAL- JAVIER- Senior Vice-President**  
 42 years old, Filipino, is the Group Head of the Asset Management and Trust Group, a position she assumed since 2009. She joined BPI in 1995. She serves as Director of the following mutual fund companies: ALFM Peso Bond Fund, ALFM Dollar Bond Fund, ALFM Euro Bond Fund, ALFM Money Market Fund, ALFM Growth Fund, and Philippine Stock Index Fund. She is a member of the Board of Senior Advisers of the Fund Managers Association of the Philippines and the Trust Officers Association of the Philippines, and served as President of both associations. She is also a Director of the following companies: BPI Investment Management, Inc., McCann World Group Philippines, Inc., Fintec Holdings, Inc., Phase II Holdings, Inc., Cebu Holdings, Inc., Cebu Property Ventures & Development Corp., and Roxas Land Corporation. She graduated cum laude from the University of the Philippines Los Banos in 1990 with a B.S. Economics degree and finished her Masters Degree in Economics in 1994 at the University of the Philippines School of Economics Diliman. In 2006, she took up the CFA Institute Investment Management Workshop at the Harvard Business School in Boston, Massachusetts. She completed the Advanced Management Program also at the Harvard Business School in 2010.
  
9. **MARIE CHRISTINE O. LOPEZ** - **Senior Vice President**  
 57 years old, Filipino, is currently in-charge of the Global Financial Services Division, under the Global Banking Group. She is responsible for liaising with the following wholly-owned subsidiaries of the Bank, namely: BPI Forex, BPI Direct Savings Bank, and BPI International Finance Limited, Hong Kong to ensure that their strategies are in line with the Parent Bank's general direction. As such, she is a member of the Board of Directors of and President of BPI Direct Savings Bank, Inc. and a member of the Board of Directors of BPI Forex Corporation,

BPI Express Remittance Center Hongkong and BPI International Finance, Ltd. HK. Prior to this assignment, she was the Division Head of Customer Business, a division under the Financial Markets Group from December 2004 to December 2011. She was also the Division Head of the Treasury Marketing of BPI Treasury from January 2001 to 2003. Her past positions in other financial institutions include the following: Vice President, Head, Global Capital Markets of BPI-Far East Bank & Trust Company, Manila, Philippines; Vice President, Head of Corporate FX Desk of Sumitomo Bank, Ltd., New York, NY, USA; Senior Dealer, Treasury Group of Ka Wah Bank LTD., New York, NY, USA; Senior Clerk, Treasury Operations of Bank of New Zealand, New York, NY, USA; Senior Manager, Trust Department of Citytrust Banking Corp., Manila, Philippines; Senior Dealer, Foreign Exchange of Astley & Pearce Asean, Inc., Manila, Philippines; Senior Dealer, International Treasury of the Central Bank of the Philippines, Manila, Philippines. She graduated from the College of the Holy Spirit, Manila, Philippines with a degree in B.S. Mathematics in March 1976.

**10. MARIA CORAZON S. REMO - Senior Vice- President**

54 years old, Filipino, is the Head of Centralized Operations of Group BPI. At present, she is the Chairman of the Board of Director/Trustee of the following: BPI Operations Management Corporation, Ayala Life-FGU Condominium Corporation Makati, Ayala Life-FGU Condominium Corporation Alabang, BPI Paseo de Roxas Condominium Corporation and Greentop Condominium Corporation. She is also the President and Director of Citytrust Realty Corporation and currently she is a member of the Board of Directors of BPI Computer Systems Corporation, and FGU Insurance Corporation. She graduated with a degree in B.S. Business Economics from the University of the Philippines in 1978, attended MBA at the Ateneo de Manila University from 1986-1988 and completed Harvard Business School's Advanced Management Program in 2011.

**11. GERTIE K. SINIO - Senior Vice President**

60 years old, Filipino, is the Chief Risk Officer of BPI. At present, she is the President and Member of the Board of Directors of Citytrust Securities Corporation. She is a member of the Board of Directors of the following corporations: BPI Credit Card Finance Corporation, FGU Insurance Corporation, FEB Stock Brokers, Inc., First Far East Development Corporation and FEB Speed International, Inc. She graduated with a degree of A.B. Economics from St. Theresa's College and obtained her Master in Business Management from Asian Institute of Management in 1984.

*\*Messrs. Jaime Zobel de Ayala and Aurelio R. Montinola III are members of the Board of Directors of BPI.*

**List of Other Executive Officers as of December 31, 2012**

NAME	AGE	POSITION	OFFICE
Abola, Joaquin Ma. B.	46	Senior Vice President	Consumer Banking Group
Biacora, Estelito C.	42	Senior Vice President	Consumer Banking Group
Calleja, Michael D.	52	Senior Vice President	Financial Markets Group
Castro, Reymundo S.	55	Senior Vice President	Corporate Banking Group
Dimayuga, Raul D.	50	Senior Vice President	Overseas Banking Group
Garcia, Paul Joseph M.	43	Senior Vice President	Asset Management and Trust Group
Guzman, Ma. Corazon G.	58	Senior Vice President	Office of the President
Herbosa, Emmanuel G.	59	Senior Vice President	Consumer Banking Group
King, Angelie O.	51	Senior Vice President	Consumer Banking Group
Marquez, Pilar Bernadette C.	54	Senior Vice President	Information Systems Group

Mercado, Eugenio P.	49	Senior Vice President	Electronic Channels Group
Miranda, Mario T.	54	Senior Vice President	Asset Management and Trust Group
Ocampo, Marie Josephine M.	50	Senior Vice President	Integrated Marketing Office
Palou, Mario B.	59	Senior Vice President	Corporate Banking Group
Santiano, Angela C.	56	Senior Vice President	Corporate Banking Group
Tagaza, Manuel C.	50	Senior Vice President	Electronic Channels Group
Tecson, Judy K.	60	Senior Vice President	Corporate Banking Group
Veloso, Roland Gerard Jr. R.	49	Senior Vice President	Office of the President
Ver, Heidi P.	57	Senior Vice President	Integrated Marketing Group
Yngente, Sylvia P.	58	Senior Vice President	Consumer Banking Group

## A-2. Significant Employees

The Bank values its human resources and considers its entire workforce as significant employees. It expects each employee to do his share in achieving the Bank's set goals and objectives.

## A-3. Family Relationships

The Chairman of the Board of BPI, Mr. Jaime Augusto Zobel de Ayala II and Mr. Fernando Zobel de Ayala, a member of the Board, are brothers.

## A-4. Involvement in Certain Legal Proceedings

To the knowledge and/or information of the Bank, the nominees for election as Directors of the Bank and its Executive Officers are not presently or in the last five (5) years included in any material legal proceeding involving themselves and/or their property before any court of law or administrative body in the Philippines or elsewhere nor said persons have been convicted by final judgment of any offense punishable by laws of the Philippines or laws of any other nation.

## A-5 Resignation of Directors

Mr. Tan Kong Khoon, a member of the Board of Directors of the Bank, voluntarily resigned effective 18 October 2012, not due to any disagreement with the Bank relative to its operations, policies or practices but for some personal reasons.

## Item 10. Executive Compensation

Summary Compensation Table  
Annual Compensation and Bonus

	Position	2011		
		Salary	Bonuses	Other Salary
Aurelio R. Montinola III	President & CEO			
Gil A. Buenaventura	Senior EVP & COO			
Antonio V. Paner	EVP & Treasurer			
Alfonso L. Salcedo, Jr.	Executive VP			
Cesareo A. de Leon III	Sr. Vice-Pres.			
<b>All above-named Officers as a group</b>		<b>139,640,433.64</b>	<b>59,100,780.00</b>	
<b>All other unnamed Officers as a group</b>		<b>3,265,684,371.74</b>	<b>360,315,565.00</b>	<b>N.A.</b>
<b>All Directors</b>		<b>14,290,000.00</b>	<b>26,600,000.00</b>	

	Position	2012		
		Salary	Bonuses	Other Salary
Aurelio R. Montinola III	President & CEO			
Gil A. Buenaventura*	SEVP & COO			
Antonio V. Paner	EVP & Treasurer			
Natividad N. Alejo	Executive VP			
Alfonso L. Salcedo, Jr.	Executive VP			
<b>All above-named Officers as a group</b>		<b>129,828,834.84</b>	<b>81,457,210.00</b>	
<b>All other unnamed Officers as a group</b>		<b>3,544,044,929.39</b>	<b>438,477,715.00</b>	<b>N.A.</b>
<b>All Directors</b>		<b>15,390,000.00</b>	<b>28,000,000.00</b>	

*\*Retired effective October 01, 2012*

	Position	2013 Estimate		
		Salary	Bonuses	Other Salary
Aurelio R. Montinola III	President & CEO			
Antonio V. Paner	EVP & Treasurer			
Natividad N. Alejo	Executive VP			
Alfonso L. Salcedo, Jr.	Executive VP			
Maria Theresa Marcial-Javier	Sr. Vice-Pres.			
<b>All above-named Officers as a group</b>		<b>116,400,814.81</b>	<b>74,264,977.50</b>	
<b>All other unnamed Officers as a group</b>		<b>3,687,479,642.42</b>	<b>448,309,013.25</b>	<b>N.A.</b>
<b>All Directors</b>		<b>15,390,000.00</b>	<b>28,000,000.00</b>	

### **Bonus or Profit Sharing**

In 2012 each member of the Board of Directors received P2.0M as Directors' Bonus for the services rendered by them to the Bank during the year 2011. Said bonus was pro-rated with respect to Directors who served for less than one (1) year.

For the compensation of the member of the Board of Directors for the services rendered for year 2012, Article V (Board of Directors) of the Bank's By-Laws provides:

“Each director shall be entitled to receive from the Bank, pursuant to a resolution of the Board of Directors, fees and other compensation for his services as director. The Board of Directors shall have the sole authority to determine the amount, form and structure of the fees and other compensation of the directors. In no case shall the total yearly compensation of directors exceed one percent (1%) of the net income before income tax of the Bank during the preceding year.

The Personnel and Compensation Committee of the Bank shall have the responsibility for recommending to the Board of Directors the fees and other compensation for directors. In discharging this duty, the Committee shall be guided by the objective of ensuring that compensation should fairly pay directors for work required in a company of the Bank's size and scope.”

### **Standard Arrangement**

Other than the usual per diem arrangement for Board and Board Committee meetings and the abovementioned Compensation of Directors based on the Bank's By-Laws, there is no Standard Arrangement with regards to compensation of directors, directly or indirectly for any services provided



as a director, including any additional amounts payable to committee participation or special assignments, for the last completed fiscal year and the ensuing year.

# **Item 11. Security Ownership of Certain Beneficial Owners and Management**

## **1. Security Ownership of Certain Record and Beneficial Owners of more than 5% as of December 31, 2012**

Title of Class	Name/Address of Record Owner & Relationship w/ Issuer	Name of Beneficial Owner & Relationship w/ Record Owner	Citizenship	No. of Shares	Percent of Holdings
Common	<b>PCD Nominee Corp. (Non-Filipino)</b>	Various Stockholders Client	Various	958,194,346	26.943%
	<i>Deutsche Bank Manila-Clients A/C 26/F Ayala Tower One Ayala Triangle, Makati City, Metropolitan Manila Phils. 1226</i>	<i>Various/Stockholders/ Clients holds 6.3559% Or 226,038,927.00 Shares</i>			
	<i>The Hongkong and Shanghai Banking Corporation HSBC Securities Services 12<sup>th</sup> Floor, The Enterprise Center, Tower 1 6766 Ayala Avenue corner Paseo de Roxas Makati City, Metropolitan Manila Phils. 1200</i>	<i>Various/Stockholders/ Clients holds 15.9659% Or 567,805,935.00 Shares</i>	Filipino	229,858,605 1,188,052,951	6.463% 33.406%
	<b>PCD Nominee Corp. (Filipino)</b> G/F MKSE Building 6767 Ayala Ave., Makati City Stockholder	Various Stockholders Client			
Common	<b>Ayala Corporation</b> Tower I, Ayala Triangle Ayala Avenue, Makati City Stockholder	Ayala Corporation	Filipino	776,802,113	21.843%
Common	<b>Ayala DBS Holdings, Inc.</b> 33 <sup>rd</sup> Floor Ayala Tower One and Exchange Plaza, Ayala Triangle, Ayala Avenue Makati City Stockholder	Ayala DBS Holdings, Inc.	Filipino	757,831,372	21.309%
Common	<b>AC International Finance Limited</b> c/o Ayala Corporation 34 <sup>th</sup> Floor, One Ayala Triangle Ayala Avenue Makati City Stockholder	AC International Finance Limited	Filipino	309,278,147	8.697%
Common	<b>Roman Catholic Archbishop of Manila</b> 121 Arzobispo street Intramuros, Manila Stockholder	Roman Catholic Archbishop of Manila	Filipino	301,063,608	8.466%

PCD Nominee Corporation (PCD) now known as Philippine Depository and Trust Corporation (PDTC) - Non-Filipino & Filipino, holds 33.406% interest. PDTC is the registered owner of the shares beneficially owned by participants in the PDTC. The Board of Directors of each participant has the power to decide on how the shares are to be voted.

Ayala Corporation holds 21.843% interest. Mermac, Inc. and the Mitsubishi Group own 51.15% and 10.62%, respectively (or a total of 61.77%) of the outstanding shares of Ayala Corporation. The Board of Directors of Ayala Corporation has the power to decide on how Ayala Corporation shares in BPI are to be voted.

The Ayala DBS Holdings, Inc. (Ayala DBS) holds 21.309% interest. Ayala Corporation owns 60% of the outstanding shares of Ayala DBS. The Board of Directors of Ayala DBS has the power to decide on how Ayala DBS shares in BPI are to be voted.

AC International Finance Limited holds 8.697% interest. Ayala Corporation owns 100% of the outstanding shares of AC International Finance Limited. The Board of Directors of AC International Finance Limited has the power to decide on how AC International Finance Limited shares in BPI are to be voted.

The Roman Catholic Archbishop of Manila Group (RCAM) holds 8.466% interest. The Archbishop of Manila has the power to decide on how RCAM shares in BPI are to be voted.

## 2. Security Ownership of Directors and Management as of December 31, 2012

Title of Class	Name of Beneficial Owner	Position	No. of Shares	Nature of Ownership (R/B)	Citizenship	% of Holdings
Common	Jaime Augusto Zobel de Ayala	Chairman	285	R/B	Filipino	0.000%
Common	Aurelio R. Montinola III	Director & President	1,416,148	R/B	Filipino	0.040%
Common	Romeo L. Bernardo	Director	12	R/B	Filipino	0.000%
Common	Chng Sok Hui	Director	19	R/B	Singaporean	0.000%
Common	Cezar P. Consing	Director	355	R/B	Filipino	0.000%
Common	Octavio V. Espiritu	Director	1,062,453	R/B	Filipino	0.030%
Common	Rebecca G. Fernando	Director	18	R/B	Filipino	0.000%
Common	Khoo Teng Cheong	Director	19	R/B	Singaporean	0.000%
Common	Xavier P. Loinaz	Director	3,123,465	R/B	Filipino	0.088%
Common	Mercedita S. Nollado	Director	51,475	R/B	Filipino	0.001%
Common	Artemio V. Panganiban	Director	10	R/B	Filipino	0.000%
Common	Antonio Jose U. Periquet	Director	400,010	R/B	Filipino	0.011%
Common	Oscar S. Reyes	Director	1,076	R/B	Filipino	0.000%
Common	Fernando Zobel de Ayala	Director	120	R/B	Filipino	0.000%
Common	Antonio V. Paner	EVP & Treasurer	96,890	R/B	Filipino	0.003%
Common	Natividad N. Alejo	Executive VP	12,496	R/B	Filipino	0.000%
Common	Alfonso L. Salcedo, Jr.	Executive VP	34,973	R/B	Filipino	0.001%
-	Fidelina A. Corcuera	Senior VP	0	-	Filipino	0
Common	Ma. Cristina L. Go	Senior VP	23,567	R/B	Filipino	0.001%
Common	Maria Theresa Marcial -Javier	Senior VP	12,612	R/B	Filipino	0.000%
-	Marie Christine O. Lopez	Senior VP	0	-	Filipino	0
Common	Maria Corazon S. Remo	Senior VP	159,606	R/B	Filipino	0.004%
Common	Gertie K. Sinio	Senior VP	92,568	R/B	Filipino	0.003%
<b>Aggregate Shareholdings of Directors &amp; Officers as a Group</b>			<b>6,488,177</b>			<b>0.182%</b>

None of the members of the Bank's Board of Directors and management owns 2.0% or more of the outstanding capital stock of the Bank.

## 3. Voting Trust Holders of 5% Or More

There are no persons holding more than 5% of a class under a voting trust or similar arrangement.

#### 4. Minimum Public Ownership

As of December 31, 2012, listed securities held by the public were at 46.89% of BPI's issued and outstanding shares. This is well above the minimum required public float level of 10%.

#### Item 12. Certain Relationships and Related Transactions

Included in the Parent Bank's financial statements are various transactions of BPI with its domestic and foreign subsidiaries and affiliates and with its directors, officers, stockholders and related interest (DOSRI). These transactions usually arise from normal banking activities such as deposit arrangements, trading of government securities and commercial papers, sale of assets, lending/borrowing of funds, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses. Related party transactions which are not included in the consolidation process are considered immaterial.

In the ordinary course of business, the BPI Group has entered into loan transactions with its DOSRI. . All DOSRI transactions are reported to Bangko Sentral ng Pilipinas. As of December 31, 2012 and 2011, the BPI Group is in full compliance with the General Banking Act and the Bangko Sentral ng Pilipinas Circulars and regulations on DOSRI Loans. A detailed discussion on related party transactions can be found on Note 32 of the 2012 Audited Financial Statements.

### PART IV – CORPORATE GOVERNANCE

Section deleted as per SEC memorandum Circular No. 5, Series of 2013, issued last March 20, 2013.

### PART V – EXHIBITS AND SCHEDULES

#### Item 14. Exhibits and Reports on SEC Form 17 -C

##### a. Exhibits

##### Securities Regulation Code Forms

(1)	Publication of Notice re: Filing	NA
(2)	Underwriting Agreement	NA
(3)	Plan of Acquisition, Reorganization, Arrangement, Liquidation, or Succession	NA
(4)	(A) Articles of Incorporation	NA
	(B) By-laws	NA
(5)	Instruments Defining the Rights of Security Holders, including indentures	NA
(6)	Opinion re: Legality	NA
(7)	Opinion re: Tax Matters	NA
(8)	Voting Trust Agreement	NA
(9)	Material Contracts	NA
(10)	Annual Report to Security Holders	Exhibit A
(11)	Material Foreign Patents	NA
(12)	Letter re: Unaudited Interim Financial Information	NA
(13)	Letter re: Change in Certifying Accountant	NA
(14)	Letter re: Director Resignation	NA
(15)	Letter re: Change in Accounting Principles	NA
(16)	Report Furnished to Security Holders	NA
(17)	Other Documents or Statements to Security Holders	NA
(18)	Subsidiaries of the Registrants	Exhibit B
(19)	Published Report Regarding Matters Submitted to Vote of Security Holders	NA
(20)	Consents of Experts and Independent Counsel	NA
(21)	(A) Power of Attorney	NA
	(B) Power of Attorney-Foreign Registrant	NA

(22)	Statement of Eligibility of Trustee	NA
(23)	Exhibits To Be Filed With Commercial Papers/Bonds Issues	NA
(24)	Exhibits To Be Filed with Stock Options Issues	NA
(25)	Exhibits To Be Filed By Investment Companies	NA
(26)	Notarized Curriculum Vitae and Photographs of Officers and Members of the Board of Directors	NA
(27)	Copy of the BOI Certificate for BOI Registered Companies	NA
(28)	Authorization re: Registrant's Bank Accounts	NA
(29)	Additional Exhibits	NA
	Annex A – Financial Assets	Exhibit A
	Sch. B - Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders	Exhibit A
	Sch. C – Amounts Receivable from Related Parties which are Eliminated during the Consolidation of Financial Statements	Exhibit A
	Sch. D – Intangible Assets	Exhibit A
	Sch. E - Long-Term Debt	Exhibit A
	Sch. F – Indebtedness to Related Parties	Exhibit A
	Sch. G – Guarantees of Securities of Other Issuers	Exhibit A
	Sch. H – Capital Stock	Exhibit A
	Top 20 Shareholders	Exhibit C
	Statistical Report by Sharelots as of December 31, 2012	Exhibit D

#### **b. Reports on SEC Form 17-C**

Items reported under SEC Form 17-C during the last six months:

- (1) Declaration of regular cash dividend of ninety centavos (P0.90) and special cash dividends of fifty centavos (P0.50) per share for the first semester of the year 2012 last March 22, 2012.
- (2) Receipt on April 12, 2012 of the Bangko Sentral ng Pilipinas' (BSP) letter approving the regular cash dividends declaration for the first semester of the year 2012 and special cash dividends declaration reported last March 22, 2012.
- (3) Submission of the "Guidelines for the Assessment of the Performance of Audit Committees of Companies Listed on the Exchange" last October 16, 2012.
- (4) Receipt of Mr. Tan Khong Khoon's resignation letter dated October 17, 2012, as member of the Board of Directors of the Bank of the Philippine Islands (BPI) with immediate effect last October 18, 2012.
- (5) Declaration of regular cash dividend of ninety centavos (P0.90) per share for the second semester of the year 2012 last October 18, 2012.
- (6) Receipt on November 20, 2012 of Bangko Sentral ng Pilipinas' (BSP) letter approving the Cash Dividends reported last October 18, 2012.
- (7) Approval by the Board of Directors of the Succession Plan for the President and CEO of BPI last December 12, 2012.
- (8) Approval of the holding of the 2013 Annual Stockholders' Meeting last December 12, 2012.

## SIGNATURES


Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereto duly notarized, in the City of Makati on April 11, 2013.


BANK OF THE PHILIPPINE ISLANDS  
Issuer

By:

  
CEZAR P. CONSING  
President, CEO and COO

  
ANTONIO V. PANER  
Executive Vice President, Treasurer

  
MELVIN M. MIRANDA  
Vice President, Central Accounting Head

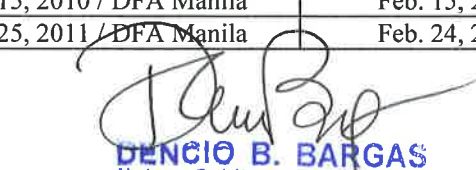
  
GERTIE K. SINIO  
Senior Vice President  
Corporate Planning and Accounting

  
CARLOS B. AQUINO  
Corporate Secretary

SUBSCRIBED AND SWORN to before me this \_\_\_\_ day of MAY 31 2013, affiant(s) exhibiting to me his/her Passport Number/Residence Certificates, as follows:

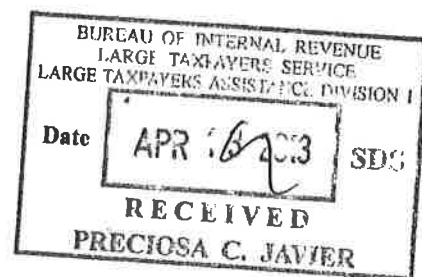
NAME(S)	PASSPORT NO. / CTC NO.	DATE / PLACE OF ISSUE	VALID UNTIL
Cezar P. Consing	EB2384681	May 9, 2011 / Hongkong	May 8, 2016
Antonio V. Paner	WW0099349	Nov. 16, 2011 / DFA Manila	Nov. 15, 2016
Gertie K. Sinio	EB4443659	Jan. 13, 2012 / DFA Manila	Jan. 12, 2017
Melvin M. Miranda	EA0031241	Feb. 15, 2010 / DFA Manila	Feb. 15, 2015
Carlos B. Aquino	EB1983461	Feb. 25, 2011 / DFA Manila	Feb. 24, 2016

Doc. No. 473;  
Page No. 96;  
Book No. 1;  
Series 2013

  
**DENCIO B. BARGAS**  
Notary Public for Makati City  
Until December 31, 2014 Appointment No. 165  
Unit 500, Madrigal Bldg., Ayala Ave., Makati City  
PTR No. 3671871 - 1-3-13, Makati City  
IBP No. 834309 - 12-6-12, Pasig City  
Attorney's Roll No. 26223

**EXHIBIT A**  
**(Audited Financial Statements)**

**COPY FOR THE  
BUREAU OF INTERNAL REVENUE**

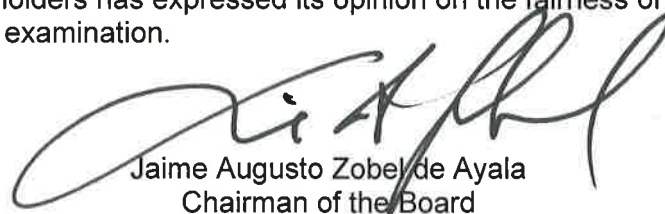


**ANNEX "B"**
**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR FINANCIAL STATEMENTS**


The management of the Bank of the Philippine Islands is responsible for the preparation and fair presentation of the consolidated and the parent financial statements as at December 31, 2012 and 2011 and for each of the three years in the period ended December 31, 2012 and, including the additional components attached therein, in accordance with the prescribed financial reporting framework indicated therein. This responsibility includes designing and implementing internal controls relevant to the preparation and fair presentation of the consolidated and parent financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the consolidated and parent financial statements and submits the same to the shareholders.


Isla Lipana & Co., the independent auditors appointed by the stockholders, has examined the consolidated and parent financial statements of the Bank of the Philippine Islands and Subsidiaries in accordance with Philippine Standards on Auditing, and in its report to the shareholders has expressed its opinion on the fairness of presentation upon completion of such examination.



Jaime Augusto Zobel de Ayala  
Chairman of the Board



Aurelio R. Montinola III  
President and Chief  
Executive Officer




Antonio V. Paner  
Executive Vice President  
and Treasurer

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this  
**MAR 05 2013**, affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Jaime Augusto Zobel de Ayala	EB1548914	Dec. 13, 2010/ DFA Manila	Dec. 12, 2015
Aurelio R. Montinola III	XX2882839	Jan. 27, 2009/DFA Manila	Jan. 26, 2014
Antonio V. Paner	EB4075954	Nov. 16, 2011/DFA Manila	Nov. 15, 2016

Doc. No. 55  
Page No. 12  
Book No. III  
Series of 2013.



**DENCIO B. BARGAS**  
Notary Public for Makati City  
Until December 31, 2014 Appointment No. 16  
Unit 500, Madrigal Bldg., Ayala Ave., Makati City  
PTR No. 3671871 - 1-3-13, Makati City  
IBP No. 834309 - 12-6-12, Pasig City  
Attorney's Roll No. 26223





**STATEMENT OF MANAGEMENT'S RESPONSIBILITY  
FOR ANNUAL INCOME TAX RETURN**

The management of **Bank of the Philippine Islands** is responsible for all information and representations contained in the Annual Income Tax Return for the year ended December 31, 2012. Management is likewise responsible for all information and representations contained in the financial statements accompanying the Annual Income Tax Return covering the same reporting period. Furthermore, the Management is responsible for all information and representations contained in all the other tax returns filed for the reporting period, including, but not limited, to the value added tax and/or percentage tax returns, withholding tax returns, documentary stamp tax returns, and any and all other tax returns.

In this regard, the Management affirms that the attached audited financial statements for the year ended December 31, 2012 and the accompanying Annual Income Tax Return are in accordance with the books and records of Bank of the Philippine Islands, complete and correct in all material respects. Management likewise affirms that:

- (a) the Annual Income Tax Return has been prepared in accordance with the provisions of the National Internal Revenue Code, as amended, and pertinent tax regulations and other issuances of the Department of Finance and the Bureau of Internal Revenue;
- (b) any disparity of figures in the submitted reports arising from the preparation of financial statements pursuant to financial accounting standards and the preparation of the income tax return pursuant to tax accounting rules has been reported as reconciling items and maintained in the company's books and records in accordance with the requirements of Revenue Regulations No. 8-2007 and other relevant issuances;
- (c) the Bank of the Philippine Islands has filed all applicable tax returns, reports and statements required to be filed under Philippines tax laws for the reporting period, and all taxes and other impositions shown thereon to be due and payable have been paid for the reporting period, except those contested in good faith.

  
**Jaime Augusto Zobel de Ayala II**  
Chairman of the Board

  
**Aurelio R. Montinola III**  
President and Chief Executive Officer

  
**Antonio V. Paner**  
Executive Vice President & Treasurer

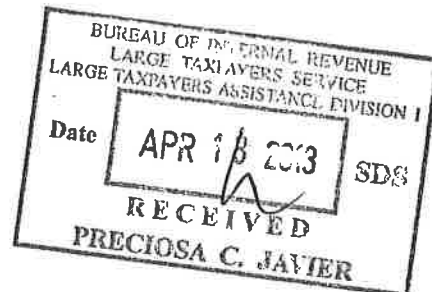




Isla Lipana & Co.

Statement Required by Section 8-A, Revenue Regulations No. V-1

To the Board of Directors and Shareholders of  
**Bank of the Philippine Islands**  
BPI Building, Ayala Avenue  
Makati City



None of the partners of the firm have any financial interest in Bank of the Philippine Islands or any family relationships with its president, manager, or principal shareholder.

The supplementary information on taxes and licenses is presented in Note 34 to the financial statements.

**Isla Lipana & Co.**

*Blesilda A. Pestaño*

Blesilda A. Pestaño  
Partner

CPA Cert. No. 40446

P.T.R. No. 0007713, January 2, 2013, Makati City

SEC A.N. (individual) as general auditors 0049-AR-3, Category A; effective until February 13, 2016

SEC A.N. (firm) as general auditors 0009-FR-3, effective until August 15, 2015

TIN 112-071-927

BIR A.N. 08-000745-7-2010, issued on May 31, 2010; effective until May 30, 2013

BOA/PRC Reg. No. 0142, effective until December 31, 2013

Makati City  
February 22, 2013

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*Isla Lipana & Co., 29th Floor, Philamlife Tower, 8767 Paseo de Roxas, 1226 Makati City, Philippines*  
T: +63 (2) 845 2728, F: +63 (2) 845 2806, [www.pwc.com/ph](http://www.pwc.com/ph)





## **Independent Auditor's Report**

To the Board of Directors and Shareholders of  
**Bank of the Philippine Islands**  
BPI Building, Ayala Avenue  
Makati City

### ***Report on the Financial Statements***

We have audited the accompanying consolidated financial statements of Bank of the Philippine Islands and Subsidiaries (the BPI Group) and the parent financial statements of Bank of the Philippine Islands (the Parent Bank), which comprise the consolidated and parent statements of condition as at December 31, 2012 and 2011, and the consolidated and parent statements of income, statements of total comprehensive income, statements of changes in capital funds and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

#### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these consolidated and parent financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated and parent financial statements that are free from material misstatement, whether due to fraud or error.

#### *Auditor's Responsibility*

Our responsibility is to express an opinion on these consolidated and parent financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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Independent Auditor's Report  
To the Board of Directors and Shareholders of  
Bank of the Philippine Islands  
Page 2

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

*Opinion*

In our opinion, the accompanying consolidated and parent financial statements present fairly, in all material respects, the financial position of the BPI Group and of the Parent Bank as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012 in accordance with Philippine Financial Reporting Standards.

***Report on Bureau of Internal Revenue Requirements***

Our audits were conducted for the purpose of forming an opinion on the basic financial statements taken as a whole. The supplementary information in Note 34 to the financial statements is presented for purposes of filing with the Bureau of Internal Revenue and is not a required part of the basic financial statements. Such supplementary information is the responsibility of management and has been subjected to the auditing procedures applied in our audits of the basic financial statements. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

**Isla Lipana & Co.**



Blesilda A. Pestaño

Partner

CPA Cert. No. 40446

P.T.R. No. 0007713, January 2, 2013, Makati City

SEC A.N. (individual) as general auditors 0049-AR-3, Category A; effective until February 13, 2016

SEC A.N. (firm) as general auditors 0009-FR-3, effective until August 15, 2015

TIN 112-071-927

BIR A.N. 08-000745-7-2010, issued on May 31, 2010; effective until May 30, 2013

BOA/PRC Reg. No. 0142, effective until December 31, 2013

Makati City

February 22, 2013





Isla Lipana & Co.

Statements Required by Rule 68, Part I, Section 4  
Securities Regulation Code (SRC),  
As Amended on October 20, 2011

To the Board of Directors and Shareholders of  
**Bank of the Philippine Islands**  
BPI Building, Ayala Avenue  
Makati City

We have audited the financial statements of Bank of the Philippine Islands as at and for the year ended December 31, 2012, on which we have rendered attached report dated February 22, 2013. The supplementary information shown in the Reconciliation of Retained Earnings Available for Dividend Declaration, a Map of the Group of Companies within which the Bank of the Philippine Islands belongs and Schedule of Philippine Financial Reporting Standards effective as at December 31, 2012, as required by Part I, Section 4 of Rule 68 of the Securities Regulation Code, are presented for the purposes of filing with the Securities and Exchange Commission and are not a required part of the basic financial statements. Such supplementary information are the responsibility of management and have been subjected to the auditing procedures applied in the audits of the basic financial statements. In our opinion, the supplementary information have been prepared in accordance with Part I, Section 4 of Rule 68 of the Securities Regulation Code.

**Isla Lipana & Co.**

*Blesilda A. Pestaño*

Blesilda A. Pestaño

Partner

CPA Cert. No. 40446

P.T.R. No. 0007713, January 2, 2013, Makati City

SEC A.N. (individual) as general auditors 0049-AR-3, Category A; effective until February 13, 2016

SEC A.N. (firm) as general auditors 0009-FR-3, effective until August 15, 2015

TIN 112-071-927

BIR A.N. 08-000745-7-2010, issued on May 31, 2010; effective until May 30, 2013

BOA/PRC Reg. No. 0142, effective until December 31, 2013

Makati City

February 22, 2013

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**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF CONDITION  
DECEMBER 31, 2012 AND 2011  
(In Millions of Pesos)

		<b>Consolidated</b>		<b>Parent</b>	
	Notes	<b>2012</b>	2011	<b>2012</b>	2011
<b><u>RESOURCES</u></b>					
CASH AND OTHER CASH ITEMS	7	<b>23,293</b>	22,395	<b>22,518</b>	21,661
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	<b>119,079</b>	83,759	<b>105,244</b>	70,807
DUE FROM OTHER BANKS	7	<b>7,582</b>	9,297	<b>4,724</b>	5,567
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	7, 8	<b>38,927</b>	35,277	<b>10,843</b>	24,867
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	9	<b>5,920</b>	5,389	<b>5,920</b>	5,389
- TRADING SECURITIES	10	<b>22,098</b>	12,275	<b>19,055</b>	11,638
AVAILABLE-FOR-SALE SECURITIES, net	11	<b>106,403</b>	74,084	<b>92,845</b>	64,500
HELD-TO-MATURITY SECURITIES, net	12	<b>76,243</b>	89,742	<b>67,822</b>	79,723
LOANS AND ADVANCES, net	13	<b>526,640</b>	454,499	<b>389,962</b>	337,425
ASSETS HELD FOR SALE, net		<b>6,887</b>	9,148	<b>4,380</b>	6,431
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	14	<b>12,421</b>	12,322	<b>8,101</b>	8,199
INVESTMENT PROPERTIES, net	15	<b>2,582</b>	2,637	<b>2,575</b>	2,630
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	16	<b>3,680</b>	3,069	<b>7,088</b>	7,008
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	5, 7	<b>13,451</b>	12,240	-	-
DEFERRED INCOME TAX ASSETS, net	17	<b>4,915</b>	4,335	<b>3,421</b>	2,958
OTHER RESOURCES, net	18	<b>14,948</b>	12,148	<b>10,929</b>	8,099
Total resources		<b>985,069</b>	842,616	<b>755,427</b>	656,902

(forward)

**BANK OF THE PHILIPPINE ISLANDS**  
**STATEMENTS OF CONDITION**  
**DECEMBER 31, 2012 AND 2011**  
(In Millions of Pesos)

		<b>Consolidated</b>		<b>Parent</b>	
	Notes	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
<b><u>LIABILITIES AND CAPITAL FUNDS</u></b>					
DEPOSIT LIABILITIES	19	<b>802,274</b>	681,101	<b>628,365</b>	544,414
DERIVATIVE FINANCIAL LIABILITIES	9	<b>5,827</b>	4,814	<b>5,827</b>	4,814
BILLS PAYABLE	20	<b>26,280</b>	19,136	<b>16,963</b>	9,887
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		<b>2,035</b>	1,717	<b>2,036</b>	1,717
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		<b>5,794</b>	4,131	<b>4,508</b>	3,389
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		<b>4,819</b>	4,025	<b>3,456</b>	2,709
UNSECURED SUBORDINATED DEBT	21	<b>5,000</b>	5,000	<b>5,000</b>	5,000
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	5	<b>10,793</b>	9,937	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	22	<b>23,725</b>	22,225	<b>19,216</b>	18,569
Total liabilities		<b>886,547</b>	752,086	<b>685,371</b>	590,499
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	23				
Share capital		<b>35,562</b>	35,562	<b>35,562</b>	35,562
Share premium		<b>8,317</b>	8,317	<b>8,317</b>	8,317
Reserves		<b>1,603</b>	1,462	<b>1,603</b>	1,462
Surplus		<b>49,613</b>	41,643	<b>23,932</b>	19,870
Accumulated other comprehensive income		<b>2,000</b>	2,168	<b>642</b>	1,192
		<b>97,095</b>	89,152	<b>70,056</b>	66,403
NON-CONTROLLING INTERESTS		<b>1,427</b>	1,378	-	-
Total capital funds		<b>98,522</b>	90,530	<b>70,056</b>	66,403
Total liabilities and capital funds		<b>985,069</b>	842,616	<b>755,427</b>	656,902

(The notes on pages 1 to 96 are an integral part of these financial statements.)



# BANK OF THE PHILIPPINE ISLANDS

## STATEMENTS OF INCOME FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012 (In Millions of Pesos, Except Per Share Amounts)

	Notes	Consolidated			Parent		
		2012	2011	2010	2012	2011	2010
<b>INTEREST INCOME</b>							
On loans and advances		<b>30,790</b>	27,156	25,270	<b>19,356</b>	16,762	15,944
On held-to-maturity securities		<b>5,191</b>	6,023	5,787	<b>4,638</b>	5,383	5,017
On available-for-sale securities		<b>3,424</b>	3,592	3,333	<b>3,126</b>	3,374	3,113
On deposits with BSP and other banks		<b>1,229</b>	2,488	3,409	<b>702</b>	2,001	2,952
On trading securities		<b>847</b>	812	582	<b>763</b>	767	539
Gross receipts tax		<b>(1,373)</b>	(1,382)	(1,394)	<b>(963)</b>	(1,009)	(1,063)
		<b>40,108</b>	38,689	36,987	<b>27,622</b>	27,278	26,502
<b>INTEREST EXPENSE</b>							
On deposits	19	<b>11,648</b>	11,721	12,069	<b>6,929</b>	7,601	8,081
On bills payable and other borrowings	20, 21	<b>1,007</b>	1,102	1,290	<b>588</b>	668	971
		<b>12,655</b>	12,823	13,359	<b>7,517</b>	8,269	9,052
<b>NET INTEREST INCOME</b>		<b>27,453</b>	25,866	23,628	<b>20,105</b>	19,009	17,450
<b>IMPAIRMENT LOSSES</b>	11, 13, 18	<b>2,923</b>	2,150	3,454	<b>2,003</b>	1,583	2,165
<b>NET INTEREST INCOME AFTER IMPAIRMENT LOSSES</b>		<b>24,530</b>	23,716	20,174	<b>18,102</b>	17,426	15,285
<b>OTHER INCOME</b>							
Trading gain on securities		<b>5,908</b>	2,948	2,946	<b>4,717</b>	2,712	2,652
Fees and commissions		<b>5,111</b>	4,607	4,160	<b>4,256</b>	3,777	2,834
Income from foreign exchange trading		<b>1,682</b>	1,770	2,204	<b>1,372</b>	1,596	2,089
Income attributable to insurance operations	5	<b>694</b>	949	802	-	-	-
Other operating income	25	<b>7,878</b>	6,688	5,825	<b>6,771</b>	5,917	4,430
Gross receipts tax		<b>(1,342)</b>	(1,070)	(1,158)	<b>(1,122)</b>	(943)	(1,039)
		<b>19,931</b>	15,892	14,779	<b>15,994</b>	13,059	10,966
<b>OTHER EXPENSES</b>							
Compensation and fringe benefits	27	<b>10,556</b>	10,379	9,137	<b>8,326</b>	7,994	6,664
Occupancy and equipment-related expenses	14, 15, 26	<b>7,193</b>	6,476	6,083	<b>5,798</b>	5,080	4,714
Other operating expenses	27	<b>7,139</b>	6,610	5,734	<b>5,377</b>	5,296	4,407
		<b>24,888</b>	23,465	20,954	<b>19,501</b>	18,370	15,785
<b>INCOME BEFORE INCOME TAX</b>		<b>19,573</b>	16,143	13,999	<b>14,595</b>	12,115	10,466
<b>PROVISION FOR INCOME TAX</b>	28						
Current		<b>3,576</b>	3,570	2,866	<b>2,444</b>	2,556	2,033
Deferred	17	<b>(444)</b>	(440)	(346)	<b>(232)</b>	(297)	127
		<b>3,132</b>	3,130	2,520	<b>2,212</b>	2,259	2,160
<b>NET INCOME FOR THE YEAR</b>		<b>16,441</b>	13,013	11,479	<b>12,383</b>	9,856	8,306
Attributable to:							
Equity holders of BPI		<b>16,291</b>	12,822	11,312	<b>12,383</b>	9,856	8,306
Non-controlling interests		<b>150</b>	191	167	-	-	-
		<b>16,441</b>	13,013	11,479	<b>12,383</b>	9,856	8,306
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	23	<b>4.58</b>	3.61	3.38	<b>3.48</b>	2.77	2.48

(The notes on pages 1 to 96 are an integral part of these financial statements.)

**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF TOTAL COMPREHENSIVE INCOME  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012  
(In Millions of Pesos)

		Consolidated			Parent		
	Note	2012	2011	2010	2012	2011	2010
NET INCOME FOR THE YEAR		16,441	13,013	11,479	12,383	9,856	8,306
OTHER COMPREHENSIVE INCOME	23						
Net change in fair value reserve on available-for-sale securities, net of tax effect		(718)	1,420	1,207	(550)	1,495	1,021
Fair value reserve on investments of insurance subsidiaries, net of tax effect		161	(63)	323	-	-	-
Share in other comprehensive income of associates		502	351	830	-	-	-
Currency translation differences		(104)	(5)	(215)	-	-	-
Total other comprehensive (loss) income, net of tax effect		(159)	1,703	2,145	(550)	1,495	1,021
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		16,282	14,716	13,624	11,833	11,351	9,327
Attributable to:							
Equity holders of BPI		16,123	14,523	13,414	11,833	11,351	9,327
Non-controlling interests		159	193	210	-	-	-
		16,282	14,716	13,624	11,833	11,351	9,327

(The notes on pages 1 to 96 are an integral part of these financial statements.)

**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF CHANGES IN CAPITAL FUNDS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012  
(In Millions of Pesos)

	Consolidated							
	Attributable to equity holders of BPI (Note 23)					Total	Non-controlling interests	Total equity
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)			
<b>Balance, January 1, 2010</b>	<b>32,467</b>	<b>1,412</b>	<b>1,394</b>	<b>33,160</b>	<b>(1,635)</b>	<b>66,798</b>	<b>967</b>	<b>67,765</b>
<b>Comprehensive income</b>								
Net income for the year	-	-	-	11,312	-	11,312	167	11,479
Other comprehensive income for the year	-	-	-	-	2,102	2,102	43	2,145
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>11,312</b>	<b>2,102</b>	<b>13,414</b>	<b>210</b>	<b>13,624</b>
<b>Transactions with owners</b>								
Issuance of shares	3,077	6,829	-	-	-	9,906	-	9,906
Employee stock option plan:								
Exercise of options	18	76	(137)	-	-	(43)	-	(43)
Cash dividends	-	-	-	(9,044)	-	(9,044)	-	(9,044)
Transfer from surplus to reserves	-	-	110	(110)	-	-	-	-
Other changes in non-controlling interests	-	-	-	-	-	-	67	67
<b>Total transactions with owners</b>	<b>3,095</b>	<b>6,905</b>	<b>(27)</b>	<b>(9,154)</b>	<b>-</b>	<b>819</b>	<b>67</b>	<b>886</b>
<b>Balance, December 31, 2010</b>	<b>35,562</b>	<b>8,317</b>	<b>1,367</b>	<b>35,318</b>	<b>467</b>	<b>81,031</b>	<b>1,244</b>	<b>82,275</b>
<b>Comprehensive income</b>								
Net income for the year	-	-	-	12,822	-	12,822	191	13,013
Other comprehensive income for the year	-	-	-	-	1,701	1,701	2	1,703
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,822</b>	<b>1,701</b>	<b>14,523</b>	<b>193</b>	<b>14,716</b>
<b>Transactions with owners</b>								
Issuance of shares	-	-	-	-	-	-	-	-
Employee stock option plan:								
Expiration of options	-	-	(42)	42	-	-	-	-
Cash dividends	-	-	-	(6,402)	-	(6,402)	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-	-	-
Other changes in non-controlling interests	-	-	-	-	-	-	(59)	(59)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>95</b>	<b>(6,497)</b>	<b>-</b>	<b>(6,402)</b>	<b>(59)</b>	<b>(6,461)</b>
<b>Balance, December 31, 2011</b>	<b>35,562</b>	<b>8,317</b>	<b>1,462</b>	<b>41,643</b>	<b>2,168</b>	<b>89,152</b>	<b>1,378</b>	<b>90,530</b>
<b>Comprehensive income</b>								
Net income for the year	-	-	-	16,291	-	16,291	150	16,441
Other comprehensive loss for the year	-	-	-	-	(168)	(168)	9	(159)
<b>Total comprehensive income (loss) for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>16,291</b>	<b>(168)</b>	<b>16,123</b>	<b>159</b>	<b>16,282</b>
<b>Transactions with owners</b>								
Issuance of shares	-	-	-	-	-	-	-	-
Employee stock option plan:								
Expiration of options	-	-	-	-	-	-	-	-
Cash dividends	-	-	-	(8,180)	-	(8,180)	-	(8,180)
Transfer from surplus to reserves	-	-	141	(141)	-	-	-	-
Other changes in non-controlling interests	-	-	-	-	-	-	(110)	(110)
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>(8,321)</b>	<b>-</b>	<b>(8,180)</b>	<b>(110)</b>	<b>(8,290)</b>
<b>Balance, December 31, 2012</b>	<b>35,562</b>	<b>8,317</b>	<b>1,603</b>	<b>49,613</b>	<b>2,000</b>	<b>97,095</b>	<b>1,427</b>	<b>98,522</b>

(The notes on pages 1 to 96 are an integral part of these financial statements.)

**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF CHANGES IN CAPITAL FUNDS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012  
(In Millions of Pesos)

	<b>Parent (Note 23)</b>					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
<b>Balance, January 1, 2010</b>	<b>32,467</b>	<b>1,412</b>	<b>1,351</b>	<b>17,390</b>	<b>(1,324)</b>	<b>51,296</b>
<b>Comprehensive income</b>						
Net income for the year	-	-	-	8,306	-	8,306
Other comprehensive income for the year	-	-	-	-	1,021	1,021
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>8,306</b>	<b>1,021</b>	<b>9,327</b>
<b>Transactions with owners</b>						
Issuance of shares	3,077	6,829	-	-	-	9,906
Employee stock option plan:						
Exercise of options	18	76	(125)	-	-	(31)
Cash dividends	-	-	-	(9,044)	-	(9,044)
Transfer from surplus to reserves	-	-	110	(110)	-	-
<b>Total transactions with owners</b>	<b>3,095</b>	<b>6,905</b>	<b>(15)</b>	<b>(9,154)</b>	<b>-</b>	<b>831</b>
<b>Balance, December 31, 2010</b>	<b>35,562</b>	<b>8,317</b>	<b>1,336</b>	<b>16,542</b>	<b>(303)</b>	<b>61,454</b>
<b>Comprehensive income</b>						
Net income for the year	-	-	-	9,856	-	9,856
Other comprehensive income for the year	-	-	-	-	1,495	1,495
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>9,856</b>	<b>1,495</b>	<b>11,351</b>
<b>Transactions with owners</b>						
Issuance of shares						
Employee stock option plan:						
Expiration of options	-	-	(11)	11	-	-
Cash dividends	-	-	-	(6,402)	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>126</b>	<b>(6,528)</b>	<b>-</b>	<b>(6,402)</b>
<b>Balance, December 31, 2011</b>	<b>35,562</b>	<b>8,317</b>	<b>1,462</b>	<b>19,870</b>	<b>1,192</b>	<b>66,403</b>
<b>Comprehensive income</b>						
Net income for the year	-	-	-	12,383	-	12,383
Other comprehensive income for the year	-	-	-	-	(550)	(550)
<b>Total comprehensive income for the year</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>12,383</b>	<b>(550)</b>	<b>11,833</b>
<b>Transactions with owners</b>						
Employee stock option plan:						
Expiration of options	-	-	-	-	-	-
Cash dividends	-	-	-	(8,180)	-	(8,180)
Transfer from surplus to reserves	-	-	141	(141)	-	-
<b>Total transactions with owners</b>	<b>-</b>	<b>-</b>	<b>141</b>	<b>(8,321)</b>	<b>-</b>	<b>(8,180)</b>
<b>Balance, December 31, 2012</b>	<b>35,562</b>	<b>8,317</b>	<b>1,603</b>	<b>23,932</b>	<b>642</b>	<b>70,056</b>

(The notes on pages 1 to 96 are an integral part of these financial statements.)

**BANK OF THE PHILIPPINE ISLANDS**

STATEMENTS OF CASH FLOWS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012  
(In Millions of Pesos)

	Notes	Consolidated			Parent		
		2012	2011	2010	2012	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		19,573	16,143	13,999	14,595	12,115	10,466
Adjustments for:							
Impairment losses	11,13, 18	2,923	2,150	3,454	2,003	1,583	2,165
Depreciation and amortization	14, 15	3,346	3,040	2,586	2,188	1,920	1,549
Share in net income of associates		(138)	(216)	(195)	-	-	-
Dividend income	25	(27)	(47)	(85)	(1,383)	(1,210)	(206)
Interest income		(41,481)	(40,071)	(38,381)	(28,585)	(28,287)	(27,565)
Interest expense		12,655	12,823	13,359	7,517	8,269	9,052
Operating loss before changes in operating assets and liabilities		(3,149)	(6,178)	(5,263)	(3,665)	(5,610)	(4,539)
Changes in operating assets and liabilities (Increase) decrease in:							
Due from Bangko Sentral ng Pilipinas		-	54,303	(12,731)	-	52,010	(12,300)
Interbank loans receivable and securities purchased under agreements to resell		-	3,859	20,403	-	3,861	20,958
Trading securities, net		(9,742)	(721)	41,760	(7,593)	(1,236)	41,829
Loans and advances, net		(74,345)	(77,418)	(54,907)	(53,800)	(62,188)	(38,573)
Assets held for sale		1,868	2,327	2,467	1,759	2,136	2,260
Assets attributable to insurance operations		(724)	(328)	(209)	-	-	-
Other resources		(3,661)	(4,185)	(539)	(3,603)	(3,006)	(30)
Increase (decrease) in:							
Deposit liabilities		121,173	(38,665)	140,295	83,951	(47,522)	119,905
Due to Bangko Sentral ng Pilipinas and other banks		318	(283)	67	319	(285)	68
Manager's checks and demand drafts outstanding		1,663	(56)	1,128	1,119	(95)	977
Accrued taxes, interest and other expenses		557	(536)	341	652	(654)	226
Liabilities attributable to insurance operations		856	724	450	-	-	-
Derivative financial instruments		388	154	(176)	608	154	(176)
Deferred credits and other liabilities		4,699	(1,364)	(35)	3,849	(1,547)	(859)
Net cash from (used in) operations		39,901	(68,367)	133,051	23,596	(63,982)	129,746
Interest received		40,410	40,467	37,099	27,479	28,623	26,485
Interest paid		(12,418)	(13,380)	(13,029)	(7,423)	(8,780)	(8,703)
Income taxes paid		(3,711)	(2,442)	(2,670)	(2,675)	(1,415)	(1,824)
Net cash from (used in) operating activities		64,182	(43,722)	154,451	40,977	(45,554)	145,704
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	11	(32,454)	39,147	(38,596)	(28,286)	35,311	(36,533)
Held-to-maturity securities, net	12	13,905	5,693	(20,259)	12,165	5,363	(20,187)
Bank premises, furniture, fixtures and equipment, net	14	(2,748)	(3,246)	(2,531)	(1,416)	(1,784)	(1,376)
Investment properties, net		(12)	3	(10)	(12)	(1)	(10)
Investment in subsidiaries and associates, net		(24)	(120)	407	(80)	(39)	(17)
Assets attributable to insurance operations		(614)	183	(787)	-	-	-
Dividends received		27	47	85	1,383	1,210	436
Net cash (used in) from investing activities		(21,920)	41,707	(61,691)	(16,246)	40,060	(57,687)

(forward)

**BANK OF THE PHILIPPINE ISLANDS**  
**STATEMENTS OF CASH FLOWS**  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2012  
(In Millions of Pesos)

		<b>Consolidated</b>			<b>Parent</b>		
	Notes	<b>2012</b>	<b>2011</b>	<b>2010</b>	<b>2012</b>	<b>2011</b>	<b>2010</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Cash dividends paid		<b>(11,380)</b>	(3,201)	(9,044)	<b>(11,380)</b>	(3,201)	(9,044)
Proceeds from stock rights offering	23	-	-	9,906	-	-	9,906
Increase (decrease) in bills payable		<b>7,144</b>	(5,733)	(7,141)	<b>7,076</b>	(7,357)	(7,372)
Net cash used in financing activities		<b>(4,236)</b>	(8,934)	(6,279)	<b>(4,304)</b>	(10,558)	(6,510)
<b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>							
		<b>38,026</b>	(10,949)	86,481	<b>20,427</b>	(16,052)	81,507
<b>CASH AND CASH EQUIVALENTS</b>							
January 1	7	<b>150,961</b>	161,910	75,429	<b>122,902</b>	138,954	57,447
December 31		<b>188,987</b>	150,961	161,910	<b>143,329</b>	122,902	138,954

(The notes on pages 1 to 96 are an integral part of these financial statements.)

## **BANK OF THE PHILIPPINE ISLANDS**

NOTES TO FINANCIAL STATEMENTS  
AS AT DECEMBER 31, 2012 AND 2011  
AND FOR EACH OF THE THREE YEARS  
IN THE PERIOD ENDED DECEMBER 31, 2012

### **Note 1 - General Information**

Bank of the Philippine Islands ("BPI" or the "Parent Bank") is a domestic commercial bank with an expanded banking license and has its registered office address, which is also its principal place of business, at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries as detailed in Note 2.3 (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2012, the BPI Group has 12,406 employees (2011 - 12,355 employees) and operates 820 branches and 2,068 ATMs (2011 - 819 branches and 1,868 ATMs) to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The BPI shares have been traded in the Philippine Stock Exchange (PSE) since October 12, 1971. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on February 20, 2013. There are no material events that occurred subsequent to February 20, 2013 until February 22, 2013.

### **Note 2 - Summary of Significant Accounting Policies**

The principal accounting policies applied in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented, unless otherwise stated.

#### **2.1 Basis of preparation**

The financial statements of the BPI Group have been prepared in accordance with Philippine Financial Reporting Standards (PFRS). The term PFRS in general includes all applicable PFRS, Philippine Accounting Standards (PAS), interpretations of the Philippine Interpretations Committee (PIC), Standing Interpretations Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC) which have been approved by the Financial Reporting Standards Council (FRSC) and adopted by the SEC.

As allowed by the SEC, the pre-need subsidiary of the Parent Bank continues to follow the provisions of the Pre-Need Uniform Chart of Accounts (PNUCA) prescribed by the SEC and adopted by the Insurance Commission.

The financial statements comprise the statement of condition, statement of income and statement of total comprehensive income shown as two statements, statement of changes in capital funds, statement of cash flows and the notes.

These financial statements have been prepared under the historical cost convention, as modified by the revaluation of trading securities, available-for-sale financial assets and all derivative contracts.

The preparation of financial statements in conformity with PFRS requires the use of certain critical accounting estimates. It also requires management to exercise its judgment in the process of applying the BPI Group's accounting policies. Changes in assumptions may have a significant impact on the financial statements in the period the assumptions changed. Management believes that the underlying assumptions are appropriate and that the financial statements therefore fairly present the financial position and results of the BPI Group. The areas involving a higher degree of judgment or complexity, or areas where assumptions and estimates are significant to the financial statements, are disclosed in Note 4.

## 2.2 New standards, interpretations and amendments to published standards

The BPI Group adopted the following amendments to existing standards and interpretations approved by the FRSC which are effective for the BPI Group beginning January 1, 2012:

- *PAS 12 (Amendment), Income Taxes - Deferred Tax* (effective January 1, 2012). PAS 12 currently requires an entity to measure the deferred tax relating to an asset depending on whether the entity expects to recover the carrying amount of the asset through use or sale. It can be difficult and subjective to assess whether recovery will be through use or through sale when the asset is measured using the fair value model in PAS 40, Investment Property. This amendment therefore introduces an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, Income Taxes - Recovery of Revalued Non-Depreciable Assets, will no longer apply to investment properties carried at fair value. The amendments also incorporate into PAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.

The BPI Group applied the amendments beginning January 1, 2012 but this did not have a material impact on the financial statements as investment properties are measured using the cost model.

- *PFRS 7 (Amendment), Financial Instruments: Disclosures - Derecognition* (effective July 1, 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The BPI Group applied the amendments beginning January 1, 2012 but this did not have a material impact on the financial statements as there were no securities transferred that have not been derecognized in the current year.

### ***New standards, amendments and interpretations to existing standards that are not yet effective and not early adopted by the BPI Group***

- *PAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income* (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income. The BPI Group will apply the amendment beginning January 1, 2013. The adoption is not expected to have a significant impact on the financial statements but will result in changes in presentation in the statement of total comprehensive income.
- *PAS 19 (Amendment), Employee Benefits* (effective January 1, 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). As at December 31, 2012, the BPI Group has unrecognized actuarial loss of P514.5 million (Note 30) which will be recognized in other comprehensive income upon adoption of the amendments.
- *PAS 28 (Revised), Investments in Associates and Joint Ventures* (effective January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using the equity method following the issuance of PFRS 11. The BPI Group will apply the revised standard beginning January 1, 2013. The BPI Group is currently assessing the full impact on the financial statements as investments in associates are currently accounted for using the cost method in the Parent Bank's separate financial statements. The BPI Group has no investments in joint ventures.
- *PAS 32 (Amendment), Financial Instruments: Presentation – Asset and Liability Offsetting* (effective January 1, 2014). These amendments are to the application guidance in PAS 32, Financial Instruments: Presentation, and clarify some of the requirements for offsetting financial assets and financial liabilities on the statement of condition. The BPI Group will apply the amendment beginning January 1, 2014. The adoption is not expected to have a significant impact on the financial statements but will result in changes in presentation of financial assets and financial liabilities subject to offsetting in the statement of condition.



- *PFRS 9, Financial Instruments* (effective January 1, 2015). This new standard addresses the classification, measurement and recognition of financial assets and financial liabilities. It replaces the parts of PAS 39 that relate to the classification and measurement of financial instruments. PFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. For financial liabilities, the standard retains most of the PAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, part of the fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch. The BPI Group will apply this new standard beginning January 1, 2015. The adoption of PFRS 9 will affect the BPI Group's accounting for its available-for-sale debt securities as the standard will only allow the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt securities will therefore have to be recognized directly in profit or loss. The BPI Group is currently assessing the full impact on the financial statements upon adoption of the new standard.
- *PFRS 10, Consolidated Financial Statements* (effective January 1, 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included in the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The BPI Group will adopt this new standard beginning January 1, 2013 and is currently assessing the full impact on the financial statements upon adoption.
- *PFRS 12, Disclosures of Interests in Other Entities* (effective January 1, 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The BPI Group will apply this new standard beginning January 1, 2013 but the adoption is not expected to have a significant impact on the financial statements other than the required disclosure requirements for interests in associates.
- *PFRS 13, Fair Value Measurement* (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a clarified definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The BPI Group will apply this new standard beginning January 1, 2013 but the adoption is not expected to have a significant impact on the financial statements as the current fair value measurement of its financial instruments carried at fair value is already consistent with requirements of the new standard.

There are no other standards, amendments or interpretations that are not yet effective that would be expected to have a material impact on the BPI Group.

## 2.3 Consolidation

The consolidated financial statements comprise the financial statements of the BPI Group as at December 31, 2012. The subsidiaries financial statements are prepared for the same reporting period as the Parent Bank. The consolidated financial statements include the financial statements of the Parent Bank and the following subsidiaries as at December 31:

Subsidiaries	Country of incorporation	Principal activities	% of ownership	
			2012	2011
BPI Family Savings Bank, Inc.	Philippines	Banking	<b>100</b>	100
BPI Capital Corporation	Philippines	Investment house	<b>100</b>	100
BPI Leasing Corporation	Philippines	Leasing	<b>100</b>	100
BPI Direct Savings Bank, Inc.	Philippines	Banking	<b>100</b>	100
BPI International Finance Limited	Hong Kong	Financing	<b>100</b>	100
BPI Europe Plc.	England and Wales	Banking (deposit)	<b>100</b>	100
BPI Securities Corp.	Philippines	Securities dealer	<b>100</b>	100
BPI Card Finance Corp.	Philippines	Financing	<b>100</b>	100
Filinvest Algo Financial Corp.	Philippines	Financing	<b>100</b>	100
BPI Rental Corporation.	Philippines	Rental	<b>100</b>	100
BPI Investment Management Inc.	Philippines	Investment management	<b>100</b>	100
Santiago Land Dev. Corp.	Philippines	Land holding	<b>100</b>	100
BPI Operations Management Corp.	Philippines	Operations management	<b>100</b>	100
BPI Computer Systems Corp.	Philippines	Business systems service	<b>100</b>	100
BPI Foreign Exchange Corp.	Philippines	Foreign exchange	<b>100</b>	100
BPI Express Remittance Corp. USA	USA	Remittance	<b>100</b>	100
BPI Express Remittance Corp. Nevada	USA	Remittance	<b>100</b>	-
BPI Express Remittance Center HK (Ltd.)	Hong Kong	Remittance	<b>100</b>	100
Green Enterprises S. R. L. in Liquidation (formerly BPI Express Remittance Europe, S.p.A.)	Italy	Remittance	<b>100</b>	100
Prudential Investments, Inc.	Philippines	Investment house	<b>100</b>	100
First Far - East Development Corporation	Philippines	Real estate	<b>100</b>	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	<b>100</b>	100
Citytrust Securities Corporation	Philippines	Securities dealer	<b>100</b>	100
BPI Express Remittance Spain S.A	Spain	Remittance	<b>100</b>	100
FEB Speed International	Philippines	Remittance	<b>100</b>	100
AF Holdings and Management Corp.	Philippines	Financial management consultancy	<b>100</b>	100
Ayala Plans, Inc	Philippines	Pre-need	<b>98.67</b>	98.67
FGU Insurance Corporation	Philippines	Non-life insurance	<b>94.62</b>	94.62
BPI/MS Insurance Corporation	Philippines	Non-life insurance	<b>50.85</b>	50.85
BPI Globe BankO, Inc.	Philippines	Banking	<b>40</b>	40

BPI has control over BPI Globe BankO, Inc. since BPI is largely involved in key decisions concerning financial and operating policies and activities of, and provision of technological support and technical know-how to BPI Globe BankO, Inc.

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the BPI Group controls another entity. The BPI Group also assesses existence of control where it does not have more than 50% of the voting power but is able to govern the financial and operating policies by virtue of de-facto control. De-facto control may arise in circumstances where the size of the BPI Group's voting rights relative to the size and dispersion of holdings of other shareholders give the BPI Group the power to govern the financial and operating policies.

Subsidiaries are fully consolidated from the date on which control is transferred to the BPI Group. They are de-consolidated from the date that control ceases.

The BPI Group applies the acquisition method of accounting to account for business combinations. The consideration transferred for the acquisition of a subsidiary is the fair values of the assets transferred, the liabilities incurred and the equity interests issued by the BPI Group. The consideration transferred includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date. On an acquisition-by-acquisition basis, the BPI Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the aggregate of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any previous equity interest in the acquiree over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill. If this consideration is lower than the fair value of the net assets of the subsidiary acquired in the case of a bargain purchase, the difference is recognized directly in profit or loss.

Inter-company transactions, balances and income and expenses on transactions between group companies are eliminated. Profits and losses resulting from inter-company transactions that are recognized in assets are also eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group, except for the pre-need subsidiary which follows the provisions of the PNUCA as allowed by the SEC.

When the BPI Group ceases to have control, any retained interest in the entity is re-measured to its fair value at the date when control is lost, with the change in carrying amount recognized in profit or loss. 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 BPI Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

(b) Transactions with non-controlling interests

Transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions - that is, as transactions with the owners in their capacity as owners. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

Interests in the equity of subsidiaries not attributable to the Parent Bank are reported in consolidated equity as non-controlling interests. Profits or losses attributable to non-controlling interests are reported in the statement of income as net income (loss) attributable to non-controlling interests.

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for using the equity method of accounting. Under the equity method, the investment is initially recognized at cost and the carrying amount is increased or decreased to recognize the investor's share of the profit or loss of the investee after the date of acquisition. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

If the ownership interest in an associate is reduced but significant influence is retained, a proportionate share of the amounts previously recognized in other comprehensive income is reclassified to profit or loss where appropriate.

The BPI Group's share of its associates' post-acquisition profits or losses is recognized in profit or loss, and its share of post-acquisition movements in reserves is recognized in other comprehensive income. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the BPI Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the BPI Group does not recognize further losses, unless it has incurred legal or constructive obligations or made payments on behalf of the associate.

The BPI Group determines at each reporting date whether there is any indicator of impairment that the investment in the associate is impaired. If this is the case, the BPI Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount adjacent to 'share of profit (loss) of an associate' in profit or loss.

Unrealized gains on transactions between the BPI Group and its associates are eliminated to the extent of the BPI Group's interest in the associates. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. Accounting policies of associates have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

## **2.4 Investments in subsidiaries and associates**

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for using the cost method in accordance with PAS 27. Under this method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated profits of the investee arising after the acquisition date. Distributions received in excess of such profits are regarded as a recovery of investment and are recognized as reduction of the cost of the investment.

The Parent Bank recognizes a dividend from a subsidiary or associate in profit or loss in its separate financial statements when its right to receive the dividend is established.

The Parent Bank determines at each reporting date whether there is any indicator of impairment that the investment in the subsidiary or associate is impaired. If this is the case, the Parent Bank calculates the amount of impairment as the difference between the recoverable amount and carrying value and the difference is recognized in profit or loss.

Investments in subsidiaries and associates are derecognized upon disposal or when no future economic benefits are expected to be derived from the subsidiaries and associates at which time the cost and the related accumulated impairment loss are removed in the statement of condition. Any gains and losses on disposal is determined by comparing the proceeds with the carrying amount of the investment and recognized in profit or loss.

## **2.5 Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief executive officer who allocates resources to, and assesses the performance of the operating segments of the BPI Group.

All transactions between business segments are conducted on an arm's length basis, with intra-segment revenue and costs being eliminated upon consolidation. Income and expenses directly associated with each segment are included in determining business segment performance.

In accordance with PFRS 8, the BPI Group has the following main banking business segments: consumer banking, corporate banking and investment banking. Its insurance business is assessed separately from these banking business segments (Note 5).

## **2.6 Cash and cash equivalents**

Cash and cash equivalents consist of Cash and other cash items, Due from Bangko Sentral ng Pilipinas (BSP), Due from other banks, and Interbank loans receivable and securities purchased under agreements to resell with maturities of less than three months from the date of acquisition and that are subject to insignificant risk of changes in value.

## **2.7 Repurchase and reverse repurchase agreements**

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method.

Securities purchased under agreements to resell ('reverse repos') are recorded as loans and advances to other banks and customers and included in the statement of condition under "Interbank loans receivable and securities purchased under agreements to resell". Securities lent to counterparties are also retained in the financial statements.

## **2.8 Financial assets**

### **2.8.1 Classification**

The BPI Group classifies its financial assets in the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity securities and available-for-sale securities. The classification depends on the purpose for which the financial assets are acquired. Management determines the classification of its financial assets at initial recognition.

#### **(a) Financial assets at fair value through profit or loss**

This category has two sub-categories: financial assets held for trading and those designated at fair value through profit or loss at inception.

A financial asset is classified as held for trading if it is acquired principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Financial assets held for trading (other than derivatives) are shown as "Trading securities" in the statement of condition.

Derivatives are also categorized as held for trading unless they are designated as hedging instruments.

Financial assets designated at fair value through profit or loss at inception are those that are managed and their performance is evaluated on a fair value basis, in accordance with a documented investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group's key management personnel. The BPI Group has no financial assets that are specifically designated at fair value through profit or loss.

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments: (i) that are not quoted in an active market, (ii) with no intention of being traded, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category include loans and advances, cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under agreements to resell and accounts receivable included under other resources.

(c) Held-to-maturity securities

Held-to-maturity securities are non-derivative financial assets with fixed or determinable payments and fixed maturities that the BPI Group's management has the positive intention and ability to hold to maturity. If the BPI Group were to sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale.

(d) Available-for-sale securities

Available-for-sale securities are non-derivative financial assets that are either designated in this category or not classified in any of the other categories.

## **2.8.2 Recognition and measurement**

(a) Initial recognition and measurement

Regular-way purchases and sales of financial assets at fair value through profit or loss, held-to-maturity securities and available-for-sale securities are recognized on trade date, the date on which the BPI Group commits to purchase or sell the asset. Loans and receivables are recognized upon origination when cash is advanced to the borrowers or when the right to receive payment is established. Financial assets not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial assets carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized in profit or loss.

(b) Subsequent measurement

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of income (as "Trading gain/loss on securities") in the year in which they arise. Gains and losses arising from changes in the fair value of available-for-sale securities are recognized directly in other comprehensive income, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in other comprehensive income should be recognized in profit or loss. However, interest is calculated on these securities using the effective interest method and foreign currency gains and losses on monetary assets classified as available-for-sale are recognized in profit or loss. Dividends on equity instruments are recognized in profit or loss when the BPI Group's right to receive payment is established.

## **2.8.3 Reclassification**

The BPI Group may choose to reclassify a non-derivative financial asset held for trading out of the held-for-trading category if the financial asset is no longer held for the purpose of selling it in the near term. Financial assets other than loans and receivables are permitted to be reclassified out of the held-for-trading category only in rare circumstances arising from a single event that is unusual and highly unlikely to recur in the near term. In addition, the BPI Group may choose to reclassify financial assets that would meet the definition of loans and receivables out of the held-for-trading or available-for-sale categories if the BPI Group has the intention and ability to hold these financial assets for the foreseeable future or until maturity at the date of reclassification.

Reclassifications are made at fair value as of the reclassification date. Fair value becomes the new cost or amortized cost as applicable, and no reversals of fair value gains or losses recorded before reclassification date are subsequently made. Effective interest rates for financial assets reclassified to loans and receivables and held-to-maturity categories are determined at the reclassification date. Further increases in estimates of cash flows adjust effective interest rates prospectively.

#### **2.8.4 Derecognition**

Financial assets are derecognized when the contractual rights to receive the cash flows from these assets have ceased to exist or the assets have been transferred and substantially all the risks and rewards of ownership of the assets are also transferred (that is, if substantially all the risks and rewards have not been transferred, the BPI Group tests control to ensure that continuing involvement on the basis of any retained powers of control does not prevent derecognition).

### **2.9 Impairment of financial assets**

#### **(a) Assets carried at amortized cost**

The BPI Group assesses at each reporting date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

The criteria that the BPI Group uses to determine that there is objective evidence of an impairment loss include:

- Delinquency in contractual payments of principal or interest;
- Cash flow difficulties experienced by the borrower;
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

The BPI Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and collectively for financial assets that are not individually significant. If the BPI Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Financial assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment.

The amount of impairment loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (recoverable amount). The calculation of recoverable amount of a collateralized financial asset reflects the cash flows that may result from foreclosure less costs of obtaining and selling the collateral, whether or not foreclosure is probable. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. The carrying amount of the asset is reduced through the use of an allowance account and the amount of loss is recognized in profit or loss.

For the purposes of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics (i.e., on the basis of the BPI Group's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors). Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the BPI Group and historical loss experience for assets with credit risk characteristics similar to those in the BPI Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not currently exist. The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined.

If in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. Subsequent recoveries of amounts previously written-off are credited to impairment loss in the statement of income.

(b) Assets classified as available-for-sale

The BPI Group assesses at each reporting date whether there is an objective evidence that a security classified as available-for-sale is impaired. For debt securities, the BPI Group uses the criteria mentioned in (a) above. For an equity security classified as available-for-sale, a significant or prolonged decline in the fair value below cost is considered in determining whether the securities are impaired. Generally, the BPI Group treats 'significant' as 20% or more and 'prolonged' as greater than twelve months. The cumulative loss (difference between the acquisition cost and the current fair value less any impairment loss on that financial asset previously recognized in profit or loss) is removed from other comprehensive income and recognized in profit or loss when the asset is determined to be impaired. If in a subsequent period, the fair value of a debt instrument previously impaired increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through profit or loss. Reversal of impairment losses recognized previously on equity instruments is made directly to other comprehensive income.

(c) Renegotiated loans

Loans that are either subject to individual or collective impairment assessment and whose terms have been renegotiated are no longer considered to be past due but are treated as new loans.

## **2.10 Financial liabilities**

### **2.10.1 Classification**

The BPI Group classifies its financial liabilities in the following categories: financial liabilities at fair value through profit or loss and financial liabilities at amortized cost.

(a) Financial liabilities at fair value through profit or loss

This category comprises two sub-categories: financial liabilities classified as held for trading, and financial liabilities designated by the BPI Group as at fair value through profit or loss upon initial recognition.

A financial liability is classified as held for trading if it is acquired or incurred principally for the purpose of selling or repurchasing it in the near term or if it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking. Derivatives are also categorized as held for trading unless they are designated and effective as hedging instruments. Gains and losses arising from changes in fair value of financial liabilities classified as held for trading are included in the statement of income and are reported as "Trading gains/losses". The BPI Group has no financial liabilities that are designated at fair value through profit loss.



- (b) Other liabilities measured at amortized cost

Financial liabilities that are not classified as at fair value through profit or loss fall into this category and are measured at amortized cost. Financial liabilities measured at amortized cost include deposits from customers and banks, bills payable, amounts due to BSP and other banks, manager's checks and demand drafts outstanding, subordinated notes and other financial liabilities under deferred credits and other liabilities.

#### **2.10.2 Recognition and measurement**

- (a) Initial recognition and measurement

Financial liabilities not carried at fair value through profit or loss are initially recognized at fair value plus transaction costs. Financial liabilities carried at fair value through profit or loss are initially recognized at fair value; and transaction costs are recognized as expense in profit or loss.

- (b) Subsequent measurement

Financial liabilities at fair value through profit or loss are subsequently carried at fair value. Other liabilities are measured at amortized cost using the effective interest method.

#### **2.10.3 Derecognition**

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or has expired). Collateral (shares and bonds) furnished by the BPI Group under standard repurchase agreements and securities lending and borrowing transactions is not derecognized because the BPI Group retains substantially all the risks and rewards on the basis of the predetermined repurchase price, and the criteria for derecognition are therefore not met.

#### **2.11 Determination of fair value of financial instruments**

The BPI Group classifies its fair value measurements using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).
- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the over-the-counter ("OTC") derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.
- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible. The BPI Group has no financial instruments classified under Level 3 as at December 31, 2012 and 2011.

For financial instruments traded in active markets, the determination of fair values of financial assets and financial liabilities is based on quoted market prices or dealer price quotations. This includes listed equity securities and quoted debt instruments on major exchanges and broker quotes mainly from Bloomberg.

A financial instrument is regarded as quoted in an active market 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. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

For all other financial instruments, fair value is determined using valuation techniques. In these techniques, fair values are estimated from observable data in respect of similar financial instruments, using models to estimate the present value of expected future cash flows or other valuation techniques, using inputs (for example, LIBOR yield curve, FX rates, volatilities and counterparty spreads) existing at reporting dates. The BPI Group uses widely recognized valuation models for determining fair values of non-standardized financial instruments of lower complexity, such as options or interest rate and currency swaps. For these financial instruments, inputs into models are generally market observable.

For more complex instruments, the BPI Group uses internally developed models, which are usually based on valuation methods and techniques generally recognized as standard within the industry. Valuation models are used primarily to value derivatives transacted in the OTC market, unlisted debt securities (including those with embedded derivatives) and other debt instruments for which markets were or have become illiquid. Some of the inputs to these models may not be market observable and are therefore estimated based on assumptions.

The fair value of OTC derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates.

In cases when the fair value of unlisted equity instruments cannot be determined reliably, the instruments are carried at cost less impairment. The fair value for loans and advances as well as liabilities to banks and customers are determined using a present value model on the basis of contractually agreed cash flows, taking into account credit quality, liquidity and costs. The fair values of contingent liabilities and irrevocable loan commitments correspond to their carrying amounts.

## 2.12 Classes of financial instruments

The BPI Group classifies the financial instruments into classes that reflect the nature of information and take into account the characteristics of those financial instruments. The classification made can be seen in the table below:

		Classes (as determined by the BPI Group)	
Categories (as defined by PAS 39)		Main classes	Sub-classes
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities - Equity securities
		- Derivative financial assets	
		- Cash and other cash items	
			- Due from BSP - Due from other banks
	Loans and receivables	- Loans and advances to banks	- Interbank loans receivable and securities purchased under agreements to resell
			- Real estate mortgages - Auto loans - Credit cards - Others
		- Loans and advances to customers	- Loans to individuals (retail) - Loans to corporate entities
			- Large corporate customers - Small and medium-sized enterprises
	Held-to-maturity investments	- Others	- Accounts receivables - Sales contracts receivable - Rental deposits - Other accrued interest and fees receivable
		- Investment securities (debt securities)	- Government - Others
Financial liabilities	Financial liabilities at fair value through profit or loss	- Investment securities (debt securities)	- Government - Others
		- Investment securities (equity securities)	- Listed - Unlisted
		- Derivative financial liabilities	
		- Deposits from customers	- Demand - Savings - Time
	Financial liabilities at amortized cost	- Deposits from banks	
		- Bills payable	
		- Due to BSP and other banks	
		- Manager's check and demand drafts outstanding	
		- Interest payable	
		- Unsecured subordinated debt	
		- Other liabilities	- Accounts payable - Outstanding acceptances - Dividend payable
Off-balance sheet financial instruments	Loan commitments		
	Guarantees, acceptances and other financial facilities		

### 2.13 Offsetting of financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of condition when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

### 2.14 Derivative financial instruments

Derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently re-measured at their fair value. Fair values are obtained from quoted market prices in active markets including recent market transactions, and valuation techniques (for example for structured notes), including discounted cash flow models and options pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

Certain derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. The assessment of whether an embedded derivative is required to be separated from the host contract is done when the BPI Group first becomes a party to the contract. Reassessment of embedded derivative is only done when there are changes in the contract that significantly modify the contractual cash flows. The embedded derivatives are measured at fair value with changes in fair value recognized in profit or loss.

The BPI Group's derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument that does not qualify for hedge accounting are recognized immediately in the statement of income under "Trading gain/loss on securities".

### 2.15 Bank premises, furniture, fixtures and equipment

Land and buildings comprise mainly of branches and offices. All bank premises, furniture, fixtures and equipment are stated at historical cost less accumulated depreciation. Historical cost includes expenditure that is directly attributable to the acquisition of an asset which comprises its purchase price, import duties and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the BPI Group and the cost of the item can be measured reliably. All other repairs and maintenance are charged to profit or loss during the year in which they are incurred.

Land is not depreciated. Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

Building	25-50 years
Furniture and equipment	3-5 years
Equipment for lease	2-8 years

Leasehold improvements are depreciated over the shorter of the lease term (ranges from 5 - 10 years) and the useful life of the related improvement (ranges from 5 to 10 years). Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed, and adjusted if appropriate, at each reporting date. Assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. No Bank premises, furniture, fixtures and equipment were impaired as at December 31, 2012 (2011 - nil).

An item of Bank premises, furniture, fixtures and equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

## **2.16 Investment properties**

Properties that are held either to earn rental income or for capital appreciation or both, and that are not significantly occupied by the BPI Group are classified as investment properties. Transfers to, and from, investment property are made when, and only when, there is a change in use, evidenced by:

- (a) Commencement of owner-occupation, for a transfer from investment property to owner-occupied property;
- (b) Commencement of development with a view of sale, for a transfer from investment property to real properties held-for-sale and development;
- (c) End of owner occupation, for a transfer from owner-occupied property to investment property; or
- (d) Commencement of an operating lease to another party, for a transfer from real properties held-for-sale and development to investment property.

Transfers to and from investment property do not result in gain or loss.

Investment properties comprise land and building. Investment properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and impairment losses, if any. Depreciation on investment property is determined using the same policy as applied to Bank premises, furniture, fixtures, and equipment. Impairment test is conducted when there is an indication that the carrying amount of the asset may not be recovered. An impairment loss is recognized for the amount by which the property's carrying amount exceeds its recoverable amount, which is the higher of the property's fair value less costs to sell and value in use.

An item of investment properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the period the item is derecognized.

## **2.17 Foreclosed assets**

Assets foreclosed shown as Assets held for sale in the statement of condition are accounted for at the lower of cost and fair value less cost to sell similar to the principles of PFRS 5. The cost of assets foreclosed includes the carrying amount of the related loan less allowance for impairment at the time of foreclosure. Impairment loss is recognized for any subsequent write-down of the asset to fair value less cost to sell.

Foreclosed assets not classified as Assets held for sale are accounted for in any of the following classification using the measurement basis appropriate to the asset as follows:

- (a) Investment property is accounted for using the cost model under PAS 40;
- (b) Bank-occupied property is accounted for using the cost model under PAS 16; and
- (c) Financial assets are classified as available-for-sale.

## **2.18 Intangible assets**

- (a) Goodwill

Goodwill represents the excess of the cost of an acquisition over the fair value of the BPI Group's share in the net identifiable assets of the acquired subsidiary/associate at the date of acquisition. Goodwill on acquisitions of subsidiaries is included in "Miscellaneous assets" under Other resources. Goodwill on acquisitions of associates is included in Investments in subsidiaries and associates. Separately recognized goodwill is carried at cost less accumulated impairment losses. Gains and losses on the disposal of a subsidiary/associate include carrying amount of goodwill relating to the subsidiary/associate sold.

Goodwill is an indefinite-lived intangible asset and hence not subject to amortization.

Goodwill is allocated to cash-generating units for the purpose of impairment testing. Each cash-generating unit is represented by each primary reporting segment.

Goodwill impairment reviews are undertaken annually or more frequently if events or changes in circumstances indicate a potential impairment. The carrying value of goodwill is compared to the recoverable amount, which is the higher of value in use and the fair value less costs to sell. Any impairment is recognized immediately as an expense and is not subsequently reversed.

(b) Contractual customer relationships

Contractual customer relationships acquired in a business combination are recognized at fair value at the acquisition date. The contractual customer relationships have finite useful lives and are carried at cost less accumulated amortization. Amortization is calculated using the straight-line method over the expected life of the customer relationship.

(c) Computer software

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on a straight-line basis over the expected useful lives (three to five years). Computer software is included in "Miscellaneous assets" under Other resources.

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Development costs that are directly attributable to the design and testing of identifiable and unique software products controlled by the BPI Group are recognized as intangible assets when the following criteria are met:

- it is technically feasible to complete the software product so that it will be available for use;
- management intends to complete the software product and use or sell it;
- there is an ability to use or sell the software product;
- it can be demonstrated how the software product will generate probable future economic benefits;
- adequate technical, financial and other resources to complete the development and to use or sell the software product are available; and
- the expenditure attributable to the software product during its development can be reliably measured.

Directly attributable costs that are capitalized as part of the software product include the software development employee costs and an appropriate portion of relevant overheads.

Other development expenditures that do not meet these criteria are recognized as an expense when incurred. Development costs previously recognized as an expense are not recognized as an asset in a subsequent period.

## **2.19 Impairment of non-financial assets**

Assets that have indefinite useful lives - for example, goodwill or intangible assets not ready for use are not subject to amortization and are tested annually for impairment. Assets that have definite useful lives are subject to amortization and are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognized for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). Non-financial assets other than goodwill that suffered impairment are reviewed for possible reversal of impairment at each reporting date.

## **2.20 Borrowings and borrowing costs**

The BPI Group's borrowings consist mainly of bills payable and unsecured subordinated debt. Borrowings are recognized initially at fair value, being their issue proceeds, net of transaction costs incurred. Borrowings are subsequently carried at amortized cost; any difference between the proceeds (net of transaction costs) and the redemption value is recognized in profit or loss over the period of the borrowings using the effective interest method.

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred. The BPI Group has no qualifying asset as at December 31, 2012 and 2011.

#### **2.21 Interest income and expense**

Interest income and expense are recognized in profit or loss for all interest-bearing financial instruments using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the BPI Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

Once a financial asset or a group of similar financial assets has been written down as a result of an impairment loss, interest income is recognized using the rate of interest used to discount the future cash flows for the purpose of measuring impairment loss.

#### **2.22 Fees and commission income**

Fees and commissions are generally recognized on an accrual basis when the service has been provided. Commission and fees arising from negotiating or participating in the negotiation of a transaction for a third party (i.e. the arrangement of the acquisition of shares or other securities, or the purchase or sale of businesses) are recognized on completion of underlying transactions. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period in which the service is provided.

#### **2.23 Dividend income**

Dividend income is recognized in profit or loss when the BPI Group's right to receive payment is established.

#### **2.24 Credit card income**

Credit card income is recognized upon receipt from merchants of charges arising from credit card transactions. These are computed based on rates agreed with merchants and are deducted from the payments to establishments.

#### **2.25 Foreign currency translation**

##### **(a) Functional and presentation currency**

Items in the financial statements of each entity in the BPI Group are measured using the currency of the primary economic environment in which the entity operates ("the functional currency"). The financial statements are presented in Philippine Peso, which is the Parent Bank's functional and presentation currency.

(b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are remeasured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in profit or loss. Non-monetary items measured at historical cost denominated in a foreign currency are translated at exchange rates as at the date of initial recognition. Non-monetary items in a foreign currency that are measured at fair value are translated using the exchange rates at the date when the fair value is determined.

Changes in the fair value of monetary securities denominated in foreign currency classified as available-for-sale are analyzed between translation differences resulting from changes in the amortized cost of the security, and other changes in the carrying amount of the security. Translation differences are recognized in profit or loss, and other changes in carrying amount are recognized in other comprehensive income.

Translation differences on non-monetary financial instruments, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss recognized under "Trading gain (loss)". Translation differences on non-monetary financial instruments, such as equities classified as available-for-sale, are included in Accumulated other comprehensive income (loss) in the capital funds.

(c) Foreign subsidiaries

The results and financial position of BPI's foreign subsidiaries (none of which has the currency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- (i) assets and liabilities are translated at the closing rate at reporting date;
- (ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and
- (iii) all resulting exchange differences are recognized as a separate component (Translation adjustments) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

**2.26 Accrued expenses and other liabilities**

Accrued expenses and other liabilities are recognized in the period in which the related money, goods or services are received or when a legally enforceable claim against the BPI Group is established.

**2.27 Provisions for legal or contractual obligations**

Provisions are recognized when the BPI Group has a present legal or constructive obligation as a result of past events; it is probable that an outflow of resources will be required to settle the obligation; and the amount has been reliably estimated. Provisions are not recognized for future operating losses.

Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. A provision is recognized even if the likelihood of an outflow with respect to any one item is included in the same class of obligations may be small.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects the current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to the passage of time is recognized as interest expense.



## **2.28 Income taxes**

### **(a) Current income tax**

Income tax payable is calculated on the basis of the applicable tax law in the respective jurisdiction and is recognized as an expense for the year except to the extent that current tax is related to items (for example, current tax on available-for-sale investments) that are charged or credited in other comprehensive income or directly to capital funds.

The BPI Group has substantial income from its investment in government securities subject to final withholding tax. Such income is presented at its gross amount and the final tax paid or withheld is included in Provision for income tax - Current.

### **(b) Deferred income tax**

Deferred income tax is recognized, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. The deferred income tax is not accounted for if it arises from initial recognition of an asset or liability in a transaction, other than a business combination, that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantively enacted at the reporting date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized for all deductible temporary differences, carry-forward of unused tax losses (net operating loss carryover or NOLCO) and unused tax credits (excess minimum corporate income tax or MCIT) to the extent that it is probable that future taxable profit will be available against which the temporary differences, unused tax losses and unused tax credits can be utilized. Deferred income tax liabilities are recognized in full for all taxable temporary differences except to the extent that the deferred tax liability arises from the initial recognition of goodwill.

The BPI Group reassesses at each reporting date the need to recognize a previously unrecognized deferred income tax asset.

Deferred income tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets against current tax liabilities and when the deferred income taxes assets and liabilities relate to income taxes levied by the same taxation authority on either the taxable entity or different taxable entities where there is an intention to settle the balances on a net basis.

## **2.29 Employee benefits**

### **(a) Pension obligations**

The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

The liability recognized in the statement of condition in respect of defined benefit pension plan is the present value of the defined benefit obligation at the reporting date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related pension liability.

Cumulative actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions in excess of the greater of 10% of the value of plan assets or 10% of the defined benefit obligation are spread to profit or loss over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

Where the calculation results in a benefit to the BPI Group, the recognized asset is limited to the net total of any unrecognized actuarial losses and past service costs, and the present value of any reductions in future contributions to the plan.

For individual financial reporting purposes, the unified plan assets are allocated among the BPI Group entities based on the level of the defined benefit obligation attributable to each entity to arrive at the net liability or asset that should be recognized in the individual financial statements.

(b) Share-based compensation

The BPI Group engages in equity-settled share-based payment transactions in respect of services received from certain employees.

The fair value of the services received is measured by reference to the fair value of the shares or share options granted on the date of the grant. The cost of employee services received in respect of the shares or share options granted is recognized in profit or loss (with a corresponding increase in reserve in capital funds) over the period that the services are received, which is the vesting period.

The fair value of the options granted is determined using option pricing models which take into account the exercise price of the option, the current share price, the risk-free interest rate, the expected volatility of the share price over the life of the option and other relevant factors.

When the stock options are exercised, the proceeds received, net of any directly attributable transaction costs, are credited to capital stock (par value) and paid-in surplus for the excess of exercise price over par value. There are no share-based compensation schemes existing at reporting date.

(c) Profit sharing and bonus plans

The BPI Group recognizes a liability and an expense for bonuses and profit-sharing, based on a formula that takes into consideration the profit attributable to the Parent Bank's shareholders after certain adjustments. The BPI Group recognizes a provision where contractually obliged or where there is a past practice that has created a constructive obligation.

### **2.30 Capital funds**

Common shares and preferred shares are classified as share capital.

Share premium includes any premiums or consideration received in excess of par value on the issuance of share capital.

Incremental costs directly attributable to the issue of new shares or options are shown in capital funds as a deduction from the proceeds, net of tax.

### **2.31 Earnings per share (EPS)**

Basic EPS is calculated by dividing income applicable to common shares by the weighted average number of common shares outstanding during the year with retroactive adjustments for stock dividends. Diluted EPS is computed in the same manner as basic EPS, however, net income attributable to common shares and the weighted average number of shares outstanding are adjusted for the effects of all dilutive potential common shares.

### **2.32 Dividends on common shares**

Dividends on common shares are recognized as a liability in the BPI Group's financial statements in the period in which the dividends are approved by the Board of Directors and the BSP.

### **2.33 Fiduciary activities**

The BPI Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. These assets and income arising thereon are excluded from these financial statements, as they are not assets of the BPI Group (Note 31).

## 2.34 Leases

### (a) BPI Group is the lessee

#### (i) Operating lease

Leases in which a significant portion of the risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to "Occupancy and equipment-related expenses" in the statement of income on a straight-line basis over the period of the lease. When an operating lease is terminated before the lease period has expired, any payment required to be made to the lessor by way of penalty is recognized as an expense in the period in which the termination takes place.

#### (ii) Finance lease

Leases of assets, where the BPI Group has substantially all the risks and rewards of ownership, are classified as finance leases. Finance leases are capitalized at the commencement of the lease at the lower of the fair value of the leased property and the present value of the minimum lease payments. Each lease payment is allocated between the liability and finance charges so as to achieve a constant rate on the finance balance outstanding. The interest element of the finance cost is charged to profit or loss over the lease period so as to produce a constant periodic rate of interest on the remaining balance of the liability for each period.

### (b) BPI Group is the lessor

#### (iii) Operating lease

Properties (land and building) leased out under operating leases are included in "Investment properties" in the statement of condition. Rental income under operating leases is recognized in profit or loss on a straight-line basis over the period of the lease.

#### (ii) Finance lease

When assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

Lease income under finance lease is recognized over the term of the lease using the net investment method before tax, which reflects a constant periodic rate of return.

## 2.35 Insurance and pre-need operations

### (a) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiaries follow: (a) gross premiums written from short-term insurance contracts are recognized at the inception date of the risks underwritten and are earned over the period of cover in accordance with the incidence of risk using the 24th method; (b) acquisition costs are deferred and charged to expense in proportion to the premium revenue recognized; reinsurance commissions are deferred and deducted from the applicable deferred acquisition costs, subject to the same amortization method as the related acquisition costs; (c) a liability adequacy test is performed which compares the subsidiaries' reported insurance contract liabilities against current best estimates of all contractual future cash flows and claims handling, and policy administration expenses as well as investment income backing up such liabilities, with any deficiency immediately charged to income; (d) amounts recoverable from reinsurers and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts; and (e) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39.

(b) Pre-need

The more significant provisions of the PNUCA as applied by the pre-need subsidiary follow: (a) premium income from sale of pre-need plans is recognized as earned when collected; (b) costs of contracts issued and other direct costs and expenses are recognized as expense when incurred; (c) pre-need reserves which represent the accrued net liabilities of the subsidiary to its planholders are actuarially computed based on standards and guidelines set forth by the Insurance Commission; the increase or decrease in the account is charged or credited to other costs of contracts issued in profit or loss; and (d) insurance premium reserves which represent the amount that must be set aside by the subsidiary to pay for premiums for insurance coverage of fully paid planholders, are actuarially computed based on standards and guidelines set forth by the Insurance Commission.

### **2.36 Related party relationships and transactions**

Related party relationship exists when one party has the ability to control, directly, or indirectly through one or more intermediaries, the other party or exercises significant influence over the other party in making financial and operating decisions. Such relationship also exists between and/or among entities which are under common control with the reporting enterprise, or between and/or among the reporting enterprise and its key management personnel, directors, or its shareholders. In considering each possible related party relationship, attention is directed to the substance of the relationship, and not merely the legal form.

### **2.37 Comparatives**

Except when a standard or an interpretation permits or requires otherwise, all amounts are reported or disclosed with comparative information.

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year. There were no changes to the presentation made during the year.

### **2.38 Subsequent events (or Events after the reporting date)**

Post year-end events that provide additional information about the BPI Group's financial position at the reporting date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to financial statements when material.

## **Note 3 - Financial Risk and Capital Management**

Risk management in the BPI Group covers all perceived areas of risk exposure, even as it continuously endeavors to uncover hidden risks. Capital management is understood to be a facet of risk management. The Board of Directors sets the BPI Group's management tone by specifying the parameters by which business risks are to be taken and by allocating the appropriate capital for absorbing potential losses from such risks.

The primary objective of the BPI Group is the generation of recurring acceptable returns to shareholders' capital. To this end, the BPI Group's policies, business strategies, and business activities are directed towards the generation of cash flows that are in excess of its fiduciary and contractual obligations to its depositors, and to its various other funders and stakeholders.

To generate acceptable returns to its shareholders' capital, the BPI Group understands that it has to bear risk, that risk-taking is inherent in its business. Risk is understood by the BPI Group as the uncertainty in its future income - an uncertainty that emanates from the possibility of incurring losses that are due to unplanned and unexpected drops in revenues, increases in expenses, impairment of asset values, or increases in liabilities.

The possibility of incurring losses is, however, compensated by the possibility of earning more than expected income. Risk-taking is, therefore, not entirely bad to be avoided. Risk-taking presents opportunities if risks are accounted, deliberately taken, and are kept within rationalized limits.

The Risk Management Office (RMO) and the Finance and Risk Management Committee (FRMC) are responsible for the management of market and liquidity risks. Their objective is to minimize adverse impacts on the BPI Group's financial performance due to the unpredictability of financial markets. Market and credit risks management is carried out through policies approved by the Risk Management Committee (RMC)/Executive Committee/Board of Directors. In addition, Internal Audit is responsible for the independent review of risk assessment measures and procedures and the control environment.

The most important risks that the BPI Group manages are credit risk, liquidity risk, market risk and other operational risk. Market risk includes currency exchange risk, interest rate and other price risks.

### 3.1 Credit risk

The BPI Group takes on exposure to credit risk, which is the risk that a counterparty will cause a financial loss to the BPI Group by failing to discharge an obligation. Significant changes in the economy, or in the prospects of a particular industry segment that may represent a concentration in the BPI Group's portfolio, could result in losses that are different from those provided for at the reporting date. Management therefore carefully manages its exposure to credit risk. Credit exposures arise principally in loans and advances, debt securities and other bills. There is also credit risk in off-balance sheet financial arrangements. The Credit Policy Group works with the Credit Committee in managing credit risk, and reports are regularly provided to the Board of Directors.

#### 3.1.1 Credit risk management

##### (a) Loans and advances

In measuring credit risk of loans and advances at a counterparty level, the BPI Group considers three components: (i) the probability of default by the client or counterparty on its contractual obligations; (ii) current exposures to the counterparty and its likely future development; and (iii) the likely recovery ratio on the defaulted obligations. In the evaluation process, the BPI Group also considers the conditions of the industry/sector to which the counterparty is exposed, other existing exposures to the group where the counterparty may be related, as well as the client and the BPI Group's fallback position assuming the worst-case scenario. Outstanding and potential credit exposures are reviewed to likewise ensure that they conform to existing internal credit policies.

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The BPI Group has internal credit risk rating systems, designed for corporate, small and medium-sized enterprises (SMEs), and retail accounts, that measure the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual exposures may subsequently migrate between classes as the assessment of their probabilities of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. The BPI Group regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary. The BPI Group's internal ratings are mapped to the following standard BSP classifications:

- *Unclassified* - these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.
- *Loans especially mentioned* - these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the BPI Group.
- *Substandard* - these are loans which appear to involve a substantial degree of risk to the BPI Group because of unfavorable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.
- *Doubtful* - these are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.

- *Loss* - these are loans which are considered uncollectible and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value.

(b) Debt securities and other bills

For debt securities and other bills, external ratings such as Standard & Poor's, Moody's and Fitch's ratings or their equivalents are used by the BPI Group for managing credit risk exposures. Investments in these securities and bills are viewed as a way to gain better credit quality mix and at the same time, maintain a readily available source to meet funding requirements.

### **3.1.2 Risk limit control and mitigation policies**

The BPI Group manages, limits and controls concentrations of credit risk wherever they are identified - in particular, to individual counterparties and groups, to industries and sovereigns.

The BPI Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and industry segments. Such risks are monitored on a regular basis and subjected to annual or more frequent review, when considered necessary. Limits on large exposures and credit concentration are approved by the Board of Directors.

The exposure to any one borrower is further restricted by sub-limits covering on- and off-balance sheet exposures. Actual exposures against limits are monitored regularly.

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

The BPI Group employs a range of policies and practices to mitigate credit risk. Some of these specific control and mitigation measures are outlined below.

(a) Collateral

One of the most traditional and common practice in mitigating credit risk is requiring security particularly for loans and advances. The BPI Group implements guidelines on the acceptability of specific classes of collateral for credit risk mitigation. The principal collateral types for loans and advances are:

- Mortgages over real estate properties and chattels; and
- Hold-out on financial instruments such as debt securities deposits, and equities

In order to minimize credit loss, the BPI Group seeks additional collateral from the counterparty when impairment indicators are observed for the relevant individual loans and advances.

(b) Derivatives

The BPI Group maintains strict market limits on net open derivative positions (i.e., the difference between purchase and sale contracts). Credit risk is limited to the net current fair value of instruments, which in relation to derivatives is only a small fraction of the contract, or notional values used to express the volume of instruments outstanding. This credit risk exposure is managed as part of the overall lending limits with customers, together with potential exposures from market movements. Collateral or other security is not usually obtained for credit risk exposures on these instruments (except where the BPI Group requires margin deposits from counterparties).

Settlement risk arises in any situation where a payment in cash, securities, foreign exchange currencies, or equities is made in the expectation of a corresponding receipt in cash, securities, foreign exchange currencies, or equities. Daily settlement limits are established for each counterparty to cover the aggregate of all settlement risk arising from the BPI Group's market transactions on any single day. The introduction of the delivery versus payment facility in the local market has brought down settlement risk significantly.

(c) Master netting arrangements

The BPI Group further restricts its exposure to credit losses by entering into master netting arrangements with counterparties with which it undertakes a significant volume of transactions. Master netting arrangements do not generally result in an offset of balance sheet assets and liabilities, as transactions are usually settled on a gross basis. However, the credit risk associated with favorable contracts (asset position) is reduced by a master netting arrangement to the extent that if a default occurs, all amounts with the counterparty are terminated and settled on a net basis. The BPI Group's overall exposure to credit risk on derivative instruments subject to master netting arrangements can change substantially within a short period, as it is affected by each transaction subject to the arrangement.

(d) Credit-related commitments

The primary purpose of these instruments is to ensure that funds are available to a customer as required. Standby letters of credit carry the same credit risk as loans. Documentary and commercial letters of credit - which are written undertakings by the BPI Group on behalf of a customer authorizing a third party to draw drafts on the BPI Group up to a stipulated amount under specific terms and conditions - are collateralized by the underlying shipments of goods to which they relate and therefore carry less risk than a direct loan.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, or letters of credit. With respect to credit risk on commitments to extend credit, the BPI Group is potentially exposed to loss in an amount equal to the total unused commitments. However, the likely amount of loss is less than the total unused commitments, as most commitments to extend credit are contingent upon customers maintaining specific credit standards. The BPI Group monitors the term to maturity of credit commitments because longer-term commitments generally have a greater degree of credit risk than shorter-term commitments.

### 3.1.3 Impairment and provisioning policies

As described in Note 3.1.1, the BPI Group's credit-quality mapping on loans and advances is based on the standard BSP loan classifications. Impairment provisions are recognized for financial reporting purposes based on objective evidence of impairment (Note 2.9).

The table below shows the percentage of the BPI Group's loans and advances and the related allowance for impairment.

	<b>Consolidated</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>
Unclassified	97.24	0.63	96.48	0.52
Loans especially mentioned	0.41	6.34	0.57	5.18
Substandard	0.85	20.15	1.11	22.98
Doubtful	0.74	66.68	0.96	66.14
Loss	0.76	100.00	0.88	100.00
	100.00		100.00	

	<b>Parent</b>			
	<b>2012</b>		<b>2011</b>	
	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>
Unclassified	97.66	0.58	96.90	0.50
Loans especially mentioned	0.34	6.56	0.60	5.17
Substandard	0.68	19.96	0.61	16.62
Doubtful	0.60	74.62	1.04	64.81
Loss	0.72	100.00	0.85	100.00
	100.00		100.00	

### 3.1.4 Maximum exposure to credit risk before collateral held or other credit enhancements

Credit risk exposures relating to significant on-balance sheet financial assets are as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Due from BSP	119,079	83,759	105,244	70,807
Due from other banks	7,582	9,297	4,724	5,567
Interbank loans receivable and securities purchased under agreements to resell (SPAR)	38,927	35,277	10,843	24,867
Financial assets at fair value through profit or loss				
Derivative financial assets	5,920	5,389	5,920	5,389
Trading securities - debt securities	21,663	11,933	19,055	11,638
Available-for-sale - debt securities	104,929	72,906	92,584	64,283
Held-to-maturity securities	76,243	89,742	67,822	79,723
Loans and advances, net	526,640	454,499	389,962	337,425
Other financial assets				
Accounts receivable, net	2,846	2,377	2,427	1,669
Other accrued interest and fees receivable	749	664	618	594
Sales contracts receivable, net	698	462	678	237
Rental deposits	294	270	244	223
Others, net	629	108	591	136
	906,199	766,683	700,712	602,558

Credit risk exposures relating to off-balance sheet items are as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Undrawn loan commitments	114,636	154,248	108,738	147,801
Bills for collection	17,586	23,470	17,575	23,469
Unused letters of credit	13,707	11,003	13,707	11,003
Others	1,169	2,765	1,007	2,623
	147,098	191,486	141,027	184,896

The preceding table represents the maximum credit risk exposure at December 31, 2012 and 2011, without taking into account any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of condition.

Management is confident in its ability to continue to control and sustain minimal exposure to credit risk of the BPI Group resulting from its loan and advances portfolio based on the following:

- 98% of the loans and advances portfolio is categorized in the top two classifications of the internal rating system in 2012 (2011 - 97%);
- Mortgage loans are backed by collateral;
- 97% of the loans and advances portfolio is considered to be neither past due nor impaired (2011 - 96%); and
- The BPI Group continues to implement stringent selection process of granting loans and advances.



### 3.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Neither past due nor impaired	519,110	445,355	385,204	331,698
Past due but not impaired	6,380	3,503	2,969	2,410
Impaired	12,247	16,301	9,320	10,682
	537,737	465,159	397,493	344,790
Allowance for impairment	(11,097)	(10,660)	(7,531)	(7,365)
	526,640	454,499	389,962	337,425

Impaired category as shown in the table above includes loan accounts which are individually (Note 3.1.5c) and collectively assessed for impairment.

The total consolidated impairment provision for loans and advances is P2,201 million (2011 - P1,786 million), of which P1,497 million (2011 - P1,251 million) represents provision for individually impaired loans and the remaining amount of P704 million (2011 - P535 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 13.

When entering into new markets or new industries, the BPI Group focuses on corporate accounts and retail customers with good credit rating and customers providing sufficient collateral, where appropriate or necessary.

Collaterals held as security for Loans and advances are described in Note 13.

#### (a) Loans and advances neither past due nor impaired

Loans and advances that were neither past due nor impaired consist mainly of accounts with Unclassified rating and those loans accounts in a portfolio to which an impairment has been allocated on a collective basis. Details of these accounts follow:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Corporate entities:				
Large corporate customers	326,690	271,394	312,912	261,883
Small and medium enterprises	77,380	76,655	49,903	51,524
Retail customers:				
Mortgages	89,400	76,317	146	62
Credit cards	20,330	17,506	20,330	17,506
Others	5,310	3,483	1,913	723
	519,110	445,355	385,204	331,698

(b) Loans and advances past due but not impaired

The table below presents the gross amount of loans and advances that were past due but not impaired classified by type of borrowers. Collateralized past due loans are not considered impaired when the cash flows that may result from foreclosure of the related collateral are higher than the carrying amount of the loans.

Consolidated

	2012				2011			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
(In Millions of Pesos)								
Past due up to 30 days	388	239	1,556	<b>2,183</b>	66	164	1,205	1,435
Past due 31 - 90 days	28	90	1,059	<b>1,177</b>	188	157	936	1,281
Past due 91 - 180 days	41	403	908	<b>1,352</b>	33	293	1	327
Over 180 days	107	316	1,245	<b>1,668</b>	224	236	-	460
	<b>564</b>	<b>1,048</b>	<b>4,768</b>	<b>6,380</b>	511	850	2,142	3,503
Fair value of collateral	<b>5,841</b>				6,786			

Parent

	2012				2011			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
(In Millions of Pesos)								
Past due up to 30 days	360	86	1,445	<b>1,891</b>	47	68	1,125	1,240
Past due 31 - 90 days	3	3	796	<b>802</b>	161	22	733	916
Past due 91 - 180 days	20	245	-	<b>265</b>	-	95	-	95
Over 180 days	-	11	-	<b>11</b>	128	31	-	159
	<b>383</b>	<b>345</b>	<b>2,241</b>	<b>2,969</b>	336	216	1,858	2,410
Fair value of collateral	<b>641</b>				430			

(c) Loans and advances individually impaired

The breakdown of the gross amount of individually impaired loans and advances (included in Impaired category) by class, along with the fair value of related collateral held by the BPI Group as security, are as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Corporate entities:				
Large corporate customers	<b>3,782</b>	5,157	<b>3,671</b>	4,934
Small and medium enterprises	<b>5,589</b>	6,262	<b>3,624</b>	4,134
Retail customers:				
Mortgages	<b>949</b>	781	<b>12</b>	10
Credit cards	<b>1,347</b>	1,162	<b>1,347</b>	1,162
Others	<b>78</b>	18	<b>73</b>	13
	<b>11,745</b>	13,380	<b>8,727</b>	10,253
Fair value of collateral	<b>7,511</b>	10,913	<b>6,823</b>	9,151

### 3.1.6 Credit quality of other financial assets

#### a. Due from Bangko Sentral ng Pilipinas

Due from BSP are considered fully performing at December 31, 2012 and 2011. This account consists of:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Clearing account	105,283	31,755	94,244	23,257
Special deposit accounts	13,796	1,431	11,000	-
Reserve deposit account	-	50,573	-	47,550
	119,079	83,759	105,244	70,807

#### b. Due from other banks

Due from other banks are considered fully performing at December 31, 2012 and 2011. The table below presents the credit ratings of counterparty banks based on Standard and Poor's.

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
AA- to AA+	2,698	2,409	1,952	2,288
A- to A+	2,014	2,436	1,633	2,304
Lower than A-	254	-	168	-
Unrated	2,616	4,452	971	975
	7,582	9,297	4,724	5,567

#### c. Interbank loans receivable and securities purchased under agreement to resell

Interbank loans receivable are considered fully performing at December 31, 2012 and 2011. The table below presents the credit ratings of counterparty banks based on Standard and Poor's.

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Lower than A-	821	-	821	-
Unrated	-	504	-	2,184
	821	504	821	2,184

Securities purchased under agreements to resell includes reverse repurchase agreements amounting to P38,106 million and 10,022 million for the BPI Group (Consolidated) and Parent Bank, respectively (2011 - P34,773 million, P22,683 million), which are made with a sovereign counterparty and are considered fully performing.

d. Derivative financial assets

The table below presents the Standard and Poor's credit ratings of counterparties for derivative financial assets presented in the consolidated and parent financial statements.

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
AA- to AA+	727	1,348	727	1,348
A- to A+	3,141	2,192	3,141	2,192
Lower than A-	734	137	734	137
Unrated	1,318	1,712	1,318	1,712
	5,920	5,389	5,920	5,389

e. Debt securities, treasury bills and other government securities

The table below presents the ratings of debt securities, treasury bills and other government securities at December 31, 2012 and 2011 based on Standard & Poor's:

**At December 31, 2012**

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	Total	Trading securities	Available-for-sale	Held-to-maturity	Total
	(In Millions of Pesos)							
AAA	3,457	1,016	-	4,473	3,457	1,016	-	4,473
AA- to AA+	7,600	21,215	6,063	34,878	6,370	15,472	5,748	27,590
A- to A+	-	7,297	407	7,704	-	7,254	-	7,254
Lower than A-	10,092	73,342	69,036	152,470	9,228	67,693	61,363	138,284
Unrated	514	2,059	737	3,310	-	1,149	711	1,860
	21,663	104,929	76,243	202,835	19,055	92,584	67,822	179,461

**At December 31, 2011**

	Consolidated				Parent			
	Trading securities	Available-for-sale	Held-to-maturity	Total	Trading securities	Available-for-sale	Held-to-maturity	Total
	(In Millions of Pesos)							
AAA	488	1,253	-	1,741	488	1,253	-	1,741
AA- to AA+	3,076	16,580	6,267	25,923	3,076	11,361	6,135	20,572
A- to A+	-	3,460	207	3,667	-	3,460	-	3,460
Lower than A-	8,353	49,207	82,982	140,542	8,074	46,217	73,376	127,667
Unrated	16	2,406	286	2,708	-	1,992	212	2,204
	11,933	72,906	89,742	174,581	11,638	64,283	79,723	155,644

f. Other financial assets

The BPI Group's other financial assets (shown under Other resources) as of December 31, 2012 and 2011 consist mainly of sales contracts receivable, accounts receivable, accrued interest and fees receivable from various unrated counterparties with good credit standing.

### 3.1.7 Repossessed or foreclosed collaterals

The BPI Group acquires assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2012, the BPI Group's foreclosed collaterals have carrying amount of P6,887 million (2011 - P9,148 million). The related foreclosed collaterals have aggregate fair value of P13,942 million (2011 - P10,776 million). Foreclosed collaterals include real estate (land, building, and improvements), auto or chattel, bond and stocks.

Reposessed properties are sold as soon as practicable and are classified as "Assets held for sale" in the statement of condition.

### 3.1.8 Concentrations of risks of financial assets with credit risk exposure

The BPI Group's main credit exposure at their carrying amounts, as categorized by industry sectors follow:

#### Consolidated

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	119,079	-	-	-	-	-	<b>119,079</b>
Due from other banks	7,582	-	-	-	-	-	<b>7,582</b>
Interbank loans receivable and SPAR	38,927	-	-	-	-	-	<b>38,927</b>
Financial assets at fair value through profit or loss							
Derivative financial assets	5,913	-	4	-	3	-	<b>5,920</b>
Trading securities - debt securities	515	-	6	508	20,634	-	<b>21,663</b>
Available-for-sale - debt securities	22,473	-	53	644	81,759	-	<b>104,929</b>
Held-to-maturity securities	90	-	-	711	75,442	-	<b>76,243</b>
Loans and advances, net	37,403	33,611	98,091	142,295	226,337	(11,097)	<b>526,640</b>
Other financial assets							
Accounts receivable, net	-	-	-	-	4,087	(1,241)	<b>2,846</b>
Other accrued interest and fees receivable	-	-	-	-	749	-	<b>749</b>
Sales contracts receivable, net	-	-	-	-	756	(58)	<b>698</b>
Rental deposits	-	-	-	-	294	-	<b>294</b>
Others, net	-	-	-	-	651	(22)	<b>629</b>
<b>At December 31, 2012</b>	<b>231,982</b>	<b>33,611</b>	<b>98,154</b>	<b>144,158</b>	<b>410,712</b>	<b>(12,418)</b>	<b>906,199</b>

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	83,759	-	-	-	-	-	83,759
Due from other banks	9,297	-	-	-	-	-	9,297
Interbank loans receivable and SPAR	35,277	-	-	-	-	-	35,277
Financial assets at fair value through profit or loss							
Derivative financial assets	5,326	-	12	-	51	-	5,389
Trading securities - debt securities	4	-	49	2	11,878	-	11,933
Available-for-sale - debt securities	14,848		305	465	57,288	-	72,906
Held-to-maturity securities	200	-	-	-	89,542	-	89,742
Loans and advances, net	29,243	50,318	105,724	120,540	159,334	(10,660)	454,499
Other financial assets							
Accounts receivable, net	-	-	-	-	3,059	(682)	2,377
Other accrued interest and fees receivable	-	-	-	-	664	-	664
Sales contracts receivable, net	-	-	-	-	467	(5)	462
Rental deposits	-	-	-	-	270	-	270
Others, net	-	-	-	-	130	(22)	108
At December 31, 2011	177,954	50,318	106,090	121,007	322,683	(11,369)	766,683

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	105,244	-	-	-	-	-	<b>105,244</b>
Due from other banks	4,724	-	-	-	-	-	<b>4,724</b>
Interbank loans receivable and SPAR	10,843	-	-	-	-	-	<b>10,843</b>
Financial assets at fair value through profit or loss							
Derivative financial assets	5,913	-	4	-	3	-	<b>5,920</b>
Trading securities - debt securities	515	-	-	-	18,540	-	<b>19,055</b>
Available-for-sale - debt securities	21,683	-	53	460	70,388	-	<b>92,584</b>
Held-to-maturity securities	90	-	-	711	67,021	-	<b>67,822</b>
Loans and advances, net	33,981	1,433	94,484	69,444	198,151	(7,531)	<b>389,962</b>
Other financial assets							
Accounts receivable, net	-	-	-	-	3,592	(1,165)	<b>2,427</b>
Other accrued interest and fees receivable	-	-	-	-	618	-	<b>618</b>
Sales contracts receivable, net	-	-	-	-	685	(7)	<b>678</b>
Rental deposits	-	-	-	-	244	-	<b>244</b>
Others, net	-	-	-	-	605	(14)	<b>591</b>
<b>At December 31, 2012</b>	<b>182,993</b>	<b>1,433</b>	<b>94,541</b>	<b>70,615</b>	<b>359,847</b>	<b>(8,717)</b>	<b>700,712</b>

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	70,807	-	-	-	-	-	70,807
Due from other banks	5,567	-	-	-	-	-	5,567
Interbank loans receivable and SPAR	24,867	-	-	-	-	-	24,867
Financial assets at fair value through profit or loss							
Derivative financial assets	5,326	-	12	-	51	-	5,389
Trading securities - debt securities	4	-	36	-	11,598	-	11,638
Available-for-sale - debt securities	13,671	-	305	465	49,842	-	64,283
Held-to-maturity securities	98	-	-	-	79,625	-	79,723
Loans and advances, net	26,634	21,216	102,542	53,859	140,539	(7,365)	337,425
Other financial assets							
Accounts receivable, net	-	-	-	-	2,322	(653)	1,669
Other accrued interest and fees receivable	-	-	-	-	594	-	594
Sales contracts receivable, net	-	-	-	-	242	(5)	237
Rental deposits	-	-	-	-	223	-	223
Others, net	-	-	-	-	150	(14)	136
At December 31, 2011	146,974	21,216	102,895	54,324	285,186	(8,037)	602,558

Trading, available-for-sale and held-to-maturity securities under "Others" category include local and US treasury bills. Likewise, Loans and advances under the same category pertain to loans granted to individual and retail borrowers belonging to various industry sectors.

### 3.2 Market risk

The BPI Group is exposed to market risk - the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk is managed by the FRMC guided by policies and procedures approved by the RMC and confirmed by the Executive Committee/Board of Directors.

#### Market risk management

The BPI Group reviews and controls market risk exposures of both its trading and non-trading portfolios. Trading portfolios include those positions arising from the BPI Group's market-making transactions. Non-trading portfolios primarily arise from the interest rate management of the BPI Group's retail and commercial banking assets and liabilities.

As part of the management of market risk, the BPI Group undertakes various hedging strategies. The BPI Group also enters into interest rate swaps to match the interest rate risk associated with fixed-rate long-term debt securities.

The BPI Group uses the 1-day, 99% confidence, Value-at-Risk (VaR) as metric of its exposure to market risk. This metric estimates, at 99% confidence level, the maximum loss that a trading portfolio may incur over a trading day. This metric indicates as well that there is 1% statistical probability that the trading portfolios' actual loss would be greater than the computed VaR.

VaR measurement is an integral part of the BPI Group's market risk control system. Actual market risk exposures vis-à-vis market risk limits are reported daily to the FRMC. VaR limits for all trading portfolios are set by the RMC. The RMC has set a 1-day VaR limit for the BPI Group aggregate trading portfolio. The BPI Group also has a year-to-date mark-to-market plus trading loss limit at which management action would be triggered.



Stress tests indicate the potential losses that could arise in extreme conditions. Price risk and liquidity risk stress tests are conducted quarterly aside from the historical tests of the VaR models. Concluded tests indicate that BPI will be able to hurdle both stress scenarios. Results of stress tests are reviewed by senior management and by the RMC.

The average daily VaR for the trading portfolios follows:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Local fixed-income	827	380	727	361
Foreign fixed-income	238	221	229	202
Foreign exchange	32	49	7	18
Derivatives	63	40	63	40
Equity securities	16	15	-	-
Mutual fund	10	8	-	-
	<b>1,186</b>	<b>713</b>	<b>1,026</b>	<b>621</b>

The BPI Group uses a simple version of the Balance Sheet VaR (BSVaR) whereby only the principal and interest payments due and relating to the banking book as at particular valuation dates are considered. The BSVaR assumes a static balance sheet, i.e., it is assumed that there will be no new transactions moving forward, and no portfolio rebalancing will be undertaken in response to future changes in market rates.

The BSVaR is founded on re-pricing gaps, or the difference between the amounts of rate sensitive assets and the amounts of rate sensitive liabilities. An asset or liability is considered to be rate-sensitive if the interest rate applied to the outstanding principal balance changes (either contractually or because of a change in a reference rate) during the interval.

The BSVaR estimates the “riskiness of the balance sheet” and compares the degree of risk taking activity in the banking books from one period to the next. In consideration of the static framework, and the fact that income from the positions is accrued rather than generated from marking-to-market, the probable loss (that may be exceeded 1% of the time) that is indicated by the BSVaR is not realized in accounting income.

The cumulative average BSVaR for the banking or non-trading book follows:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
BSVaR	<b>1,470</b>	<b>1,362</b>	<b>1,290</b>	<b>1,210</b>

### 3.2.1 Foreign exchange risk

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31, 2012 and 2011. Included in the table are the BPI Group's financial instruments at carrying amounts, categorized by currency.

#### Consolidated

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
<b>As at December 31, 2012</b>						
<b>Financial Assets</b>						
Cash and other cash items	2,469	59	109	16	-	<b>2,653</b>
Due from other banks	3,803	378	610	1,070	-	<b>5,861</b>
Interbank loans receivable and SPAR	821	-	-	-	-	<b>821</b>
Financial assets at fair value through profit or loss						
Derivative financial assets	1,674	-	237	152	-	<b>2,063</b>
Trading securities	8,340	-	55	1,588	-	<b>9,983</b>
Available-for-sale securities	44,890	-	463	472	-	<b>45,825</b>
Held-to-maturity securities	28,668	-	1,529	298	-	<b>30,495</b>
Loans and advances, net	44,046	1,287	68	29	(493)	<b>44,937</b>
Others financial assets						
Accounts receivable, net	67	-	38	2	(1)	<b>106</b>
Other accrued interest and fees receivable	147	-	106	68	-	<b>321</b>
Others	-	-	-	4	-	<b>4</b>
<b>Total financial assets</b>	<b>134,925</b>	<b>1,724</b>	<b>3,215</b>	<b>3,699</b>	<b>(494)</b>	<b>143,069</b>
<b>Financial Liabilities</b>						
Deposit liabilities	114,270	1,291	2,530	537	-	<b>118,628</b>
Derivative financial liabilities	1,614	-	251	153	-	<b>2,018</b>
Due to BSP and other banks	108	-	-	-	-	<b>108</b>
Manager's checks and demand drafts outstanding	64	10	11	-	-	<b>85</b>
Other financial liabilities						
Accounts payable	71	-	108	1	-	<b>180</b>
Others	999	74	65	-	-	<b>1,138</b>
<b>Total financial liabilities</b>	<b>117,126</b>	<b>1,375</b>	<b>2,965</b>	<b>691</b>	<b>-</b>	<b>122,157</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>17,799</b>	<b>349</b>	<b>250</b>	<b>3,008</b>	<b>(494)</b>	<b>20,912</b>

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2011						
Financial Assets						
Cash and other cash items	1,750	47	127	19	-	1,943
Due from other banks	4,591	300	551	1,458	-	6,900
Interbank loans receivable and SPAR	1	220	283	-	-	504
Financial assets at fair value through profit or loss						
Derivative financial assets	1,707	-	46	-	-	1,753
Trading securities - debt Securities	3,777	-	302	234	-	4,313
Available-for-sale - debt securities	34,876	-	157	1,885	-	36,918
Held-to-maturity securities	32,138	-	1,594	170	-	33,902
Loans and advances, net	40,251	1,398	91	22	(580)	41,182
Others financial assets						
Accounts receivable, net	59	-	-	2	(7)	54
Other accrued interest and fees receivable	136	1	98	42	-	277
Others	1	-	1	-	-	2
<b>Total financial assets</b>	<b>119,287</b>	<b>1,966</b>	<b>3,250</b>	<b>3,832</b>	<b>(587)</b>	<b>127,748</b>
Financial Liabilities						
Deposit liabilities	107,808	1,099	2,722	713	-	112,342
Derivative financial liabilities	1,420	-	46	-	-	1,466
Due to BSP and other banks	66	-	-	-	-	66
Manager's checks and demand drafts outstanding	57	-	1	-	-	58
Other financial liabilities						
Accounts payable	89	-	85	3	-	177
Others	1,312	39	88	-	-	1,439
<b>Total financial liabilities</b>	<b>110,752</b>	<b>1,138</b>	<b>2,942</b>	<b>716</b>	<b>-</b>	<b>115,548</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>8,535</b>	<b>828</b>	<b>308</b>	<b>3,116</b>	<b>(587)</b>	<b>12,200</b>

Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
<b>As at December 31, 2012</b>						
<b>Financial Assets</b>						
Cash and other cash items	2,319	59	84	13	-	<b>2,475</b>
Due from other banks	2,730	376	378	131	-	<b>3,615</b>
Interbank loans receivable and SPAR	821	-	-	-	-	<b>821</b>
Financial assets at fair value through profit or loss						
Derivative financial assets	1,672	-	237	152	-	<b>2,061</b>
Trading securities	7,109	-	55	1,588	-	<b>8,752</b>
Available-for-sale	38,136	-	463	472	-	<b>39,071</b>
Held-to-maturity securities	25,804	-	1,529	-	-	<b>27,333</b>
Loans and advances, net	44,046	1,287	67	4	(492)	<b>44,912</b>
Other financial assets						
Accounts receivable, net	65	-	-	-	(1)	<b>64</b>
Other accrued interest and fees receivable	147	-	106	28	-	<b>281</b>
Others	-	-	-	-	-	<b>-</b>
<b>Total financial assets</b>	<b>122,849</b>	<b>1,722</b>	<b>2,919</b>	<b>2,388</b>	<b>(493)</b>	<b>129,385</b>
<b>Financial Liabilities</b>						
Deposit liabilities	102,911	1,291	2,527	344	-	<b>107,073</b>
Derivative financial liabilities	1,614	-	251	153	-	<b>2,018</b>
Due to BSP and other banks	108	-	-	-	-	<b>108</b>
Manager's checks and demand drafts outstanding	58	10	11	58	-	<b>137</b>
Other financial liabilities						
Accounts payable	62	-	2	2	-	<b>66</b>
Others	999	74	65	-	-	<b>1,138</b>
<b>Total financial liabilities</b>	<b>105,752</b>	<b>1,375</b>	<b>2,856</b>	<b>557</b>	<b>-</b>	<b>110,540</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>17,097</b>	<b>347</b>	<b>63</b>	<b>1,831</b>	<b>(493)</b>	<b>18,845</b>

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2011						
Financial Assets						
Cash and other cash items	1,616	47	120	17	-	1,800
Due from other banks	3,667	298	447	208	-	4,620
Interbank loans receivable and SPAR	1	220	283	-	-	504
Financial assets at fair value through profit or loss						
Derivative financial assets	1,705	-	46	-	-	1,751
Trading securities - debt Securities	3,777	-	302	234	-	4,313
Available-for-sale - debt securities	28,640	-	157	1,885	-	30,682
Held-to-maturity securities	27,954	-	1,594	-	-	29,548
Loans and advances, net	40,251	1,398	91	-	(579)	41,161
Other financial assets						
Accounts receivable, net	59	-	-	1	(7)	53
Other accrued interest and fees receivable	136	1	98	19	-	254
<b>Total financial assets</b>	<b>107,806</b>	<b>1,964</b>	<b>3,138</b>	<b>2,364</b>	<b>(586)</b>	<b>114,686</b>
Financial Liabilities						
Deposit liabilities	96,971	1,099	2,719	548	-	101,337
Derivative financial liabilities	1,420	-	46	-	-	1,466
Due to BSP and other banks	66	-	-	-	-	66
Manager's checks and demand drafts outstanding	21	-	1	-	-	22
Other financial liabilities						
Accounts payable	86	-	2	-	-	88
Others	1,398	39	91	-	-	1,528
<b>Total financial liabilities</b>	<b>99,962</b>	<b>1,138</b>	<b>2,859</b>	<b>548</b>	<b>-</b>	<b>104,507</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>7,844</b>	<b>826</b>	<b>279</b>	<b>1,816</b>	<b>(586)</b>	<b>10,179</b>

### 3.2.2 Interest rate risk

There are two types of interest rate risk: (i) fair value interest risk and (ii) cash flow interest risk. Fair value interest rate risk is the risk that the fair value of a financial instrument will fluctuate because of changes in market interest rates. Cash flow interest rate risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The BPI Group takes on exposure to the effects of fluctuations in the prevailing levels of market interest rates on both its fair value which affects mainly the BPI Group's trading securities portfolio and cash flow risks on available-for-sale securities portfolio which is carried at market.

Interest rate risk in the banking book arises from the BPI Group's core banking activities. The main source of this type of interest rate risk is repricing risk, which reflects the fact that the BPI Group's assets and liabilities are of different maturities and are priced at different interest rates. Interest margins may increase as a result of such changes but may also result in losses in the event that unexpected movements arise. The Board of Directors sets limits on the level of mismatch of interest rate repricing that may be undertaken, which is monitored monthly by the FRMC.

The table below summarizes the BPI Group's exposure to interest rate risk, categorized by the earlier of contractual repricing or maturity dates.

Consolidated

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2012					
Financial Assets					
Due from BSP	-	-	-	119,079	119,079
Due from other banks	-	-	-	7,582	7,582
Interbank loans receivable and SPAR	-	-	-	38,927	38,927
Financial assets at fair value through profit or loss					
Derivative financial assets	1,946	663	3,311	-	5,920
Trading securities - debt securities	206	-	-	21,457	21,663
Available-for-sale - debt securities	10,428	-	-	94,501	104,929
Held-to-maturity securities	5	-	-	76,238	76,243
Loans and advances, net	416,544	20,503	45,181	44,412	526,640
Other financial assets					
Accounts receivable, net	-	-	-	2,846	2,846
Other accrued interest and fees receivable	-	-	-	749	749
Sales contracts receivable, net	-	-	-	698	698
Rental deposits	-	-	-	294	294
Others, net	-	-	-	629	629
Total financial assets	429,129	21,166	48,492	407,412	906,199
Financial Liabilities					
Deposit liabilities	439,040	201,896	12,245	149,093	802,274
Derivative financial liabilities	1,931	647	3,249	-	5,827
Bills payable	-	-	-	26,280	26,280
Due to BSP and other banks	-	-	-	2,035	2,035
Manager's checks and demand drafts outstanding	-	-	-	5,794	5,794
Unsecured subordinated debt	-	-	5,000	-	5,000
Other financial liabilities					
Accounts payable	-	-	-	3,621	3,621
Outstanding acceptances	-	-	-	2,377	2,377
Deposits on lease contract	-	-	-	1,153	1,153
Dividends payable	-	-	-	-	-
Others	-	-	-	1,290	1,290
Total financial liabilities	440,971	202,543	20,494	191,643	855,651
Total interest gap	(11,842)	(181,377)	27,998	215,769	50,548

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2011					
Financial Assets					
Due from BSP	-	-	-	83,759	83,759
Due from other banks	-	-	-	9,297	9,297
Interbank loans receivable and SPAR	-	-	-	35,277	35,277
Financial assets at fair value through profit or loss					
Derivative financial assets	2,005	969	2,415	-	5,389
Trading securities - debt securities	220	-	-	11,713	11,933
Available-for-sale - debt securities	5,276	-	-	67,630	72,906
Held-to-maturity securities	6	-	-	89,736	89,742
Loans and advances, net	357,324	18,527	44,892	33,756	454,499
Other financial assets					
Accounts receivable, net	-	-	-	2,377	2,377
Other accrued interest and fees receivable					
	-	-	-	664	664
Sales contracts receivable, net	-	-	-	462	462
Rental deposits	-	-	-	270	270
Others, net	-	-	-	108	108
Total financial assets	364,831	19,496	47,307	335,049	766,683
Financial Liabilities					
Deposit liabilities	374,615	68,390	106,847	131,249	681,101
Derivative financial liabilities	1,685	813	2,316	-	4,814
Bills payable	-	-	-	19,136	19,136
Due to BSP and other banks	-	-	-	1,717	1,717
Manager's checks and demand drafts outstanding					
	-	-	-	4,131	4,131
Unsecured subordinated debt	-	-	5,000	-	5,000
Other financial liabilities					
Accounts payable	-	-	-	2,918	2,918
Outstanding acceptances	-	-	-	1,390	1,390
Deposits on lease contract	-	-	-	2,050	2,050
Dividends payable	-	-	-	3,201	3,201
Others	-	-	-	610	610
Total financial liabilities	376,300	69,203	114,163	166,402	726,068
Total interest gap	(11,469)	(49,707)	(66,856)	168,647	40,615

Parent

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2012					
Financial Assets					
Due from BSP	-	-	-	105,244	105,244
Due from other banks	-	-	-	4,724	4,724
Interbank loans receivable and SPAR	-	-	-	10,843	10,843
Financial assets at fair value through profit or loss					
Derivative financial assets	1,946	663	3,311	-	5,920
Trading securities - debt securities	206	-	-	18,849	19,055
Available-for-sale - debt securities	10,428	-	-	82,156	92,584
Held-to-maturity securities	5	-	-	67,817	67,822
Loans and advances, net	359,320	7,542	10,693	12,407	389,962
Other financial assets					
Accounts receivable, net	-	-	-	2,427	2,427
Other accrued interest and fees receivable					
	-	-	-	618	618
Sales contracts receivable, net	-	-	-	678	678
Rental deposits	-	-	-	244	244
Others, net	-	-	-	591	591
Total financial assets	371,905	8,205	14,004	306,598	700,712
Financial Liabilities					
Deposit liabilities	399,579	52,554	34,693	141,539	628,365
Derivative financial liabilities	1,931	647	3,249	-	5,827
Bills payable	-	-	-	16,963	16,963
Due to BSP and other banks	-	-	-	2,036	2,036
Manager's checks and demand drafts outstanding					
	-	-	-	4,508	4,508
Unsecured subordinated debt	-	-	5,000	-	5,000
Other financial liabilities					
Accounts payable	-	-	-	2,548	2,548
Outstanding acceptances	-	-	-	1,153	1,153
Dividends payable	-	-	-	-	-
Others	-	-	-	1,208	1,208
Total financial liabilities	401,510	53,201	42,942	169,955	667,608
Total interest gap	(29,605)	(44,996)	(28,938)	136,643	33,104



	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
(In Millions of Pesos)					
As at December 31, 2011					
Financial Assets					
Due from BSP	-	-	-	70,807	70,807
Due from other banks	-	-	-	5,567	5,567
Interbank loans receivable and SPAR	-	-	-	24,867	24,867
Financial assets at fair value through profit or loss					
Derivative financial assets	2,005	969	2,415	-	5,389
Trading securities - debt securities	220	-	-	11,418	11,638
Available-for-sale - debt securities	5,276	-	-	59,007	64,283
Held-to-maturity securities	6	-	-	79,717	79,723
Loans and advances, net	308,040	4,371	14,859	10,155	337,425
Other financial assets					
Accounts receivable, net	-	-	-	1,669	1,669
Other accrued interest and fees receivable	-	-	-	594	594
Sales contracts receivable, net	-	-	-	237	237
Rental deposits	-	-	-	223	223
Others, net	-	-	-	136	136
Total financial assets	315,547	5,340	17,274	264,397	602,558
Financial Liabilities					
Deposit liabilities	287,883	53,253	79,830	123,448	544,414
Derivative financial liabilities	1,685	813	2,316	-	4,814
Bills payable	-	-	-	9,887	9,887
Due to BSP and other banks	-	-	-	1,717	1,717
Manager's checks and demand drafts outstanding					
	-	-	-	3,389	3,389
Unsecured subordinated debt	-	-	5,000	-	5,000
Other financial liabilities					
Accounts payable	-	-	-	2,020	2,020
Outstanding acceptances	-	-	-	1,390	1,390
Dividends payable	-	-	-	3,201	3,201
Others	-	-	-	494	494
Total financial liabilities	289,568	54,066	87,146	145,546	576,326
Total interest gap	25,979	(48,726)	(69,872)	118,851	26,232

### 3.3 Liquidity risk

Liquidity risk is the risk that the BPI Group will be unable to meet its payment obligations associated with its financial liabilities when they fall due and to replace funds when they are withdrawn. The consequence may be the failure to meet obligations to repay depositors and fulfill commitments to lend.

### **3.3.1 Liquidity risk management process**

The BPI Group's liquidity management process, as carried out within the BPI Group and monitored by the RMC and the FRMC includes:

- Day-to-day funding, managed by monitoring future cash flows to ensure that requirements can be met. This includes replenishment of funds as they mature or are borrowed by customers;
- Maintaining a portfolio of highly marketable assets that can easily be liquidated as protection against any unforeseen interruption to cash flow;
- Monitoring liquidity gaps against internal and regulatory requirements;
- Managing the concentration and profile of debt maturities; and
- Performing periodic liquidity stress testing on the BPI Group's liquidity position by assuming a faster rate of withdrawals in its deposit base.

Monitoring and reporting take the form of cash flow measurement and projections for the next day, week and month as these are key periods for liquidity management. The starting point for these projections is an analysis of the contractual maturity of the financial liabilities (Notes 3.3.3 and 3.3.4) and the expected collection date of the financial assets.

The BPI Group also monitors unmatched medium-term assets, the level and type of undrawn lending commitments, the usage of overdraft facilities and the impact of contingent liabilities such as standby letters of credit.

### **3.3.2 Funding approach**

Sources of liquidity are regularly reviewed by the BPI Group to maintain a wide diversification by currency, geography, counterparty, product and term.

### **3.3.3 Non-derivative cash flows**

The table below presents the maturity profile of non-derivative financial instruments based on undiscounted cash flows, which the BPI Group uses to manage the inherent liquidity risk. The maturity analysis is based on the remaining period from the end of the reporting period to the contractual maturity date or, if earlier, the expected date the financial asset will be realized or the financial liability will be settled.

Consolidated

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
<b>As at December 31, 2012</b>				
<b>Financial Assets</b>				
Cash and other cash items	23,293	-	-	<b>23,293</b>
Due from BSP	119,089			<b>119,089</b>
Due from other banks	7,582	-	-	<b>7,582</b>
Interbank loans receivable and securities under agreements to resell (SPAR)	39,379	-	-	<b>39,379</b>
Financial assets at fair value through profit or loss				
Trading securities	3,562	4,935	27,205	<b>35,702</b>
Available-for-sale securities	12,276	21,433	128,792	<b>162,501</b>
Held-to-maturity securities, net	23,367	23,611	63,843	<b>110,821</b>
Loans and advances, net	290,707	68,325	185,590	<b>544,622</b>
Other financial assets				
Accounts receivable, net	2,846	-	-	<b>2,846</b>
Other accrued interest and fees receivable	749	-	-	<b>749</b>
Sales contracts receivable, net	698	-	-	<b>698</b>
Rental deposits	294	-	-	<b>294</b>
Others, net	629	-	-	<b>629</b>
<b>Total financial assets</b>	<b>524,471</b>	<b>118,304</b>	<b>405,430</b>	<b>1,048,205</b>
<b>Financial Liabilities</b>				
Deposit liabilities	588,593	202,665	12,292	<b>803,550</b>
Bills payable	25,604	261	1,378	<b>27,243</b>
Due to BSP and other banks	2,035	-	-	<b>2,035</b>
Manager's checks and demand drafts outstanding	5,794	-	-	<b>5,794</b>
Unsecured subordinated debt	445	845	6,282	<b>7,572</b>
Other financial liabilities				
Accounts payable	3,621	-	-	<b>3,621</b>
Deposits on lease contract	2,377	-	-	<b>2,377</b>
Outstanding acceptances	1,153	-	-	<b>1,153</b>
Dividends payable	-	-	-	<b>-</b>
Others	1,290	-	-	<b>1,290</b>
<b>Total financial liabilities</b>	<b>630,912</b>	<b>203,771</b>	<b>19,952</b>	<b>854,635</b>
<b>Total maturity gap</b>	<b>(106,441)</b>	<b>(85,467)</b>	<b>385,478</b>	<b>193,570</b>

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2011				
Financial Assets				
Cash and other cash items	22,395	-	-	22,395
Due from BSP	83,784	-	-	83,784
Due from other banks	9,297	-	-	9,297
Interbank loans receivable and securities under agreements to resell (SPAR)	36,971	-	-	36,971
Financial assets at fair value through profit or loss				
Trading securities	12,388	-	-	12,388
Available-for-sale securities	8,549	14,663	56,035	79,247
Held-to-maturity securities, net	18,267	31,079	52,172	101,518
Loans and advances, net	268,459	54,369	243,200	566,028
Other financial assets, net				
Accounts receivable, net	2,377	-	-	2,377
Other accrued interest and fees receivable	664	-	-	664
Sales contracts receivable, net	462	-	-	462
Rental deposits	270	-	-	270
Others, net	108	-	-	108
<b>Total financial assets</b>	<b>463,991</b>	<b>100,111</b>	<b>351,407</b>	<b>915,509</b>
Financial Liabilities				
Deposit liabilities	508,292	71,299	109,904	689,495
Bills payable	17,498	398	1,795	19,691
Due to BSP and other banks	1,717	-	-	1,717
Manager's checks and demand drafts outstanding	4,131	-	-	4,131
Unsecured subordinated debt	423	845	6,689	7,957
Other financial liabilities				
Accounts payable	2,918	-	-	2,918
Outstanding acceptances	1,390	-	-	1,390
Deposits on lease contract	2,050	-	-	2,050
Dividends payable	3,201	-	-	3,201
Others	610	-	-	610
<b>Total financial liabilities</b>	<b>542,230</b>	<b>72,542</b>	<b>118,388</b>	<b>733,160</b>
<b>Total maturity gap</b>	<b>(78,239)</b>	<b>27,569</b>	<b>233,019</b>	<b>182,349</b>

Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
<b>As at December 31, 2012</b>				
<b>Financial Assets</b>				
Cash and other cash items	22,518	-	-	<b>22,518</b>
Due from BSP	105,249	-	-	<b>105,249</b>
Due from other banks	4,724	-	-	<b>4,724</b>
Interbank loans receivable and securities under agreements to resell (SPAR)	10,847	-	-	<b>10,847</b>
Financial assets at fair value through profit or loss				
Trading securities	3,036	4,244	24,841	<b>32,121</b>
Available-for-sale securities	9,861	17,343	117,441	<b>144,645</b>
Held-to-maturity securities	19,186	21,514	58,644	<b>99,344</b>
Loans and advances, net	263,816	39,137	89,273	<b>392,226</b>
Other financial assets, net				
Accounts receivable, net	2,427	-	-	<b>2,427</b>
Other accrued interest and fees receivable	618	-	-	<b>618</b>
Sales contracts receivable, net	678	-	-	<b>678</b>
Rental deposits	244	-	-	<b>244</b>
Others, net	591	-	-	<b>591</b>
<b>Total financial assets</b>	<b>443,795</b>	<b>82,238</b>	<b>290,199</b>	<b>816,232</b>
<b>Financial Liabilities</b>				
Deposit liabilities	541,396	52,661	34,763	<b>628,820</b>
Bills payable	15,857	122	1,217	<b>17,196</b>
Due to BSP and other banks	2,036	-	-	<b>2,036</b>
Manager's checks and demand drafts outstanding	4,508	-	-	<b>4,508</b>
Unsecured subordinated debt	445	845	6,282	<b>7,572</b>
Other financial liabilities				
Accounts payable	2,548	-	-	<b>2,548</b>
Outstanding acceptances	1,153	-	-	<b>1,153</b>
Dividends payable	-	-	-	<b>-</b>
Others	1,208	-	-	<b>1,208</b>
<b>Total financial liabilities</b>	<b>569,151</b>	<b>53,628</b>	<b>42,262</b>	<b>665,041</b>
<b>Total maturity gap</b>	<b>(125,356)</b>	<b>28,610</b>	<b>247,937</b>	<b>151,191</b>

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2011				
Financial Assets				
Cash and other cash items	21,661	-	-	21,661
Due from BSP	70,829	-	-	70,829
Due from other banks	5,567	-	-	5,567
Interbank loans receivable and securities under agreements to resell (SPAR)	24,868	-	-	24,868
Financial assets at fair value through profit or loss				
Trading securities	12,082	-	-	12,082
Available-for-sale securities	7,831	11,446	49,295	68,572
Held-to-maturity securities, net	17,697	31,275	52,197	101,169
Loans and advances, net	257,357	30,021	105,251	392,629
Other financial assets, net				
Sales contracts receivable, net	237	-	-	237
Accounts receivable, net	1,669	-	-	1,669
Other accrued interest and fees receivable	594	-	-	594
Rental deposits	223	-	-	223
Others, net	136	-	-	136
<b>Total financial assets</b>	<b>420,751</b>	<b>72,742</b>	<b>206,743</b>	<b>700,236</b>
Financial Liabilities				
Deposit liabilities	413,081	53,707	80,508	547,296
Bills payable	8,441	319	1,432	10,192
Due to BSP and other banks	1,717	-	-	1,717
Manager's checks and demand drafts outstanding	3,389	-	-	3,389
Unsecured subordinated debt	423	845	6,689	7,957
Other financial liabilities				
Accounts payable	2,020	-	-	2,020
Outstanding acceptances	1,390	-	-	1,390
Dividends Payable	3,201	-	-	3,201
Others	494	-	-	494
<b>Total financial liabilities</b>	<b>434,156</b>	<b>54,871</b>	<b>88,629</b>	<b>577,656</b>
<b>Total maturity gap</b>	<b>(13,405)</b>	<b>17,871</b>	<b>118,114</b>	<b>122,580</b>

### 3.3.4 Derivative cash flows

#### (a) Derivatives settled on a net basis

The BPI Group's derivatives that are settled on a net basis consist only of interest rate swaps and non-deliverable forwards. The table below presents the contractual undiscounted cash outflows of interest rate swaps based on the remaining period from December 31 to the contractual maturity dates.

#### Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
Interest rate swap contracts - held for trading				
<b>2012</b>	<b>(72)</b>	<b>(647)</b>	<b>(3,249)</b>	<b>(3,968)</b>
2011	(8)	(644)	(2,316)	(2,968)
Non-deliverable forwards - held for trading				
<b>2012</b>	<b>(1,169)</b>	-	-	<b>(1,169)</b>
2011	(890)	(146)	-	(1,036)

#### (b) Derivatives settled on a gross basis

The BPI Group's derivatives that are settled on a gross basis include foreign exchange derivatives mainly, currency forwards, currency swaps and spot contracts. The table below presents the contractual undiscounted cash flows of foreign exchange derivatives based on the remaining period from reporting date to the contractual maturity dates.

#### Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Total
	(In Millions of Pesos)		
Foreign exchange derivatives - held for trading			
<b>2012</b>			
- Outflow	<b>(28,449)</b>	<b>(367)</b>	<b>(28,816)</b>
- Inflow	<b>29,033</b>	<b>368</b>	<b>29,401</b>
2011			
- Outflow	(76,419)	-	(76,419)
- Inflow	75,631	-	75,631

### 3.4 Fair value of financial assets and liabilities

The table below summarizes the carrying amount and fair value of those significant financial assets and liabilities not presented on the statement of condition at fair value at December 31.

#### Consolidated

	Carrying amount		Fair value	
	2012	2011	2012	2011
(In Millions of Pesos)				
<b>Financial assets</b>				
Cash and other cash items	23,293	22,395	23,293	22,395
Due from BSP	119,079	83,759	119,079	83,759
Due from other banks	7,582	9,297	7,582	9,297
Interbank loans receivable and SPAR	38,927	35,277	38,927	35,277
Held-to-maturity securities, net	76,243	89,742	86,549	98,630
Loans and advances, net	526,640	454,499	572,880	473,092
Other financial assets				
Accounts receivable, net	2,846	2,377	2,846	2,377
Other accrued interest and fees receivable	749	664	749	664
Sales contracts receivable, net	698	462	698	462
Rental deposits	294	270	294	270
Others, net	629	108	629	108
<b>Financial liabilities</b>				
Deposit liabilities	802,274	681,101	802,274	681,101
Bills payable	26,280	19,136	26,280	19,136
Due to BSP and other banks	2,035	1,717	2,035	1,717
Manager's checks and demand drafts outstanding	5,794	4,131	5,794	4,131
Unsecured subordinated debt	5,000	5,000	6,481	6,507
Other financial liabilities				
Accounts payable	3,621	2,918	3,621	2,918
Deposits on lease contract	2,377	2,050	2,377	2,050
Outstanding acceptances	1,153	1,390	1,153	1,390
Dividends payable	-	3,201	-	3,201
Others	1,290	610	1,290	610



Parent

	Carrying amount		Fair value	
	2012	2011	2012	2011
(In Millions of Pesos)				
<b>Financial assets</b>				
Cash and other cash items	22,518	21,661	22,518	21,661
Due from BSP	105,244	70,807	105,244	70,807
Due from other banks	4,724	5,567	4,724	5,567
Interbank loans receivable and SPAR	10,843	24,867	10,843	24,867
Held-to-maturity securities, net	67,822	79,723	77,402	87,909
Loans and advances, net	389,962	337,425	423,133	353,634
Other financial assets				
Accounts receivable, net	2,427	1,669	2,427	1,669
Other accrued interest and fees receivable	618	594	618	594
Sales contracts receivable, net	678	237	678	237
Rental deposits	244	223	244	223
Others, net	591	136	591	136
<b>Financial liabilities</b>				
Deposit liabilities	628,365	544,414	628,365	544,414
Bills payable	16,963	9,887	16,963	9,887
Due to BSP and other banks	2,036	1,717	2,036	1,717
Manager's checks and demand drafts outstanding	4,508	3,389	4,508	3,389
Unsecured subordinated debt	5,000	5,000	6,481	6,507
Other financial liabilities				
Accounts payable	2,548	2,020	2,548	2,020
Outstanding acceptances	1,153	1,390	1,153	1,390
Dividends payable	-	3,201	-	3,201
Others	1,208	494	1,208	494

(i) Cash and other cash items, due from BSP and other banks and interbank loans receivable and SPAR

The fair value of floating rate placements and overnight deposits approximates their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity.

(ii) Investment securities

Fair value of held-to-maturity assets is based on market prices or broker/dealer price quotations. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

(iii) Loans and advances

The estimated fair value of loans and advances represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

(iv) Financial liabilities

The estimated fair value of deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand.

The estimated fair value of fixed interest-bearing deposits and other borrowings not quoted in an active market is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(v) Other financial assets / liabilities

Carrying amounts of other financial assets / liabilities which have no definite repayment dates are assumed to be their fair values.

### 3.5 Fair value hierarchy

The following table presents the BPI Group's assets and liabilities that are measured at fair value at December 31:

Consolidated

	Level 1	Level 2	Total
(In Millions of Pesos)			
<b>2012</b>			
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,920	<b>5,920</b>
Trading securities			
- Debt securities	21,457	206	<b>21,663</b>
- Equity securities	435	-	<b>435</b>
Available-for-sale financial assets			
- Debt securities	94,501	10,428	<b>104,929</b>
- Equity securities	491	-	<b>491</b>
	<b>116,884</b>	<b>16,554</b>	<b>133,438</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	<b>5,827</b>	<b>5,827</b>
	Level 1	Level 2	Total
(In Millions of Pesos)			
<b>2011</b>			
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,389	5,389
Trading securities			
- Debt securities	11,933	-	11,933
- Equity securities	342	-	342
Available-for-sale financial assets			
- Debt securities	63,840	9,066	72,906
- Equity securities	344	-	344
	<b>76,459</b>	<b>14,455</b>	<b>90,914</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	<b>4,814</b>	<b>4,814</b>

Parent

	Level 1	Level 2	Total
(In Millions of Pesos)			
<b>2012</b>			
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,920	<b>5,920</b>
Trading securities – debt securities	18,849	206	<b>19,055</b>
Available-for-sale financial assets			
- Debt securities	82,156	10,428	<b>92,584</b>
- Equity securities	136	-	<b>136</b>
	<b>101,141</b>	<b>16,554</b>	<b>117,695</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	<b>5,827</b>	<b>5,827</b>

	Level 1	Level 2	Total
2011	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
- Derivative financial assets	-	5,389	5,389
- Trading securities - debt securities	11,638	-	11,638
Available-for-sale financial assets			
- Debt securities	55,241	9,042	64,283
- Equity securities	133	-	133
	67,012	14,431	81,443
Financial liabilities			
Derivative financial liabilities	-	4,814	4,814

The BPI Group has no financial instruments that fall under the Level 3 category as at December 31, 2012 and 2011. There were no transfers between Level 1 and Level 2 during the year.

### 3.6 Insurance risk management

The non-life insurance entities decide on the retention, or the absolute amount that they are ready to assume insurance risk from one event. The retention amount is a function of capital, experience, actuarial study and risk appetite or aversion.

In excess of the retention, these entities arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require Board of Directors' approval.

### 3.7 Capital management

Cognizant of its exposure to risks, the BPI Group understands that it must maintain sufficient capital to absorb unexpected losses, to stay in business for the long haul, and to satisfy regulatory requirements. The BPI Group further understands that its performance, as well as the performance of its various units, should be measured in terms of returns generated vis-à-vis allocated capital and the amount of risk borne in the conduct of business.

The BPI Group manages its capital following the framework of Basel Committee on Banking Supervision Accord II (Basel II) and its implementation in the Philippines by the BSP. The BSP through its Circular 538 requires each bank and its financial affiliated subsidiaries to keep its Capital Adequacy Ratio (CAR) - the ratio of qualified capital to risk-weighted exposures - to be no less than 10%. In quantifying its CAR, BPI currently uses the Standardized Approach (for credit risk and market risk) and the Basic Indicator Approach (for operational risk). Capital adequacy reports are filed with the BSP every quarter.

Qualifying capital and risk-weighted assets are computed based on BSP regulations. The qualifying capital of the Parent Bank consists of core tier 1 capital and tier 2 capital. Tier 1 capital comprises paid-up capital stock, paid-in surplus, surplus including net income for the year, surplus reserves and minority interest less deductions such as deferred income tax, unsecured credit accommodations to DOSRI, goodwill and unrealized fair value losses on available-for-sale securities. Tier 2 capital includes unsecured subordinated debt (see Note 21), net unrealized fair value gains on available-for-sale investments, and general loan loss provisions for BSP reporting purposes.

The Basel II framework following BSP Circular 538 took into effect on July 1, 2007. The table below summarizes the CAR under the Basel II framework for the years ended December 31, 2012 and 2011.

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Tier 1 capital	<b>83,125</b>	75,978	<b>84,654</b>	77,303
Tier 2 capital	<b>10,285</b>	9,461	<b>9,000</b>	8,554
Gross qualifying capital	<b>93,410</b>	85,439	<b>93,654</b>	85,857
Less: Required deductions	<b>2,756</b>	2,531	<b>29,304</b>	25,429
Total qualifying capital	<b>90,654</b>	82,908	<b>64,350</b>	60,428
Risk weighted assets	<b>638,900</b>	556,026	<b>511,404</b>	446,005
CAR (%)	<b>14.19</b>	14.91	<b>12.58</b>	13.55

The BPI Group has fully complied with the CAR requirement of the BSP.

Likewise, the BPI Group manages the capital of its non-life insurance subsidiaries, pre-need subsidiary and securities dealer subsidiaries in accordance with the capital requirements of the relevant regulatory agency, such as Insurance Commission, Philippine SEC and PSE. These subsidiaries have fully complied with the relevant capital requirements.

As part of the reforms of the PSE to expand capital market and improve transparency among listed firms, PSE requires listed entities to maintain a minimum of ten percent (10%) of their issued and outstanding shares, exclusive of any treasury shares, held by the public. The Parent Bank has fully complied with this requirement.

#### Note 4 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments 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. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

##### A. Critical accounting estimates

###### (i) Impairment losses on loans and advances (Note 13)

The BPI Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2012 would be an estimated P397 million (2011 - P383 million) higher or lower.

(ii) Fair value of derivatives and other financial instruments (Notes 3.4 and 9)

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are approved by the Board of Directors before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, the models use only observable data; however, areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the fair value of financial instruments that are not quoted in active markets.

(iii) Pension liability on defined benefit plan (Note 30)

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 30 and include, among others, the discount rate, expected return on plan assets and future salary increases. The present value of the defined benefit obligations of the BPI Group at December 31, 2012 and 2011 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are accumulated and amortized over future periods and therefore generally affect the BPI Group's recognized expense and recorded obligation in such future periods. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimation of pension liability.

(iv) Valuation of assets held for sale

In determining the fair value of assets held for sale, the BPI Group analyzed the sales prices by applying appropriate units of comparison, adjusted by differences between the subject asset or property and related market data. Should there be a subsequent write-down of the asset to fair value less cost to sell, such write-down is recognized as impairment loss in the statement of income.

In 2012, the BPI Group has recognized an impairment loss on its foreclosed assets amounting to P394 million (2011 - P299 million).

B. Critical accounting judgments

(i) Impairment of available-for-sale securities (Note 11)

The BPI Group follows the guidance of PAS 39 to determine when an available-for-sale security is impaired. This determination requires significant judgment. In making this judgment, the BPI Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health and near-term business outlook of the issuer, including factors such as industry and sector performance, changes in technology and operational and financing cash flows.

(ii) Held-to-maturity securities (Note 12)

The BPI Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the BPI Group evaluates its intention and ability to hold such investments to maturity. If the BPI Group fails to keep these investments to maturity other than for the specific circumstances - for example selling an insignificant amount close to maturity - it will be required to reclassify the entire class as available-for-sale. The investments would therefore be measured at fair value and not at amortized cost.

(iii) Classification of assets held for sale

Management follows the principles in PFRS 5 in classifying certain foreclosed assets (consisting of real estate and auto or chattel), as assets held for sale when the carrying amount of the assets will be recovered principally through sale. Management is committed to a plan to sell these foreclosed assets and the assets are actively marketed for sale at a price that is reasonable in relation to their current fair value.

(iv) Realization of deferred income tax assets (Note 17)

Management reviews at each reporting date the carrying amounts of deferred tax assets. The carrying amount of deferred tax assets is reduced to the extent that the related tax assets cannot be utilized due to insufficient taxable profit against which the deferred tax losses will be applied. Management believes that sufficient taxable profit will be generated to allow all or part of the deferred income tax assets to be utilized.

#### Note 5 - Assets and Liabilities Attributable to Insurance Operations

Details of assets and liabilities attributable to insurance operations as at December 31 are as follows:

	2012	2011
	(In Millions of Pesos)	
<b>Assets</b>		
Cash and cash equivalents (Note 7)	106	233
Insurance balances receivable, net	1,952	1,874
Investment securities		
Available-for-sale	5,595	4,745
Held-to-maturity	3,811	3,894
Land, building and equipment	131	153
Accounts receivable and other assets, net	1,856	1,341
	<b>13,451</b>	<b>12,240</b>
<b>Liabilities</b>		
Reserves and other balances	10,148	9,325
Accounts payable, accrued expenses and other payables	645	612
	<b>10,793</b>	<b>9,937</b>

Details of income attributable to insurance operations before income tax and minority interest for the years ended December 31 are as follows:

	2012	2011	2010
	(In Millions of Pesos)		
Premiums earned and related income	2,441	2,410	2,188
Investment and other income	426	551	410
	<b>2,867</b>	<b>2,961</b>	<b>2,598</b>
Benefits, claims and maturities	972	1,093	961
Increase in actuarial reserve liabilities	271	30	7
Management and general expenses	433	429	381
Commissions	478	417	418
Other expenses	19	43	29
	<b>2,173</b>	<b>2,012</b>	<b>1,796</b>
Income before income tax and minority interest	<b>694</b>	<b>949</b>	<b>802</b>

#### Note 6 - Business Segments

Operating segments are reported in accordance with the internal reporting provided to the chief executive officer, who is responsible for allocating resources to the reportable segments and assessing their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under PFRS 8.

The BPI Group has determined the operating segments based on the nature of the services provided and the different markets served representing a strategic business unit.

The BPI Group's main operating business segments follow:

- Consumer Banking - this segment addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. It includes the entire transaction processing and service delivery infrastructure consisting of the BPI and BPI Family Bank network of branches, ATMs and point-of-sale terminals as well as phone and Internet-based banking platforms.
- Corporate Banking - this segment consists of the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers. These customers include both high-end corporations as well as various middle market clients.
- Investment Banking - this segment includes the various business groups operating in the investment markets and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

The performance of the Parent Bank is assessed as a single unit using financial information presented in the separate or Parent only financial statements. Likewise, the chief executive officer assesses the performance of its insurance business as a separate segment from its banking and allied financial undertakings. Information on the assets, liabilities and results of operations of the insurance business is fully disclosed in Note 5.

The BPI Group and the Parent Bank mainly derive revenue (more than 90%) within the Philippines, accordingly, no geographical segment is presented.

Revenues of the BPI Group's segment operations are derived from interest (net interest income). The segment report forms part of management's assessment of the performance of the segment, among other performance indicators.

There were no changes in the reportable segments during the year. Transactions between the business segments are carried out at arm's length. The revenue from external parties reported to management is measured in a manner consistent with that in profit or loss.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in inter-segment net interest income. Interest charged for these funds is based on the BPI Group's cost of capital.

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue-sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis. Inter-segment revenues however, are deemed insignificant for financial reporting purposes, thus, not reported in segment analysis below.

The BPI Group's management reporting is based on a measure of operating profit comprising net income, loan impairment charges, fee and commission income, other income and non-interest income.

Segment assets and liabilities comprise majority of operating assets and liabilities as shown in the statement of condition, but exclude items such as taxation.

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as at and for the years ended December 31, 2012, 2011 and 2010 are as follows:

	2012			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Interest income	27,138	8,226	4,926	<b>40,290</b>
Interest expense	11,726	475	107	<b>12,308</b>
Net interest income	15,412	7,751	4,819	<b>27,982</b>
Impairment charge	2,103	817	-	<b>2,920</b>
Net interest income after impairment charge	13,309	6,934	4,819	<b>25,062</b>
Fees and commission income	4,192	523	641	<b>5,356</b>
Other income	4,546	1,686	8,816	<b>15,048</b>
Gross receipts tax	(547)	(55)	(697)	<b>(1,299)</b>
Other income, net	8,191	2,154	8,760	<b>19,105</b>
Compensation and fringe benefits	7,189	921	559	<b>8,669</b>
Occupancy and equipment - related expenses	4,204	1,070	124	<b>5,398</b>
Other operating expenses	5,230	3,074	1,015	<b>9,319</b>
Total operating expenses	16,623	5,065	1,698	<b>23,386</b>
Operating profit	4,877	4,023	11,881	<b>20,781</b>
Share in net income of associates				<b>138</b>
Provision for income tax				<b>3,132</b>
Total assets	336,125	366,674	264,426	<b>967,225</b>
Total liabilities	829,128	16,626	29,794	<b>875,548</b>



	2011			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Interest income	24,985	6,674	6,463	38,122
Interest expense	11,819	515	105	12,439
Net interest income	13,166	6,159	6,358	25,683
Impairment charge	1,643	475	33	2,151
Net interest income after impairment charge	11,523	5,684	6,325	23,532
Fees and commission income	3,845	518	455	4,818
Other income	3,834	1,410	6,059	11,303
Gross receipts tax	(468)	(54)	(532)	(1,054)
Other income, net	7,211	1,874	5,982	15,067
Compensation and fringe benefits	7,467	715	592	8,774
Occupancy and equipment - related expenses	3,882	1,036	121	5,039
Other operating expenses	6,217	1,248	986	8,451
Total operating expenses	17,566	2,999	1,699	22,264
Operating profit	1,168	4,559	10,608	16,335
Share in net income of associates				216
Provision for income tax				3,130
Total assets	288,598	324,863	226,427	839,888
Total liabilities	702,138	16,072	22,599	740,809

	2010			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Interest income	26,302	6,421	4,102	36,825
Interest expense	12,177	793	12	12,982
Net interest income	14,125	5,628	4,090	23,843
Impairment charge	1,827	1,288	328	3,443
Net interest income after impairment charge	12,298	4,340	3,762	20,400
Fees and commission income	3,440	480	363	4,283
Other income	3,684	1,086	6,162	10,932
Gross receipts tax	(418)	(46)	(668)	(1,132)
Other income, net	6,706	1,520	5,857	14,083
Compensation and fringe benefits	6,570	575	396	7,541
Occupancy and equipment - related expenses	3,761	1,269	91	5,121
Other operating expenses	6,020	913	509	7,442
Total operating expenses	16,351	2,757	996	20,104
Operating profit	2,653	3,103	8,623	14,379
Share in net loss of associates				195
Provision for income tax				2,520
Total assets	270,201	261,722	332,005	863,928
Total liabilities	746,969	18,681	18,099	783,749

## Reconciliation of segment results to consolidated results of operations:

	2012		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Interest income	40,290	(181)	<b>40,109</b>
Interest expense	12,308	347	<b>12,655</b>
Net interest income	27,982	(528)	<b>27,454</b>
Impairment charge	2,920	3	<b>2,923</b>
Net interest income after impairment charge	25,062	(531)	<b>24,531</b>
Fees and commission income	5,356	(245)	<b>5,111</b>
Other income	15,048	1,113	<b>16,161</b>
Gross receipts tax	(1,299)	(43)	<b>(1,342)</b>
Other income, net	19,105	825	<b>19,930</b>
Compensation and fringe benefits	8,669	1,887	<b>10,556</b>
Occupancy and equipment - related expenses	5,398	1,795	<b>7,193</b>
Other operating expenses	9,319	(2,180)	<b>7,139</b>
Total operating expenses	23,386	1,502	<b>24,888</b>
Operating profit	20,781	(1,208)	<b>19,573</b>
Share in net income of associates	138	-	<b>138</b>
Provision for income tax	3,132	-	<b>3,132</b>
Total assets	967,225	17,844	<b>985,069</b>
Total liabilities	875,548	10,999	<b>886,547</b>

	2011		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Interest income	38,122	567	38,689
Interest expense	12,439	384	12,823
Net interest income	25,683	183	25,866
Impairment charge	2,151	(1)	2,150
Net interest income after impairment charge	23,532	184	23,716
Fees and commission income	4,818	(211)	4,607
Other income	11,303	1,052	12,355
Gross receipts tax	(1,054)	(16)	( 1,070)
Other income, net	15,067	825	15,892
Compensation and fringe benefits	8,774	1,605	10,379
Occupancy and equipment - related expenses	5,039	1,437	6,476
Other operating expenses	8,451	(1,841)	6,610
Total operating expenses	22,264	1,201	23,465
Operating profit	16,335	(192)	16,143
Share in net income of associates	216	-	216
Provision for income tax	3,130	-	3,130
Total assets	839,888	2,728	842,616
Total liabilities	740,809	11,277	752,086

	2010		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Interest income	36,825	162	36,987
Interest expense	12,982	377	13,359
Net interest income	23,843	(215)	23,628
Impairment charge	3,443	11	3,454
Net interest income after impairment charge	20,400	(226)	20,174
Fees and commission income	4,283	(123)	4,160
Other income	10,932	845	11,777
Gross receipts tax	(1,132)	(26)	(1,158)
Other income, net	14,083	696	14,779
Compensation and fringe benefits	7,541	1,596	9,137
Occupancy and equipment - related expenses	5,121	962	6,083
Other operating expenses	7,442	(1,708)	5,734
Total operating expenses	20,104	850	20,954
Operating profit	14,379	(380)	13,999
Share in net loss of associates	195	-	195
Provision for income tax	2,520	-	2,520
Total assets	863,928	14,218	878,146
Total liabilities	783,749	12,122	795,871

“Consolidation adjustments/Others” pertain to balances of support units and inter-segment elimination in accordance with the BPI Group’s internal reporting.

#### Note 7 - Cash and Cash Equivalents

This account at December 31 consists of:

	Consolidated			Parent	
	2012	2011	2010	2011	2010
(In Millions of Pesos)					
Cash and other cash items	<b>23,293</b>	22,395	18,151	<b>22,518</b>	21,661
Due from BSP	<b>119,079</b>	83,759	74,184	<b>105,244</b>	70,807
Due from other banks	<b>7,582</b>	9,297	6,548	<b>4,724</b>	5,567
Interbank loans receivable and securities purchased under agreements to resell (Note 8)	<b>38,927</b>	35,277	62,973	<b>10,843</b>	24,867
Cash and cash equivalents attributable to insurance operations (Note 5)	<b>106</b>	233	54	-	-
	<b>188,987</b>	150,961	161,910	<b>143,329</b>	122,902
					138,954

**Note 8 - Interbank Loans Receivable and Securities Purchased under Agreements to Resell (SPAR)**

The account at December 31 consists of transactions with:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
		(In Millions of Pesos)		
BSP	<b>38,084</b>	34,729	<b>10,000</b>	22,640
BPI Leasing Corporation	-	-	-	1,402
Other banks	<b>821</b>	503	<b>821</b>	781
	<b>38,905</b>	35,232	<b>10,821</b>	24,823
Accrued interest receivable	<b>22</b>	45	<b>22</b>	44
	<b>38,927</b>	35,277	<b>10,843</b>	24,867

Interbank loans receivable and SPAR maturing within 90 days from the date of acquisition are classified as cash equivalents in the statement of cash flows (Note 7).

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
		(In Millions of Pesos)		
Current	<b>38,927</b>	35,277	<b>10,843</b>	24,867
Non-current	-	-	-	-
	<b>38,927</b>	35,277	<b>10,843</b>	24,867

Government bonds are pledged by the BSP as collateral under reverse repurchase agreements. The face value of securities pledged is equivalent to the total balance of outstanding placements as at reporting date. All collateral agreements mature within 12 months.

The range of average interest rates (%) of interbank loans receivable of the BPI Group for the years ended December 31 follows:

	<b>2012</b>	2011
Peso-denominated	<b>3.92 - 4.94</b>	4.03 - 4.54
US dollar-denominated	<b>0.16 - 0.23</b>	0.31 - 0.34

**Note 9 - Derivative Financial Instruments**

Derivatives held by the BPI Group for non-hedging purposes mainly consist of the following:

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.
- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an agreement to sell or purchase the same currency at an agreed forward rate in the future.
- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period of time.
- Cross currency swaps refer to spot exchange of notional amounts on two currencies at a given exchange rate and with an agreement to re-exchange the same notional amounts at a specified maturity date based on the original exchange rate. Parties on the transaction agree to pay a stated interest rate on the borrowed notional amount and receive a stated interest rate on the lent notional amount, payable or receivable periodically over the term of the transaction.
- Credit-Linked Notes (CLNs) are structured notes whose value is derived from the creditworthiness of an underlying reference entity. A CLN may be viewed as a bundled note that consists of a bond and a credit default swap, allowing the issuer to transfer the credit risk of a reference entity to the investor during the reference period.

The BPI Group's credit risk represents the potential cost to replace the swap contracts if counterparties fail to fulfill their obligation. This risk is monitored on an ongoing basis with reference to the current fair value, a proportion of the notional amount of the contracts and the liquidity of the market. To control the level of credit risk taken, the BPI Group assesses counterparties using the same techniques as for its lending activities.

The notional amounts of certain types of financial instruments provide a basis for comparison with instruments recognized on the statement of condition. They do not necessarily represent the amounts of future cash flows involved or the current fair values of the instruments and therefore are not indicative of the BPI Group's exposure to credit or price risks. The derivative instruments become favorable (assets) or unfavorable (liabilities) as a result of fluctuations in market interest rates or foreign exchange rates relative to their terms. The aggregate contractual or notional amount of derivative financial instruments on hand and the extent at which the instruments can become favorable or unfavorable in fair values can fluctuate significantly from time to time. The fair values of derivative instruments held are set out below:

#### Consolidated and Parent

	Contract/ Notional Amount		Fair Values			
	2012	2011	Assets		Liabilities	
	2012	2011	2012	2011	2012	2011
(In Millions of Pesos)						
Free-standing derivatives						
Foreign exchange derivatives						
Currency swaps	197,512	150,971	1,038	606	(501)	(772)
Currency forwards	99,514	61,755	781	1,449	(1,359)	(1,052)
Interest rate swaps	41,110	25,495	4,021	3,214	(3,967)	(2,967)
Embedded credit derivatives	5,747	19,185	80	120	-	(23)
Total derivatives assets (liabilities) held for trading			5,920	5,389	(5,827)	(4,814)

#### **Note 10 - Trading Securities**

The account at December 31 consists of:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Debt securities				
Government securities	20,480	11,433	18,405	11,157
Commercial papers of private companies	1,022	274	512	258
	21,502	11,707	18,917	11,415
Accrued interest receivable	161	226	138	223
	21,663	11,933	19,055	11,638
Equity securities - listed	435	342	-	-
	22,098	12,275	19,055	11,638

# **Note 11 - Available-for-Sale Securities**

This account at December 31 consists of:

	Consolidated		Parent	
	2012	2011	2012	2011
		(In Millions of Pesos)		
Debt securities				
Government securities	78,725	54,169	68,197	47,128
Others	24,858	17,674	23,122	16,150
	103,583	71,843	91,319	63,278
Accrued interest receivable	1,346	1,063	1,265	1,005
	104,929	72,906	92,584	64,283
Equity securities				
Listed	1,743	344	361	133
Unlisted	317	1,431	113	297
	2,060	1,775	474	430
	106,989	74,681	93,058	64,713
Allowance for impairment	(586)	(597)	(213)	(213)
	106,403	74,084	92,845	64,500

	Consolidated		Parent	
	2012	2011	2012	2011
		(In Millions of Pesos)		
Current	7,925	6,856	5,811	6,487
Non-current	99,064	67,825	87,247	58,226
	106,989	74,681	93,058	64,713

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
		(In Millions of Pesos)		
At January 1	597	564	213	213
(Reversal of) provision for impairment losses	(11)	33	-	-
At December 31	586	597	213	213

The range of average interest rates (%) of available-for-sale debt securities of the BPI Group for the years ended December 31 follows:

	2012	2011
Peso-denominated	5.01 - 5.31	5.13 - 5.54
Foreign currency-denominated	2.46 - 2.74	2.26 - 2.53

The movement in available-for-sale securities is summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
		(In Millions of Pesos)		
At January 1	74,084	112,523	64,500	98,910
Additions	404,123	297,343	363,264	266,203
Disposals	(373,322)	(339,449)	(336,194)	(304,304)
Amortization of premium, net	(238)	(189)	(190)	(159)
Fair value adjustments	2,859	1,683	2,481	1,782
Exchange differences	(1,397)	2,920	(1,276)	2,663
Net change in allowance for impairment	11	(33)	-	-
Net change in accrued interest receivable	283	(714)	260	(595)
At December 31	106,403	74,084	92,845	64,500

On October 22, 2008, the BPI Group reclassified certain available-for-sale securities aggregating P19.1 billion to held-to-maturity category. Likewise, on November 12, 2008, an additional portfolio of US dollar-denominated available-for-sale securities totaling US\$171.6 million (or peso equivalent of P9.2 billion) was further reclassified from available-for-sale to held-to-maturity. The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to global economic downturn. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

The aggregate fair value loss of those securities at reclassification dates still recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P1,757 million. Unamortized fair value loss as of December 31, 2012 amounts to P490 million (2011 - P715 million). Fair value loss that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P374 million for the year ended December 31, 2012 (2011 - P113 million gain). There are no gains or losses recognized in profit or loss or other comprehensive income.

On July 11, 2012, the BPI Group reclassified certain available-for-sale securities totaling P1.01 billion to loans and receivables. The reclassification was triggered by management's change in intention over the securities following the disappearance of active markets for these securities. As at date of reclassification, fair value gain or loss that would have been recognized in other comprehensive income if the available-for-sale securities had not been reclassified amounts to P725 million, which is the same amount of unamortized fair value loss in other comprehensive income that will be recycled to profit or loss over the remaining lives of the securities. The unamortized fair value loss as of December 31, 2012 amounts to P456 million. The estimated amount of cash flows that the BPI Group expects to recover, as at the date of reclassification, is P1.01 billion at the average effective interest rate of 3.54%. There are no gains or losses recognized in profit or loss or other comprehensive income.

#### **Note 12 - Held-to-Maturity Securities**

This account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)			
Government securities	<b>73,038</b>	84,709	<b>64,851</b>	76,080
Commercial papers of private companies	<b>1,432</b>	2,990	<b>1,432</b>	1,851
	<b>74,470</b>	87,699	<b>66,283</b>	77,931
Accrued interest receivable	<b>1,773</b>	2,043	<b>1,539</b>	1,792
	<b>76,243</b>	89,742	<b>67,822</b>	79,723

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)			
Current	<b>18,816</b>	15,298	<b>15,024</b>	10,223
Non-current	<b>57,427</b>	74,444	<b>52,798</b>	69,500
	<b>76,243</b>	89,742	<b>67,822</b>	79,723

The range of average interest rates (%) of held-to-maturity securities of the BPI Group for the years ended December 31 follows:

	<b>2012</b>	<b>2011</b>
Peso-denominated	<b>7.44 - 7.66</b>	7.46 - 8.00
Foreign currency-denominated	<b>4.57 - 4.75</b>	4.53 - 4.82

The movement in held-to-maturity securities is summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
		(In Millions of Pesos)		
At January 1	89,742	95,474	79,723	85,136
Additions	10,837	31,517	9,521	29,920
Maturities	(19,973)	(38,591)	(17,659)	(35,616)
Amortization of premium, net	(2,009)	(1,417)	(1,643)	(1,434)
Exchange differences	(2,084)	2,792	(1,867)	1,766
Net change in accrued interest receivable	(270)	(33)	(253)	(49)
At December 31	76,243	89,742	67,822	79,723

### Note 13 - Loans and Advances

Major classifications of this account at December 31 are as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
		(In Millions of Pesos)		
Corporate entities				
Large corporate customers	328,242	276,806	315,698	275,099
Small and medium enterprise	85,906	74,518	53,515	46,439
Retail customers				
Credit cards	25,224	21,571	25,224	21,571
Mortgages	95,914	83,451	175	146
Others	5,614	13,040	2,007	727
	540,900	469,386	396,619	343,982
Accrued interest receivable	1,962	1,667	1,396	1,230
Unearned discount/income	(5,125)	(5,894)	(522)	(422)
	537,737	465,159	397,493	344,790
Allowance for impairment	(11,097)	(10,660)	(7,531)	(7,365)
	526,640	454,499	389,962	337,425

The Parent balances above include amounts due from related parties (Note 32).

	Consolidated		Parent	
	2012	2011	2012	2011
		(In Millions of Pesos)		
Current	294,025	262,020	269,926	251,138
Non-current	243,712	203,139	127,567	93,652
	537,737	465,159	397,493	344,790

The amount of loans and advances above include finance lease receivables as follows:

	Consolidated	
	2012	2011
	(In Millions of Pesos)	
Total future minimum lease collections	7,957	7,256
Unearned finance income	(1,137)	(1,113)
Present value of future minimum lease collections	6,820	6,143
Allowance for impairment	(142)	(74)
	6,678	6,069



Details of future minimum lease collections follow:

	<b>Consolidated</b>	
	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)	
Not later than one year	<b>4,456</b>	4,268
Later than one year but not later than five years	<b>3,501</b>	2,988
	<b>7,957</b>	7,256
Unearned finance income	<b>(1,137)</b>	(1,113)
	<b>6,820</b>	6,143

The Parent Bank has no finance lease receivables as at December 31, 2012 and 2011.

Details of the loans and advances portfolio of the BPI Group at December 31 are as follows:

1) As to industry/economic sector (in %)

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
Consumer	<b>28.37</b>	27.96	<b>6.78</b>	6.60
Manufacturing	<b>18.24</b>	22.19	<b>24.51</b>	29.77
Real estate, renting and other related activities	<b>13.96</b>	12.53	<b>17.58</b>	15.63
Agriculture and forestry	<b>1.84</b>	2.67	<b>2.43</b>	3.56
Wholesale and retail trade	<b>14.66</b>	14.26	<b>19.42</b>	18.85
Financial institutions	<b>6.91</b>	6.22	<b>8.82</b>	7.70
Others	<b>16.02</b>	14.17	<b>20.46</b>	17.89
	<b>100.00</b>	100.00	<b>100.00</b>	100.00

2) As to collateral

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	<b>165,342</b>	152,314	<b>78,906</b>	77,219
Chattel mortgage	<b>32,354</b>	30,506	<b>3,105</b>	3,732
Others	<b>134,168</b>	100,630	<b>129,313</b>	96,695
	<b>331,864</b>	283,450	<b>211,324</b>	177,646
Unsecured loans	<b>203,911</b>	180,042	<b>184,773</b>	165,914
	<b>535,775</b>	463,492	<b>396,097</b>	343,560

Other collaterals include hold-out deposits, mortgage trust indentures, government securities and bonds, quedan/warehouse receipts, standby letters of credit, trust receipts, and deposit substitutes.

Loans and advances aggregating P3,431 million (2011 - P3,312 million) and P1,865 million (2011 - P1,283 million) are used as security for bills payable (Note 20) of the BPI Group and Parent Bank, respectively.

The range of average interest rates (%) of loans and advances of the BPI Group for the years ended December 31 follows:

	<b>2012</b>	<b>2011</b>
Commercial loans		
Peso-denominated loans	<b>5.42 - 5.55</b>	5.08 - 5.89
Foreign currency-denominated loans	<b>2.36 - 2.60</b>	2.16 - 2.25
Real estate mortgages	<b>8.64 - 9.06</b>	8.70 - 9.52
Auto loans	<b>9.85 - 10.28</b>	10.45 - 10.60

Non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of accounts in the “loss” category and covered with 100% reserves (excluded under BSP Circular 351), are as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	11,578	12,095	6,761	7,270
“Loss” category loans with 100% reserves	2,986	2,559	2,157	1,921
Net NPL 30	8,592	9,536	4,604	5,349

Reconciliation of allowance for impairment by class at December 31 follows:

Consolidated

	2012					
	Corporate entities		Retail customers			Total
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	
(In Millions of Pesos)						
At January 1	3,091	3,323	1,102	1,973	1,171	10,660
Provision for impairment losses	269	74	292	1,233	333	2,201
Write-off/disposal	(195)	(87)	(1)	(836)	(73)	(1,192)
Unwind of discount	(75)	(50)	-	-	-	(125)
Others	(36)	(480)	117	(65)	17	(447)
At December 31	3,054	2,780	1,510	2,305	1,448	11,097

	2011					
	Corporate entities		Retail customers			Total
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	
(In Millions of Pesos)						
At January 1	2,641	3,537	975	1,945	1,144	10,242
Provision for impairment losses	629	2	180	921	54	1,786
Write-off/disposal	(86)	(112)	(7)	(872)	(9)	(1,086)
Unwind of discount	(68)	(97)	-	-	-	(165)
Others	(25)	(7)	(46)	(21)	(18)	(117)
At December 31	3,091	3,323	1,102	1,973	1,171	10,660

Parent

	2012					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	3,025	2,289	40	1,973	38	7,365
Provision for impairment losses	171	26	-	1,233	-	1,430
Write-off/disposal	(194)	(18)	(1)	(836)	(2)	(1,051)
Unwind of discount	(75)	(50)	-	-	-	(125)
Others	23	(104)	(1)	(65)	59	(88)
At December 31	2,950	2,143	38	2,305	95	7,531

	2011					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	2,752	2,501	60	1,945	13	7,271
Provision for (reversal of) impairment losses	489	(78)	1	921	11	1,344
Write-off/disposal	(86)	(98)	-	(872)	(2)	(1,058)
Unwind of discount	(68)	(97)	-	-	-	(165)
Others	(62)	61	(21)	(21)	16	(27)
At December 31	3,025	2,289	40	1,973	38	7,365

**Note 14 - Bank Premises, Furniture, Fixtures and Equipment**

This account at December 31 consists of:

Consolidated

	<b>2012</b>				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
<b>Cost</b>					
January 1, 2012	3,159	5,831	11,388	4,468	<b>24,846</b>
Additions	-	349	1,446	2,072	<b>3,867</b>
Disposals	(9)	(184)	(942)	(1,688)	<b>(2,823)</b>
Amortization	-	(156)	-	-	<b>(156)</b>
Transfers	(4)	4	(2)	-	<b>(2)</b>
<b>December 31, 2012</b>	<b>3,146</b>	<b>5,844</b>	<b>11,890</b>	<b>4,852</b>	<b>25,732</b>
<b>Accumulated depreciation</b>					
January 1, 2012	-	2,225	8,807	1,492	<b>12,524</b>
Depreciation	-	226	1,282	987	<b>2,495</b>
Disposals/transfers	-	(99)	(767)	(842)	<b>(1,708)</b>
<b>December 31, 2012</b>	<b>-</b>	<b>2,352</b>	<b>9,322</b>	<b>1,637</b>	<b>13,311</b>
<b>Net book value, December 31, 2012</b>	<b>3,146</b>	<b>3,492</b>	<b>2,568</b>	<b>3,215</b>	<b>12,421</b>

	2011				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2011	3,263	5,501	11,974	4,215	24,953
Additions	22	538	2,423	3,031	6,014
Disposals	(126)	(19)	(2,998)	(2,778)	(5,921)
Amortization	-	(187)	-	-	(187)
Transfers	-	(2)	(11)	-	(13)
December 31, 2011	3,159	5,831	11,388	4,468	24,846
Accumulated depreciation					
January 1, 2011	-	2,022	9,761	1,564	13,347
Depreciation	-	221	1,187	934	2,342
Disposals/transfers	-	(18)	(2,141)	(1,006)	(3,165)
December 31, 2011	-	2,225	8,807	1,492	12,524
Net book value, December 31, 2011	3,159	3,606	2,581	2,976	12,322

#### Parent

	2012			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2012	2,702	5,050	10,501	18,253
Additions	-	300	1,349	1,649
Disposals	(9)	(184)	(859)	(1,052)
Amortization	-	(118)	-	(118)
Transfers	(1)	7	(6)	-
December 31, 2012	2,692	5,055	10,985	18,732
Accumulated depreciation				
January 1, 2012	-	1,956	8,098	10,054
Depreciation	-	203	1,193	1,396
Disposals/transfers	-	(102)	(717)	(819)
December 31, 2012	-	2,057	8,574	10,631
Net book value, December 31, 2012	2,692	2,998	2,411	8,101

	2011			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
	(In Millions of Pesos)			
Cost				
January 1, 2011	2,827	4,771	11,075	18,673
Additions	1	442	2,291	2,734
Disposals	(126)	(18)	(2,861)	(3,005)
Amortization	-	(145)	-	(145)
Transfers	-	-	(4)	(4)
December 31, 2011	2,702	5,050	10,501	18,253
Accumulated depreciation				
January 1, 2011	-	1,777	9,049	10,826
Depreciation	-	197	1,091	1,288
Disposals/transfers	-	(18)	(2,042)	(2,060)
December 31, 2011	-	1,956	8,098	10,054
Net book value, December 31, 2011	2,702	3,094	2,403	8,199

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

**Note 15 - Investment Properties**

This account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
	(In Millions of Pesos)			
Land	<b>3,208</b>	3,208	<b>3,202</b>	3,202
Buildings	<b>1,771</b>	1,759	<b>1,770</b>	1,758
	<b>4,979</b>	4,967	<b>4,972</b>	4,960
Accumulated depreciation	<b>(1,144)</b>	(1,077)	<b>(1,144)</b>	(1,077)
Allowance for impairment	<b>(1,253)</b>	(1,253)	<b>(1,253)</b>	(1,253)
	<b>2,582</b>	2,637	<b>2,575</b>	2,630

The movement in investment properties is summarized as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
	(In Millions of Pesos)			
At January 1	<b>2,637</b>	2,706	<b>2,630</b>	2,696
Additions	<b>12</b>	1	<b>12</b>	1
Disposals	-	(4)	-	-
Depreciation	<b>(67)</b>	(66)	<b>(67)</b>	(67)
At December 31	<b>2,582</b>	2,637	<b>2,575</b>	2,630

Investment properties have aggregate fair value of P6,449 million as at December 31, 2012 (2011 - P5,899 million). Fair value of investment property is determined on the basis of appraisal made by an internal or an external appraiser duly certified by the BPI Group's credit policy group. Valuation methods employed by the appraisers include the cost approach, market data approach, reproduction cost approach, development cost approach and income approach.

Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

All investment properties generate rental income. Rental income from investment properties recognized in the statement of income, as part of Other operating income, amounts to P260 million for the year ended December 31, 2012 (2011 - P245 million; 2010 - P216 million). Direct operating expenses (including repairs and maintenance) arising from these investment properties amount to P193 million for the year ended December 31, 2012 (2011 - P205 million; 2010 - P211 million).

**Note 16 - Investments in Subsidiaries and Associates**

This account at December 31 consists of investments in shares of stock:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	2011	<b>2012</b>	2011
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	<b>3,680</b>	3,069	-	-
Investments at cost method	-	-	<b>7,088</b>	7,008
	<b>3,680</b>	3,069	<b>7,088</b>	7,008

Investments in associates carried at equity method in the consolidated statement of condition follow:

Name of entity	Percentage of ownership interest (%)		Acquisition cost	
	2012	2011	2012	2011
			(In Millions of Pesos)	
BPI - Philamlife Assurance Corporation	<b>47.67</b>	47.67	<b>371</b>	371
National Reinsurance Corporation*	<b>15.12</b>	15.12	<b>204</b>	204
Beacon Properties	<b>20.00</b>	20.00	<b>100</b>	100
Victoria 1552 Investments, LP	<b>35.00</b>	35.00	<b>7</b>	7
Citytrust Realty Corporation	<b>40.00</b>	40.00	<b>2</b>	2
			<b>684</b>	684
Allowance for impairment			<b>(7)</b>	(7)
			<b>677</b>	677

\*BPI Group has significant influence

Details and movements of investments in associates carried at equity method in the consolidated financial statements follow:

	2012	2011
	(In Millions of Pesos)	
Acquisition cost		
At January 1	<b>677</b>	677
Allowance for impairment	-	-
At December 31	<b>677</b>	677
Accumulated equity in net income		
At January 1	<b>1,276</b>	1,066
Share in net income for the year	<b>138</b>	216
Dividends received	<b>(29)</b>	(6)
At December 31	<b>1,385</b>	1,276
Accumulated share in other comprehensive income		
At January 1	<b>1,116</b>	765
Share in other comprehensive income for the year	<b>502</b>	351
At December 31	<b>1,618</b>	1,116
	<b>3,680</b>	3,069

Summarized unaudited financial information of associates follows:

	2012	2011
	(In Millions of Pesos)	
Total assets	<b>54,482</b>	40,222
Total liabilities	<b>41,441</b>	28,446
Total revenues	<b>14,665</b>	8,730
Total net income	<b>384</b>	798

The details of equity investments at cost method in the separate financial statements of the Parent Bank follow:

	Acquisition cost		Allowance for impairment		Carrying value	
	2012	2011	2012	2011	2012	2011
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.	1,910	1,910	-	-	1,910	1,910
Ayala Plans, Inc.	863	863	-	-	863	863
BPI Leasing Corporation	644	644	-	-	644	644
BPI Capital Corporation	623	623	-	-	623	623
BPI Direct Savings Bank, Inc.	392	392	-	-	392	392
FGU Insurance Corporation	303	303	-	-	303	303
Prudential Investments, Inc.	300	300	-	-	300	300
BPI Globe BankO, Inc.	359	279	-	-	359	279
BPI Foreign Exchange Corp.	195	195	-	-	195	195
BPI Express Remittance Corp. USA	191	191	-	-	191	191
BPI Family Savings Bank, Inc.	150	150	-	-	150	150
First Far-East Development Corporation	91	91	-	-	91	91
Green Enterprises S.R.L. in Liquidation (formerly BPI Express Remittance Europe, S.p.A)	54	54	-	-	54	54
BPI Card Finance Corp.	50	50	-	-	50	50
FEB Stock Brokers, Inc.	25	25	-	-	25	25
BPI Computer Systems Corp.	23	23	-	-	23	23
BPI Express Remittance Spain S.A	20	20	-	-	20	20
Others	322	322	(104)	(104)	218	218
Associates	677	677	-	-	677	677
	7,192	7,112	(104)	(104)	7,088	7,008

## Note 17 - Deferred Income Taxes

The significant components of deferred income tax assets and liabilities at December 31 are as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	5,565	5,130	4,003	3,793
Net operating loss carry over (NOLCO)	7	4	-	-
Minimum corporate income tax (MCIT)	4	3	-	-
Others	395	604	410	496
Total deferred income tax assets	5,971	5,741	4,413	4,289
Deferred income tax liabilities				
Revaluation gain on properties acquired from a business combination	(810)	(799)	(760)	(798)
Fair value gain on available-for-sale securities	(174)	(393)	(160)	(391)
Excess pension asset contribution	-	(4)	-	-
Others	(72)	(210)	(72)	(142)
Total deferred income tax liabilities	(1,056)	(1,406)	(992)	(1,331)
	4,915	4,335	3,421	2,958

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Deferred income tax assets				
Amount to be recovered within 12 months	430	789	323	689
Amount to be recovered after 12 months	5,541	4,952	4,090	3,600
	5,971	5,741	4,413	4,289
Deferred income tax liabilities				
Amount to be settled within 12 months	357	282	357	282
Amount to be settled after 12 months	699	1,124	635	1,049
	1,056	1,406	992	1,331

The movement in the deferred income tax account is summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
At January 1	4,335	5,023	2,958	3,802
Income statement charge	444	440	232	297
Fair value adjustment on available-for-sale securities	220	(263)	231	(287)
MCIT	-	(665)	-	(623)
Others	(84)	(200)	-	(231)
At December 31	4,915	4,335	3,421	2,958

The deferred tax charge in the statement of income comprises the following temporary differences:

	Consolidated			Parent		
	2012	2011	2010	2012	2011	2010
	(In Millions of Pesos)					
Allowance for impairment	(436)	(135)	(465)	(210)	17	(106)
NOLCO	(3)	7	464	-	-	466
Pension	(4)	79	(113)	-	63	(77)
Leasing income differential	-	-	(6)	-	-	-
Others	(1)	(391)	(226)	(22)	(377)	(156)
	(444)	(440)	(346)	(232)	(297)	127



The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2012	2011	2012	2011
(In Millions of Pesos)					
2012	2015	10	-	-	-
2011	2014	3	3	-	-
2010	2013	11	11	-	-
2009	2012	-	27	-	-
2008	2011	-	4	-	-
		24	45	-	-
Used portion during the year		-	(31)	-	-
		24	14	-	-
Tax rate		30%	30%	30%	30%
Deferred income tax asset on NOLCO		7	4	-	-

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2012	2011	2012	2011
(In Millions of Pesos)					
2011	2014	3	3	-	-
2010	2013	-	194	190	190
2009	2012	-	234	232	232
2008	2011	-	240	201	201
		3	671	623	623
Used portion during the year		-	(668)	623	(623)
		3	3	-	-

#### Note 18 - Other Resources

The account at December 31 consists of the following:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
Intangible assets	2,865	3,048	2,817	3,019
Accounts receivable	4,843	3,528	4,277	2,566
Residual value of equipment for lease	2,238	1,855	-	-
Sundry debits	2,327	1,284	2,301	1,224
Accrued trust and other fees	1,150	1,012	974	910
Creditable withholding tax	798	733	529	457
Prepaid expenses	607	533	412	385
Rental deposits	294	270	244	223
Miscellaneous assets	1,488	1,218	898	604
	16,610	13,481	12,452	9,388
Allowance for impairment	(1,662)	(1,333)	(1,523)	(1,289)
	14,948	12,148	10,929	8,099

The reconciliation of the allowance for impairment at December 31 is summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
(In Millions of Pesos)				
At January 1	1,333	1,332	1,289	1,280
Provision for impairment losses	329	32	280	33
Write-off	-	(31)	(46)	(24)
At December 31	1,662	1,333	1,523	1,289

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)			
Current	<b>11,942</b>	5,532	<b>10,976</b>	4,275
Non-current	<b>4,668</b>	7,949	<b>1,476</b>	5,113
	<b>16,610</b>	13,481	<b>12,452</b>	9,388

On December 8, 2010, BPI signed an agreement with ING Bank N.V. – Manila Branch (“ING”) to purchase the latter’s trust business. On February 16, 2011, BPI and ING received the approval of the transaction from the BSP subject to certain conditions. Subsequently, the amendment of the Plan Rules of the Unit Investment Trust Funds (“UITF”) managed by ING was approved by the Monetary Board in its meeting on March 25, 2011 allowing BPI to act as Trustee of these UITFs which shall be renamed Odyssey Funds.

The acquisition was completed on March 30, 2011. The purchase of ING’s trust department was accounted for as an acquisition of business under PFRS 3. The main assets acquired from this transaction consist of intangible asset in the form of contractual customer relationships which have an aggregate fair value of P2,784 million and certain IT and transportation equipment valued at P25 million. There were no liabilities assumed from the acquisition. The contractual customer relationships are expected to have a useful life of 10 years. The amount of amortization recognized in the statement of income for the year ended December 31, 2012 is P278 million (2011 - P208 million).

#### **Note 19 - Deposit Liabilities**

This account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)			
Demand	<b>149,092</b>	131,249	<b>141,539</b>	123,448
Savings	<b>341,971</b>	291,511	<b>294,192</b>	253,015
Time	<b>311,211</b>	258,341	<b>192,634</b>	167,951
	<b>802,274</b>	681,101	<b>628,365</b>	544,414

The Parent balances above include amounts due to related parties (Note 32).

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)			
Current	<b>588,133</b>	505,864	<b>541,118</b>	411,331
Non-current	<b>214,141</b>	175,237	<b>87,247</b>	133,083
	<b>802,274</b>	681,101	<b>628,365</b>	544,414

Related interest expense on deposit liabilities is broken down as follows:

	Consolidated			Parent		
	2012	2011	2010	2012	2011	2010
	(In Millions of Pesos)					
Demand	550	692	628	505	645	583
Savings	2,651	2,325	1,608	2,190	1,954	1,345
Time	8,447	8,704	9,833	4,234	5,002	6,153
	11,648	11,721	12,069	6,929	7,601	8,081

In 2011, the BPI Group is subject to liquidity and statutory reserve requirements with respect to certain deposit liabilities as mandated by BSP. However, under current and existing BSP regulations as at December 31, 2012, the BPI Group should comply with a simplified minimum reserve requirement instead of the separate liquidity and statutory reserve requirements. Further, BSP requires all reserves be kept at the central bank. The BPI Group is in full compliance with the simplified reserve requirement.

The required liquidity and statutory reserves as reported to BSP as at December 31 comprise as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Due from BSP	100,158	78,486	90,220	70,090
Cash in vault	-	21,330	-	20,707
Due from local banks	-	3	-	-
	100,158	99,819	90,220	90,797

#### Note 20 - Bills Payable

This account at December 31 consists of:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Bangko Sentral ng Pilipinas	2,940	3,048	1,384	1,070
Private firms	760	5,100	-	-
Local banks	7,482	2,614	481	444
Foreign banks	15,098	8,374	15,098	8,373
	26,280	19,136	16,963	9,887

The range of average interest rates (%) of bills payable of the BPI Group for the years ended December 31 follows:

	2012	2011
Bangko Sentral ng Pilipinas	4.38 - 4.76	3.95 - 4.29
Private firms and local banks - Peso-denominated	6.25 - 6.87	6.37 - 7.12
Foreign banks	1.28 - 1.49	0.82 - 1.01

	Consolidated			Parent		
	2012	2011	2010	2012	2011	2010
	(In Millions of Pesos)					
Interest expense	584	679	867	165	245	548

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Current	24,890	17,299	15,842	8,426
Non-current	1,390	1,837	1,121	1,461
	26,280	19,136	16,963	9,887

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Social Security System (SSS) which were relented to customers of the BPI Group in accordance with the financing programs of LBP, DBP and SSS and credit balances of settlement bank accounts. The average payment terms of these bills payable is 2.25 years (2011 - 1.12 years). Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 13).

#### Note 21 - Unsecured Subordinated Debt

On December 12, 2008, the Parent Bank issued P5,000 million worth of unsecured subordinated notes (the "Notes") eligible as Lower Tier 2 capital pursuant to BSP Circular No. 280, series of 2001, as amended. The Notes will at all times, rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Bank, except obligations mandatorily preferred by law. The Notes bear interest at the rate of 8.45% per annum and will mature on December 12, 2018 (maturity date). The interest is payable quarterly in arrears from December 12, 2008 until December 11, 2018. The Notes are redeemable in whole and not only in part at the exclusive option of the Parent Bank on December 13, 2013 (redemption date) subject to the satisfaction of certain regulatory approval requirements. Unless the Notes are earlier redeemed on December 13, 2013, the applicable interest rate will be increased to the rate equal to 80% multiplied by the 5-year on-the-run Philippine Treasury benchmark bid yield (benchmark rate) on the first day of the 21st interest period plus the step-up spread. The step-up spread is equal to 150% of 8.45% less 80% of the benchmark rate.

Annual interest expense on the unsecured subordinated notes recognized in 2012, 2011 and 2010 amount to P423 million.

#### Note 22 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Bills purchased - contra	11,570	9,150	11,557	9,141
Dividends payable	-	3,201	-	3,201
Accounts payable	3,621	2,918	2,548	2,020
Deposit on lease contract	2,377	2,050	-	-
Outstanding acceptances	1,153	1,390	1,153	1,390
Other deferred credits	1,541	1,007	963	761
Withholding tax payable	712	464	624	361
Vouchers payable	459	423	458	423
Due to the Treasurer of the Philippines	279	288	252	260
Miscellaneous liabilities	2,013	1,334	1,661	1,012
	23,725	22,225	19,216	18,569

Bills purchased - contra represents liabilities arising from the outright purchases of checks before actual clearing as a means of immediate financing offered by the BPI Group. Miscellaneous liabilities include insurance and other employee-related payables.

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Current	20,005	18,002	17,569	16,559
Non-current	3,720	4,223	1,647	2,010
	23,725	22,225	19,216	18,569

**Note 23 - Capital Funds**

Details of authorized capital stock of the Parent Bank follow:

	2012	2011	2010
	(In Millions of Pesos Except Par Value Per Share)		
Authorized capital (at P10 par value per share)			
Common shares	49,000	49,000	49,000
Preferred A shares	600	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

	2012	2011	2010
	(In Number of Shares)		
Issued common shares			
At January 1	3,556,356,173	3,556,328,003	3,246,770,334
Issuance of shares during the year	-	28,170	309,557,669
At December 31	3,556,356,173	3,556,356,173	3,556,328,003
Subscribed common shares	-	-	28,170

In August 2010, the Parent Bank offered for subscription a total of 307,692,307 of its common shares to eligible shareholders on a pre-emptive rights basis at P32.50 per share. The net proceeds from the rights offer amounting to P9.91 billion have augmented further the Parent Bank's capital base and have been fully invested in loans at December 31, 2010.

Share premium as at December 31, 2012, 2011 and 2010 amounts to P8,317 million.

As at December 31, 2012, 2011 and 2010, the Parent Bank has 12,447, 12,921 and 13,291 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2012, 2011 and 2010.

Details of and movements in Accumulated other comprehensive income (loss) for the years ended December 31 follow:

	Consolidated			Parent		
	2012	2011	2010	2012	2011	2010
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	<b>1,748</b>	328	(879)	<b>1,192</b>	(303)	(1,324)
Unrealized fair value (loss) gain before tax	<b>(1,351)</b>	1,683	1,538	<b>(1,195)</b>	1,782	1,396
Deferred income tax effect	<b>633</b>	(263)	(331)	<b>645</b>	(287)	(375)
At December 31	<b>1,030</b>	1,748	328	<b>642</b>	1,192	(303)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	<b>137</b>	202	(78)	-	-	-
Share in other comprehensive income (loss) for the year, before tax	<b>169</b>	(48)	341	-	-	-
Deferred income tax effect	<b>(17)</b>	(17)	(61)	-	-	-
At December 31	<b>289</b>	137	202	-	-	-
Share in other comprehensive income (loss) of associates						
At January 1	<b>1,116</b>	765	(65)	-	-	-
Share in other comprehensive income for the year	<b>502</b>	351	830	-	-	-
At December 31	<b>1,618</b>	1,116	765	-	-	-
Translation adjustment on foreign operations						
At January 1	<b>(833)</b>	(828)	(613)	-	-	-
Translation differences	<b>(104)</b>	(5)	(215)	-	-	-
At December 31	<b>(937)</b>	(833)	(828)	-	-	-
	<b>2,000</b>	2,168	467	<b>642</b>	1,192	(303)

Details of and movements in Reserves for the years ended December 31 follow:

	Consolidated			Parent		
	2012	2011	2010	2012	2011	2010
	(In Millions of Pesos)					
Stock option scheme (Note 24)						
At January 1	-	42	179	-	11	136
Exercise of options	-	-	(137)	-	-	(125)
Expiration of options	-	(42)	-	-	(11)	-
Value of employee services	-	-	-	-	-	-
At December 31	-	-	42	-	-	11
Surplus reserves						
At January 1	1,462	1,325	1,215	1,462	1,325	1,215
Transfer from surplus	141	137	110	141	137	110
At December 31	1,603	1,462	1,325	1,603	1,462	1,325
	1,603	1,462	1,367	1,603	1,462	1,336

Surplus reserves consist of:

	2012	2011	2010
	(In Millions of Pesos)		
Reserve for trust business	1,569	1,428	1,291
Reserve for self-insurance	34	34	34
	1,603	1,462	1,325

In compliance with existing BSP regulations, 10% of the Parent Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the Parent Bank's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of personnel and third parties.

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2009 to 2012 follow:

Date declared	Date approved by the BSP	Amount of dividends	
		Per share	Total (In Millions of Pesos)
December 16, 2009	January 25, 2010	0.90	2,922
May 19, 2010	June 22, 2010	0.90	2,922
October 20, 2010	November 15, 2010	0.90	3,200
May 18, 2011	June 2, 2011	0.90	3,201
November 16, 2011	December 6, 2011	0.90	3,201
March 21, 2012	April 10, 2012	0.50	1,778
March 21, 2012	April 10, 2012	0.90	3,201
October 21, 2012	November 16, 2012	0.90	3,201

Cash dividends declared are payable to common shareholders of record as of 15th day from receipt by the Parent Bank of the approval by the BSP and distributable on the 15th day from the said record date.

The calculation of earnings per share (EPS) is shown below:

	Consolidated			Parent		
	2012	2011	2010	2012	2011	2010
	(In Millions, Except Earnings Per Share Amounts)					
a) Net income attributable to equity holders of the Parent Bank	<b>16,291</b>	12,822	11,312	<b>12,383</b>	9,856	8,306
b) Weighted average number of common shares outstanding during the year	<b>3,556</b>	3,556	3,350	<b>3,556</b>	3,556	3,350
c) Basic EPS (a/b)	<b>4.58</b>	3.61	3.38	<b>3.48</b>	2.77	2.48

There are no stock options outstanding as at December 31, 2012, 2011 and 2010 (Note 24), thus basic and diluted EPS are the same for the years presented.

#### Note 24 - Stock Option Plan

Movements in the number of share options are as follows:

	2012	2011	2010
At January 1	-	-	7,617,387
Granted	-	-	-
Exercised	-	-	(7,438,864)
Cancelled	-	-	(178,523)
At December 31	-	-	-
Exercisable	-	-	-

#### Note 25 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2012	2011	2010	2012	2011	2010
	(In Millions of Pesos)					
Trust and asset management fees	<b>2,913</b>	2,569	1,816	<b>2,453</b>	2,199	1,709
Rental income	<b>1,698</b>	1,627	1,505	<b>415</b>	397	388
Credit card income	<b>1,342</b>	1,332	1,180	<b>1,342</b>	1,332	1,180
Gain on sale of assets	<b>1,192</b>	527	617	<b>640</b>	310	453
Dividend income	<b>27</b>	47	85	<b>1,383</b>	1,210	206
Others	<b>706</b>	586	622	<b>538</b>	469	494
	<b>7,878</b>	6,688	5,825	<b>6,771</b>	5,917	4,430

Trust and asset management fees arise from the BPI Group's asset management and trust services and are based on agreed terms with various managed funds and investments.

Rental income is earned by the BPI Group by leasing out its investment properties (Note 15) and other assets which consist mainly of fleet of vehicles.

Gain on sale of assets arises mainly from disposals of properties (including equity investments), foreclosed collaterals and non-performing assets.

Dividend income recognized by the Parent Bank substantially pertains to dividend distribution of subsidiaries.



## Note 26 - Leases

The BPI Group and the Parent Bank have various lease agreements which mainly pertain to branch premises that are renewable under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	<b>Consolidated</b>	<b>Parent</b>
	(In Millions of Pesos)	
<b>2012</b>	<b>936</b>	<b>745</b>
2011	870	684
2010	809	634

The future minimum lease payments under non-cancellable operating leases of the BPI Group are as follows:

	<b>2012</b>	2011
	(In Millions of Pesos)	
No later than 1 year	<b>71</b>	43
Later than 1 year but no later than 5 years	<b>120</b>	64
	<b>191</b>	107

## Note 27 - Operating Expenses

Details of compensation and fringe benefits expenses follow:

	<b>Consolidated</b>			<b>Parent</b>		
	<b>2012</b>	2011	2010	<b>2012</b>	2011	2010
	(In Millions of Pesos)					
Salaries and wages	<b>8,328</b>	8,409	7,168	<b>6,565</b>	6,420	5,176
Retirement expense (Note 30)	<b>1,118</b>	922	966	<b>886</b>	732	723
Other employee benefit expenses	<b>1,110</b>	1,048	1,003	<b>875</b>	842	765
	<b>10,556</b>	10,379	9,137	<b>8,326</b>	7,994	6,664

Details of other operating expenses follow:

	<b>Consolidated</b>			<b>Parent</b>		
	<b>2012</b>	2011	2010	<b>2012</b>	2011	2010
	(In Millions of Pesos)					
Supervision and examination fees	<b>1,746</b>	1,618	1,477	<b>1,423</b>	1,328	1,227
Advertising	<b>1,457</b>	1,410	1,206	<b>1,268</b>	1,256	1,054
Travel and communication	<b>662</b>	622	576	<b>556</b>	492	436
Litigation expenses	<b>444</b>	458	494	<b>321</b>	307	343
Amortization expense	<b>334</b>	308	58	<b>331</b>	305	57
Insurance	<b>337</b>	254	312	<b>55</b>	48	51
Office supplies	<b>248</b>	235	234	<b>207</b>	198	194
Taxes and licenses	<b>222</b>	233	177	<b>113</b>	127	86
Management and other professional fees	<b>188</b>	197	189	<b>134</b>	142	131
Shared expenses	<b>-</b>	-	-	<b>107</b>	237	220
Others	<b>1,501</b>	1,275	1,011	<b>862</b>	856	608
	<b>7,139</b>	6,610	5,734	<b>5,377</b>	5,296	4,407

## Note 28 - Income Taxes

A reconciliation between the provision for income tax at the statutory tax rate and the actual provision for income tax for the years ended December 31 follows:

	Consolidated					
	2012		2011		2010	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	5,872	30.00	(In Millions of Pesos)			
			4,843	30.00	4,200	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(1,132)	(5.78)	(951)	(5.89)	(354)	(2.53)
Tax-exempt income	(2,850)	(14.56)	(2,634)	(16.32)	(2,879)	(20.56)
Others, net	1,242	6.35	1,872	11.59	1,553	11.09
Actual income tax	3,132	16.01	3,130	19.38	2,520	18.00

	Parent					
	2012		2011		2010	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
Statutory income tax	4,379	30.00	(In Millions of Pesos)			
			3,634	30.00	3,140	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(868)	(5.95)	(926)	(7.64)	(247)	(2.36)
Tax-exempt income	(1,982)	(13.58)	(1,838)	(15.17)	(2,125)	(20.30)
Others, net	683	4.68	1,389	11.46	1,392	13.30
Actual income tax	2,212	15.15	2,259	18.65	2,160	20.64

## Note 29 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2012	2011	2012	2011
Return on average equity	17.55	15.17	17.91	15.26
Return on average assets	1.91	1.62	1.87	1.59
Net interest margin	3.57	3.67	3.37	3.41

## Note 30 - Retirement Plans

BPI and its subsidiaries, and the non-life insurance company have separate trustee, noncontributory retirement benefit plans covering all qualified officers and employees. The description of the plans follows:

### BPI

BPI has a unified plan which includes its subsidiaries other than insurance companies. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

The net defined benefit cost and contributions to be paid by the entities within the BPI Group are determined by an independent actuary.

Plan assets are held in trusts, governed by local regulations and practice in the Philippines.

#### Non-life insurance subsidiary

BPI/MS has a separate trustee defined benefit plan. Under the plan, the normal retirement age is 60 years or the employee should have completed at least 10 years of service, whichever is earlier. The normal retirement benefit is equal to 150% of the final basic monthly salary for each year of service for below 10 years and 175% of the final basic monthly salary for each year of service for 10 years and above.

Death or disability benefit for all employees of the non-life insurance company shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Following are the amounts recognized based on recent actuarial valuations:

#### (a) Pension (asset) liability recognized in the statement of condition

<b>Consolidated</b>					
	<b>2012</b>	2011	2010	2009	2008
	(In Millions of Pesos)				
Present value of defined benefit obligations	<b>10,909</b>	11,508	10,388	10,260	9,607
Fair value of plan assets	<b>(10,406)</b>	(8,415)	(8,421)	(6,576)	(5,615)
Deficit in the plan	<b>503</b>	3,093	1,967	3,684	3,992
Unrecognized actuarial losses	<b>(514)</b>	(3,120)	(1,995)	(2,867)	(3,938)
Pension (asset) liability recognized in the statement of condition	<b>(11)</b>	(27)	(28)	817	54

<b>Parent</b>					
	<b>2012</b>	2011	2010	2009	2008
	(In Millions of Pesos)				
Present value of defined benefit obligations	<b>8,702</b>	9,161	8,182	7,985	7,475
Fair value of plan assets	<b>(8,385)</b>	(6,796)	(6,775)	(5,097)	(4,373)
Deficit in the plan	<b>317</b>	2,365	1,407	2,888	3,102
Unrecognized actuarial losses	<b>(313)</b>	(2,363)	(1,408)	(2,050)	(2,851)
Pension (asset) liability recognized in the statement of condition	<b>4</b>	2	(1)	838	251

Pension asset is shown as part of "Miscellaneous assets" within Other resources (Note 18).

Experience adjustments at December 31 follow:

<b>Consolidated</b>					
	<b>2012</b>	2011	2010	2009	2008
	(In Millions of Pesos)				
Experience gain (loss) on plan liabilities	<b>(33)</b>	329	(371)	(151)	34
Experience gain (loss) on plan assets	<b>1,522</b>	(405)	479	755	(1,223)

<b>Parent</b>					
	<b>2012</b>	2011	2010	2009	2008
	(In Millions of Pesos)				
Experience gain (loss) on plan liabilities	<b>14</b>	232	(255)	(99)	16
Experience gain (loss) on plan assets	<b>1,231</b>	(329)	406	583	(952)

The movement in plan assets is summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
At January 1	8,415	8,421	6,796	6,775
Expected return on plan assets	589	842	476	677
Fund transfer from a subsidiary	-	-	-	77
Contributions	1,119	922	886	732
Benefit payments	(1,239)	(1,365)	(1,004)	(1,136)
Actuarial gains (losses)	1,522	(405)	1,231	(329)
At December 31	10,406	8,415	8,385	6,796

The carrying value of the plan assets as at December 31, 2012 is equivalent to the fair value of P10,406 million.

The plan assets are comprised of the following:

	Consolidated				Parent			
	2012		2011		2012		2011	
	Amount	%	Amount	%	Amount	%	Amount	%
	(In Millions of Pesos Except for Rates)							
Debt securities	5,120	49	5,425	64	4,125	49	4,381	64
Equity securities	5,274	50	2,950	35	4,250	50	2,383	35
Others	12	1	40	1	10	1	32	1
	10,406	100	8,415	100	8,385	100	6,796	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with carrying amount of P1,381 million (2011 - P1,488 million) and fair value of P3,446 million (2011 - P2,175 million) at December 31, 2012. The actual return on plan assets of the BPI Group was P2,111 million in 2012 (2011 - P437 million).

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
At January 1	11,508	10,388	9,161	8,182
Present value of defined benefit obligation for transferred employees from a subsidiary	-	-	2	83
Current service cost	816	601	657	500
Interest cost	802	1,119	639	885
Benefit payments	(1,239)	(1,365)	(1,004)	(1,136)
Actuarial (losses) gains	(978)	765	(753)	647
At December 31	10,909	11,508	8,702	9,161

(b) Expense recognized in the statement of income

	Consolidated			Parent		
	2012	2011	2010	2011	2010	
	(In Millions of Pesos)					
Current service cost	816	601	471	657	500	379
Interest cost	802	1,119	1,097	639	885	854
Expected return on plan assets	(589)	(842)	(692)	(476)	(677)	(536)
Net actuarial loss recognized during the year	89	44	92	66	24	63
Total expense included in Compensation and fringe benefits	1,118	922	968	886	732	760

The BPI Group has no other transactions with the plan other than the contributions and benefit payments presented above for the year ended December 31, 2012.

The principal assumptions used for the actuarial valuations of the unified plan of the BPI Group are as follows:

	2012	2011	2010
Discount rate	6.60%	6.97%	10.79%
Expected return on plan assets	7.00%	7.00%	10.00%
Future salary increases	4.00%	6.50%	6.50%

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at reporting date. Expected returns on equity securities and property investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The average remaining service life of employees under the BPI unified retirement plan as at December 31, 2012 and 2011 is 21 years. The BPI Group's expected net plan cost for the year ending December 31, 2013 amounts to P797 million.

#### Note 31 - Trust Assets

As disclosed in Note 18, BPI and ING received on February 16, 2011 the approval from the BSP of BPI's purchase of the latter's trust business subject to certain conditions. Subsequently, the amendment of the Plan Rules of UITFs managed by ING was approved by the Monetary Board in its meeting on March 25, 2011 allowing BPI to act as Trustee of these UITFs which were named as Odyssey Funds.

At December 31, 2012, the net asset value of trust assets administered by the BPI Group amounts to P739 billion (2011 - P664 billion).

Government securities deposited by the BPI Group and the Parent Bank with the BSP in compliance with the requirements of the General Banking Act relative to the trust functions follow:

	Consolidated		Parent	
	2012	2011	2012	2011
	(In Millions of Pesos)			
Government securities	6,982	6,241	6,830	6,089

#### Note 32 - Related Party Transactions

In the normal course of the business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and its subsidiaries (Ayala Group). AC has a significant influence over the BPI Group as at reporting date.

These transactions such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in the normal banking activities and have terms and conditions that are generally comparable to those offered to non-related parties or to similar transactions in the market.

Significant related party transactions and outstanding balances as at and for the years ended December 31 are summarized below:

Consolidated

<b>2012</b>			
	Transactions	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	(1,285)	396	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.19% to 6.50% and with maturity periods ranging from 2 days to 12 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	1,750	6,250	
Subsidiaries of AC	4,460	4,662	
Key management personnel	-	-	
	<b>4,925</b>	<b>11,308</b>	
Deposits from:			
Subsidiaries	724	4,051	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.40% to 0.55% Savings - 0.95% to 1.06% Time - 3.45% to 3.71%
Associates	16	59	
Ayala Group	21,216	39,069	
Key management personnel	(32)	310	
	<b>21,924</b>	<b>43,489</b>	
<b>2011</b>			
	Transactions	Outstanding balances	Terms and conditions
	(In Millions of Pesos)		
Loans and advances from:			
Subsidiaries	355	1,681	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 2.05% to 4.75% and with maturity periods ranging from 3 days to 2 years. Additional information on DOSRI loans are discussed below.
Associates	(50)	-	
AC	(250)	4,500	
Subsidiaries of AC	(348)	202	
Key management personnel	-	-	
	<b>(293)</b>	<b>6,383</b>	
Deposits from:			
Subsidiaries	1,171	3,179	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.55% to 0.56% Savings - 0.98% to 1.01% Time - 3.55% to 3.78%
Associates	2	43	
Ayala Group	(6,183)	17,853	
Key management personnel	36	342	
	<b>(4,974)</b>	<b>21,417</b>	

2010			
	Transactions	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	578	1,326	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.75% to 4.38% and with maturity periods ranging from 3 days to 3 years. Additional information on DOSRI loans are discussed below.
Associates	-	50	
AC	(250)	4,750	
Subsidiaries of AC	(625)	550	
Key management personnel	-	-	
	(297)	6,676	
Deposits from:			
Subsidiaries	389	2,610	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.55% to 0.56% Savings - 0.83% to 0.91% Time - 3.79% to 3.88%
Associates	(57)	41	
Ayala Group	-	24,036	
Key management personnel	(68)	306	
	264	26,993	

#### Parent

2012			
	Transactions	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	(1,681)	-	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.19% to 6.50% and with maturity periods ranging from 5 days to 12 years. Additional information on DOSRI loans are discussed below.
Associates	-	-	
AC	(1,750)	6,250	
Subsidiaries of AC	4,210	4,412	
Key management personnel	-	-	
	779	10,662	
Deposits from:			
Subsidiaries	277	3,343	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.39% to 0.55% Savings - 0.92% to 1.05% Time - 2.87% to 3.18%
Associates	16	59	
Ayala Group	21,216	39,069	
Key management personnel	(342)	310	
	21,167	42,781	

2011			
	Transactions	Outstanding Balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	355	1,681	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 2.05% to 4.75% and with maturity periods ranging from 3 days to 2 years. Additional information on DOSRI loans are discussed below.
Associates	(50)	-	
AC	(250)	4,500	
Subsidiaries of AC	(348)	202	
Key management personnel	-	-	
	(293)	6,383	
Deposits from:			
Subsidiaries	1,171	3,179	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.55% Savings - 0.96% to 1.00% Time - 3.09% to 3.46%
Associates	2	43	
Ayala Group	(6,183)	17,853	
Key management personnel	36	342	
	(4,974)	21,417	
2010			
	Transactions	Outstanding balances	Terms and conditions
(In Millions of Pesos)			
Loans and advances from:			
Subsidiaries	578	1,326	These are loans and advances granted to related parties that are generally secured with interest rates ranging from 1.75% to 4.38% and with maturity periods ranging from 3 days to 3 years. Additional information on DOSRI loans are discussed below.
Associates	-	50	
AC	(250)	4,750	
Subsidiaries of AC	(625)	550	
Key management personnel	-	-	
	(297)	6,676	
Deposits from:			
Subsidiaries	201	2,008	These are demand, savings and time deposits bearing the following average interest rates: Demand - 0.55 to 0.56% Savings - 0.81% to 0.89% Time - 3.26% to 3.38%
Associates	(55)	41	
Ayala Group	-	24,036	
Key management personnel	(68)	306	
	(78)	26,391	



The aggregate amounts included in the determination of income before income tax that resulted from transactions with each class of related parties are as follows:

Consolidated

	2012	2011	2010
	(In Millions of Pesos)		
Interest income			
Subsidiaries	76	37	37
Associates	3	22	22
AC	119	121	121
Subsidiaries of AC	88	-	-
Key management personnel	-	-	-
	286	180	180
Other income			
Subsidiaries	973	883	498
Associates	370	203	373
AC	22	10	-
Subsidiaries of AC	62	18	-
Key management personnel	-	-	-
	1,427	1,114	871
Interest expense			
Subsidiaries	21	17	11
Associates	-	-	-
Ayala Group	301	97	239
Key management personnel	2	2	2
	324	116	252
Other expenses			
Subsidiaries	905	1,027	797
Associates	-	-	-
AC	132	23	23
Subsidiaries of AC	49	46	44
Key management personnel	-	-	-
	1,086	1,096	864
Retirement benefits			
Key management personnel	39	27	34
Salaries, allowances and other short-term benefits			
Key management personnel	556	527	509
Directors' remuneration	51	46	38

Parent

	2012	2011	2010
	(In Millions of Pesos)		
Interest income			
Subsidiaries	56	37	34
Associates	3	22	1
AC	119	121	231
Subsidiaries of AC	82	-	14
Key management personnel	-	-	-
	260	180	280
Other income			
Subsidiaries	577	462	8
Associates	370	203	373
AC	-	-	-
Subsidiaries of AC	-	-	-
Key management personnel	-	-	-
	947	665	381
Interest expense			
Subsidiaries	7	17	11
Associates	-	-	-
Ayala Group	301	97	239
Key management personnel	2	2	2
	310	116	252
Other expenses			
Subsidiaries	343	476	448
Associates	-	-	-
AC	132	23	23
Subsidiaries of AC	49	46	44
Key management personnel	-	-	-
	524	545	515
Retirement benefits			
Key management personnel	36	25	24
Salaries, allowances and other short-term benefits			
Key management personnel	487	470	365
Directors' remuneration	38	40	31

Other income mainly consists of rental income and revenue from service arrangements with related parties.

Other expenses mainly consist of rental expenses and management fees.

There were no provisions recognized against receivables from related parties. Also, no additional provision was recognized during the year.

Details of DOSRI loans are as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
	(In Millions of Pesos)			
Outstanding DOSRI loans	<b>6,619</b>	5,067	<b>6,569</b>	5,013
	In percentages (%)			
	<b>Consolidated</b>		<b>Parent</b>	
	<b>2012</b>	<b>2011</b>	<b>2012</b>	<b>2011</b>
% to total outstanding loans and advances	<b>1.24</b>	1.09	<b>1.66</b>	1.46
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	<b>29.63</b>	28.77	<b>29.85</b>	29.09
Past due DOSRI loans	<b>0.06</b>	0.03	<b>0.06</b>	0.03
Non-performing DOSRI loans	<b>0.05</b>	0.03	<b>0.05</b>	0.03

At December 31, 2012 and 2011, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

### **Note 33 - Commitments and Contingencies**

At present, there are lawsuits, claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial position or financial performance.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments (Note 3.1.4) that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

### **Note 34 - Supplementary information required by the Bureau of Internal Revenue**

#### *(a) Supplementary information required by Revenue Regulation No 15-2010*

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the Notes to Financial Statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid for the year ended December 31 consist of:

	2012
Deposit and loan documents	2,153
Trade finance documents	212
Mortgage documents	70
Shares of stock	-
Others	3
	<b>2,438</b>

A portion of the amount disclosed above was passed on to the counterparties.

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the year ended December 31 consist of:

	2012		
	Paid	Accrued	Total
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,087	129	<b>1,216</b>
Income taxes withheld on compensation	1,427	165	<b>1,592</b>
Final income taxes withheld on income payment	813	277	<b>1,090</b>
Creditable income taxes withheld (expanded)	632	61	<b>693</b>
Fringe benefit tax	37	10	<b>47</b>
VAT withholding tax	21	10	<b>31</b>
	<b>4,017</b>	<b>652</b>	<b>4,669</b>

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the year ended December 31 consist of:

	2012		
	Paid	Accrued	Total
Gross receipts tax	2,070	164	<b>2,234</b>
Real property tax	138	-	<b>138</b>
Municipal taxes	67	-	<b>67</b>
Others	24	-	<b>24</b>
	<b>2,299</b>	<b>164</b>	<b>2,463</b>

(iv) Tax cases and assessments

As at reporting date, the Parent Bank has outstanding cases filed in courts against local government units contesting certain local tax assessments and the tax authorities for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Bank. Also, the taxable years 2009 and 2010 remain open and currently under tax examination, for which no assessment has yet been received.

*(b) Supplementary information required by Revenue Regulation No. 19-2011*

RR No. 19-2011 prescribes the new BIR forms that should be used for income tax filing covering and starting with the calendar year 2011 and modifies Revenue Memorandum Circular No. 57-2011. In the Guidelines and Instructions Section of the new BIR Form 1702 (version November 2011), a required attachment to the income tax returns is an Account Information Form and/or Financial Statements that include in the Notes to Financial Statements schedules of sales/receipts/fees, cost of sales/services, non-operating and taxable other income, itemized deductions (if the taxpayer did not avail of Optional Standard Deduction), taxes and licenses and other information prescribed to be disclosed in the Notes to the Financial statements.

Below is the additional information required by RR No. 19-2011 that is relevant to the Parent Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

*(i) Sales/receipts/fees*

	Non-taxable	Final tax	Regular rate	Total
Interest income	2,423	7,334	18,842	<b>28,599</b>

*(ii) Cost of services/Direct costs*

	Regular rate
Manpower costs	6,512
Interest expense	4,042
Insurance - PDIC	1,072
Supervision and examination fees	351
	<b>11,977</b>

*(iii) Non-operating and taxable other income*

	Regular rate
Service charges	4,934
Trust fees	2,920
Trading gain	1,203
Foreign exchange	996
Gain on sale of fixed assets	666
Rental income	415
Others	538
	<b>11,672</b>

(iv) Itemized deductions

Nature of expense/deduction	Regular rate
Taxes and licenses	2,233
Salaries and allowances	1,409
Depreciation and amortization of leasehold rights	1,389
Advertising	1,266
Rental	1,120
Communication, light and water	1,096
Bad debts	1,092
Documentary stamp used	846
Repairs and maintenance	826
Other outside services	744
Amortization of intangibles	606
Security services	385
Litigation assets acquired expenses	319
Management and consultancy fee	229
Office supplies	211
SSS, GSIS, Philhealth, HDMF and other contributions	178
Janitorial and messengerial services	176
Transportation and travel	113
Fringe benefits	99
Membership fees and dues	69
Insurance	65
Miscellaneous loss	64
Amortization of pension trust contribution	50
Director's fees	39
Commissions	35
Representation and entertainment	34
Credit card expenses	32
Donations	31
Fuel and oil	29
Staff meeting	18
Freight expenses	16
Bank charges	10
Others	90
Sub-total	14,919
NOLCO	-
<b>Total expenses</b>	<b>14,919</b>

(v) Taxes and licenses

The details of the Parent Bank's taxes and licenses are presented in section (a) of this note.

(vi) Other information

All other information prescribed to be disclosed by the BIR has been included in this note.

# **Annex 68-E**

## **Schedules**

**BANK OF THE PHILIPPINE ISLANDS**

**As of December 31, 2012**

**Annex A - Financial Assets**

**(in Millions of Pesos)**

	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet	Income
Due from Bangko Sentral ng Pilipinas		119,079	
Due from other banks		7,582	
Interbank loans receivable and Securities purchase under agreements to resell		38,927	
Sub-total		165,588	1,229
Financial assets at fair value through profit or loss – Trading securities (*)		22,098	
Financial assets at fair value through profit or loss – Derivative financial assets		5,920	
Sub-total		28,018	847
Available-for-sale securities(*)		106,403	3,424
Held-to-maturity securities(*)		76,243	5,191
Loans and advances, net		526,640	30,790
Others		5,216	-
<b>TOTAL</b>		<b>908,108</b>	<b>41,481</b>

(\*) Please refer succeeding pages for the detailed information of these financial assets



BANK OF THE PHILIPPINE ISLANDS AS OF DECEMBER 31, 2012			
Name of Issuing entity and association of each Issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (in Million Pesos) (ii)	Income received
<b>A. AVAILABLE FOR SALE</b>			
ALFM Growth Fund	311,314	63	
ALFM Money Market Fund	300,000	32	
ALFM Peso Bond Fund	1,631,476	465	
Asean Finance Corp.	100,000	1	
AUSTRALIA & NEW ZEALAND BANKING	821,000,000	822	
BANGKOK BANK PUB CO HK	82,100,000	85	
BANK OF AMERICA SECURITIES LLC	821,000,000	974	
BANQUE NATIONAL DE PARIS FRANCE	410,500,000	410	
BARCLAYS BANK PLC LONDON	1,436,750,000	1,437	
BPI AMTG - ALFM	434,681	86	
BPI Life Assurance Inc.	2,030,996	10	
Brighthouse Assets (formerly Batangas Assets)	15,000,000	7	
BUREAU OF TREASURY	48,158,984,016	51,466	
CALYON FIXED INCOME	410,500,000	412	
CANADIAN GOVERNMENT	577,878,331	614	
CEBU HOLDINGS INC.	2,000,000	4	
CHASE SAFEKEEPING ACCOUNT	85,285,480	86	
CITICORP SECURITIES INTL INC.	205,250,000	211	
CITIGROUP FUNDING INC.	205,250,000	205	
CITIGROUP GLOBAL MARKETS INC.	903,100,000	953	
COMMONWEALTH BANK OF AUSTRALIA	533,650,000	534	
CREDIT SUISSE FIRST BOSTON	615,750,000	616	
DEVELOPMENT BANK OF THE PHILIPPINES	751,436,750	762	
ENERGY DEVELOPMENT CORPORATION	300,000,000	300	
EXPORT IMPORT BANK OF CHINA	19,762,814	20	
EXPORT-IMPORT BANK OF KOREA	492,600,000	532	
FILINVEST LAND INCORPORATED	320,000,000	320	
HANABANK	328,400,000	359	
HONGKONG SHANGHAI BANKING CORP	1,441,901,775	1,532	
HUTCHISON WHAMPOA LIMITED	205,250,000	212	
ICICI BANK LIMITED	574,700,000	619	
ING BANK NV AMSTERDAM	410,500,000	410	
INTEGRATED MICRO INC.	12,000,000	42	
JG SUMMIT HOLDINGS, INC.	300,000,000	300	
JP MORGAN CHASE	82,100,000	84	
JP MORGAN SECURITIES LLC	3,710,427,400	4,123	
KOOKMIN BANK	328,400,000	349	
KOREA HIGHWAY CORPORATION	82,100,000	83	
KOREA HYDRO & NUCLEAR POWER	82,100,000	86	
LAND BANK OF THE PHILIPPINES	900,563,968	901	
MARKS & SPENCER PLC	66,184,915	76	
MERRILL LYNCH GLOBAL SERVICES PTE.	205,250,000	205	
PHILIPPINE CENTRAL DEPOSITORY INC.	5,000	1	
Philippine Depository & Trust Corp.	10,456	1	
Philippine Stock Exchange	400,000	1	
Philippine Stock Index Fund	808,230	456	
REPUBLIC OF INDONESIA	205,250,000	219	
REPUBLIC OF THE PHILIPPINES	7,579,671,229	10,447	
RIZAL COMMERCIAL BANKING CORP.	104,105,000	104	
ROBINSONS LAND CORPORATION	250,000,000	250	
ROXAS LAND INC.	764,593	39	
SHINHAN BANK	273,187,750	298	
SIAM COMMERCIAL BANK PUBLIC CO. LTD	61,575,000	63	
SM INVESTMENT CORPORATION	200,000,000	200	
SOCIETE GENERALE CORPORATE BANK	205,250,000	205	
STANDARD CHARTERED BANK	2,257,750,000	2,258	
STANDARD CHARTERED BANK LONDON	410,500,000	410	
STANDARD CHARTERED BANK SINGAPORE	410,500,000	410	
STATE BANK OF INDIA	574,700,000	593	
UNION BANK OF THE PHILIPPINES	100,000,000	100	
UNITED KINGDOM AS ISSUER	330,924,575	400	
UNITED OVERSEAS BANK LIMITED, SING.	309,927,500	320	
US TREASURY	13,957,000,000	13,908	
Victoria 1522 - Fund	484,863	232	
Victoria 1522 Investments, LP	6,293,100	272	
WELLS FARGO BANK SF	410,500,000	442	
WESTPAC BANKING SYDNEY	247,862,740	248	
WOORI BANK	107,756,250	117	
<b>SUB TOTAL</b>		<b>102,806</b>	<b>3,422</b>
Others		476	2
Accumulated/ Allowance		1,777	
Accrued Int. Receivable		1,345	
<b>TOTAL</b>		<b>106,403</b>	<b>3,424</b>

BANK OF THE PHILIPPINE ISLANDS AS OF DECEMBER 31, 2012			
Name of Issuing entity and association of each Issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (In Million Pesos) (ii)	Income received
<b>B. HELD TO MATURITY</b>			
Bank of America	33,092,450	33	
BANK OF CHINA	227,216,450	229	
BUREAU OF TREASURY	43,022,439,904	42,823	
Commonwealth Bank Australia	66,184,900	66	
EXPORT & IMPORT BANK KOREA	47,659,500	49	
FILINVEST LAND, INC.	500,000,000	500	
ICICI BANK LIMITED	82,100,000	84	
INDUSTRIAL & COMMERCIAL BANK OF CHINA	132,387,500	135	
JG SUMMIT	10,262,500	11	
JG SUMMIT HOLDINGS, INC.	200,000,000	207	
LAND BANK OF THE PHILIPPINES	4,724,494	5	
Marks & Spencer	132,369,800	132	
NATIONAL AUSTRALIA BANK	37,068,500	39	
PHIL. LONG DISTANCE TELEPHONE CO.	660,863,950	636	
REPUBLIC OF THE PHILIPPINES	22,598,983,903	23,094	
Republic of the Philippines - FXTN	240,140,000	248	
RIZAL COMMERCIAL BANKING CORP	49,260,000	53	
STATE BANK OF INDIA	41,050,000	41	
United Kingdom (Gilts)	66,184,900	66	
US TREASURY	5,870,355,250	5,845	
WELLS FARGO US TREASURY BILLS	34,892,500	35	
WESTPAC BANKING CORP	153,569,500	157	
<b>SUB TOTAL</b>		<b>74,487</b>	<b>5,175</b>
Others		1,412	16
Accumulated/ Allowance		(1,412)	
Accrued Int. Receivable		1,757	
<b>TOTAL</b>		<b>76,243</b>	<b>5,191</b>

**BANK OF THE PHILIPPINE ISLANDS**  
**AS OF DECEMBER 31, 2012**

Name of Issuing entity and association of each Issue (i)	Number of shares or principal amount of bonds and notes	Amount shown in the balance sheet (In Million Pesos) (ii)	Income received
<b>C. HELD FOR TRADING</b>			
ABOITIZ POWER	317,100	11	
ALLIANCE GLOBAL INC.	653,000	10	
AUSTRALIAN GOVERNMENT	1,535,138,640	1,658	
AYALA CORPORATION	80,770	9	
AYALA LAND INC.	505,064,000	514	
BANCO DE ORO	145,000	10	
BUREAU OF TREASURY	8,715,542,217	9,254	
BUREAU OF TREASURY-BR07	63,435,000	67	
DM CONSUNJI, INC.	304,390	16	
EASTWEST BANK	234,400	5	
ENERGY DEVELOPMENT CORP.	2,040,000	14	
FEDERAL REPUBLIC OF BRAZIL	164,200,000	197	
FIRST GENERAL HOLDINGS, INC.	1,962,000	197	
JG SUMMIT HOLDINGS, INC.	371,800	13	
JOLLIBEE FOODS CORP.	30,000	3	
LEISURE & RESORTS WORLD	250,000	2	
LEPANTO CONSOLIDATED	5,035,000	8	
MANILA WATER CORP.	468,600	15	
MEGAWORLD	4,300,000	9	
METRO PACIFIC	2,265,000	9	
METROBANK	130,200	12	
PHILEX MINING	121,600	3	
PHILIPPINE LONG DISTANCE CO.	11,705	30	
PHILIPPINE NATIONAL BANK	78,970	6	
PHILODRILL	22,100,000	1	
REPUBLIC OF THE PHILIPPINES	376,596,805	460	
RIZAL COMMERCIAL BANK FIXED INCOME	84,973,500	91	
SAN MIGUEL BREWERY, INC.	5,547,000	6	
SM INVESTMENT CORP.	11,130	9	
SM PRIME HOLDINGS, INC.	670,000	11	
UNITED KINGDOM AS ISSUER	1,323,698,300	1,605	
UNIVERSAL ROBINA CORP.	111,600	8	
US TREASURY	7,183,750,000	7,181	
WELLS FARGO BANK SF	410,500,000	423	
<b>SUB TOTAL</b>		<b>21,866</b>	<b>847</b>
<b>Others</b>		<b>72</b>	<b>0</b>
<b>Accrued Int. Receivable</b>		<b>161</b>	
<b>TOTAL</b>		<b>22,098</b>	<b>847</b>

**BANK OF THE PHILIPPINE ISLANDS****As of December 31, 2012****(In millions of Pesos)****Schedule B: Amounts Receivable from Directors, Officers,  
Employees, Related Parties and Principal Stockholders  
(Other than Related Parties)**

<b>Name and Designation of debtor</b>	<b>Balance at beginning of period</b>	<b>Additions</b>	<b>Amount Collected</b>	<b>Amount written off</b>	<b>Balance at end of period</b>
ALABANG COMMERCIAL CORP	100	-	100		-
AYALA CORP	4,500	2,000	250		6,250
AYALA LAND	102	42			145
IMA LANDHOLDINGS INC.	207		207		-
VARIOUS MANPOWER LOANS	80	99	41		139
VARIOUS CREDIT CARD LOANS	78	358	350		86
	<b>5,067</b>	<b>2,499</b>	<b>947</b>	<b>-</b>	<b>6,619</b>

# BANK OF THE PHILIPPINE ISLANDS

as of December 31, 2012

(Amount in Millions of Philippine Peso)

Schedule C. Amounts Receivable from Related Parties which are eliminated during the consolidation of financial statements.

Name and Designation of debtor	Balance at beginning of period	Additions	Amounts Collected	Amounts written-off	Current	Not Current	Balance at end of period
BPI LEASING CORPORATION	1,410	396	1,403				403
BPI GLOBE BANKO	279	-	279				-
BPI DIRECT SAVINGS BANK, INC.	0	1	7				(6)
BPI COMPUTER SYSTEMS CORP.	0	3					3
BPI CAPITAL CORP.	0	2					2
BPI OPERATIONS MGT. CORP.	23		22				1
BPI FAMILY BANK	28	24					53
BPI SECURITIES CORP.	1	1					2
BPI RENTAL CORP	1	1	1				1
BANK OF THE PHILIPPINE ISLANDS	9	339					348
	<b>1,752</b>	<b>768</b>	<b>1,712</b>	-	-	-	<b>807</b>

**BANK OF THE PHILIPPINE ISLANDS****December 21, 2012**

(In millions of Pesos)

**Schedule D - Intangible Assets**

<b>Description</b>	<b>Beginning balance (net of allowance for impairment)</b>	<b>Additions at costs</b>	<b>Charged to cost and expenses</b>	<b>Ending balance (net of allowance for impairment)</b>
Contractual customer relationship	2,566		277	2,289
Others	482	253	159	576
<b>Total</b>	<b>3,048</b>			<b>2,865</b>

**BANK OF THE PHILIPPINE ISLANDS****December 31, 2012**

(In million of Pesos)

**Schedule E - Long-term Debt**

<b>Title of issue and type of obligation</b>	<b>Amount authorized by indenture</b>	<b>Amount shown under caption "Unsecured Subordinated Debt" in related balance sheet</b>
Unsubordinated Debt	5,000	5,000

**BANK OF THE PHILIPPINE ISLANDS**  
**December 31, 2012**

**SCHEDULE F - INDEBTEDNESS TO RELATED PARTIES**

Name of related party	Balance at beginning of period	Balance at end of period
nothing to report		



**BANK OF THE PHILIPPINE ISLANDS**  
**December 31, 2012**

**SCHEDULE G - GUARANTEES OF SECURITIES OF OTHER ISSUERS**

Name of Issuing entity of securities guaranteed by the company for which this statement is filed	Title of issue of each class of securities guaranteed	Total amount guaranteed and outstanding	Amount owned by person for which statement is filed	Nature of guarantee
nothing to report				

**BANK OF THE PHILIPPINE ISLANDS**

December 31, 2012

**SCHEDULE H - CAPITAL STOCK**

<b>Title of Issue</b>	<b>Number of Shares Authorized</b>	<b>Number of shares issued and outstanding of shown under related balance sheet caption</b>	<b>Number of shares reserved for options, warrants, conversion and other rights</b>	<b>Number of shares held by related parties</b>	<b>Directors, officers and employees</b>	<b>Others</b>
Common Shares	4,900,000,000	3,556,356,173	-	1,543,870,215	6,669,825	2,005,816,133
Preferred A Shares	60,000,000	-	-	-		

**Bank of the Philippine Islands**  
Schedule of Philippine Financial Reporting Standards  
Effective as at December 31, 2012

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
<b>Framework for the Preparation and Presentation of Financial Statements</b>				
Conceptual Framework Phase A: Objectives and qualitative characteristics				
<b>PFRSs Practice Statement Management Commentary</b>				
<b>Philippine Financial Reporting Standards</b>				
<b>PFRS 1 (Revised)</b>	First-time Adoption of Philippine Financial Reporting Standards	✓		
	Amendments to PFRS 1 and PAS 27: Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate	✓		
	Amendments to PFRS 1: Additional Exemptions for First-time Adopters	✓		
	Amendment to PFRS 1: Limited Exemption from Comparative PFRS 7 Disclosures for First-time Adopters	✓		
	Amendments to PFRS 1: Severe Hyperinflation and Removal of Fixed Date for First-time Adopters			✓
	Amendments to PFRS 1: Government Loans	✓		
<b>PFRS 2</b>	Share-based Payment	✓		
	Amendments to PFRS 2: Vesting Conditions and Cancellations	✓		
	Amendments to PFRS 2: Group Cash-settled Share-based Payment Transactions	✓		
<b>PFRS 3 (Revised)</b>	Business Combinations	✓		
<b>PFRS 4</b>	Insurance Contracts	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
<b>PFRS 5</b>	Non-current Assets Held for Sale and Discontinued	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
	Operations			
<b>PFRS 6</b>	Exploration for and Evaluation of Mineral Resources			✓
<b>PFRS 7</b>	Financial Instruments: Disclosures	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets - Effective Date and Transition	✓		
	Amendments to PFRS 7: Improving Disclosures about Financial Instruments	✓		
	Amendments to PFRS 7: Disclosures - Transfers of Financial Assets	✓		
	Amendments to PFRS 7: Disclosures – Offsetting Financial Assets and Financial Liabilities	✓		
	Amendments to PFRS 7: Mandatory Effective Date of PFRS 9 and Transition Disclosures	✓		
<b>PFRS 8</b>	Operating Segments	✓		
<b>PFRS 9*</b>	Financial Instruments		✓	
	Amendments to PFRS 9: Mandatory Effective Date of PFRS 9 and Transition Disclosures		✓	
<b>PFRS 10*</b>	Consolidated Financial Statements		✓	
<b>PFRS 11*</b>	Joint Arrangements			✓
<b>PFRS 12*</b>	Disclosure of Interests in Other Entities		✓	
<b>PFRS 13*</b>	Fair Value Measurement		✓	
<b>Philippine Accounting Standards</b>				
<b>PAS 1 (Revised)</b>	Presentation of Financial Statements	✓		
	Amendment to PAS 1: Capital Disclosures	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendments to PAS 1: Presentation of Items of Other Comprehensive Income	✓		
<b>PAS 2</b>	Inventories			✓
<b>PAS 7</b>	Statement of Cash Flows	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
<b>PAS 8</b>	Accounting Policies, Changes in Accounting Estimates and Errors	✓		
<b>PAS 10</b>	Events after the Reporting Period	✓		
<b>PAS 11</b>	Construction Contracts			✓
<b>PAS 12</b>	Income Taxes	✓		
	Amendment to PAS 12 - Deferred Tax: Recovery of Underlying Assets	✓		
<b>PAS 16</b>	Property, Plant and Equipment	✓		
<b>PAS 17</b>	Leases	✓		
<b>PAS 18</b>	Revenue	✓		
<b>PAS 19</b>	Employee Benefits	✓		
	Amendments to PAS 19: Actuarial Gains and Losses, Group Plans and Disclosures	✓		
<b>PAS 19 (Amended)*</b>	Employee Benefits		✓	
<b>PAS 20</b>	Accounting for Government Grants and Disclosure of Government Assistance			✓
<b>PAS 21</b>	The Effects of Changes in Foreign Exchange Rates	✓		
	Amendment: Net Investment in a Foreign Operation	✓		
<b>PAS 23 (Revised)</b>	Borrowing Costs			✓
<b>PAS 24 (Revised)</b>	Related Party Disclosures	✓		
<b>PAS 26</b>	Accounting and Reporting by Retirement Benefit Plans			✓
<b>PAS 27</b>	Consolidated and Separate Financial Statements	✓		
<b>PAS 27 (Amended)*</b>	Separate Financial Statements		✓	
<b>PAS 28</b>	Investments in Associates	✓		
<b>PAS 28 (Amended)*</b>	Investments in Associates and Joint Ventures		✓	
<b>PAS 29</b>	Financial Reporting in Hyperinflationary Economies			✓
<b>PAS 31</b>	Interests in Joint Ventures	✓		

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
<b>PAS 32</b>	Financial Instruments: Disclosure and Presentation	✓		
	Amendments to PAS 32 and PAS 1: Puttable Financial Instruments and Obligations Arising on Liquidation	✓		
	Amendment to PAS 32: Classification of Rights Issues	✓		
	Amendments to PAS 32: Offsetting Financial Assets and Financial Liabilities	✓		
<b>PAS 33</b>	Earnings per Share	✓		
<b>PAS 34</b>	Interim Financial Reporting	✓		
<b>PAS 36</b>	Impairment of Assets	✓		
<b>PAS 37</b>	Provisions, Contingent Liabilities and Contingent Assets	✓		
<b>PAS 38</b>	Intangible Assets	✓		
<b>PAS 39</b>	Financial Instruments: Recognition and Measurement	✓		
	Amendments to PAS 39: Transition and Initial Recognition of Financial Assets and Financial Liabilities	✓		
	Amendments to PAS 39: Cash Flow Hedge Accounting of Forecast Intragroup Transactions	✓		
	Amendments to PAS 39: The Fair Value Option	✓		
	Amendments to PAS 39 and PFRS 4: Financial Guarantee Contracts	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets	✓		
	Amendments to PAS 39 and PFRS 7: Reclassification of Financial Assets – Effective Date and Transition	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
	Amendment to PAS 39: Eligible Hedged Items	✓		
<b>PAS 40</b>	Investment Property	✓		
<b>PAS 41</b>	Agriculture			✓
<b>Philippine Interpretations</b>				
<b>IFRIC 1</b>	Changes in Existing Decommissioning, Restoration and Similar Liabilities			✓
<b>IFRIC 2</b>	Members' Share in Co-operative Entities and Similar			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
	Instruments			
<b>IFRIC 4</b>	Determining Whether an Arrangement Contains a Lease	✓		
<b>IFRIC 5</b>	Rights to Interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds			✓
<b>IFRIC 6</b>	Liabilities arising from Participating in a Specific Market - Waste Electrical and Electronic Equipment			✓
<b>IFRIC 7</b>	Applying the Restatement Approach under PAS 29 Financial Reporting in Hyperinflationary Economies			✓
<b>IFRIC 8</b>	Scope of PFRS 2	✓		
<b>IFRIC 9</b>	Reassessment of Embedded Derivatives	✓		
	Amendments to Philippine Interpretation IFRIC-9 and PAS 39: Embedded Derivatives	✓		
<b>IFRIC 10</b>	Interim Financial Reporting and Impairment	✓		
<b>IFRIC 11</b>	PFRS 2- Group and Treasury Share Transactions	✓		
<b>IFRIC 12</b>	Service Concession Arrangements			✓
<b>IFRIC 13</b>	Customer Loyalty Programmes	✓		
<b>IFRIC 14</b>	The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction	✓		
	Amendments to Philippine Interpretations IFRIC- 14, Prepayments of a Minimum Funding Requirement	✓		
<b>IFRIC 16</b>	Hedges of a Net Investment in a Foreign Operation			✓
<b>IFRIC 17</b>	Distributions of Non-cash Assets to Owners	✓		
<b>IFRIC 18</b>	Transfers of Assets from Customers	✓		
<b>IFRIC 19</b>	Extinguishing Financial Liabilities with Equity Instruments	✓		
<b>IFRIC 20*</b>	Stripping Costs in the Production Phase of a Surface Mine			✓
<b>SIC-7</b>	Introduction of the Euro			✓
<b>SIC-10</b>	Government Assistance - No Specific Relation to Operating Activities			✓
<b>SIC-12</b>	Consolidation - Special Purpose Entities			✓
	Amendment to SIC - 12: Scope of SIC 12			✓
<b>SIC-13</b>	Jointly Controlled Entities - Non-Monetary Contributions			✓

PHILIPPINE FINANCIAL REPORTING STANDARDS AND INTERPRETATIONS		Adopted	Not Adopted	Not Applicable
Effective as of December 31, 2012				
	by Venturers			
<b>SIC-15</b>	Operating Leases - Incentives	✓		
<b>SIC-25</b>	Income Taxes - Changes in the Tax Status of an Entity or its Shareholders	✓		
<b>SIC-27</b>	Evaluating the Substance of Transactions Involving the Legal Form of a Lease	✓		
<b>SIC-29</b>	Service Concession Arrangements: Disclosures.			✓
<b>SIC-31</b>	Revenue - Barter Transactions Involving Advertising Services			✓
<b>SIC-32</b>	Intangible Assets - Web Site Costs			✓

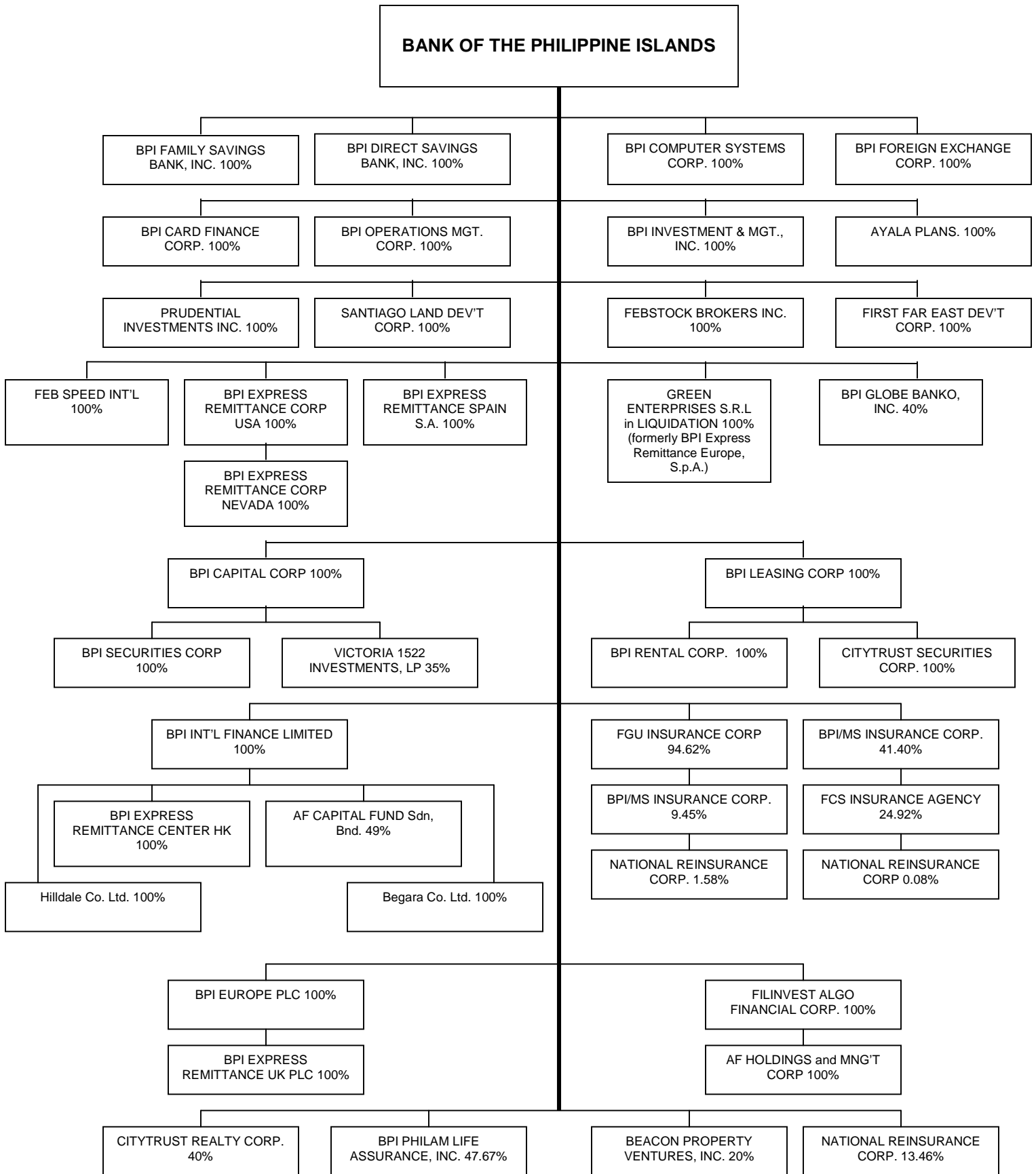


**BANK OF THE PHILIPPINE ISLANDS**  
**BPI Building**  
**6768 Ayala Avenue, Corner Paseo de Roxas**  
**Makati City**

**Reconciliation of Retained Earnings for Dividend Declaration**  
**For the Year Ended December 31, 2012**  
(In Millions of Pesos)

*(Figures based on  
functional currency audited  
Financial statements)*

<b>Unappropriated Retained Earnings, based on audited financial statements, December 31, 2011</b>		<b>19,870</b>
<b>Add: Net income actually earned/realized during the period</b>	<u>12,383</u>	
Less: Non-actual/unrealized income net of tax		
Equity in Net income of associate/joint venture	0	
Unrealized foreign exchange gain - net (except Cash and Cash Equivalents)	(418)	
Unrealized actuarial gain	0	
Unrealized trading gain	(136)	
Fair value adjustment of Investment Property resulting to gain	0	
Adjustment due to deviation from PFRS/GAAP-gain	0	
Other unrealized gains or adjustments to the retained earnings as a result of certain transactions accounted for under PFRS	<u>0</u>	
Subtotal	<u>(553)</u>	
Add: Non-actual losses		
Depreciation on revaluation increment (after tax)	0	
Adjustment due to deviation from PFRS/GAAP - loss	0	
Loss on fair value adjustment of investment property (after tax)	<u>0</u>	
Subtotal	<u>0</u>	
<b>Net income actually earned during the period</b>		<b>12,936</b>
Add (Less):		
Dividend declarations during the period	(8,180)	
Appropriations of Retained Earnings during the period	(141)	
Reversals of appropriations		
Effects of prior period adjustments	0	
Treasury shares	<u>0</u>	
		<u><b>(8,321)</b></u>
<b>Total Retained Earnings, End Available for Dividend</b>		<u><u><b>24,485</b></u></u>



**BANK OF THE PHILIPPINE ISLANDS**  
Financial Indicators  
As at December 31, 2012 and 2011

	<b>2012</b>	<b>2011</b>
Liquidity Ratio	65.37%	68.12%
Debt-to-Equity Ratio	32.22%	27.07%
Asset-to-Equity Ratio	1014.54%	945.15%
Interest Rate Coverage Ratio	281.12%	249.60%
Return on Equity Ratio	17.55%	15.17%
Return on Assets	1.91%	1.62%
Cost to Income Ratio	52.55%	56.19%
Cost to Assets Ratio	2.92%	2.97%
Capital to Assets Ratio	9.86%	10.58%
Net Interest Margin	3.57%	3.67%

**EXHIBIT B**  
**(List of Subsidiaries)**

**BANK OF THE PHILIPPINE ISLANDS**

List of Subsidiaries  
As of December 31, 2012

1. BPI FAMILY SAVINGS BANK, INC.
2. BPI CAPITAL CORPORATION
3. BPI LEASING CORPORATION
4. BPI DIRECT SAVINGS BANK, INC.
5. BPI COMPUTER SYSTEMS CORP.
6. BPI FOREIGN EXCHANGE CORP.
7. BPI CARD FINANCE CORP.
8. BPI OPERATIONS MANAGEMENT CORP.
9. BPI INVESTMENT MANAGEMENT INC.
10. AYALA PLANS, INC
11. PRUDENTIAL INVESTMENTS, INC.
12. SANTIAGO LAND DEV. CORP.
13. FEB STOCK BROKERS, INC.
14. FIRST FAR EAST DEVELOPMENT CORPORATION
15. FEB SPEEED INTERNATIONAL
16. BPI EXPRESS REMITTANCE CORP. USA
17. BPI EXPRESS REMITTANCE SPAIN S.A
18. GREEN ENTERPRISES S.R.L.
19. BPI INTERNATIONAL FINANCE LIMITED
20. BPI EUROPE PLC.
21. FGU INSURANCE CORPORATION
22. BPI/MS INSURANCE CORPORATION
23. FILINVEST ALGO FINANCIAL CORP

# **EXHIBIT C**

## **(Top 20 Stockholders)**

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 20 STOCKHOLDERS  
AS OF DECEMBER 31, 2012**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
1	16000970	PCD NOMINEE CORPORATION (NON-FILIPINO) 37F TOWER 1, THE ENTERPRISE CENTER, 6766 AYALA AVE. COR. PASE DE ROXAS, MAKATI CITY 1226	NOF	A	958,194,346		
	16000969	PCD NOMINEE CORPORATION (FILIPINO) 37F TOWER 1, THE ENTERPRISE CENTER, 6766 AYALA AVE. COR. PASE DE ROXAS, 1226 MAKATI CITY	FIL	A	229,858,605	33.4065%	1,188,052,951
2	01002970	AYALA CORPORATION 33RD FLR. AYALA TOWER ONE & EXCHANGE PLAZA, AYALA TRIANGLE AYALA AVE., MAKATI CITY ATTENTION: MANAGING DIRECTOR AND TREASURY	FIL	A	776,802,113	21.8426%	776,802,113
3	01030308	AYALA DBS HOLDINGS, INC. ATTN: MANAGING DIRECTOR AND TREASURY 33RD FLR. AYALA TOWER ONE AND EXCHANGE PLAZA AYALA TRIANGLE, AYALA AVE., MAKATI	FIL	A	757,831,372	21.3092%	757,831,372
4	0100000075	AC INTERNATIONAL FINANCE LIMITED C/O AYALA CORP. 34/F TOWER ONE AYALA TRIANGLE AYALA AVENUE, MAKATI CITY	CAY	A	309,278,147	8.6965%	309,278,147
5	18001784	ROMAN CATHOLIC ARCHBISHOP OF MANILA C/O VP CARLOS B. AQUINO , BPI CORSEC OFFICE 19/F BPI BLDG., AYALA AVE., MAKATI CITY	FIL	A	301,063,608	8.4655%	301,063,608
6	13003196	MICHIGAN HOLDINGS, INC. 33RD FLR. TOWER ONE AYALA TRIANGLE, AYALA AVE. MAKATI CITY ATTN: MANAGING DIRECTOR AND TRESURY	FIL	A	73,450,441	2.0653%	73,450,441
7	23000146	ESTATE OF VICENTE M. WARNS 18 PILI, SOUTH FORBES MAKATI CITY	FIL	A	10,562,477	0.2970%	10,562,477
8	0200000002	BPI GROUP OF COMPANIES RETIREMENT FUND 18F BPI HEAD OFFICE AYALA AVENUE COR. PASEO MAKATI CITY	FIL	A	4,657,040	0.1309%	4,657,040
9	20000001	TA# 10319838 - BPI GROUP OF COS. C/O AMTG-SAU 18/F BPI MAIN OFFICE AYALA AVENUE COR. PASEO DE ROXAS MAKATI CITY	FIL	A	4,280,618	0.1204%	4,280,618
10	20001113	THE FIRST RESOURCES MANAGEMENT & SECURITIES CORP. RM 801-802, 8TH/F PSE PLAZA AYALA TRIANGLE, AYALA MAKATI CITY	FIL	A	4,000,000	0.1125%	4,000,000
11	13002789	MERCURY GRP. OF COMPANIES, INC NO. 7 MERCURY AVENUE LIBIS, QUEZON CITY 1110	FIL	A	3,242,767	0.0912%	3,242,767
12	12001567	XAVIER P. LOINAZ C/O BPI, 19/F BPI HO BUILDING AYALA AVE., CORNER PASEO DE ROXAS, MAKATI CITY	FIL	A	3,123,465	0.0878%	3,123,465
13	19003703	SOUTHWOOD MINDANAO CORP. VICTORIA DEPT. STORE, VICTORIA PLAZA, J.P. LAUREL AVE., BAJADA, DAVAO CITY	FIL	A	2,623,604	0.0738%	2,623,604
14	19000127	SAHARA MGT. & DEV. CORP. 27 MERCURY ST., BEL-AIR 1 VILLAGE MAKATI CITY (UNDER PLEDGE - DELIVER ALL DIVIDENDS TO PLEDGEE BANK)	FIL	A	2,535,146	0.0713%	2,535,146

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 20 STOCKHOLDERS  
AS OF DECEMBER 31, 2012**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
15	20002598	TTC DEVELOPMENT CORPORATION C/O BICUTAN CONTAINER CORP. UNIT 807 TAIPAN PLACE EMERALD AVE., ORTIGAS CENTER PASIG CITY	FIL	A	2,001,041	0.0563%	2,001,041
16	06000781	FORESIGHT REALTY & DEVELOPMENT CORPORATION C/O RAUL CONCEPCION 308 SEN GIL PUYAT AVE MAKATI CITY	FIL	A	1,958,595	0.0551%	1,958,595
17	08001264	HYLAND REALTY & DEV'T. CORP. 21 TANGUILE RD., NORTH FORBES PARK MAKATI CITY	FIL	A	1,935,413	0.0544%	1,935,413
18	15000902	MA. INMACULADA Z. ORTOLL 1818 M.H. DEL PILAR ST., MALATE, MANILA	FIL	A	1,431,043	0.0402%	1,431,043
19	26000189	MA. ROSARIO ORTOLL ZARAGOZA 1818 M. H. DEL PILAR STREET MALATE, MANILA	FIL	A	1,430,310	0.0402%	1,430,310
20	19002804	MA. YSABEL P. SYLIANTENG 161 BALAGTA ST., MALATE, MANILA 1004	FIL	A	1,342,674	0.0378%	1,342,674
<b>GRAND TOTAL</b>							<b>3,451,602,825</b>



**EXHIBIT D**  
**(Statistical Report by Sharelots)**



USER ID : SK153586  
RUN DATE : 4/1/2013  
RUN TIME : 14:35:00

STATISTICAL REPORT BY SHARELOTS  
BANK OF THE PHILIPPINE ISLANDS  
As of December 31, 2012

SHARE LOTS	NUMBER OF STOCKHOLDERS	ISSUED SHARES
1 - 100	1,387	49,508
101 - 500	3,715	961,920
501 - 1,000	2,085	1,507,212
1,001 - 5,000	3,270	7,300,524
5,001 - 10,000	748	5,159,638
10,001 - 50,000	836	18,098,431
50,001 - 100,000	164	11,243,206
100,001 - 500,000	184	37,833,665
500,001 - 1,000,000	22	15,115,517
1,000,001 - 5,000,000	24	50,767,831
5,000,001 - 10,000,000	1	6,016,624
10,000,001 - 50,000,000	3	74,043,392
50,000,001 - UP	8	3,328,258,705
GRAND TOTAL	12,447	3,556,356,173