

**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, 2011  
SEC FORM I7 -A (Form type)**

**AMENDMENT DESIGNATION (if applicable)**

**FOR THE PERIOD ENDED DECEMBER 31, 2011**  
(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)

- 
- \* 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, 2011**
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 04/12/12</b>	<b>Total Market Value</b>
<b>3,556,356,173</b>	<b>P72.95</b>	<b>P 259,436,182,820.35</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 proxy or 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 (2009-2011).

In October 2009, the Bangko Sentral ng Pilipinas approved the sale/transfer of equity shares of BPI in Pilipinas Savings Bank, Inc. (PSBI) consistent with the agreed ownership structure at 40% each for BPI and Globe Telecom, Inc and 20% for Ayala Corporation. Pilipinas Savings was subsequently renamed BPI Globe BankKO, a savings bank with mobile phone technology as the main platform for banking service delivery to reach the unbanked and the underbanked segment of the market. It currently extends wholesale microfinance loans and offers other microfinance products such as micro loans, microsavings and microinsurance directly to microentrepreneurs or thru partnership arrangement with microfinance institutions.

In November 2009, BPI entered into a strategic bancassurance partnership with The Philippine American Life Insurance Company (Philamlife) to form BPI-Philam Life Assurance Corp. The joint venture draws from the combined synergies, first-class resources and strength of two of the leading financial companies in the Philippines. Philamlife brings insurance distribution, product development, and innovation to the joint venture, while gaining exclusive access to BPI's customer base via its extensive branch network. BPI has reciprocal access to Philamlife's customers for cross selling bank products.

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 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 finance company with a quasi-bank license engaged in financial leases. It was originally established as Makati Leasing and Finance Corporation in 1970. Its quasi-banking license was inherited from the merger with CityTrust Investment Phils. Inc. in May 1998. It merged with FEB Leasing & Finance Corporation on February 20, 2001. It wholly owns BPI Rental Corporation, a non-financial institution which offers operating leases subject to value added taxes.
- (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 is a wholly owned subsidiary of BPI, which 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 wholly 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 62% 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**

	<b>2009</b>	<b>2010</b>	<b>2011</b>
Share in Total Revenue (%)	1.63	1.33	1.19
Hong Kong	0.28	0.27	0.30
USA	0.38	0.30	0.29
Europe	0.98	0.76	0.60
Share in Total Net Income (%)	(0.04)	(0.27)	0.06
Hong Kong	0.14	0.23	0.25
USA	0.09	(0.07)	(0.02)
Europe	(0.26)	(0.43)	(0.17)

**Distribution Network**

BPI has 809 branches across the country, including 91 kiosks by the end of 2011. 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. Overseas, BPI has four (4) branches through BPI International Finance Limited in Hong Kong and BPI Europe Plc's three (3) branches in London.

BPI's ATM network, known as the ExpressNet, complements the branch network by providing banking services to its customers at any place and time of the day. As of December 2011, the ExpressNet consortium had a total of 2,721 ATMs servicing its customers nationwide. The interconnection with Megalink and Bancnet in 1997 and 2006, respectively, gives BPI ATM cardholders access to over 11,000 ATMs. BPI's ATM network is likewise interconnected with the Cirrus International ATM network and Visa International. In addition, BPI operates Express Payment System (point-of-sale/debit card system) terminals in major department stores, supermarkets, and merchant establishments. This facility, interconnected with the Maestro international POS network, allows customers to pay for purchases electronically through their ATM cards.

The BPI Express Phone Facility enables BPI depositors to inquire account balances and latest transactions, request for bank statements, transfer funds to other BPI accounts real time, pay for their various bills (e.g., PLDT, Meralco, club dues, insurance premiums) and reload prepaid cell

phones electronically. To further enhance the Express Phone facility, a 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 upgraded with the telco-agnostic Mobile Banking Applet, an internet based application, provides customers with an Express Online-like platform in their mobile phones. BPI Express Mobile is also equipped with a Mobile Mall facility that enables clients to order and pay purchases at partner establishments. In addition, it also has Mobile Commerce application, which aims to assist entrepreneurs as it functions as an inventory manager. With this facility, clients can order their goods, pay for them via debit from their deposit accounts, and have the goods delivered to their offices.

BPI also maintains a specialized network of remittance centers for servicing overseas remittances from Filipinos working abroad. To date, BPI has 20 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 15 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 2011. Competition has remained intense despite the industry consolidation.

Lending by universal and commercial banks, excluding thrift banks grew by 19.3% in 2011. 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 2011, 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, for its banking kiosks
- (2) Express Teller, for its ATM
- (3) Express Deposit Service, 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 and BPI Family Motorcycle Loan. Other product brands of BPI, BFSB and BPI Direct are Maxi-One, Save-up, and Maxi-Saver.

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 as well as quasi-banking 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, 2011, DOSRI loans amounted to 1.09% of loans and advances as per Note 32 of the 2011 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
2009	215.5	0.6
2010	220.4	0.6
2011	206.1	0.5

### Employees

Below is a breakdown of the manpower complement of BPI in 2011 as well as the approved headcount for 2012.

	December 31, 2011			2012
	Officers	Staff	Total	Plan
Unibank	3,693	8,318	12,011	12,082
Insurance Companies	52	292	344	368
TOTAL	3,745	8,610	12,355	12,450

Majority of the rank and file employees are members of various unions. The Collective Bargaining Agreements (CBAs) 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 is the largest single risk that the Bank faces. Credit risk management involves the thorough evaluation, appropriate approval, management and continuous monitoring of exposure risks, such as counterparty risk or borrower risk, facility risk, and industry risk relating to each loan account. The loan portfolio is also continuously monitored and reviewed as to quality, concentration and utilization of limits. The credit risk management process of the Unibank is anchored on the strict implementation of credit risk management policies, practices and

procedures, control of delegated credit approval authorities and limits, evaluation of portfolio risk profile and the approval of new loan products taking into consideration the potential risk and compliance with regulatory requirements. For corporate borrowers, a new credit scoring model has been developed incorporating measures of possible default in line with international best practices. For consumer loans, credit risk management is additionally supported by established portfolio and credit scoring models.

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 are 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 branches, 671 operate as BPI branches: 353 in Metro Manila/Greater Metro Manila Area and 318 in the provincial area. The parent bank owns 34% of these branches and leases the remaining 66%. Total annual lease amounted to Php 540 million. Expiration dates of the lease contracts vary from branch to branch.

BPI Family Savings Bank operates 138 branches of which 22% are bank owned while 78% are leased. Total annual lease amounted to Php 105 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 maintain its existing number of branches and will continue to reconfigure the mix of its traditional branches, and kiosk branches as it adjusts to the needs of its customers.

Total lease expense for 2011 for BPI and its subsidiaries amounted to P870 million as per Note 26 of Audited Financial Statement.

## **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, 2010		
1st Quarter	P 49.50	40.00
2 <sup>nd</sup> Quarter	46.50	42.00
3 <sup>rd</sup> Quarter	57.40	45.50
4th Quarter	61.00	54.15
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

The high and low sales prices of BPI at the Philippine Stock Exchange on April 12, 2012 were P73.45 and P 72.95, respectively.

**Holders of Common Equity**

There were approximately 12,921 common share holders of BPI as of December 31, 2011. Please refer to Exhibit C for the top one hundred (100) shareholders and beneficial owners of PCD Nominee Corporation with their corresponding shares and percentage ownership of BPI.

**Dividends**

Cash dividends declared and paid during the years ending December 31, 2010 & 2011 are as follows:

<u>BPI</u>	<u>Amount Declared</u>	<u>Amount Paid</u>
Year Ending December 31, 2010	6,123 Million	9,045 Million
Year Ending December 31, 2011	6,402 Million	3,201 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: 2009, 2010, and 2011)

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	2008	2009	2010	2011	CAGR
Assets	666,612	724,420	878,146	842,616	8.12 %
Deposits	540,352	579,471	719,766	681,101	8.02 %
Loans (Net)	320,216	327,474	378,728	454,499	12.38 %
Capital	63,872	67,765	82,274	90,530	12.33 %

The bank's asset level for the period 2009 to 2011 registered a compounded annual growth rate (CAGR) of 8.1% driven by the 8.0% growth in deposits. Loans' CAGR also increased by 12.4% during the same period. Capital grew by 12.3% from profits generated annually, net of cash dividends paid.

#### 2009

**Total resources** grew to P724.4 billion, P57.8 billion or 8.7% higher than last year as **deposits** and **bills payable** expanded by P39.1 billion or 7.2% and P22.1 billion, respectively. Deposit growth was due to the P40.2 billion or 24.8% increase in **Savings Deposits** and the P15.5 billion or 16.8% rise in **Demand Deposits**. The bank focused on increasing these types of deposits by introducing new deposit products bundled with an insurance feature. **Time Deposits** however went down by a total of P16.7 billion or 5.8%. The bank also availed of the rediscounting facility with BSP thus increasing its **Bills Payable** level by P22.1 billion. **Deferred Credits and Other Liabilities** rose by P2.6 billion or 15.0% due to the increase in bills purchased – contra account. **Due to Bangko Sentral ng Pilipinas (BSP) and Other Banks** went up by P437 million due to higher tax collections for the Bureau of Internal Revenue. **Manager's Checks and Demand Draft Outstanding** also increased by P336 million or 12.3% on higher unnegotiated manager's checks issued this year. **Accrued Taxes, Interest and Other Expenses** were also up by P298 million due to higher year-end accruals of expenses. **Liabilities Attributable to Insurance Operations** however dropped by P10.1 billion or 53.4% following the sale of the bank's 51% shareholdings in Ayala Life Assurance, Inc. to The Philam Life Assurance Corp. Said sale gave rise to BPI-Philam Life Assurance Corp. (BPI-Philam), a joint venture that will serve as a platform for BPI and Philamlife's strategic bancassurance partnership. **Derivative Financial Liability** was lower by P955 million or 37.5% due to this year's mark-to-market gains on foreign exchange swaps and maturities of interest rate and cross-currency swaps.

**Capital Funds** at P67.8 billion was P3.9 billion or 6.1% up against previous year of P63.9 billion. The growth came from the improvement in **Surplus** by P2.5 billion or 8.2% due to the year's profits net of cash dividend paid. **Accumulated other comprehensive loss'** debit balance was lower by P1.2 billion or 42.6% due to this year's unrealized gains on mark-to-market valuation of available-for-sale securities and gains from the translation of the bank's overseas subsidiaries on the strength of third currencies, particularly the British Pounds. **Reserves** rose by P98 million due to the additional reserves set-up for the trust business for the year.

Additional funds generated from the growth in deposits and borrowed funds from BSP were placed in **Due from BSP** which rose by P14.3 billion to comply with the corresponding reserve requirement for these accounts. Other investment outlets were **Interbank Loans Receivable and Securities Purchased under Agreements to Resell and Trading Securities**, which grew by P30.0 billion or 1.3x and P18.9

billion or 54.8%, respectively. **Available for Sale Securities** and net **Loans and Advances** likewise increased by P7.9 billion or 12.3% and P7.3B as funds in the bank's nostro accounts in **Due from Other Banks** (down by P7.1 billion) and **Cash and Other Cash Items** (down P3.6 billion or 16.0%) were shifted to these higher yielding assets.

**Equity Investments** went up by P909 million or 124% on the shift to equity accounting of the bank's minority stake in BPI-Philam and BPI Globe BanKO (formerly Pilipinas Savings Bank, Inc). Correspondingly, **Assets Attributable to Insurance Operations** declined by P11.1 billion or 50.4% **Deferred Income Tax Assets** also decreased by P804 million or 14.2% due to the write-off of taxes relative to the unutilized expiring net operating loss carry over (NOLCO) for the year. **Other resources** dropped by P421 million or 5.2% on decrease of miscellaneous assets.

## **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 unnegotiated 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 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 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's. **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-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 P878.1 billion level. 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 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's 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 BPI Globe 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 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.

**Asset Quality.** The bank maintained its broad mix of loan portfolio in line with its sustainability theme of serving a wider market range. For 2011, large scale industries accounted for 61% of BPI's loan portfolio, with top corporations at 34% and middle market commercial at 27%. Lending to SMEs and the consumers were 16% and 23% of the total, respectively.

Allowance for Impairment of P10.6B was up by P418 million from last year's P10.2 billion and also higher than 2009's P9.0 billion.

Gross 90 days non-performing loans (NPL) ratio improved to 2.5% from last year's 3.1% and 2009's 3.8%. This year's 30 day net NPL ratio (net of fully reserved accounts) per BSP definition ended at 1.9%, an improvement from last year's 2.1% and 2009's 2.8%. The bank's NPL ratio was better than industry's average of 2.2% as of December 2011.

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 97% of its funding from deposits. Its loan to deposit ratio increased to 68% in 2011 from 2010's 54% and 2009's 58% but 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	2008	2009	2010	2011	CAGR
Net Interest Income	19,463	21,402	23,628	25,867	9.95 %
Non-Interest Income	10,321	12,993	14,779	15,891	15.47 %
Impairment Losses	1,930	2,535	3,454	2,150	3.66 %
Operating Expenses	18,312	19,676	20,954	23,465	8.62 %
Net Income	6,423	8,516	11,312	12,822	25.92 %

The bank's net income from 2009 to 2011 improved by 25.9% as net interest income and non-interest income grew by 9.9% and 15.5%, respectively. Operating expenses and impairment losses tempered the increment in revenues as they rose by 8.6% and by 3.7%, respectively.

**2009 vs. 2008.** **Net Income** for 2009 reached P8.5 billion, P2.1 billion or 32.6% higher than the previous year's P6.4 billion. Net income growth came from the P4.6 billion rise in revenues but tempered by increases in operating expenses, impairment losses and income taxes of P1.4 billion, P605 million, and P534 million, respectively.

**Net Interest Income** improved to P21.4 billion, a P1.9 billion or 10.0% increase over last year's P19.5 billion. The increase in net interest income was brought about by the P52.4 billion average asset expansion and a slight improvement in net interest spread of 4 basis points.

- **Interest Income** ended higher than the previous year by P591 million reaching P33.9 billion. The increase was driven by improvements in interest income **on held-to-maturity securities** by P1.2 billion and **on deposits with banks** by P590 million due to higher volume. On the other hand, interest income **on available-for-sale securities** went down by P1.5 billion as yields dropped. Along with the increase in interest income, Gross Receipts Tax (**GRT**) also increased by P15 million.

- **Interest Expense** decreased significantly by P1.3 billion against last year on lower interest expense on **Deposits** of P2.1 billion largely caused by the drop in the level of time deposits. This was partly offset by the increase in interest expense on **Bills Payable and Other Borrowings** of P774 million.

**Other Income** of P13.0 billion was higher by P2.7 billion or 25.9% compared to 2008's P10.3 billion. **Trading gain (loss) on securities** posted a P2.0 billion or 4x increase on the back of the P1.5 billion securities trading gain this year against losses the previous year. **Service charges and commissions** rose by P374 million on higher transaction volume. **Other Operating Income** exhibited a P319 million or 5.2% growth fueled by higher income from asset sales, rentals and credit card business. **Income Attributable to Insurance Operations** also contributed a P210 million or 18.3% increase due to higher profits of the insurance business driven by higher premiums and higher investment income. Consequently, **GRT** rose by P255 million or 41.4%.

**Other Expenses** at P19.7 billion was P1.4 billion or 7.4% higher than previous year's P18.3 billion. **Compensation and Fringe Benefits** went up by P1.0 billion or 13.1% due to higher retirement fund contribution, early retirement program (ERP) expenses and annual salary increases. **Occupancy and Equipment-Related Expenses** rose by P341 million or 6.4% on higher depreciation of premises and equipment including leased out equipments and computer and software maintenance.

**Impairment losses** for the year amounted to P2.5 billion, P605 million or 31.4 % higher than last year. Additional provisions were set-up for some corporate accounts and typhoon related credit losses.

**Provision for Income Tax** was up by P534 million or 17.9% to P3.5 billion against last year's P3.0 billion. **Current taxes** increased by P474 million or 22.3% due to higher income subject to final tax of the Parent bank and higher corporate taxable income of some bank subsidiaries. **Deferred Taxes** also rose by P60 million or 6.9% due to the equivalent tax on a higher level of NOLCO written-off this year. **Income attributable to Non-Controlling Interest** improved by P15 million or 11.1% on the insurance subsidiaries' better performance.

### **Comprehensive Income**

**Total Comprehensive Income** for the year 2009 reached P9.7 billion, P8.8 billion or over 9x better than last year's P943 million. **Other Comprehensive Income** improved by a hefty P7.0 billion from last year's loss of P5.6 billion to this year's income of P1.3 billion..

As to other comprehensive income, **Net change in fair value reserve on available for sale securities** posted significant increase of P4.6 billion as it registered P390 million in mark to market gains this year as against the P4.2 billion losses in 2008. **Fair value reserve on investments of insurance subsidiaries** also improved by P2.1 billion as equities and other investments recovered from a valuation loss of P1.2 billion the previous year to a P929 million gain this year. Similarly, **Currency translation differences** grew by P190 million from losses of P112 million last year to gains of P79 million this year due to the appreciation of third currencies affecting the balances of the bank's overseas subsidiaries. The negative balance of **fair value reserve on investment of insurance associates** of P134 million represents mark to market valuation losses this year on equities and other investments of BPI-Philam.

Correspondingly, **Total Comprehensive Income of Non-Controlling Interest** rose by P161 million or over 4x due to higher profits and upward market valuation of investments of the insurance subsidiaries.

**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 P2.4 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 P221 million increase 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 P15.4 billion, 18.3% 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 the eventual write-off of the P274 million in goodwill relative to 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 carryover (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

This year's **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 P964 million **share in other comprehensive income of associates** 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 this year compared to last 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 last 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 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.

### Key Performance Indicators

	2009	2010	2011
Return on Equity (%)	13.0	15.6	15.2
Return on Assets (%)	1.3	1.5	1.6
Net Interest Margin (%)	3.7	3.6	3.7
Operating Efficiency Ratio (%)	57.2	54.6	56.2
Capital Adequacy Ratio (%)	14.7	15.4	14.9

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 2009 to 2011, showed the bank's efficient utilization of capital. ROE for 2011 went down to 15.2% from last year's 15.6% but still higher than 2009's 13.0%. **Return on assets (ROA)**, the ratio of net income to average assets was slightly up at 1.6% versus last year's 1.5%, and higher than 2009's 1.3%. 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 up against last year's 3.6% to 3.7%, the same as that of 2009. The stable results of the bank's net interest differential business demonstrated the bank's ability to manage its balance sheet despite the prevailing low interest rate environment.

The **operating efficiency (cost to income) ratio**, the ratio of operating expenses to income, increased from last year's 54.6% to this year's 56.2% as operating expenses grew at a faster rate than revenues. Operating efficiency ratio in 2009 was at 57.2%.

**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 14.9%. Last year's CAR was at 15.4% and 2009's was at 14.7%. This year's CAR was slightly 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 Philippines faces a challenging economic environment in 2012 as advanced economies - the US and the Euro Zone - struggle to address issues concerning their sovereign debt. As these issues threaten to substantially weigh down the growth of the advanced economies and moderate those of vibrant emerging markets, the Philippines will have to contend with prospects for weaker trade with the rest of the world. But given its manageable debt level, sound economic fundamentals, and strong banking system, the Philippines is expected to overcome the head winds coming from the external sector. The Philippine government is projecting a GDP growth of 5.5 - 6.5% and inflation is expected to fall within 3 - 5% for 2012. Domestic economic activity in the near term will be driven by sustained OFW remittances, roll-out of the private public partnership (PPP) projects and higher government infrastructure spending.

With the foreseen low interest rate environment, continued growth in bank lending is expected. BPI will continue its loan growth path, projected at 12% to 15%. BPI will differentiate itself through superior Relationship Managers and the ever growing, easy to use Online Banking. To achieve this, BPI will focus on customer experience innovation, team oriented employee engagement and quality profitable growth.

### *Medium to Long Term Prospects.*

The Philippine economy will operate against a backdrop of a slow, fragile global economic recovery in the medium-term. Fundamental issues pertaining to alarming sovereign debt magnitude, high unemployment rates and faltering housing sector in the US and certain Euro Zone countries will take a protracted period of time to resolve because of the tedious process of coming up with a unified consensus among legislators and citizens on national and regional levels. The Philippines will thus have to depend on its domestic sector to propel its economy. The impetus is expected to be provided by the PPP projects, higher spending on the required government infrastructure, and sustained OFW remittances. GDP growth is projected at an annual average of 6 - 7% in 2013 with inflation between 3 – 5%.

BPI will continue to address and serve the needs of its varied clientele and maintain its diversified and healthy mix of loan portfolio across market segments. This is in line with providing the BPI total customer experience, one of the pillars of the Bank's sustainability framework. Furthermore, the Bank will continue to grow its middle market and SME segment, focus on the special segment of overseas Filipinos as well as expand its services to those at the base of the pyramid through BPI Globe BanKO. The environment will always be a major consideration for the BPI as the Bank pushes forward more of its sustainable energy financing projects and share with local governments the results of its Climate Risk Adaptation project in cooperation with World Wide Fund for Nature. More importantly, BPI will ensure that its employees are engaged not only in working together to achieve the Bank's goals but also in community development.

## **Item 7. Financial Statements**

Please refer to the attached Audited Financial Statements for 2011 audited by the principal accountant, Accounting Firm of Isla Lipana & Co. and signed by partner Ms. Blesilda A. Pestaño.

## **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, 2011)**

##### **The Board of Directors and Nominees**

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

<b>Directors' term of Office</b>	-	<b>April 15, 2011 to April 19, 2012</b>
<b>Period Served</b>	-	<b>April 15, 2011 to Present</b>

- 1. JAIME AUGUSTO ZOBEL DE AYALA II**, 52 years old, Filipino, is the present Chairman of the Board of Directors of BPI. He was elected Chairman of BPI on 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 of BPI Family Savings Bank, Inc., BPI Capital Corporation, Globe Telecom, Inc., Integrated Microelectronics, Inc., and Al North America; Chairman of the Board of Directors and Chief Executive Officer of Ayala Corporation; Vice-Chairman of Ayala Land, Inc. and Manila Water Company, Inc.; Co-Vice Chairman of the Board of Directors of Mermac, Inc. and Makati Business Club; Member of the Board of Directors of Alabang Commercial Corporation and Ayala International Pte. Ltd.; Chairman of the Board of Trustees of World Wildlife Fund Philippines Advisory Council; Vice-Chairman of the Board of Trustees of Asia Society Philippine Foundation, Inc. and Co-Vice-Chairman of the Board of Trustees of Ayala Foundation, Inc.; Member of the Board of Trustees of Children's Hour Philippines, Inc.; and Member of the following: Asia Business Council, Harvard Business School Asia Advisory Committee, Harvard University Asia Center Advisory Committee, JP Morgan International Council, Mitsubishi Corporation International Advisory Committee, Toshiba International Advisory Group, Pacific Basin Economic Council, Eisenhower Fellowships, Singapore Management University, International Business Council, World Economic Forum, Philippine Economic Society and International Council of The Asia Society. He graduated with B.A. in

Economics (Cum Laude) at the Harvard University in 1981 and took up his MBA (with Distinction) at the Harvard Graduate School of Business Administration in 1987.

**Aurelio R. Montinola III**

<b>Directors' term of Office</b>	-	<b>April 15, 2011 to April 19, 2012</b>
<b>Period Served</b>	-	<b>April 15, 2011 to Present</b>

2. **AURELIO R. MONTINOLA III**, 60 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 Board of Directors in the following corporations: BPI Globe BankO, Inc., A Savings Bank, Mastercard Incorporated Asia/Pacific Regional Advisory Board, LGU Guarantee Corporation, Philippine Business for Education, Inc., Far Eastern University and Republic Cement Corporation. 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; President of Bankers Association of the Philippines; 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 15, 2011 to April 19, 2012</b>
<b>Period Served</b>	-	<b>April 15, 2011 to Present</b>

3. **FERNANDO ZOBEL DE AYALA**, 51 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. At present, he is the Chairman of the Board of Directors of Ayala Land, Inc., Alabang Commercial Corporation, Manila Water Company, Inc., AC International Finance Ltd., Ayala DBS Holdings, Inc., AC Energy Holdings, Inc. and Ayala International Pte. Ltd.; Vice-Chairman of the Board of Directors of Aurora Properties, Inc., Azalea Technology Investment, Inc., CECI Realty, Inc., Vesta Property Holdings, Inc. and LiveIT Investment, Ltd.; Vice-Chairman of the Board of Directors, President and Chief Operating Officer of Ayala Corporation; Co-Vice Chairman of the Board of Directors of Mermac, Inc.; Member of the Board of Directors of Asiacom Philippines, Inc., Globe Telecom, Inc., Integrated Micro-Electronics, Inc., Caritas Manila, AG Holdings Limited, Ayala International Holdings Limited, Al North America, Inc., Pilipinas Shell Corporation and Pilipinas Shell Foundation; Chairman of the Board of Trustees of BPI Foundation, Inc.; Co-Vice Chairman of the Board of Trustees of Ayala Foundation, Inc. and Vice-Chairman of the Board of Trustee of Habitat for Humanity International. He is a member of the following: The Asia Society, World Economic Forum, Insead East Asia Council, World President's Organization Philippines and World President's Organization International. He is also a member of the Advisory Board of Kapit Bisig para sa Ilog Pasig. He graduated with B.A. Liberal Arts degree at the Harvard College in 1982.

**Gerardo C. Ablaza, Jr.**  
**Directors' term of Office**  
**Period Served**

- **April 15, 2011 to April 19, 2012**  
 - **April 15, 2011 to Present**

4. **GERARDO C. ABLAZA, JR.**, 58 years old, Filipino, is a member of the Board of Directors of BPI since 2001. He is an alternate Member of the Executive Committee and a member of the Trust Committee and Risk Management Committee of BPI. He also holds the following positions: Director of BPI Family Savings Bank, Inc., BPI Globe BankO, Inc., A Savings Bank, BPI Card Finance Corporation, Senior Managing Director of Ayala Corporation, Chairman and President of Manila Water International Solutions, Inc. and Northern Waterworks and Rivers of Cebu, Inc.; Chairman of the Board of Directors of Manila Water Asia Pacific Pte. Ltd., Manila Water South Asia Holdings Pte. Ltd., Manila Water Total Solutions Corporation, Clark Water Corporation and AAA Water Corporation; Vice-Chairman of Laguna AAA Water Corporation and Jindal Manila Water Development Company Limited; President and CEO of Manila Water Company, Inc.; Co-Vice-Chairman of Globe Telecom, Inc.; Director of AsiaCom Philippines, Inc., LiveIT Investments Limited, Azalea International Venture Partners, AG Holdings Limited (HK), ACST Business Holdings, Inc., AC Energy Holdings, Inc., MPM Noodles Corporation, and Thu Duc Water B.O.O. Corporation; President and Director of MWC Foundations, Inc. and member of the Board of Trustees of Ayala Foundation. He graduated with a degree in AB major in Mathematics (Honors Program) at the De La Salle University in 1974.

**Romeo L. Bernardo**  
**Directors' term of Office**  
**Period Served**

- **April 15, 2011 to April 19, 2012**  
 - **April 15, 2011 to Present**

5. **ROMEO L. BERNARDO\*** (Independent Director), 57 years old, Filipino, has served as a Member of the Board of Directors of BPI from February 1998 to April 2001. He was re-elected as an Independent Director since August 2002 up to present. He is 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 Leasing Corporation, BPI Rental Corporation, BPI Forex Corporation, Ayala Plans, Inc., BPI/MS Insurance Corporation, BPI Globe BankO, Inc., A Savings Bank, BPI-Philam Life Assurance Corporation, 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 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. and Advisor of Global Source/Latin Source. 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 15, 2011 to April 19, 2012****Period Served****- April 15, 2011 to Present**

6. **CHNG SOK HUI**, 50 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, Accounting Standards Council and Tax Advisory Committee 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 15, 2011 to April 19, 2012****Period Served****- April 15, 2011 to Present**

7. **CEZAR P. CONSING\*** (Independent Director), 52 years old, Filipino, was elected as Independent Director of BPI on April 15, 2010. 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 January 1, 2007 and on April 15, 2010. He was elected as Member of the Board of BPI Capital Corporation 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, CIMB Securities International Pte Limited 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. and Arch Capital Asian Partners, G.P. and a Board of Partners of TRG Management LP. He graduated with an M.A. Applied Economics Degree from the University of Michigan in 1980 and finished A.B. (Accelerated Program) Economics from the De La Salle University in 1979.

**Octavio V. Espiritu****Directors' term of Office****- April 15, 2011 to April 19, 2012****Period Served****- April 15, 2011 to Present**

8. **OCTAVIO V. ESPIRITU\*** (Independent Director), 68 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****Directors' term of Office****- April 15, 2011 to April 19, 2012****Period Served****- April 15, 2011 to Present**

9. **REBECCA G. FERNANDO**, 63 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 of 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****Directors' term of Office****- April 15, 2011 to April 19, 2012****Period Served****- April 15, 2011 to Present**

10. **KHOO TENG CHEONG**, 47 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., Group Planning. 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****Directors' term of Office****- April 15, 2010 to April 19, 2012****Period Served****- April 15, 2010 to Present**

11. **XAVIER P. LOINAZ\*** (Independent Director), 68 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 in 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 XPL Manitou Properties, Inc; Vice-Chairman of XPL MTJL Properties, Inc.; Member of the Board of Directors of DAO I Condominium Corporation 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. Nolleto****Directors' term of Office**- **April 15, 2011 to April 19, 2012****Period Served**- **April 15, 2011 to Present**

12. **MERCEDITA S. NOLLEDO**, 70 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 and Member of Corporate Governance 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, Ayala Automotive Holdings, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., HCM Insurance Agency, Inc., Isuzu Automotive Dealership, Inc., and Isuzu Cebu, Inc.; Member of the Board of Trustees of Ayala Foundation, Inc. and BPI Foundation, Inc.; and Treasurer of JMY Realty Development Corporation and Sonoma Properties, Inc. and Senior Counsel of Ayala Corporation. 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 15, 2011 to April 19, 2012****Period Served**- **April 15, 2011 to Present**

13. **ARTEMIO V. PANGANIBAN\*** (Independent Director), 75 years old, Filipino, was elected as Independent Director of BPI on 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 Investment Corporation, Metro Pacific Tollways Corporation, Robinsons Land Corporation, GMA Network, Inc., GMA Holdings, Inc., Tollways Management Corporation and Asian Terminals. Likewise, he also 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).

**Oscar S. Reyes****Directors' term of Office****- April 15, 2011 to April 19, 2012****Period Served****- April 15, 2011 to Present**

14. **OSCAR S. REYES**, 65 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, 2011 to April 19, 2012****Period Served****- August 17, 2011 to Present**

15. **TAN KONG KHOON**, 54, 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. **GIL A. BUENAVENTURA** - **Senior Executive Vice-President and Chief Operating Officer**

59 years old, Filipino, has served as the Head of the Corporate Banking Group of BPI since 1996 up to the present. Currently, he is the Head of BPI's Core Banking Group composed of Corporate Banking, Consumer Banking, Card Banking and Information Systems. He also holds the following positions: Chairman of the Board of Directors of BPI Leasing Corporation, BPI Rental Corporation, FGU Insurance Corporation, Citytrust Realty Corporation, Citytrust Securities Corporation; BPI International Finance Ltd. and BPI Express Remittance Corporation; Member of the Board of Directors of BPI Family Savings Bank, Inc., BPI Direct

Savings Bank, Inc., BPI Computer Systems Corporation, Ayala Plans, Inc. and Member of the Board of Trustees of BPI Foundation, Inc. He graduated with a degree of BA in Economics from the University of San Francisco in 1973 and finished his MBA - Finance from the University of Wisconsin in 1975.

4. **ANTONIO V. PANER** - **Executive Vice-President & Treasurer**  
53 years old, Filipino, is the Treasurer and Head of Global Banking Group of BPI. He is the Chairman of the Asset and Liability Committee and the Capital Management Committee of the Bank. He is currently a member of the Board of Directors of the following corporations: AF Money Brokers, Inc., Citytrust Securities Corporation, BPI International Finance, Ltd., BPI Direct Savings Bank, BPI Forex Corporation, BPI Europe Plc and BPI Express Remittance Corp Spain S.A. He is also the Director and Treasurer of Santiago Land Development Corporation and 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: Director, Money Markets Association of the Philippines; Member, ACI and Makati Business Club. 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, and 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.
5. **ALFONSO L. SALCEDO, JR.** - **Executive Vice-President**  
56 years old, Filipino, is the Head of the Corporate Banking Division of BPI. At present he is a member of the Board of Directors of BPI Direct Savings Bank, Inc., BPI/MS Insurance Corporation, BPI-PhilamLife Assurance Corporation and National Reinsurance Corporation of the Philippines. 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. **MA. YSABEL P. SYLIANTENG** - **Executive Vice-President**  
60 years old, Filipino, is the Head of Card Banking and BDW Group. She has also served as Head of Corporate Planning as well as the Financial Control Group of BPI from 1996 to December 2004. She joined BPI in 1983 as head of Financial Planning and Control as Assistant Vice-President and headed Corporate Planning by 1987. At present, she holds the following positions: Director and Member of the Audit, Risk Management and Executive Committees of BPI Direct Savings Bank, Inc.; Member of the Board of Directors of BPI Computer Systems Corporation, BPI Operations Management Corporation, FGU Insurance Corporation, BPI Express Remittance Corporation (USA), BPI Remittance Center Hong Kong, Ltd., BPI International Finance Ltd. Hong Kong, BPI Remittance Center S.p.a., BPI Express Remittance Spain, S.A., FEB Speed International, Inc., FEB Stock Brokers, Inc., and CityTrust Realty Corporation; Chairman of the Board of Directors of Ayala Plans, Inc., Santiago Land Development Corporation, BPI Card Finance Corporation and First Far East Development Corporation. She is a member of the Board of Trustees of Assumption College. She obtained her Bachelor of Liberal Arts cum Bachelor of Science in Commerce degrees, and major in Accounting (Magna Cum Laude) from Assumption College in 1973 and placed first in the CPA Board examination in the same year. She obtained her MBA from Stanford University in 1977 and her Certificate of Management Accounting in the U.S. in 1978.
7. **TERESITA B. TAN** - **Executive Vice-President**  
60 years old, Filipino, is the Head of Overseas Banking and Channel Services Group since 2005. She joined BPI in 1987 as Assistant Vice President assigned in the Information Systems and Systems Marketing. She handled Card Banking under the Consumer Banking Group from 1996 to 2005. She is the Chairman of the Board of Directors of the following corporations: BPI Forex Corporation, BPI Operations Management Corporation, BPI Express Remittance Spain,

S.A., and BPI Express Remittance (Europe) – Italy. Concurrently, she is the President and member of the Board of Directors BPI Globe BanKO, Inc., and Director of the following corporations: BPI Direct Savings Bank, Inc. where she is a member of the Corporate Governance Committee, Bank of the Philippine Islands (Europe), Plc., BPI Card Finance Corporation, BPI Express Remittance Corporation-USA and BPI Remittance Center Hongkong, Ltd. She is also the Corporate Secretary of Anta Construction Corporation and Treasurer of Anta Realty Corporation. She graduated with a degree of Bachelor of Arts in Mathematics at Maryknoll College (Magna Cum Laude) in 1973 and obtained her post graduate degree in M.S. Operations Research at the Stanford University in 1975.

**8. NATIVIDAD N. ALEJO**

**- Senior Vice-President**

55 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-Philam Life Assurance Corporation, BPI Operations Management Corporation, Beacon Property Ventures, Inc., Santiago Land Development Corporation, Cebu Holdings Inc., Cebu Property Ventures & 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.

**9. MARIA THERESA MARCIAL- JAVIER- Senior Vice-President**

41 years old, Filipino, is the Head of BPI Asset Management and Trust Group since 2009. She joined BPI in 1995. Currently, she is the President of the Trust Officers Association of the Philippines. Her other affiliations include, among others: Director, BPI Investment Management, Inc.; Director, McCann World Group Philippines, Inc.; Director, Fintec Holdings, Inc.; Director and President, Phase II Holdings, Inc.; Member of the Board of Senior Advisers, Fund Managers Association of the Philippines. She is also a 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, Inc. She graduated cum laude at 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. She took up the CFA Institute Investment Management Workshop at the Harvard Business School, Boston in 2006. She completed the Advanced Management Program at the Harvard Business School, Boston in 2010.

**10. CESAREO A. DE LEON III**

**- Senior Vice-President**

60 years old, Filipino, is the Head of the Risk Management Office of BPI. He is also one of the directors of FEB Speed International, Inc. and First Far East Development Corporation. He graduated from Dela Salle University in 1971 with a degree of Bachelor of Science in Commerce. He is a Certified Public Accountant.

**11. MARIA CORAZON S. REMO**

**- Senior Vice- President**

53 years old, Filipino, is the Head of Centralized Operations Group of BPI. At present, she is the Chairman of the Board of 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 a member of the Board of Directors of BPI Computer Systems Corporation, Citytrust Realty Corporation and FGU Insurance Corporation. She graduated with B.S. Business Economics from the University of the Philippines in 1978 and obtained her MBA from the Ateneo de Manila University in 1988.

*\*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, 2011**

NAME	AGE	POSITION	OFFICE
Biacora, Estelito C.	41	Senior Vice President	Consumer Banking Group
Calleja, Michael D.	51	Senior Vice President	Financial Markets Group
Corcuera, Fidelina A.	54	Senior Vice President	Human Resources Management Group
Dimayuga, Raul D.	49	Senior Vice President	Overseas Banking Group
Garcia, Paul Joseph M.	42	Senior Vice President	Asset Management and Trust Group
Go, Ma. Cristina L.	42	Senior Vice President	Card Banking Group
Herbosa, Emmanuel G.	58	Senior Vice President	Consumer Banking Group
Kimseng, Arturo L.	61	Senior Vice President	Office of the Chairman
Lopez, Marie Christine O.	56	Senior Vice President	Financial Markets Group
Mercado, Eugenio P.	48	Senior Vice President	Electronic Channels Group
Ocampo, Marie Josephine M.	49	Senior Vice President	Consumer Banking Group
Palou, Mario B.	58	Senior Vice President	Corporate Banking Group
Pascual, Alberto E.	59	Senior Vice President	Corporate Banking Group
Penaflor, Rolando G.	59	Senior Vice President	Corporate Banking Group
Santiano, Angela C.	55	Senior Vice President	Corporate Banking Group
Sinio, Gertie K.	59	Senior Vice President	Office of the President
Tagaza, Manuel C.	49	Senior Vice President	Electronic Channels Group
Tecson, Judy K.	59	Senior Vice President	Corporate Banking Group
Trillo, Imelda C.	59	Senior Vice President	Consumer Banking Group
Ver, Heidi P.	56	Senior Vice President	Card Banking Group
Yngente, Sylvia P.	57	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**

Ms. Ma Yuen Lin Annie, a member of the Board of Directors, voluntarily resigned effective 16 August 2011, not due to any disagreement with the Bank relative to its operations, policies or practices but for some personal reasons. She was replaced by Mr. Tan Kong Khoon.

# Item 10. Executive Compensation

Summary Compensation Table  
Annual Compensation and Bonus

	Position	2010		
		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			
Teresita B. Tan	Executive VP			
Natividad N. Alejo	Sr. Vice-Pres.			
Georgina O. Espaldon	Sr. Vice-Pres.			
Cesareo A. de Leon III	Sr. Vice-Pres.			
Elvira V. Mayo	Sr. Vice-Pres.			
Ma. Ysabel P. Sylanteng	Sr. Vice-Pres.			
<b>All above-named Officers as a group</b>		<b>169,513,462.59</b>	<b>34,995,000.00</b>	
<b>All other unnamed Officers as a group</b>		<b>2,797,795,283.78</b>	<b>295,728,865.00</b>	<b>N.A.</b>
<b>All Directors</b>			<b>18,000,000.00</b>	

	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			
Ma. Ysabel P. Sylanteng	Executive VP			
Teresita B. Tan	Executive VP			
Natividad N. Alejo	Executive VP			
Cesareo A. de Leon III	Sr. Vice-Pres.			
Maria Theresa Marcial-Javier	Sr. Vice-Pres.			
Maria Corazon S. Remo	Sr. Vice-Pres.			
<b>All above-named Officers as a group</b>		<b>203,531,447.13</b>	<b>74,360,215.00</b>	
<b>All other unnamed Officers as a group</b>		<b>3,201,793,358.25</b>	<b>345,056,130.00</b>	<b>N.A.</b>
<b>All Directors</b>			<b>28,500,000.00</b>	

	Position	2012 Estimate		
		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			
Natividad N. Alejo	Executive VP			
Fidelina A. Corcuera	Sr. Vice-Pres.			
Maria Theresa Marcial-Javier	Sr. Vice-Pres.			
Marie Christine O. Lopez	Sr. Vice-Pres.			
Maria Corazon S. Remo	Sr. Vice-Pres.			
Judy K. Tecson	Sr. Vice-Pres.			
<b>All above-named Officers as a group</b>		<b>192,652,017.84</b>	<b>77,480,644.50</b>	
<b>All other unnamed Officers as a group</b>		<b>3,258,203,012.46</b>	<b>349,692,882.00</b>	<b>N.A.</b>
<b>All Directors</b>			<b>28,500,000.00</b>	

### **Bonus or Profit Sharing**

At the 2011 Annual Stockholders' Meeting of the Bank, the stockholders approved the grant of Php1,900,000.00 bonus to each member of the Board of Directors for the services rendered by them to the Bank during the year 2010. 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 2011, 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 Board of Directors 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, 2011

Title of Class	Name/Address of Record Owner & Relationship w/ Issuer	Name of Beneficial Owner & Relationship w/ Record Owner	Citizenship	No. of Shares	Percentage of Holdings
Common	<b>PCD Nominee Corp. (Non-Filipino)</b>	Various Stockholders Client	Various	1,207,919,939	33.9651.%
	- <i>Standard Chartered Bank Stockholder</i>	- <i>DBS Bank, Ltd. Custodian holds 8.6965% or 309,278,747 shares</i>	<i>Singaporean</i>		
	<b>PCD Nominee Corp. (Filipino)</b> G/F MKSE Building 6767 Ayala Ave., Makati City Stockholder	Various Stockholders Client	Filipino	283,581,771 1,491,501,710	<u>7.9739%</u> 41.9390%
Common	<b>Ayala Corporation</b> Tower I, Ayala Triangle Ayala Avenue, Makati City Stockholder	Ayala Corporation	Filipino	775,700,589	21.8117%
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	21.3092%
Common	<b>Roman Catholic Archbishop of Manila</b> 121 Arzobispo street Intramuros, Manila Stockholder	Roman Catholic Archbishop of Manila	Filipino	301,063,608	8.4655%

PCD Nominee Corporation (PCD) now known as Philippine Depository and Trust Corporation (PDTC) - Non-Filipino & Filipino, holds 41.939% interest. PDTC is the registered owner of the shares beneficially owned by participants in the PDTC. The Board of Directors of each participant particularly DBS Bank Ltd. has the power to decide on how the shares are to be voted.

Ayala Corporation holds 21.8117% interest. Mermac, Inc. and the Mitsubishi Group own 52.59% and 10.92%, respectively (or a total of 63.51%) 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 21.3092% 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.

The Roman Catholic Archbishop of Manila Group (RCAM) holds 8.4655% interest. The Archbishop of Manila has the power to decide on how RCAM shares in BPI are to be voted.

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

## 2. Security Ownership of Directors and Management as of 31 December 2011

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	0.0000%
Common	Aurelio R. Montinola III	Director & President	1,416,148	R/B	Filipino	0.0398%
Common	Gerardo C. Ablaza, Jr.	Director	193	R/B	Filipino	0.0000%
Common	Romeo L. Bernardo	Director	12	R/B	Filipino	0.0000%
Common	Chng Sok Hui	Director	19	R/B	Singaporean	0.0000%
Common	Cezar P. Consing	Director	355	R/B	Filipino	0.0000%
Common	Octavio V. Espiritu	Director	1,062,453	R/B	Filipino	0.0299%
Common	Rebecca G. Fernando	Director	18	R/B	Filipino	0.0000%
Common	Khoo Teng Cheong	Director	19	R/B	Singaporean	0.0000%
Common	Xavier P. Loinaz	Director	3,123,465	R/B	Filipino	0.0878%
Common	Mercedita S. Nollado	Director	36,475	R/B	Filipino	0.0010%
Common	Artemio V. Panganiban	Director	10	R/B	Filipino	0.0000%
Common	Oscar S. Reyes	Director	1,076	R/B	Filipino	0.0000%
Common	Tan Kong Khoon	Director	19	R/B	Singaporean	0.0000%
Common	Fernando Zobel de Ayala	Director	120	R/B	Filipino	0.0000%
Common	Gil A. Buenaventura	SEVP & COO	241,710	R/B	Filipino	0.0068%
Common	Antonio V. Paner	EVP & Treasurer	96,890	R/B	Filipino	0.0027%
Common	Alfonso L. Salcedo, Jr.	Executive VP	34,973	R/B	Filipino	0.0010%
Common	Ma. Ysabel P. Sylanteng	Executive VP	1,342,674	R/B	Filipino	0.0378%
Common	Teresita B. Tan	Executive VP	339,919	R/B	Filipino	0.0096%
Common	Natividad N. Alejo	Senior VP	12,496	R/B	Filipino	0.0004%
Common	Cesario A. De Leon III	Senior VP	198,340	R/B	Filipino	0.0056%
Common	Maria Theresa Marcial-Javier	Senior VP	12,612	R/B	Filipino	0.0004%
Common	Maria Corazon S. Remo	Senior VP	179,606	R/B	Filipino	0.0051%
<b>Aggregate Shareholdings of Directors &amp; Officers as a Group</b>			<b>8,099,887</b>			<b>0.2279%</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.

### 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. As of December 31, 2011 and 2010, the BPI Group is in full compliance with the General Banking Act and the Bangko Sentral ng Pilipinas Circulars and regulations on DOSRI Loans.

## PART IV – CORPORATE GOVERNANCE

### Item 13. Corporate Governance

The Corporate Governance of the bank is a system of checks and balances among the Board of Directors, management, and stockholders that is intended to efficiently increase long-term stockholder value through ethical conduct, reportorial accuracy and transparency, and compliance to all laws and regulations. The governance policies and guidelines are specified in the bank's Corporate Governance Manual that supplements and complements the Articles of Incorporation and By-Laws.

The Bank considers its Corporate Governance Scorecard and the Bangko Sentral ng Pilipinas (BSP) Capital Adequacy, Asset Quality, Management Quality, Earnings, Liquidity, and Sensitivity to Market Risk (CAMELS, 0 to 5) rating as a measure of its governance quality. BPI maintained its CAMELS 4 rating, the highest among local banks, in the latest BSP examination.

#### Board of Directors

The Board of Directors consists of fifteen members, including five independent directors. The directors hold office for one year and until their successors are elected and qualified in accordance with the By-Laws of the Bank. Independent directors hold no interests affiliated with BPI, management or controlling shareholder at the time of his election or appointment and/or re-election.

The Board bears the primary responsibility of creating and enhancing long-term shareholder value of BPI. Its mandate includes the setting of strategic business directions, appointment of senior executive officers, confirming the organizational structure, oversight of major risk-taking activities, and the monitoring of business and management performance

In 2011, the Board had thirteen meetings. The director's record of attendance on all board meetings held during the year met the requirement of the Securities and Exchange Commission's more than 50% attendance. Attendance profile of the members of the Board of Directors of BPI for the period January 1, 2011 to December 31, 2011 is as follows:

Name of Director	# of Meetings Attended	% Present
1. Jaime Augusto Zobel de Ayala II	10	77 %
2. Aurelio R. Montinola III	13	100 %
3. Fernando Zobel de Ayala	11	85 %
4. Gerardo C. Ablaza, Jr.	10	77 %
5. Romeo L. Bernardo	13	100 %
6. Chng Sok Hui	7	54 %
7. Cezar P. Consing	12	92 %
8. Octavio V. Espiritu	12	92 %
9. Rebecca G. Fernando	13	100 %
10. Khoo Teng Cheong	10	77 %
11. Xavier P. Loinaz	13	100 %
12. Mercedita S. Nollado	11	85 %
13. Artemio V. Panganiban	13	100 %
14. Oscar S. Reyes	13	100 %
15. Tan Kong Khoon *	4	80 %

\* Was elected on August 2011

An annual self-assessment of the Board of Directors is conducted to determine compliance not only with the bank's Manual of Corporate Governance but also with all other regulations and rules that prescribe good corporate governance.

## Board Committees

The Board delegated specific responsibilities to its six sub-committees.

1. The Executive Committee is composed of seven members of the Board, including two independent directors, with one alternate member. This committee takes on the primary responsibilities of the Board and serves as the Board's operating arm on all corporate governance matters and may approve all major policies, oversees all major risk taking activities on a more detailed basis and functions as the Board's Committee for approval of all major credit risks. In 2011, the committee held 37 meetings.
2. The Nominations Committee is composed of four members of the Board including two independent directors. This committee ensures, among others, that all directors of the Board have the qualifications and none of the disqualifications indicated in the Bank's Corporate Governance Manual, and vets on the qualifications of all Board appointees. In 2011, the committee held two meetings.
3. The Personnel Compensation Committee is composed of five members of the Board including two independent directors. This committee directs and ensures the development and implementation of the Bank's Human Resources Strategy/Plan based on the Board's vision of the organization.

In 2011, the committee had seven meetings. The Committee continued to focus on key human capital sustainability factors such as the Bank's ability to retain its key talent, succession planning and leadership readiness and increasing the overall employee performance to address the organization's ageing population, stiff market competition and global economic uncertainties.

4. The Audit Committee is composed of four (4) non-executive Directors, with two (2) independent directors. This committee assists the Board of Directors in fulfilling its statutory and fiduciary responsibilities to enhance stakeholder's value and protect their interest by providing effective oversight on the following:
  - i. system of internal controls, governance process, and overall management of risks
  - ii. financial reporting and controls
  - iii. internal and audit functions
  - iv. compliance with Bank policies and applicable laws, rules and regulations

In 2011, the committee held twelve regular meetings and one special meeting where the following were discussed, reviewed and evaluated:

- 4.1 The Audited consolidated financial statements of BPI as of and for the year ended December 31, 2011, including the assessment of the Bank's internal controls relative to the financial reporting process, with Management, internal auditors and the external auditors, Isla Lipana & Co;
- 4.2 The 2011 Internal Audit work plan, Internal Audit Risk Assessment model and Audit rating framework; and the Internal Audit's accomplishments versus plan to ensure audit goals are achieved;
- 4.2 The reports of Internal Audit, Compliance Office, outsourced external penetration testing and application security assessment, and other regulatory bodies ensuring that management is taking appropriate actions in a timely manner;
- 4.3 The overall scope and audit plan of Isla Lipana & Co., including the engagement letter;
- 4.4 Minutes of Meetings conducted by the respective Audit Committees of BPI subsidiaries;
- 4.5 Audit Committee Charter and Internal Audit Charter.

In addition, the Audit Committee recommended the re-engagement of Isla Lipana & Company as the Bank's external auditor for 2011.

Attendance profile of the members of the Audit Committee of BPI for the period January 1, 2011 to December 31, 2011 is as follows:

<b>Name of Director</b>	<b># of Meetings Attended</b>	<b>% Present</b>
1. Xavier P. Loinaz	13	100 %
2. Octavio V. Espiritu	13	100 %
3. Khoo Teng Cheong	6	46 %
4. Oscar S. Reyes	13	100 %

4. The Risk Management Committee is composed of six members of the Board including three independent directors. This committee nurtures a culture of risk management across the enterprise, proposes guidelines and reviews, on a regular basis, risk management structures, limits, issues and measurements across the Bank with the objective of meeting and complying with regulatory and international standards on risk measurement

The committee had twelve regular meetings in 2011 where various risk strategies, policies, compliance and reports were approved and/or noted.

5. The Corporate Governance Committee is composed of five members of the Board including two independent directors. This committee assists the Board and ensures the Board effectiveness and due observance of sound corporate governance principles and guidelines. In 2011, the committee held one meeting.

### **Operating Management**

#### **Executive Officers of the Bank**

The executive Officers of BPI are the President and Chief Executive Officer, Chief Operating Officer, the Treasurer, and the Corporate Secretary. The Executive Officers are appointed by the Board. In addition, the Board appoints occasionally some senior officers as provided for in the Bank's By-Laws.

The responsibility of managing BPI and implementing all major business strategies rests on the President and Chief Executive Officer who is in turn supported by his Chief Operating Officer and the senior management team.

The Bank's risk exposure is managed by several units and committees. These management committees are the Credit Committee, Finance and Risk Management Committee, Operating Risk Management Committee and Asset Liability Committee. In addition, the Chief Risk Officer is responsible for establishing policies and controls all risk-taking activities of the bank.

#### **Conflict of Interest Policy**

The personal interest of directors and officers should not prevail over the interest of the Bank. Loyalty to the Bank must be such that directors and officers do not directly or indirectly derive personal profit or advantage by reason of their position in the Bank.

#### **Compliance System**

Enforcement of compliance to the Bank's Corporate Governance Manual, policies, and code of conduct is a two-tiered system. The primary level is self-regulation within work units. The secondary level is the audit reviews of the Internal Audit Division, the Compliance Officer, and the external auditors. The Audit Committee reviews the audit reports.

The Internal Audit Division regularly reviews and scores the extent and quality of adherence to all risk control policies and procedures by each Bank unit and sees to it that all hardware, software, and telecommunications systems are adequately secured and tightly controlled

The Anti-Money Laundering Office monitors customer / counterparty transactions in compliance with the Anti-Money Laundering Law and various government regulations.

As a listed company, the Bank's compliance with the Securities Act, the Securities Exchange Commission and the Philippine Stock Exchange are jointly reviewed by the Bank's Compliance Office, Corporate Planning and the Corporate Secretary.

The bank will constantly review its organization to keep pace with new developments in corporate governance practices and in the end adopt the best leading practices.

## **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
	Top 100 Shareholders	Exhibit C
	Sch. B -Amounts Receivable from Directors, Officers, Employees, Related Parties and Principal Stockholders	Exhibit D
	Sch. E - Property, Plant and Equipment	NA
	Sch. F - Accumulated Depreciation	NA

Sch.G - Intangible Assets and Other Assets  
Sch. K -Capital Stock

NA  
Exhibit E

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

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

- (1) Acceptance by the Board of Directors of the resignation of Ms. Ma Yuen Lin Annie as Member of the Board effective August 17, 2011; and the election of Mr. Tan Kong Khoon as Member of the Board, to fill in the vacancy created by the resignation of Ms. Ma Yuen Lin Annie. Mr. Tan Kong Khoon was also appointed as member of the Trust Committee of BPI.
- (2) Declaration of regular cash dividend of ninety centavos (P0.90) per share for the second semester of the year 2011 last November 17, 2011.
- (3) Receipt on December 8, 2011 of Bangko Sentral ng Pilipinas' (BSP) letter approving the Cash Dividends reported last November 17, 2011.
- (4) Approval of the holding of the 2012 Annual Stockholders' Meeting last December 22, 2011.

## 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

APR 13 2012

## BANK OF THE PHILIPPINE ISLANDS

Issuer

By:

  
AURELIO R. MONTINOLA III  
President and Chief Executive Officer

  
ANTONIO V. PANER  
Executive Vice President/Treasurer

  
GERTIE K. SINIO  
Senior Vice President-Corporate Planning & Accounting

  
MELVIN M. MIRANDA  
Vice President - Central Accounting

  
CARLOS B. AQUINO  
Corporate Secretary

SUBSCRIBED AND SWORN to before me this \_\_\_\_\_ day of APR 13 2012; 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
Aurelio R. Montinola III	XX2882839	Jan. 27, 2009 / DFA Manila	Jan. 26, 2014
Antonio V. Paner	WW0099349	Nov. 16, 2011 / DFA Manila	Nov. 15, 2016
Gertie K. Sinio	11141140	Jan. 14, 2012 / Pasig City	
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. 195  
Page No. 40  
Book No. XTII  
Series 2012

  
DENZIO B. BARGAS  
Notary Public for Makati City

Until December 31, 2012 Appointment No. 191  
Unit 500, Madrigal Bldg., Ayala Ave., Makati City  
PTR No. 2644008 - 1-4-11, Makati City  
IBP No. 845205 - 1-4-11, Quezon City  
Attorney's Roll No. 26223




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

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


The management of the Bank of the Philippine Islands and Subsidiaries is responsible for preparation and fair presentation of the consolidated and the parent financial statements as at December 31, 2011 and 2010 and for each of the three years in the period ended December 31, 2011 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 shareholders 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 Pres & Treasurer

SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this  
FEB 29 2012, affiants exhibited to me their Passport with the following details:

Name	Passport No.	Date/Place of Issue	Valid Until
Jaime Augusto Zobel de Ayala	ZZ189708	Dec. 13, 2010/ DFA Manila	Dec. 12, 2015
Aurelio R. Montinola III	XX2882839	Jan. 27, 2009/DFA Manila	Jan. 26, 2014
Antonio V. Paner	WW0099349	Nov. 16, 2011/DFA Manila	Nov. 15, 2016

Doc. No. 280  
Page No. 57  
Book No. XII  
Series of 2012.

  
**DENCIO B. BARGAS**  
Notary Public for Makati City  
Until December 31, 2012 Appointment No. 191  
Unit 510, Madrigal Bldg., Ayala Ave., Makati City  
PTR No. 2448908 - 1-4-11, Makati City  
IB# No. X43796 - 1-4-11, Quezon City  
Attorney's Roll No. 26223

# ***Bank of the Philippine Islands***

**Financial Statements**

**As at December 31, 2011 and 2010**

**and for each of the three years**

**in the period ended December 31, 2011**



## 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, 2011 and 2010, 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, 2011, and a summary of significant accounting policies and other explanatory information.

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

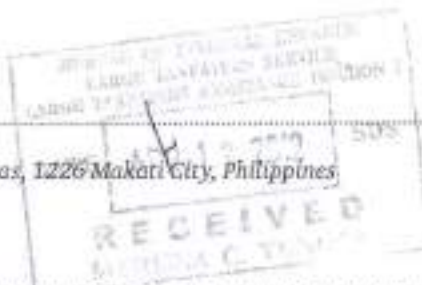
Management is responsible for the preparation and fair presentation of these consolidated and parent financial statements in accordance with Philippine Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated and parent 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.

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)



Isla Lipana & Co. is the Philippine member firm of the PwC (PricewaterhouseCoopers) global network. "PwC" refers to the network of member firms of PricewaterhouseCoopers International Limited, each of which is a separate and independent legal entity.





Isla Lipana & Co.

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, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

**Report on Bureau of Internal Revenue Requirements**

Our audit was 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 audit 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 whole.

Isla Lipana & Co.

*Blesilda A. Pestano*

Blesilda A. Pestano

Partner

CPA Cert. No. 40446

P.T.R. No. 0007713, January 2, 2012, Makati City

SEC A.N. (Individual) as general auditors 0049-AR-2, Category A

SEC A.N. (Firm) as general auditors 0009-FR-2

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 23, 2012



## BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CONDITION  
DECEMBER 31, 2011 AND 2010  
(In Millions of Pesos)

		Consolidated		Parent	
	Notes	2011	2010	2011	2010
<b>RESOURCES</b>					
CASH AND OTHER CASH ITEMS	7	22,395	18,151	21,661	17,573
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	83,759	128,487	70,807	117,805
DUE FROM OTHER BANKS	7	9,297	6,548	5,567	3,209
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	7, 8	35,277	66,834	24,867	56,237
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	9	5,389	6,059	5,389	6,059
- TRADING SECURITIES	10	12,275	11,449	11,638	10,293
AVAILABLE-FOR-SALE SECURITIES, net	11	74,084	112,523	64,500	98,910
HELD-TO-MATURITY SECURITIES, net	12	89,742	95,474	79,723	85,136
LOANS AND ADVANCES, net	13	454,499	378,728	337,425	276,494
ASSETS HELD FOR SALE, net	4	9,148	11,774	6,431	8,775
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	14	12,322	11,606	8,199	7,847
INVESTMENT PROPERTIES, net	15	2,637	2,706	2,630	2,696
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	16	3,069	2,508	7,008	6,969
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	5, 7	12,240	11,916	-	-
DEFERRED INCOME TAX ASSETS, net	17	4,335	5,023	2,958	3,802
OTHER RESOURCES, net	18	12,148	8,360	8,099	5,432
Total resources		842,616	878,146	656,902	707,237
(forward)					



**BANK OF THE PHILIPPINE ISLANDS**  
**STATEMENTS OF CONDITION**  
**DECEMBER 31, 2011 AND 2010**  
(In Millions of Pesos)

		Consolidated		Parent	
	Notes	2011	2010	2011	2010
<b>LIABILITIES AND CAPITAL FUNDS</b>					
DEPOSIT LIABILITIES	19	681,101	719,766	544,414	591,936
DERIVATIVE FINANCIAL LIABILITIES	9	4,814	5,329	4,814	5,329
BILLS PAYABLE	20	19,136	24,868	9,887	17,243
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		1,717	2,000	1,717	2,003
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		4,131	4,187	3,389	3,483
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		4,025	5,119	2,709	3,874
UNSECURED SUBORDINATED DEBT	21	5,000	5,000	5,000	5,000
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	5	9,937	9,213	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	22	22,225	20,389	18,569	16,915
<b>Total liabilities</b>		<b>752,086</b>	<b>795,871</b>	<b>590,499</b>	<b>645,783</b>
<b>CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI</b>	<b>23</b>				
Share capital		35,562	35,562	35,562	35,562
Share premium		8,317	8,317	8,317	8,317
Reserves		1,462	1,367	1,462	1,338
Surplus		41,643	35,318	19,870	16,542
Accumulated other comprehensive income (loss)		2,168	467	1,192	(303)
		89,152	81,031	66,403	61,454
<b>NON-CONTROLLING INTEREST</b>		<b>1,378</b>	<b>1,244</b>	<b>-</b>	<b>-</b>
<b>Total capital funds</b>		<b>90,530</b>	<b>82,275</b>	<b>66,403</b>	<b>61,454</b>
<b>Total liabilities and capital funds</b>		<b>842,616</b>	<b>878,146</b>	<b>656,902</b>	<b>707,237</b>

(The notes on pages 1 to 91 are an integral part of these financial statements.)



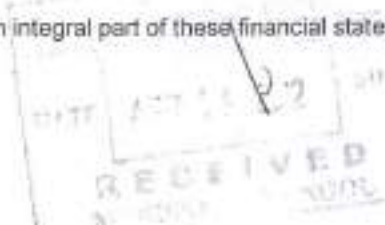


## BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF INCOME  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011  
(In Millions of Pesos, Except Per Share Amounts)

	Notes	Consolidated			Parent		
		2011	2010	2009	2011	2010	2009
INTEREST INCOME							
On loans and advances		27,156	25,270	24,440	16,762	15,944	16,059
On held-to-maturity securities		6,023	5,787	5,285	5,383	5,017	4,542
On available-for-sale securities		3,592	3,333	2,127	3,374	3,113	2,006
On deposits with BSP and other banks		2,488	3,409	3,018	2,001	2,952	2,602
On trading securities		812	582	381	767	539	330
Gross receipts tax		(1,382)	(1,394)	(1,344)	(1,009)	(1,063)	(1,040)
		38,689	36,987	33,887	27,278	26,502	24,499
INTEREST EXPENSE							
On deposits	19	11,721	12,069	11,229	7,601	8,081	7,299
On bills payable and other borrowings	20, 21	1,102	1,290	1,256	668	971	983
		12,823	13,359	12,485	8,269	9,052	8,282
NET INTEREST INCOME		25,866	23,628	21,402	19,009	17,450	16,217
IMPAIRMENT LOSSES	4, 11, 13, 18	2,150	3,454	2,535	1,583	2,165	1,983
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		23,716	20,174	18,867	17,426	15,285	14,234
OTHER INCOME							
Fees and commissions		4,607	4,160	3,430	3,777	2,834	2,254
Income from foreign exchange trading		1,770	2,204	1,693	1,596	2,089	1,564
Trading gain on securities		2,948	2,946	1,527	2,712	2,652	1,354
Income attributable to insurance operations	5	949	802	798	-	-	-
Other operating income	25	6,688	5,825	6,417	5,917	4,430	7,905
Gross receipts tax		(1,070)	(1,158)	(872)	(943)	(1,039)	(740)
		15,892	14,779	12,993	13,059	10,966	12,337
OTHER EXPENSES							
Compensation and fringe benefits	30	10,379	9,137	9,155	7,994	6,664	6,631
Occupancy and equipment-related expenses	14, 15, 26	6,476	6,083	5,645	5,080	4,714	4,370
Other operating expenses	27	6,610	5,734	4,876	5,296	4,407	3,882
		23,465	20,954	19,676	18,370	15,785	14,883
INCOME BEFORE INCOME TAX		16,143	13,999	12,184	12,115	10,466	11,688
PROVISION FOR INCOME TAX	28						
Current		3,570	2,866	2,597	2,556	2,033	1,880
Deferred	17	(440)	(346)	922	(297)	127	1,055
		3,130	2,520	3,519	2,259	2,160	2,935
NET INCOME FOR THE YEAR		13,013	11,479	8,665	9,856	8,306	8,753
Attributable to:							
Equity holders of BPI		12,822	11,312	8,516	9,856	8,306	8,753
Non-controlling interest		191	167	149	-	-	-
		13,013	11,479	8,665	9,856	8,306	8,753
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	23	3.61	3.38	2.62	2.77	2.48	2.69

(The notes on pages 1 to 91 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, 2011  
(In Millions of Pesos)**

	Note	Consolidated			Parent		
		2011	2010	2009	2011	2010	2009
<b>NET INCOME FOR THE YEAR</b>		<b>13,013</b>	<b>11,479</b>	<b>8,665</b>	<b>9,866</b>	<b>8,306</b>	<b>8,753</b>
<b>OTHER COMPREHENSIVE INCOME</b>	23						
Net change in fair value reserve on available-for-sale securities, net of tax effect		1,420	1,207	390	1,495	1,021	395
Fair value reserve on investments of insurance subsidiaries, net of tax effect		(63)	323	929	-	-	-
Share in other comprehensive income (loss) of associates		351	830	(134)	-	-	-
Currency translation differences		(5)	(215)	79	-	-	-
Total other comprehensive income, net of tax effect		1,703	2,145	1,264	1,495	1,021	395
<b>TOTAL COMPREHENSIVE INCOME FOR THE YEAR</b>		<b>14,716</b>	<b>13,624</b>	<b>9,929</b>	<b>11,351</b>	<b>9,327</b>	<b>9,148</b>
Attributable to:							
Equity holders of BPI		14,523	13,414	9,732	11,351	9,327	9,148
Non-controlling interest		193	210	197	-	-	-
		14,716	13,624	9,929	11,351	9,327	9,148

(The notes on pages 1 to 91 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, 2011**  
(In Millions of Pesos)

	Consolidated						
	Attributable to equity holders of BPI (Note 23)						
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, January 1, 2009	32,466	1,374	1,296	30,669	(2,851)	938	63,872
Comprehensive income							
Net income for the year	-	-	-	8,516	-	149	8,665
Other comprehensive income for the year	-	-	-	-	1,216	48	1,264
Total comprehensive income for the year	-	-	-	8,516	1,216	197	9,929
Transactions with owners							
Employee stock option plan:							
Exercise of options	11	38	(74)	-	-	-	(25)
Cash dividends	-	-	-	(5,843)	-	-	(5,843)
Transfer from surplus to reserves	-	-	172	(172)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	(168)	(168)
Total transactions with owners	11	38	98	(6,015)	-	(168)	(6,036)
Balance, December 31, 2009	32,467	1,412	1,394	33,160	(1,635)	967	67,765
Comprehensive income							
Net income for the year	-	-	-	11,312	-	167	11,479
Other comprehensive income for the year	-	-	-	-	2,102	43	2,145
Total comprehensive income for the year	-	-	-	11,312	2,102	210	13,624
Transactions with owners							
Issuance of shares	3,077	6,829	-	-	-	-	9,906
Employee stock option plan:							
Exercise of options	18	76	(137)	-	-	-	(43)
Cash dividends	-	-	-	(9,044)	-	-	(9,044)
Transfer from surplus to reserves	-	-	110	(110)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	67	67
Total transactions with owners	3,095	6,905	(27)	(9,154)	-	67	896
Balance, December 31, 2010	35,562	8,317	1,367	35,318	467	1,244	82,275
Comprehensive income							
Net income for the year	-	-	-	12,822	-	191	13,013
Other comprehensive income for the year	-	-	-	-	1,701	2	1,703
Total comprehensive income for the year	-	-	-	12,822	1,701	193	14,716
Transactions with owners							
Employee stock option plan:							
Expiration of options	-	-	(42)	42	-	-	-
Cash dividends	-	-	-	(6,402)	-	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	(59)	(59)
Total transactions with owners	-	-	95	(6,497)	-	(59)	(6,461)
Balance, December 31, 2011	35,562	8,317	1,462	41,643	2,168	1,378	90,530

(The notes on pages 1 to 91 are an integral part of these financial statements.)

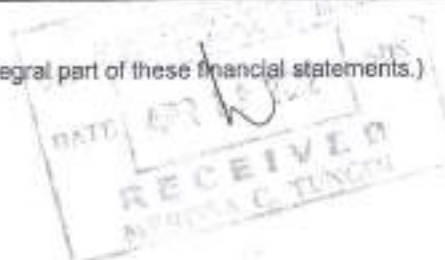


## BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF CHANGES IN CAPITAL FUNDS  
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011  
(In Millions of Pesos)

	Parent (Note 23)				Accumulated other comprehensive income (loss)	Total
	Share capital	Share premium	Reserves	Surplus		
Balance, January 1, 2009	32,456	1,374	1,241	14,652	(1,719)	48,004
Comprehensive income						
Net income for the year	-	-	-	8,753	-	8,753
Other comprehensive income for the year	-	-	-	-	395	395
Total comprehensive income for the year	-	-	-	8,753	395	9,148
Transactions with owners						
Employee stock option plan:						
Exercise of options	11	38	(62)	-	-	(13)
Cash dividends	-	-	-	(5,843)	-	(5,843)
Transfer from surplus to reserves	-	-	172	(172)	-	-
Total transactions with owners	11	38	110	(6,015)	-	(5,856)
Balance, December 31, 2009	32,467	1,412	1,351	17,390	(1,324)	51,296
Comprehensive income						
Net income for the year	-	-	-	8,306	-	8,306
Other comprehensive income for the year	-	-	-	-	1,021	1,021
Total comprehensive income for the year	-	-	-	8,306	1,021	9,327
Transactions with owners						
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)	-	-
Total transactions with owners	3,095	6,905	(15)	(9,154)	-	831
Balance, December 31, 2010	35,562	8,317	1,336	16,542	(303)	61,454
Comprehensive income						
Net income for the year	-	-	-	9,856	-	9,856
Other comprehensive income for the year	-	-	-	-	1,495	1,495
Total comprehensive income for the year	-	-	-	9,856	1,495	11,351
Transactions with owners						
Employee stock option plan:						
Expiration of options	-	-	(11)	11	-	-
Cash dividends	-	-	-	(6,402)	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-
Total transactions with owners	-	-	126	(6,528)	-	(6,402)
Balance, December 31, 2011	35,562	8,317	1,462	19,870	1,192	66,403

(The notes on pages 1 to 91 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, 2011  
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	2011	2010	2009	2011	2010	2009
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>							
Income before income tax		16,143	13,999	12,184	12,115	10,466	11,688
Adjustments for:							
Impairment losses	4, 11, 13, 18	2,150	3,454	2,535	1,583	2,165	1,983
Depreciation and amortization	14, 15	3,040	2,586	2,421	1,920	1,549	1,410
Share in net loss (income) of associates		(216)	(195)	21	-	-	-
Dividend income	25	(47)	(85)	(124)	(1,210)	(206)	(2,906)
Interest income		(40,071)	(38,381)	(35,231)	(28,287)	(27,565)	(25,539)
Interest expense		12,823	13,359	12,485	8,269	9,052	8,282
Operating loss before changes in operating assets and liabilities		(6,178)	(5,263)	(5,709)	(5,610)	(4,539)	(5,076)
Changes in operating assets and liabilities (Increase) decrease in:							
Due from Bangko Sentral ng Pilipinas		54,303	(12,731)	(5,074)	52,010	(12,300)	(4,895)
Interbank loans receivable and securities purchased under agreements to resell		3,859	20,403	(15,839)	3,861	20,958	(16,393)
Trading securities, net		(721)	41,760	(18,776)	(1,236)	41,829	(19,071)
Loans and advances, net		(77,418)	(54,907)	(10,064)	(62,188)	(38,573)	(1,907)
Assets held for sale		2,327	2,467	466	2,136	2,260	1,043
Assets attributable to insurance operations		(328)	(209)	15,154	-	-	-
Other resources		(4,185)	(539)	171	(3,006)	(30)	1,862
Increase (decrease) in:							
Deposit liabilities		(38,665)	140,295	39,119	(47,522)	119,905	31,143
Due to Bangko Sentral ng Pilipinas and other banks		(283)	67	438	(285)	68	473
Manager's checks and demand drafts outstanding		(56)	1,128	336	(95)	977	342
Accrued taxes, interest and other expenses		(536)	341	388	(654)	226	382
Liabilities attributable to insurance operations		724	450	(10,051)	-	-	-
Derivative financial instruments		154	(176)	(918)	154	(176)	(918)
Deferred credits and other liabilities		(1,364)	(35)	2,632	(1,547)	(859)	2,791
Cash (used in) generated from operations		(68,367)	133,051	(7,727)	(63,982)	129,746	(10,224)
Interest received		40,467	37,099	35,808	28,623	26,485	24,678
Interest paid		(13,380)	(13,029)	(12,574)	(8,780)	(8,703)	(8,386)
Income taxes paid		(2,442)	(2,670)	(2,735)	(1,415)	(1,824)	(2,036)
Net cash (used in) generated from operating activities		(43,722)	154,451	12,772	(45,554)	145,704	4,032
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>							
(Increase) decrease in:							
Available-for-sale securities, net	11	39,147	(38,596)	(7,743)	35,311	(36,533)	(9,550)
Held-to-maturity securities, net	12	5,693	(20,259)	(2,056)	5,363	(20,187)	(1,556)
Bank premises, furniture, fixtures and equipment, net	14	(3,246)	(2,531)	(2,476)	(1,784)	(1,376)	(1,478)
Investment properties, net	3		(10)	66	(1)	(10)	66
Investment in subsidiaries and associates, net		(120)	407	(247)	(39)	(17)	(240)
Assets attributable to insurance operations		183	(787)	(4,032)	-	-	-
Dividends received		47	85	124	1,210	436	3,584
Net cash generated from (used in) investing activities		41,707	(61,691)	(16,364)	40,060	(57,687)	(9,174)

(forward)



**BANK OF THE PHILIPPINE ISLANDS**  
**STATEMENTS OF CASH FLOWS**  
**FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011**  
(In Millions of Pesos)

		Consolidated			Parent		
	Notes	2011	2010	2009	2011	2010	2009
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>							
Cash dividends paid		(3,201)	(9,044)	(5,843)	(3,201)	(9,044)	(5,843)
Proceeds from stock rights offering	23	-	9,906	-	-	9,906	-
Increase (decrease) in bills payable		(5,733)	(7,141)	22,074	(7,357)	(7,372)	19,242
Net cash (used in) generated from financing activities		(8,934)	(6,279)	16,231	(10,558)	(6,510)	13,399
<b>NET(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS</b>							
		(10,949)	88,481	12,639	(16,052)	81,507	8,257
<b>CASH AND CASH EQUIVALENTS</b>							
January 1	7	161,910	75,429	62,790	138,954	57,447	49,190
December 31		150,961	161,910	75,429	122,902	138,954	57,447

(The notes on pages 1 to 91 are an integral part of these financial statements.)



## **BANK OF THE PHILIPPINE ISLANDS**

### **NOTES TO FINANCIAL STATEMENTS**

**AS OF DECEMBER 31, 2011 AND 2010**

**AND FOR EACH OF THE THREE YEARS**

**IN THE PERIOD ENDED DECEMBER 31, 2011**

#### **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 with principal office at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries (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, 2011, the BPI Group has 12,355 employees (2010 - 12,035 employees) and operated 814 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 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 15, 2012. There are no material events that occurred subsequent to February 15, 2012 until February 23, 2012.

#### **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), and 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.

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, the 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 BPI Group's financial statements therefore present the financial position and results fairly. 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 revised standard, amendments to existing standards and interpretations approved by the FRSC which are effective for the BPI Group beginning January 1, 2011:

- *PAS 24 (Revised), Related Party Disclosures* (effective January 1, 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The BPI Group has applied the revised standard from January 1, 2011. As a result of adoption of the revised standard, BPI Group has identified additional related parties and made additional disclosures with respect to those parties (Note 32).
- *PAS 32 (Amendment), Financial Instruments: Presentation - Classification of Rights Issues* (effective February 1, 2010). The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The BPI Group has applied this amendment from January 1, 2011 but the adoption did not have a significant impact on the financial statements as there were no rights issues.
- *Philippine Interpretation IFRIC 14, PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendment)* (effective January 1, 2011). The amendment corrects an unintended consequence of Philippine Interpretation IFRIC 14. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when Philippine Interpretation IFRIC 14 was issued, and the amendment corrects this. The amendment should be applied retrospectively to the earliest comparative period presented. The BPI Group has applied this amendment from January 1, 2011 but the adoption did not have a significant impact on the financial statements as BPI Group's retirement plan does not have minimum funding requirements.
- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* (effective July 1, 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The BPI Group has applied the interpretation from January 1, 2011 but the adoption did not have a significant impact on the financial statements as there were no renegotiated financial liabilities.

## 2010 Improvements to PFRS (effective for annual period on or after January 1, 2011)

The following are the relevant amendments to PFRS which contains amendments that result in accounting changes, presentation, recognition and measurement. It also includes amendments that are terminology or editorial changes only which have either minimal or no effect on accounting (effective January 1, 2011). These amendments are part of the IASB's annual improvements project published in August 2009. Unless otherwise stated, these improvements did not have a significant impact on the financial statements of the BPI Group.

- *PFRS 1 (Revised), First-time Adoption of Philippine Financial Reporting Standards* (effective January 1, 2011). The amendment clarifies that, if a first-time adopter changes its accounting policies or its use of the exemptions in PFRS 1 after it has published an interim financial report in accordance with PAS 34, Interim Financial Reporting, it should explain those changes and update the reconciliations between previous GAAP and PFRS. The amendment also allows first-time adopters to use an event-driven fair value as deemed cost, even if the event occurs after the date of transition, but before the first PFRS financial statements are issued. When such re-measurement occurs after the date of transition to PFRS, but during the period covered by its first PFRS financial statements, any subsequent adjustment to that event-driven fair value is recognized in equity.

It also clarifies that entities subject to rate regulation are allowed to use previous GAAP carrying amounts of property, plant and equipment or intangible assets as deemed cost on an item-by-item basis. Entities that use this exemption are required to test each item for impairment under PAS 36 at the date of transition.

- *PFRS 3, Business Combinations* (effective July 1, 2010). The amendment clarifies that the amendments to PFRS 7, Financial Instruments: Disclosures, PAS 32, Financial Instruments: Presentation, and PAS 39, Financial Instruments: Recognition and Measurement, that eliminate the exemption for contingent consideration, do not apply to contingent consideration that arose from business combinations whose acquisition dates precede the application of PFRS 3 (as revised in 2008).

The amendment also clarifies that the choice of measuring non-controlling interests at fair value or at the proportionate share of the acquiree's net assets applies only to instruments that represent present ownership interests and entitle their holders to a proportionate share of the net assets in the event of liquidation. All other components of non-controlling interest are measured at fair value unless another measurement basis is required by PFRS.

It also clarifies that the application guidance in PFRS 3 applies to all share-based payment transactions that are part of a business combination, including unreplaced and voluntarily replaced share-based payment awards.

- *PFRS 7, Financial Instruments: Disclosures* (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.
- *PAS 1, Presentation of Financial Statements* (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The BPI Group has applied this amendment by presenting the analysis of other comprehensive income in Note 23.
- *PAS 27, Consolidated and Separate Financial Statements* (effective July 1, 2010). The amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, The Effect of Changes in Foreign Exchange Rates, PAS 28, Investments in Associates, and PAS 31, Interests in Joint Ventures, apply prospectively for annual periods beginning on or after July 1, 2009, or earlier when PAS 27 is applied earlier.



- *PAS 34, Interim Financial Reporting* (effective January 1, 2011). The amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:
  - The circumstances likely to affect fair values of financial instruments and their classification;
  - Transfers of financial instruments between different levels of the fair value hierarchy;
  - Changes in classification of financial assets; and
  - Changes in contingent liabilities and assets
- *Philippine Interpretation IFRIC 13, Customer Loyalty Programs* (effective January 1, 2011). The amendment clarifies the meaning of 'fair value' in the context of measuring award credits under customer loyalty program.

**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 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 will apply the amendments beginning January 1, 2012 but the adoption is not expected to have an impact on the financial statements as investment properties are measured using the cost model.

- *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 the 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, 2011, the BPI Group has unrecognized actuarial loss of P 3.1 billion (Note 30). Upon adoption of these amendments, the BPI Group will recognize the actuarial loss in other comprehensive income.
- *PAS 27 (Revised), Separate Financial Statements* (effective January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of PAS 27 have been included in the new PFRS 10. The BPI Group will apply the revised standard beginning January 1, 2013 but the adoption is not expected to have an impact on the financial statements.
- *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 but the adoption is not expected to have an impact on the financial statements as there are currently no investments in joint ventures.

- *PFRS 1 (Amendment), First-time Adoption of PFRS - Fixed Dates and Hyperinflation* (effective July 1, 2011). These amendments include two changes to PFRS 1, First-time adoption of PFRS. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRS', thus eliminating the need for entities adopting PFRS for the first time to restate derecognition transactions that occurred before the date of transition to PFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRS after a period when the entity was unable to comply with PFRS because its functional currency was subject to severe hyperinflation. The BPI Group will apply the amendment beginning January 1, 2012 but the adoption is not expected to have an impact on the financial statements as the BPI Group is not a first-time adopter.
- *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 will adopt the amendment beginning January 1, 2012 and provide the additional disclosures required by the amendment upon adoption.
- *PFRS 9, Financial Instruments* (effective January 1, 2015). This standard is the first step in the process to replace PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the BPI Group's accounting for its financial assets. The adoption of PFRS 9 will affect the BPI Group's accounting for its debt available for sale financial assets 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 investments will therefore have to be recognized directly in the profit or loss. The BPI Group is currently assessing the full impact of PFRS 9 and intends to adopt PFRS 9 beginning January 1, 2015.
- *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 within 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 is currently assessing PFRS 10's full impact and intends to adopt PFRS 10 beginning January 1, 2013.
- *PFRS 11, Joint Arrangements* (effective January 1, 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The BPI Group will adopt the standard beginning January 1, 2013 but the adoption is not expected to have a significant impact on the financial statements as the BPI Group is currently not engaged in joint arrangements or joint ventures.
- *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 is currently assessing PFRS 12's full impact and intends to adopt PFRS 12 beginning January 1, 2013.
- *PFRS 13, Fair Value Measurement* (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a precise 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 is currently assessing PFRS 13's full impact and intends to adopt PFRS 13 beginning January 1, 2013.

## 2.3 Consolidation

The consolidated financial statements comprise the financial statements of the Parent Bank and all its consolidated subsidiaries. The subsidiaries' financial statements are prepared for the same reporting periods as the Parent Bank. The percentages of effective ownership of BPI in consolidated subsidiaries at December 31, 2011 and 2010 are as follows:

Name	Country of incorporation	Principal activities	% of ownership	
			2011	2010
BPI Family Savings Bank, Inc.	Philippines	Banking	<b>100</b>	100
BPI Capital Corporation (BPICC)	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 Center HK (Ltd.)	Hong Kong	Remittance	<b>100</b>	100
BPI Express Remittance Europe, S.p.A.	Italy	Remittance	<b>100</b>	100
FEB Insurance Brokers, Inc.	Philippines	Insurance brokers	-	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
BPI Bancassurance, Inc. (BPIBI)	Philippines	Bancassurance	-	100
Ayala Plans, Inc.	Philippines	Pre-need	<b>100</b>	100
FGU Insurance Corporation	Philippines	Non-life insurance	<b>94.62</b>	94.62
Prudential Venture Capital Corporation	Philippines	Venture capital	-	100
BPI/MS Insurance Corporation	Philippines	Non-life insurance	<b>50.85</b>	50.85
BPI Globe BankO	Philippines	Banking	<b>40</b>	40

On August 18 and August 20, 2010, the respective Board of Directors of BPICC and of BPIBI resolved to approve the statutory merger between the two companies with BPICC as the surviving entity. The articles of merger of BPICC and BPIBI were approved by SEC on May 20, 2011. As at this date, BPIBI ceased its corporate existence and all of its assets and liabilities were transferred to BPICC.

BPI has control over BPI Globe BankO 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.

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 on which control ceases.

The BPI Group uses 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.

Investments in subsidiaries are accounted for at cost less impairment. Cost is adjusted to reflect changes in consideration arising from contingent consideration amendments. Cost also includes direct attributable costs of investment.

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 is less 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 unrealized gains and losses on transactions between group companies are eliminated. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

#### (b) Transactions with non-controlling interests

The BPI Group treats transactions with non-controlling interests as transactions with equity owners of the group. 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.

When the BPI Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in the 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.

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

#### (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 by the equity method of accounting and are initially recognized at cost. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

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, it does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

Intragroup gains on transactions between the BPI Group and its associates are eliminated to the extent of its interest in the associates. Intragroup 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**

The financial statements include the consolidated financial statements of the BPI Group and the separate financial statements of the Parent Bank.

Investments in subsidiaries and associates in the Parent Bank's separate financial statements are accounted for at cost method in accordance with PAS 27. Under the cost method, income from investment is recognized in profit or loss only to the extent that the investor receives distributions from accumulated net income of the investee arising subsequent to the date of acquisition.

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 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.

## **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 Sale and 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. Securities purchased under agreements to resell ('reverse repos') are treated as loans and advances and included in the statement condition under "Interbank loans receivable and securities purchased under agreements to resell" account. 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 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. 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 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.

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 entity's key management personnel. The BPI Group has no financial assets that are specifically designated at fair value through profit or loss.

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

#### **(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 trading, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category are Loans and advances, Due from BSP (liquidity and statutory reserve account) and other banks, Interbank loans receivable and securities purchased under agreements to resell and other receivables 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-derivatives financial assets that are either designated in this category or not classified in any of the other categories.

### **2.8.2 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. Financial assets are initially recognized at fair value plus transaction costs for all financial assets not carried at fair value through profit or loss. 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.

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 profit or loss (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 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 the 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 trading financial asset 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 de-recognition).

## **2.9 Impairment of financial assets**

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

The BPI Group assesses at each balance sheet 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 financial 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 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. Impairment loss is recognized in profit or loss and the carrying amount of the asset is reduced through the use of an allowance account.

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 provision 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. The amount of the reversal is recognized in profit or loss as a reduction of impairment losses for the year. Subsequent recoveries of amounts previously written-off are credited to operating income in profit or loss.

(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 refer to (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. The cumulative loss (difference between the acquisition cost and the current fair value) 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 collective impairment assessment or individually significant 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 Recognition, classification and measurement**

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 held for trading are included in the profit or loss. 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, amounts due to BSP, subordinated notes and other financial liabilities under deferred credits and other liabilities.

### **2.10.2 Derecognition**

Financial liabilities are derecognized when they have been redeemed or otherwise extinguished (i.e. when the obligation is discharged or is cancelled or expires). 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 de-recognition are therefore not met.

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

The BPI Group classifies its fair value measurements using 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 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.

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 over-the-counter 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 over-the-counter (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. Structured interest rate derivatives are measured using appropriate option pricing models (for example, the Black-Scholes model) or other procedures such as Monte Carlo simulation.

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	
		- Loans and advances to banks	
			- Loans to individuals (retail) - Real estate mortgages - Auto loans - Credit cards - Others
	Loans and receivables	- Loans and advances to customers	- Large corporate customers - Small and medium enterprises
	Held-to-maturity investments	- Investment securities (debt securities)	- Government - Others
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others
		- Investment securities (equity securities)	- Listed - Unlisted
Financial Liabilities	Financial liabilities at fair value through profit or loss	Derivative financial liabilities	
		- Deposits from customers	- Demand - Savings - Time
	Financial liabilities at amortized cost	- Deposits from banks	
		- Unsecured subordinated debts	
		- Bills payable - Other liabilities	
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, 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 profit or loss 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 the items 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.

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 (normally ranging 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.

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 for 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 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. 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 is included in profit or loss in the period the item is derecognized.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in profit or loss.

### **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 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 relationship have a finite useful life 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.

## **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 life 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 the 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 stated 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.

## **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 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. 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 rate 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 rate 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. 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 more likely than not 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.

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 assessment 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 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 tax paid or withheld is included in Current provision for income tax.

(b) Deferred income tax

Deferred income tax is provided in full, 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 balance sheet 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 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.

(c) Recent tax laws and significant regulations

Republic Act 9337 (the Act), which was passed into law in May 2005, amended certain provisions of the National Internal Revenue Code of 1997. The more salient provisions of the Act included: 1) change in normal corporate income tax from 32% to 35% effective November 1, 2005 and from 35% to 30% effective January 1, 2009; 2) change in allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and from 42% to 33% beginning January 1, 2009; and 3) revision of gross receipts tax (GRT) rates.

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, income tax returns and information on taxes, duties and license fees paid or accrued during the year.

Revenue Regulation No. 19-2011, issued in December 2011, prescribed the New Income Tax Form No. 1702. This regulation further requires the inclusion of supplementary schedules of sales/receipts/fees, costs of sales/services, non-operating and taxable other income, itemized deduction (if the taxpayer did not avail of OSD), taxes and licenses, and other information in the notes to the financial statements.

## **2.29 Employee benefits**

(a) Pension obligations

The BPI Group operates various pension schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. 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 transaction in respect of services received from certain of its 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 the 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 year in which they are approved by the Board of Directors and the BSP.

### **2.33 Fiduciary activities**

The BPI Group commonly acts as trustees 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 substantially all 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 the profit or loss on a straight-line basis over the period of the lease.
- (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

- (i) 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) Life insurance

The BPI's life insurance subsidiary issues contracts that transfer insurance risk or financial risk or both. Insurance contracts are those contracts that transfer significant insurance risk. Such risks include the possibility of having to pay benefits on the occurrence of an insured event such as death, accident, or disability. The subsidiary may also transfer insurance risk in insurance contracts through its reinsurance arrangements; to hedge against a greater possibility of claims occurring than expected. As a general guideline, the subsidiary defines as significant insurance risk the possibility of having to pay benefits on the occurrence of an insured event that are at least 10% more than the benefits payable if the insured event did not occur.

Investment contracts are those contracts that transfer financial risk with no significant insurance risk.

The more significant of the accounting principles of the life insurance subsidiary follow: (a) premiums arising from insurance contracts are recognized as revenue when received and on the issue date of the insurance policies for the first year premiums; (b) commissions and other acquisition costs are expensed as incurred; (c) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39; and (d) a liability adequacy test is performed at each balance sheet date which compares the subsidiary's reported insurance contract liabilities against current best estimates of future cash flows and claims handling, and policy administration expenses as well as investment income from assets backing such liabilities, with any deficiency immediately charged to income by establishing a provision for losses arising from liability adequacy tests.

In September 2009, the BPI Group lost control over a life insurance subsidiary following the sale of its majority stake in the said subsidiary (see Note 16).

(b) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiary 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 subsidiary's 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.

(c) 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 the 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.

## **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 incomes - 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 incomes. 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. For corporate and SMEs, the rating system is a 10-point scale that measures 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 2.8).

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

	<b>Consolidated</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>
Unclassified	<b>96.48</b>	<b>0.52</b>	95.81	0.45
Loans especially mentioned	<b>0.57</b>	<b>5.18</b>	0.70	5.04
Substandard	<b>1.11</b>	<b>22.98</b>	1.34	23.98
Doubtful	<b>0.96</b>	<b>66.14</b>	0.91	65.94
Loss	<b>0.88</b>	<b>100.00</b>	1.24	100.00
	<b>100.00</b>		100.00	

	<b>Parent</b>			
	<b>2011</b>		<b>2010</b>	
	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>	<b>Loans and advances (%)</b>	<b>Allowance for impairment (%)</b>
Unclassified	<b>96.90</b>	<b>0.50</b>	95.99	0.42
Loans especially mentioned	<b>0.60</b>	<b>5.17</b>	0.80	5.03
Substandard	<b>0.61</b>	<b>16.62</b>	0.87	16.09
Doubtful	<b>1.04</b>	<b>64.81</b>	0.99	63.78
Loss	<b>0.85</b>	<b>100.00</b>	1.35	100.00
	<b>100.00</b>		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:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Due from BSP	<b>83,759</b>	128,487	<b>70,807</b>	117,805
Due from other banks	<b>9,297</b>	6,548	<b>5,567</b>	3,209
Interbank loans receivable and securities purchased under agreements to resell (SPAR)	<b>35,277</b>	66,834	<b>24,867</b>	56,237
Financial assets at fair value through profit or loss				
Derivative financial assets	<b>5,389</b>	6,059	<b>5,389</b>	6,059
Trading securities - debt securities	<b>11,933</b>	11,172	<b>11,638</b>	10,293
Available-for-sale - debt securities	<b>72,906</b>	111,453	<b>64,283</b>	98,701
Held-to-maturity securities, net	<b>89,742</b>	95,474	<b>79,723</b>	85,136
Loans and advances, net	<b>454,499</b>	378,728	<b>337,425</b>	276,494
Other financial assets				
Sales contracts receivable, net	<b>462</b>	534	<b>237</b>	303
Accounts receivable, net	<b>2,377</b>	1,397	<b>1,669</b>	1,138
Other accrued interest and fees receivable	<b>664</b>	667	<b>594</b>	481
Rental deposits	<b>270</b>	216	<b>223</b>	170
Others, net	<b>108</b>	135	<b>136</b>	151
	<b>766,683</b>	807,704	<b>602,558</b>	656,177



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

	Consolidated		Parent	
	2011	2010	2011	2010
(In Millions of Pesos)				
Undrawn loan commitments	<b>154,248</b>	102,853	<b>147,801</b>	98,937
Bills for collection	<b>23,470</b>	18,521	<b>23,469</b>	18,513
Unused letters of credit	<b>11,003</b>	12,894	<b>11,003</b>	12,894
Others	<b>2,765</b>	707	<b>2,623</b>	606
	<b>191,486</b>	134,975	<b>184,896</b>	130,950

The preceding table represents the maximum credit risk exposure at December 31, 2011 and 2010, 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:

- **97%** of the loans and advances portfolio is categorized in the top two classifications of the internal rating system in 2011 (2010 - 97%);
- Mortgage loans are backed by collateral;
- **96%** of the loans and advances portfolio is considered to be neither past due nor impaired (2010 - 95%); 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	
	2011	2010	2011	2010
(In Millions of Pesos)				
Neither past due nor impaired	<b>445,355</b>	370,409	<b>331,698</b>	271,001
Past due but not impaired	<b>3,503</b>	2,250	<b>2,410</b>	1,398
Impaired	<b>16,301</b>	16,311	<b>10,682</b>	11,366
	<b>465,159</b>	388,970	<b>344,790</b>	283,765
Allowance for impairment	<b>(10,660)</b>	(10,242)	<b>(7,365)</b>	(7,271)
	<b>454,499</b>	378,728	<b>337,425</b>	276,494

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 P1,786 million (2010 – P2,574 million), of which P1,251 million (2009 – P2,064 million) represents provision for individually impaired loans and the remaining amount of P535 million (2010 – P510 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	
	2011	2010	2011	2010
(In Millions of Pesos)				
Corporate entities:				
Large corporate customers	271,394	215,184	261,883	208,451
Small and medium enterprises	76,655	70,029	51,524	46,806
Retail customers:				
Mortgages	76,317	65,873	62	314
Credit cards	17,506	15,251	17,506	15,251
Others	3,483	4,072	723	179
	445,355	370,409	331,698	271,001

(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 and 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

	2011				2010			
	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	66	164	1,205	1,435	29	82	831	942
Past due 31 - 90 days	188	157	936	1,281	10	56	802	868
Past due 91 - 180 days	33	293	1	327	5	111	43	159
Over 180 days	224	236	-	460	26	253	2	281
	511	850	2,142	3,503	70	502	1,678	2,250
Fair value of collateral				6,786				5,381

Parent

	2011				2010			
	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	47	68	1,125	1,240	14	15	736	765
Past due 31 - 90 days	161	22	733	916	-	17	534	551
Past due 91 - 180 days	-	95	-	95	-	22	2	24
Over 180 days	128	31	-	159	1	57	-	58
	336	216	1,858	2,410	15	111	1,272	1,398
Fair value of collateral				430				338

(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:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	<b>5,157</b>	5,150	<b>4,934</b>	5,103
Small and medium enterprises	<b>6,262</b>	6,613	<b>4,134</b>	4,546
Retail customers:				
Mortgages	<b>781</b>	703	<b>10</b>	45
Credit cards	<b>1,162</b>	1,305	<b>1,162</b>	1,305
Others	<b>18</b>	-	<b>13</b>	-
	<b>13,380</b>	13,771	<b>10,253</b>	10,999
Fair value of collateral	<b>10,913</b>	11,723	<b>9,151</b>	9,989

### 3.1.6 Credit quality of other financial assets

a. Due from Bangko Sentral ng Pilipinas

Due from BSP amounting to P83,759 million and P128,487 million as of December 31, 2011 and 2010, respectively, are made with a sovereign counterparty and are considered fully performing.

b. Due from other banks and interbank loans receivable

Due from other banks and interbank loans receivable are considered fully performing at December 31, 2011 and 2010. The table below presents the credit ratings of counterparty banks based on Standard and Poor's.

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
AAA	-	71	-	71
AA- to AA+	<b>2,409</b>	9,198	<b>2,288</b>	9,129
A- to A+	<b>2,436</b>	12,108	<b>2,304</b>	12,124
Lower than A-	-	-	-	-
Unrated	<b>4,956</b>	4,995	<b>3,201</b>	3,035
	<b>9,801</b>	26,372	<b>7,793</b>	24,359

Interbank loans receivable and securities purchased under agreements to resell includes reverse repurchase agreements amounting to P34,773 million (2010 - P47,010). These are made with a sovereign counterparty and are considered fully performing.

c. 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	
	2011	2010	2011	2010
(In Millions of Pesos)				
AAA	-	-	-	-
AA- to AA+	1,348	872	1,348	872
A- to A+	2,192	3,199	2,192	3,199
Lower than A-	137	880	137	880
Unrated	1,712	1,108	1,712	1,108
	<b>5,389</b>	<b>6,059</b>	<b>5,389</b>	<b>6,059</b>

d. 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, 2011 and 2010 based on Standard & Poor's:

**At December 31, 2011**

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

**At December 31, 2010**

	Consolidated				Parent			
	Trading securities	Held-to-maturity	Available-for-sale	Total	Trading securities	Held-to-maturity	Available-for-sale	Total
(In Millions of Pesos)								
AAA	2,854	6,479	10,007	19,340	2,854	6,346	6,027	15,227
AA- to AA+	-	220	7,055	7,275	-	220	6,011	6,231
A- to A+	-	1,624	2,399	4,023	-	-	2,399	2,399
Lower than A-	8,313	87,151	89,429	184,893	7,439	78,570	81,755	167,764
Unrated	5	-	2,563	2,568	-	-	2,509	2,509
	<b>11,172</b>	<b>95,474</b>	<b>111,453</b>	<b>218,099</b>	<b>10,293</b>	<b>85,136</b>	<b>98,701</b>	<b>194,130</b>

e. Other financial assets

The BPI Group's other financial assets (shown under Other resources) as of December 31, 2011 and 2010 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 acquired assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2011, the BPI Group's foreclosed collaterals have carrying amount of P9,148 million (2010 – P11,774 million). The related foreclosed collaterals have aggregate fair value of P10,776 million (2010 – P13,962 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	83,759	-	-	-	-	-	<b>83,759</b>
Due from other banks	9,297	-	-	-	-	-	<b>9,297</b>
Interbank loans receivable and SPAR	35,277	-	-	-	-	-	<b>35,277</b>
Financial assets at fair value through profit or loss							
Derivative financial assets	5,326	-	12	-	51	-	<b>5,389</b>
Trading securities - debt securities	4	-	49	2	11,878	-	<b>11,933</b>
Available-for-sale - debt securities	14,848		305	465	57,288	-	<b>72,906</b>
Held-to-maturity securities	200	-	-	-	89,542	-	<b>89,742</b>
Loans and advances, net	29,243	50,318	105,724	120,540	159,334	(10,660)	<b>454,499</b>
Other financial assets							
Sales contracts receivable, net	-	-	-	-	467	(5)	<b>462</b>
Accounts receivable, net	-	-	-	-	3,059	(682)	<b>2,377</b>
Other accrued interest and fees receivable	-	-	-	-	664	-	<b>664</b>
Rental deposits	-	-	-	-	270	-	<b>270</b>
Others, net	-	-	-	-	130	(22)	<b>108</b>
<b>At December 31, 2011</b>	<b>177,954</b>	<b>50,318</b>	<b>106,090</b>	<b>121,007</b>	<b>322,683</b>	<b>(11,369)</b>	<b>766,683</b>

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less – allowance	Total
(In Millions of Pesos)							
Due from BSP	128,487	-	-	-	-	-	128,487
Due from other banks	6,548	-	-	-	-	-	6,548
Interbank loans receivable and SPAR	66,834	-	-	-	-	-	66,834
Financial assets at fair value through profit or loss							
Derivative financial assets	6,010	5	15	14	15	-	6,059
Trading securities - debt securities	123	-	34	-	11,015	-	11,172
Available-for-sale - debt securities	14,861	-	477	470	95,645	-	111,453
Held-to-maturity securities	1,635	-	-	-	93,839	-	95,474
Loans and advances, net	23,399	44,617	74,928	96,066	149,960	(10,242)	378,728
Other financial assets							
Sales contracts							
receivable, net	-	-	-	-	539	(5)	534
Accounts receivable, net	-	-	-	-	2,064	(667)	1,397
Other accrued interest							
and fees receivable	-	-	-	-	667	-	667
Rental deposits	-	-	-	-	216	-	216
Others, net	-	-	-	-	157	(22)	135
At December 31, 2010	247,897	44,622	75,454	96,550	354,117	(10,936)	807,704

Parent

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

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
(In Millions of Pesos)							
Due from BSP	117,805	-	-	-	-	-	117,805
Due from other banks	3,209	-	-	-	-	-	3,209
Interbank loans receivable and SPAR	56,237	-	-	-	-	-	56,237
Financial assets at fair value through profit or loss							
Derivative financial assets	6,010	5	15	14	15	-	6,059
Trading securities - debt securities	120	-	34	-	10,139	-	10,293
Available-for-sale - debt securities	14,230	-	477	470	83,524	-	98,701
Held-to-maturity securities	243	-	-	-	84,893	-	85,136
Loans and advances, net	21,583	18,359	72,202	42,275	129,346	(7,271)	276,494
Other financial assets							
Sales contracts receivable, net	-	-	-	-	308	(5)	303
Accounts receivable, net	-	-	-	-	1,765	(627)	1,138
Other accrued interest and fees receivable	-	-	-	-	481	-	481
Rental deposits	-	-	-	-	170	-	170
Others, net	-	-	-	-	165	(14)	151
At December 31, 2010	219,437	18,364	72,728	42,759	310,806	(7,917)	656,177

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 management

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.

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	
	2011	2010	2011	2010
(In Millions of Pesos)				
Local fixed-income	380	198	361	184
Foreign fixed-income	221	112	202	108
Foreign exchange	49	51	18	15
Derivatives	40	21	40	21
Equity securities	15	8	-	-
Mutual fund	8	8	-	-
	713	398	621	328

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 BSVaR for the banking or non-trading book follows:

	Consolidated		Parent	
	2011	2010	2011	2010
(In Millions of Pesos)				
BSVaR	1,362	1,109	1,210	1,008

### 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, 2011 and 2010. 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, 2011</b>						
<b>Financial Assets</b>						
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>
<b>Financial Liabilities</b>						
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>

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2010						
Financial Assets						
Cash and other cash items	1,888	38	99	16	-	2,041
Due from other banks	1,629	39	351	1,239	-	3,258
Interbank loans receivable and SPAR	19,633	-	-	102	-	19,735
Financial assets at fair value through profit or loss						
Derivative financial assets	1,005	-	45	-	-	1,050
Trading securities - debt securities	3,624	-	58	-	-	3,682
Available-for-sale - debt securities	32,269	-	821	216	-	33,306
Held-to-maturity securities	33,781	-	1,663	238	-	35,682
Loans and advances, net	26,588	1,568	81	26	(270)	27,993
Others financial assets						
Accounts receivable, net	57	1	1	1	(4)	56
Other accrued interest and fees receivable	90	1	104	17	-	212
Others	1	-	-	1	-	2
<b>Total financial assets</b>	<b>120,565</b>	<b>1,647</b>	<b>3,223</b>	<b>1,856</b>	<b>(274)</b>	<b>127,017</b>
Financial Liabilities						
Deposit liabilities	104,344	1,070	2,841	530	-	108,785
Derivative financial liabilities	1,039	-	45	-	-	1,084
Due to BSP and other banks	95	-	-	-	-	95
Manager's checks and demand drafts outstanding	55	1	4	-	-	60
Other financial liabilities	3,625	188	345	30	-	4,188
Accounts payable	77	-	204	1	-	282
Others	1,033	11	71	-	-	1,115
<b>Total financial liabilities</b>	<b>110,268</b>	<b>1,270</b>	<b>3,510</b>	<b>561</b>	<b>-</b>	<b>115,609</b>
Net on-balance sheet financial position (in Philippine Peso)	10,297	377	(287)	1,295	(274)	11,408

Parent

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

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2010						
Financial Assets						
Cash and other cash items	1,756	38	63	15	-	1,872
Due from other banks	1,322	37	149	76	-	1,584
Interbank loans receivable and SPAR	19,633	-	-	102	-	19,735
Financial assets at fair value through profit or loss						
Derivative financial assets	1,005	-	45	-	-	1,050
Trading securities - debt securities	3,624	-	58	-	-	3,682
Available-for-sale - debt securities	27,031	-	821	216	-	28,068
Held-to-maturity securities	29,984	-	1,634	-	-	31,618
Loans and advances, net	26,588	1,568	80	-	(270)	27,966
Other financial assets						
Accounts receivable, net	56	1	-	1	(4)	54
Other accrued interest and fees receivable	89	1	102	3	-	195
<b>Total financial assets</b>	<b>111,088</b>	<b>1,645</b>	<b>2,952</b>	<b>413</b>	<b>(274)</b>	<b>115,824</b>
Financial Liabilities						
Deposit liabilities	95,387	1,070	2,814	399	-	99,670
Derivative financial liabilities	1,039	-	45	-	-	1,084
Due to BSP and other banks	95	-	-	-	-	95
Manager's checks and demand drafts outstanding	31	1	4	-	-	36
Other financial liabilities						
Accounts payable	68	-	2	1	-	71
Others	1,033	11	71	-	-	1,115
<b>Total financial liabilities</b>	<b>97,653</b>	<b>1,082</b>	<b>2,936</b>	<b>400</b>	<b>-</b>	<b>102,071</b>
<b>Net on-balance sheet financial position (in Philippine Peso)</b>	<b>13,435</b>	<b>563</b>	<b>16</b>	<b>13</b>	<b>(274)</b>	<b>13,753</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, 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					
Sales contracts receivable, net	-	-	-	462	462
Accounts receivable, net	-	-	-	2,377	2,377
Other accrued interest and fees receivable	-	-	-	664	664
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	109,163	171,402	726,068
Total interest gap	(11,469)	(49,707)	(61,856)	163,647	40,615

	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, 2010					
Financial Assets					
Due from BSP	-	-	-	128,487	128,487
Due from other banks	-	-	-	6,548	6,548
Interbank loans receivable and SPAR	-	-	-	66,834	66,834
Financial assets at fair value through profit or loss					
Derivative financial assets	6,059	-	-	-	6,059
Trading securities - debt securities	-	-	-	11,172	11,172
Available-for-sale - debt securities	-	-	-	111,453	111,453
Held-to-maturity securities	-	-	-	95,474	95,474
Loans and advances, net	275,154	17,786	40,515	45,273	378,728
Other financial assets					
Sales contracts receivable, net	-	-	-	534	534
Accounts receivable, net	-	-	-	1,397	1,397
Other accrued interest and fees receivable	-	-	-	667	667
Rental deposits	-	-	-	216	216
Others, net	-	-	-	135	135
Total financial assets	281,213	17,786	40,515	468,190	807,704
Financial Liabilities					
Deposit liabilities	325,202	256,420	17,690	120,454	719,766
Derivative financial liabilities	5,329	-	-	-	5,329
Bills payable	-	-	-	24,868	24,868
Due to BSP and other banks	-	-	-	2,000	2,000
Manager's checks and demand drafts outstanding	-	-	-	4,187	4,187
Unsecured subordinated debt	-	-	-	5,000	5,000
Other financial liabilities					
Accounts payable	-	-	-	2,937	2,937
Outstanding acceptances	-	-	-	1,031	1,031
Deposits on lease contract	-	-	-	1,728	1,728
Others	-	-	-	537	537
Total financial liabilities	330,531	256,420	17,690	162,742	767,383
Total interest gap	(49,318)	(238,634)	22,825	305,448	40,321

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, 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					
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
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	82,146	150,546	576,326
Total interest gap	25,979	(48,726)	(64,872)	113,851	26,232



	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, 2010					
Financial Assets					
Due from BSP	-	-	-	117,805	117,805
Due from other banks	-	-	-	3,209	3,209
Interbank loans receivable and SPAR	-	-	-	56,237	56,237
Financial assets at fair value through profit or loss					
Derivative financial assets	6,059	-	-	-	6,059
Trading securities - debt securities	-	-	-	10,293	10,293
Available-for-sale - debt securities	-	-	-	98,701	98,701
Held-to-maturity securities	-	-	-	85,136	85,136
Loans and advances, net	234,743	6,393	14,511	20,847	276,494
Other financial assets					
Sales contracts receivable, net	-	-	-	303	303
Accounts receivable, net	-	-	-	1,138	1,138
Other accrued interest and fees receivable	-	-	-	481	481
Rental deposits	-	-	-	170	170
Others, net	-	-	-	151	151
Total financial assets	240,802	6,393	14,511	394,471	656,177
Financial Liabilities					
Deposit liabilities	261,619	217,078	22	113,217	591,936
Derivative financial liabilities	5,329	-	-	-	5,329
Bills payable	-	-	-	17,243	17,243
Due to BSP and other banks	-	-	-	2,003	2,003
Manager's checks and demand drafts outstanding	-	-	-	3,483	3,483
Unsecured subordinated debt	-	-	-	5,000	5,000
Other financial liabilities					
Accounts payable	-	-	-	1,778	1,778
Outstanding acceptances	-	-	-	1,031	1,031
Others	-	-	-	535	535
Total financial liabilities	266,948	217,078	22	144,290	628,338
Total interest gap	(26,146)	(210,685)	14,489	250,188	27,839

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

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2010				
Financial Assets				
Cash and other cash items	18,151	-	-	18,151
Due from BSP	128,536	-	-	128,536
Due from other banks	6,548	-	-	6,548
Interbank loans receivable and securities under agreements to resell (SPAR)	68,159	-	-	68,159
Financial assets at fair value through profit or loss				
Trading securities	11,330			11,330
Available-for-sale	110,221	4,259	5,783	120,263
Held-to-maturity, net	23,611	40,749	57,025	121,385
Loans and advances, net	235,657	46,915	184,869	467,441
Other financial assets, net				
Sales contracts receivable, net	534	-	-	534
Accounts receivable, net	1,397	-	-	1,397
Other accrued interest and fees receivable	667	-	-	667
Rental deposits	216	-	-	216
Others, net	136	-	-	136
<b>Total financial assets</b>	<b>605,163</b>	<b>91,923</b>	<b>247,677</b>	<b>944,763</b>
Financial Liabilities				
Deposit liabilities	326,619	260,159	143,697	730,475
Bills payable	22,386	657	2,806	25,849
Due to BSP and other banks	2,000	-	-	2,000
Manager's checks and demand drafts outstanding	4,187	-	-	4,187
Unsecured subordinated debt	423	845	7,112	8,380
Other financial liabilities				
Accounts payable	2,937	-	-	2,937
Outstanding acceptances	1,031	-	-	1,031
Deposits on lease contract	1,728	-	-	1,728
Others	537	-	-	537
<b>Total financial liabilities</b>	<b>361,848</b>	<b>261,661</b>	<b>153,615</b>	<b>777,124</b>
<b>Total maturity gap</b>	<b>243,315</b>	<b>(169,738)</b>	<b>94,062</b>	<b>167,639</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, 2011</b>				
<b>Financial Assets</b>				
Cash and other cash items	21,661	-	-	<b>21,661</b>
Due from BSP	70,829			<b>70,829</b>
Due from other banks	5,567			<b>5,567</b>
Interbank loans receivable and securities under agreements to resell (SPAR)	24,868	-	-	<b>24,868</b>
Financial assets at fair value through profit or loss				
Trading securities	12,082	-	-	<b>12,082</b>
Available-for-sale	7,831	11,446	49,295	<b>68,572</b>
Held-to-maturity, net	17,697	31,275	52,197	<b>101,169</b>
Loans and advances, net	257,357	30,021	105,251	<b>392,629</b>
Other financial assets, net				
Sales contracts receivable, net	237	-	-	<b>237</b>
Accounts receivable, net	1,669	-	-	<b>1,669</b>
Other accrued interest and fees receivable	594	-	-	<b>594</b>
Rental deposits	223	-	-	<b>223</b>
Others, net	136	-	-	<b>136</b>
<b>Total financial assets</b>	<b>420,751</b>	<b>72,742</b>	<b>206,743</b>	<b>700,236</b>
<b>Financial Liabilities</b>				
Deposit liabilities	413,081	53,707	80,508	<b>547,296</b>
Bills payable	8,441	319	1,432	<b>10,192</b>
Due to BSP and other banks	1,717	-	-	<b>1,717</b>
Manager's checks and demand drafts outstanding	3,389	-	-	<b>3,389</b>
Unsecured subordinated debt	423	845	6,689	<b>7,957</b>
Other financial liabilities				
Accounts payable	2,020	-	-	<b>2,020</b>
Outstanding acceptances	1,390	-	-	<b>1,390</b>
Dividends payable	3,201	-	-	<b>3,201</b>
Others	494	-	-	<b>494</b>
<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>

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2010				
Financial Assets				
Cash and other cash items	17,573	-	-	17,573
Due from BSP	117,882	-	-	117,882
Due from other banks	3,209	-	-	3,209
Interbank loans receivable and securities under agreements to resell (SPAR)	56,237	-	-	56,237
Financial assets at fair value through profit or loss				
Trading securities	10,438			10,438
Available-for-sale	97,269	4,102	4,242	105,613
Held-to-maturity, net	19,132	36,485	53,382	108,999
Loans and advances, net	210,806	23,476	88,601	322,883
Other financial assets, net				
Sales contracts receivable, net	303	-	-	303
Accounts receivable, net	1,138	-	-	1,138
Other accrued interest and fees receivable	481	-	-	481
Rental deposits	170	-	-	170
Others, net	151	-	-	151
<b>Total financial assets</b>	<b>534,789</b>	<b>64,063</b>	<b>146,225</b>	<b>745,077</b>
Financial Liabilities				
Deposit liabilities	262,584	219,664	113,243	595,491
Bills payable	15,161	549	2,148	17,858
Due to BSP and other banks	2,003	-	-	2,003
Manager's checks and demand drafts outstanding	3,483	-	-	3,483
Unsecured subordinated debt	423	845	7,112	8,380
Other financial liabilities				
Accounts payable	1,778	-	-	1,778
Outstanding acceptances	1,031	-	-	1,031
Others	535	-	-	535
	286,998	221,058	122,503	630,559
<b>Total maturity gap</b>	<b>247,791</b>	<b>(156,995)</b>	<b>23,722</b>	<b>114,518</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>2011</b>	<b>(8)</b>	<b>(644)</b>	<b>(2,316)</b>	<b>(2,968)</b>
2010	(52)	(307)	(1,920)	(2,279)
Non-deliverable forwards - held for trading				
<b>2011</b>	<b>(890)</b>	<b>(146)</b>	-	<b>(1,036)</b>
2010	(1,274)	(851)	-	(2,125)

#### (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>2011</b>			
- Outflow	<b>(76,419)</b>	-	<b>(76,419)</b>
- Inflow	<b>75,631</b>	-	<b>75,631</b>
2010			
- Outflow	(66,715)	-	(66,715)
- Inflow	65,792	-	65,792

### 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	
	2011	2010	2011	2010
	(In Millions of Pesos)			
<b>Financial assets</b>				
Due from BSP	83,759	128,487	83,759	128,487
Due from other banks	9,297	6,548	9,297	6,548
Interbank loans receivable and SPAR	35,277	66,834	35,277	66,834
Held-to-maturity, net	89,742	95,474	98,630	101,302
Loans and advances, net	454,499	378,728	473,092	413,436
Other financial assets				
Sales contracts receivable, net	462	534	462	534
Accounts receivable, net	2,377	1,397	2,377	1,397
Other accrued interest and fees receivable	664	667	664	667
Rental deposits	270	216	270	216
Others, net	108	135	108	135
<b>Financial liabilities</b>				
Deposit liabilities	681,101	719,766	681,101	719,766
Bills payable	19,136	24,868	19,136	24,868
Due to BSP and other banks	1,717	2,000	1,717	2,000
Manager's checks and demand drafts outstanding	4,131	4,187	4,131	4,187
Unsecured subordinated debt	5,000	5,000	5,607	5,613
Other financial liabilities				
Accounts payable	2,918	2,937	2,918	2,937
Outstanding acceptances	1,390	1,031	1,390	1,031
Deposits on lease contract	2,050	1,728	2,050	1,728
Dividends payable	3,201	-	3,201	-
Others	610	537	610	537



Parent

	Carrying amount		Fair value	
	2011	2010	2011	2010
(In Millions of Pesos)				
<b>Financial assets</b>				
Due from BSP	<b>70,807</b>	117,805	<b>70,807</b>	117,805
Due from other banks	<b>5,567</b>	3,209	<b>5,567</b>	3,209
Interbank loans receivable and SPAR	<b>24,867</b>	56,237	<b>24,867</b>	56,237
Held-to-maturity, net	<b>79,723</b>	85,136	<b>87,909</b>	90,629
Loans and advances, net	<b>337,425</b>	276,494	<b>353,634</b>	299,780
Other financial assets				
Sales contracts receivable, net	<b>237</b>	303	<b>237</b>	303
Accounts receivable, net	<b>1,669</b>	1,138	<b>1,669</b>	1,138
Other accrued interest and fees receivable	<b>594</b>	481	<b>594</b>	481
Rental deposits	<b>223</b>	170	<b>223</b>	170
Others, net	<b>136</b>	151	<b>136</b>	151
<b>Financial liabilities</b>				
Deposit liabilities	<b>544,414</b>	591,936	<b>544,414</b>	591,936
Bills payable	<b>9,887</b>	17,243	<b>9,887</b>	17,243
Due to BSP and other banks	<b>1,717</b>	2,003	<b>1,717</b>	2,003
Manager's checks and demand drafts outstanding	<b>3,389</b>	3,483	<b>3,389</b>	3,483
Unsecured subordinated debt	<b>5,000</b>	5,000	<b>5,607</b>	5,613
Other financial liabilities				
Accounts payable	<b>2,020</b>	1,778	<b>2,020</b>	1,778
Outstanding acceptances	<b>1,390</b>	1,031	<b>1,390</b>	1,031
Dividends payable	<b>3,201</b>	-	<b>3,201</b>	-
Others	<b>494</b>	535	<b>494</b>	535

(i) 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, 2011.

Consolidated

	Level 1	Level 2	Total
<b>December 31, 2011</b>			
(In Millions of Pesos)			
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,389	<b>5,389</b>
Trading securities			
- Debt securities	11,933	-	<b>11,933</b>
- Equity securities	342	-	<b>342</b>
Available-for-sale financial assets			
- Debt securities	63,840	9,066	<b>72,906</b>
- Equity securities	344	-	<b>344</b>
	<b>76,459</b>	<b>14,455</b>	<b>90,914</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	4,814	<b>4,814</b>
<b>December 31, 2010</b>			
(In Millions of Pesos)			
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	6,059	6,059
Trading securities			
- Debt securities	11,172	-	11,172
- Equity securities	277	-	277
Available-for-sale financial assets			-
- Debt securities	102,959	8,494	111,453
- Equity securities	318	-	318
	<b>114,726</b>	<b>14,553</b>	<b>129,279</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	5,329	5,329

Parent

	Level 1	Level 2	Total
<b>December 31, 2011</b>			
(In Millions of Pesos)			
<b>Financial assets</b>			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,389	<b>5,389</b>
Trading securities – debt securities	11,638	-	<b>11,638</b>
Available-for-sale financial assets			
- Debt securities	55,241	9,042	<b>64,283</b>
- Equity securities	133	-	<b>133</b>
	<b>67,012</b>	<b>14,431</b>	<b>81,443</b>
<b>Financial liabilities</b>			
Derivative financial liabilities	-	4,814	<b>4,814</b>

	Level 1	Level 2	Total
December 31, 2010	(In Millions of Pesos)		
Financial assets			
Financial assets at fair value through profit or loss			
- Derivative financial assets	-	6,059	6,059
- Trading securities - debt securities	10,293	-	10,293
Available-for-sale financial assets			
- Debt securities	92,158	6,543	98,701
- Equity securities	134	-	134
	102,585	12,602	115,187
Financial liabilities			
Derivative financial liabilities	-	5,329	5,329

The BPI Group has no financial instruments that fall under the Level 3 category as of December 31, 2011 and 2010. There were no transfers between Level 1 and Level 2 during the year.

### 3.6 Insurance risk management

The life and 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.

In September 2009, the BPI Group lost control over a life insurance subsidiary following the sale of its majority stake in the said subsidiary (see Note 16).

### 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, 2011 and 2010.

	Consolidated		Parent	
	2011	2010	2011	2010
		(In Millions of Pesos)		
Tier 1 capital	<b>75,978</b>	68,133	<b>77,303</b>	69,430
Tier 2 capital	<b>9,461</b>	8,908	<b>8,554</b>	8,104
Gross qualifying capital	<b>85,439</b>	77,041	<b>85,857</b>	77,534
Less: Required deductions	<b>2,531</b>	2,473	<b>25,429</b>	22,722
Total qualifying capital	<b>82,908</b>	74,568	<b>60,428</b>	54,812
Risk weighted assets	<b>556,026</b>	482,788	<b>446,005</b>	386,150
CAR (%)	<b>14.91</b>	15.45	<b>13.55</b>	14.19

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 Securities and Exchange Commission and Philippine Stock Exchange. These subsidiaries have fully complied with the relevant capital requirements.

#### 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 the 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, 2011 would be an estimated P383 million (2010 - P393 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, 2011 and 2010 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 profit or loss.

In 2011, the BPI Group has recognized an impairment loss on its foreclosed assets amounting to P299 million (2010 – P267 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 the assets and liabilities attributable to insurance operations as of December 31 are as follows:

	2011	2010
	(In Millions of Pesos)	
<b>Assets</b>		
Cash and cash equivalents (Note 7)	233	54
Insurance balances receivable, net	1,874	1,680
Investment securities		
Available-for-sale	4,745	1,621
Held-to-maturity	3,894	7,180
Land, building and equipment	153	174
Accounts receivable and other assets, net	1,341	1,207
	<b>12,240</b>	<b>11,916</b>
<b>Liabilities</b>		
Reserves and other balances	9,325	8,610
Accounts payable, accrued expenses and other payables	612	603
	<b>9,937</b>	<b>9,213</b>

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

	2011	2010	2009
	(In Millions of Pesos)		
Premiums earned and related income	2,410	2,188	5,817
Investment and other income	551	410	910
	<b>2,961</b>	<b>2,598</b>	<b>6,727</b>
Benefits, claims and maturities	1,093	961	1,886
Increase in actuarial reserve liabilities	30	7	2,574
Management and general expenses	429	381	698
Commissions	417	418	515
Other expenses	43	29	256
	<b>2,012</b>	<b>1,796</b>	<b>5,929</b>
Income before income tax and minority interest	<b>949</b>	<b>802</b>	<b>798</b>

In September 2009, the BPI Group lost control over a life insurance subsidiary following the sale of its majority stake in the said subsidiary (see Note 16).

## Note 6 - Business Segments

In 2009, segment reporting by the BPI Group was prepared for the first time in accordance with PFRS 8. Following the management approach of PFRS 8, 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 assesses 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 the management is measured in a manner consistent with that in the 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 of and for the years ended December 31, 2011, 2010 and 2009 are as follows:

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



	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 income 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

	2009			Total per management reporting
	Consumer banking	Corporate banking	Investment banking	
	(In Millions of Pesos)			
Interest income	23,712	7,107	3,113	33,932
Interest expense	11,282	804	57	12,143
Net interest income	12,430	6,303	3,056	21,789
Impairment charge	1,476	1,059	-	2,535
Net interest income after impairment charge	10,954	5,244	3,056	19,254
Fees and commission income	2,875	399	292	3,566
Other income	3,362	856	4,742	8,960
Gross receipts tax	(361)	(28)	(412)	(801)
Other income, net	5,876	1,227	4,622	11,725
Compensation and fringe benefits	6,456	548	382	7,386
Occupancy and equipment - related expenses	3,407	1,143	92	4,642
Other operating expenses	5,450	864	423	6,737
Total operating expenses	15,313	2,555	897	18,765
Operating profit	1,517	3,916	6,781	12,214
Share in net loss of associates				(21)
Provision for income tax				3,519
Total assets	239,711	221,206	249,471	710,388
Total liabilities	606,170	33,786	2,820	642,776

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

	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 income 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

	2009		
	Total per management reporting	Consolidation adjustments/ Others	Total per consolidated financial statements
	(In Millions of Pesos)		
Interest income	33,932	(45)	33,887
Interest expense	12,143	342	12,485
Net interest income	21,789	(387)	21,402
Impairment charge	2,535	-	2,535
Net interest income after impairment charge	19,254	(387)	18,867
Fees and commission income	3,566	(136)	3,430
Other income	8,960	1,475	10,435
Gross receipts tax	(801)	(71)	(872)
Other income, net	11,725	1,268	12,993
Compensation and fringe benefits	7,386	1,769	9,155
Occupancy and equipment - related expenses	4,642	1,003	5,645
Other operating expenses	6,737	(1,861)	4,876
Total operating expenses	18,765	911	19,676
Operating profit	12,214	(30)	12,184
Share in net loss of associates	(21)	-	(21)
Provision for income tax	3,519	-	3,519
Total assets	710,388	14,032	724,420
Total liabilities	642,776	13,879	656,655

“Consolidation adjustments/Others” pertains 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	
	2011	2010	2009	2011	2009
	(In Millions of Pesos)				
Cash and other cash items	22,395	18,151	18,780	21,661	17,987
Due from Bangko Sentral ng Pilipinas	83,759	74,184	21,172	70,807	14,755
Due from other banks	9,297	6,548	7,147	5,567	3,363
Interbank loans receivable and securities purchased under agreements to resell (Note 8)	35,277	62,973	28,282	24,867	21,342
Cash and cash equivalents attributable to insurance operations (Note 5)	233	54	48	-	-
	150,961	161,910	75,429	122,902	57,447

**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>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
		(In Millions of Pesos)		
BSP	<b>34,729</b>	46,904	<b>22,640</b>	35,000
BPI Leasing Corporation		-	<b>1,402</b>	1,132
Other banks	<b>503</b>	19,817	<b>781</b>	20,011
	<b>35,232</b>	66,721	<b>24,823</b>	56,143
Accrued interest receivable	<b>45</b>	113	<b>44</b>	94
	<b>35,277</b>	66,834	<b>24,867</b>	56,237

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).

Range of interest rates (%) of interbank loans receivable of the BPI Group for the year:

	<b>2011</b>	<b>2010</b>
Peso-denominated	<b>4.03 - 4.54</b>	2.04 - 3.07
US dollar-denominated	<b>0.31 - 0.34</b>	0.26 - 0.31

**Note 9 - Derivative Financial Instruments**

Derivatives held by the BPI Group for non-hedging purposes are as follows:

- 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.

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			
	2011	2010	Assets		Liabilities	
	2011	2010	2011	2010	2011	2010
(In Millions of Pesos)						
Freestanding derivatives						
Foreign exchange derivatives						
Currency swaps	150,971	173,123	606	1,700	(772)	(853)
Currency forwards	61,755	90,239	1,449	1,684	(1,052)	(2,195)
Interest rate swaps	25,495	24,206	3,214	2,651	(2,967)	(2,279)
Embedded credit derivatives	19,185	19,142	120	24	(23)	(2)
Total derivatives assets (liabilities) held for trading			5,389	6,059	(4,814)	(5,329)

## Note 10 - Trading Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	2011	2010
(In Millions of Pesos)				
Debt securities				
Government securities	11,433	11,046	11,157	10,179
Commercial papers of private companies	274	5	258	-
	11,707	11,051	11,415	10,179
Accrued interest receivable	226	121	223	114
	11,933	11,172	11,638	10,293
Equity securities - listed	342	277	-	-
	12,275	11,449	11,638	10,293

## Note 11 - Available-for-Sale Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	2011	2010
(In Millions of Pesos)				
Debt securities				
Government securities	54,169	91,572	47,128	79,960
Others	17,674	18,104	16,150	17,141
	71,843	109,676	63,278	97,101
Accrued interest receivable	1,063	1,777	1,005	1,600
	72,906	111,453	64,283	98,701
Equity securities				
Listed	344	318	133	134
Unlisted	1,431	1,316	297	288
	1,775	1,634	430	422
	74,681	113,087	64,713	99,123
Allowance for impairment	(597)	(564)	(213)	(213)
	74,084	112,523	64,500	98,910

	Consolidated		Parent	
	2011	2010	2011	2010
(In Millions of Pesos)				
Current	6,856	103,933	6,487	91,743
Non-current	67,825	9,154	58,226	7,380
	74,681	113,087	64,713	99,123

Range of interest rates (%) of available-for-sale debt securities of the BPI Group for the year:

	2011	2010
Peso-denominated	5.13 - 5.54	5.47 - 5.88
Foreign currency-denominated	2.26 - 2.53	1.03 - 1.41

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

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
At January 1	112,523	71,706	98,910	60,433
Additions	297,343	480,507	266,203	443,589
Disposals	(339,449)	(440,726)	(304,304)	(406,343)
Amortization of discount/(premium), net	(189)	(14)	(159)	(43)
Fair value adjustments (Note 23)	1,683	1,538	1,782	1,396
Exchange differences	2,920	(1,202)	2,663	(1,020)
Net change in allowance for impairment	(33)	(310)	-	5
Net change in accrued interest receivable	(714)	1,024	(595)	893
At December 31	74,084	112,523	64,500	98,910

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, 2011 and 2010, amounts to P694 million and P1,111 million, respectively.

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

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
At January 1	564	254	213	218
Provision for (reversal of) impairment losses	33	310	-	(5)
At December 31	597	564	213	213

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

This account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Government securities	84,709	90,838	76,080	81,491
Commercial papers of private companies	2,990	2,560	1,851	1,804
	87,699	93,398	77,931	83,295
Accrued interest receivable	2,043	2,076	1,792	1,841
	89,742	95,474	79,723	85,136

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Current	15,298	15,664	10,223	11,147
Non-current	74,444	79,810	69,500	73,989
	89,742	95,474	79,723	85,136

Range of interest rates (%) of held-to-maturity securities of the BPI Group for the year:

	2011	2010
Peso-denominated	7.46 - 8.00	7.60 - 8.01
Foreign currency-denominated	4.53 - 4.82	4.62 - 5.98

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

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
At January 1	95,474	75,031	85,136	64,787
Additions	31,517	42,267	29,920	38,838
Maturities	(38,591)	(22,290)	(35,616)	(19,054)
Amortization of premium, net	(1,417)	(1,759)	(1,434)	(1,711)
Exchange differences	2,792	2,049	1,766	2,128
Net change in accrued interest receivable	(33)	176	(49)	148
At December 31	89,742	95,474	79,723	85,136

### Note 13 - Loans and Advances

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

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Corporate entities				
Large corporate customers	276,806	231,231	275,099	223,161
Small and medium enterprise	74,518	66,129	46,439	40,700
Retail customers				
Credit cards	21,571	18,507	21,571	18,507
Mortgages	83,451	72,371	146	404
Others	13,040	4,594	727	202
	469,386	392,832	343,982	282,974
Accrued interest receivable	1,667	1,528	1,230	1,144
Unearned discount/income	(5,894)	(5,390)	(422)	(353)
	465,159	388,970	344,790	283,765
Allowance for impairment	(10,660)	(10,242)	(7,365)	(7,271)
	454,499	378,728	337,425	276,494

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Current	262,020	229,232	251,138	204,759
Non-current	203,139	159,738	93,652	79,006
	465,159	388,970	344,790	283,765

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

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)	
Total future minimum lease collections	<b>7,256</b>	5,918
Unearned finance income	<b>(1,113)</b>	(938)
Present value of future minimum lease collections	<b>6,143</b>	4,980
Allowance for impairment	<b>(74)</b>	(63)
	<b>6,069</b>	4,917

Details of future minimum lease collections follow:

	<b>Consolidated</b>	
	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)	
Not later than one year	<b>4,268</b>	2,320
Later than one year but not later than five years	<b>2,988</b>	3,598
	<b>7,256</b>	5,918
Unearned finance income	<b>(1,113)</b>	(938)
	<b>6,143</b>	4,980

The Parent Bank has no finance lease receivables as of December 31, 2011 and 2010.

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>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Consumer	<b>27.96</b>	29.80	<b>6.60</b>	6.88
Manufacturing	<b>22.19</b>	18.71	<b>29.77</b>	25.47
Real estate, renting and other related activities	<b>12.53</b>	10.68	<b>15.63</b>	13.82
Agriculture and forestry	<b>2.67</b>	10.50	<b>3.56</b>	14.37
Wholesale and retail trade	<b>14.26</b>	11.94	<b>18.85</b>	16.01
Financial institutions	<b>6.22</b>	5.82	<b>7.70</b>	7.58
Others	<b>14.17</b>	12.55	<b>17.89</b>	15.87
	<b>100.00</b>	100.00	<b>100.00</b>	100.00

2) As to collateral

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	<b>152,314</b>	132,958	<b>77,219</b>	67,286
Chattel mortgage	<b>30,506</b>	24,536	<b>3,732</b>	1,470
Others	<b>100,630</b>	85,431	<b>96,695</b>	80,155
	<b>283,450</b>	242,925	<b>177,646</b>	148,911
Unsecured loans	<b>180,042</b>	144,517	<b>165,914</b>	133,710
	<b>463,492</b>	387,442	<b>343,560</b>	282,621

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 P3,312 million (2010 – P15,564 million) and P1,283 million (2010 – P7,939 million) are used as security for bills payable (Note 20) of the BPI Group and Parent Bank, respectively.



Range of interest rates (%) of loans and advances of the BPI Group for the year:

	2011	2010
Commercial loans		
Peso-denominated loans	<b>5.08 - 5.89</b>	6.39 - 6.59
Foreign currency-denominated loans	<b>2.16 - 2.25</b>	2.11 - 2.32
Real estate mortgages	<b>8.70 - 9.52</b>	9.62 - 10.15
Auto loans	<b>10.45 - 10.60</b>	10.46 - 10.84

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	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Non-performing accounts (NPL 30)	<b>12,095</b>	12,288	<b>7,270</b>	8,036
"Loss" category loans with 100% reserves	<b>2,559</b>	2,771	<b>1,921</b>	2,134
Net NPL 30	<b>9,536</b>	9,517	<b>5,349</b>	5,902

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

Consolidated

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

2010						
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	2,154	3,323	855	1,694	930	8,956
Provision for impairment losses	947	365	179	852	231	2,574
Write-off/disposal	(335)	(154)	(60)	(601)	(21)	(1,171)
Unwind of discount	(51)	(52)	-	-	-	(103)
Others	(74)	55	1	-	4	(14)
At December 31	2,641	3,537	975	1,945	1,144	10,242

Parent

	2011					Total
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	
	(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

	2010					Total
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	
	(In Millions of Pesos)					
At January 1	2,272	2,747	67	1,694	14	6,794
Provision for (reversal of) impairment losses	892	(54)	52	852	1	1,743
Write-off/disposal	(335)	(154)	(60)	(601)	-	(1,150)
Unwind of discount	(51)	(50)	-	-	-	(101)
Others	(26)	12	1	-	(2)	(15)
At December 31	2,752	2,501	60	1,945	13	7,271

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

This account at December 31 consists of:

Consolidated

	2011				
		Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	Land				
(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

	2010				Total
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	
	(In Millions of Pesos)				
Cost					
January 1, 2010	3,372	5,118	11,586	3,896	23,972
Additions	-	656	1,181	1,990	3,827
Disposals	(106)	(61)	(786)	(1,671)	(2,624)
Amortization	-	(196)	-	-	(196)
Transfers	(3)	(16)	(7)	-	(26)
December 31, 2010	3,263	5,501	11,974	4,215	24,953
Accumulated depreciation	-				
January 1, 2010	-	1,865	9,278	1,419	12,562
Depreciation	-	203	1,042	847	2,092
Disposals/transfers	-	(46)	(559)	(702)	(1,307)
December 31, 2010	-	2,022	9,761	1,564	13,347
Net book value, December 31, 2010	3,263	3,479	2,213	2,651	11,606

Parent

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

	2010			Total
	Land	Buildings and leasehold improvements	Furniture and equipment	
	(In Millions of Pesos)			
Cost				
January 1, 2010	2,933	4,444	10,717	18,094
Additions	-	547	1,048	1,595
Disposals	(106)	(61)	(690)	(857)
Amortization	-	(159)	-	(159)
Transfers	-	-	-	-
December 31, 2010	2,827	4,771	11,075	18,673
Accumulated depreciation				
January 1, 2010	-	1,643	8,618	10,261
Depreciation	-	177	941	1,118
Disposals/transfers	-	(43)	(510)	(553)
December 31, 2010	-	1,777	9,049	10,826
Net book value, December 31, 2010	2,827	2,994	2,026	7,847

Depreciation is included in Occupancy and equipment-related expenses in the profit or loss.

#### Note 15 - Investment Properties

This account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Land	<b>3,208</b>	3,208	<b>3,202</b>	3,202
Buildings	<b>1,759</b>	1,764	<b>1,758</b>	1,757
	<b>4,967</b>	4,972	<b>4,960</b>	4,959
Accumulated depreciation	<b>(1,077)</b>	(1,013)	<b>(1,077)</b>	(1,010)
Allowance for impairment	<b>(1,253)</b>	(1,253)	<b>(1,253)</b>	(1,253)
	<b>2,637</b>	2,706	<b>2,630</b>	2,696

The movement in investment properties is summarized as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
At January 1	<b>2,706</b>	2,762	<b>2,696</b>	2,751
Additions	<b>1</b>	10	<b>1</b>	10
Disposals	<b>(4)</b>	-	<b>-</b>	-
Depreciation	<b>(66)</b>	(66)	<b>(67)</b>	(65)
At December 31	<b>2,637</b>	2,706	<b>2,630</b>	2,696

Investment properties have aggregate fair value of P5,899 million as of December 31, 2011 (2010 - P12,365 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 profit or loss.

Rental income earned from investment properties amount to P245 million for the year ended December 31, 2011 (2010 – P216 million; 2009 – P195 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>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	<b>3,069</b>	2,508	<b>-</b>	-
Investments at cost method	<b>-</b>	-	<b>7,008</b>	6,969
	<b>3,069</b>	2,508	<b>7,008</b>	6,969

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

Name of entity	Percentage of ownership interest (%)		Acquisition cost	
	2011	2010	2011	2010
			(In Millions of Pesos)	
BPI - Philamlife Assurance Corporation*	<b>47.67</b>	47.67	<b>371</b>	371
National Reinsurance Corporation**	<b>15.74</b>	15.74	<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

\*Became an associate due to loss of control in 2009

\*\*BPI Group has significant influence

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

	2011	2010
	(In Millions of Pesos)	
Acquisition cost		
At January 1	<b>677</b>	884
Effect of consolidation of BPI Globe BankO, Inc.	-	(200)
Allowance for impairment	-	(7)
At December 31	<b>677</b>	677
Accumulated equity in net income		
At January 1	<b>1,066</b>	820
Share in net income for the year	<b>216</b>	195
Dividends received	<b>(6)</b>	(14)
Effect of consolidation of BPI Globe BankO, Inc.	-	65
At December 31	<b>1,276</b>	1,066
Accumulated share in other comprehensive income (loss)		
At January 1	<b>765</b>	(65)
Share in other comprehensive income for the year	<b>351</b>	830
At December 31	<b>1,116</b>	765
	<b>3,069</b>	2,508

Summarized unaudited financial information of associates follows:

	2011	2010
	(In Millions of Pesos)	
Total assets	<b>40,222</b>	33,278
Total liabilities	<b>28,446</b>	23,947
Total revenues	<b>8,730</b>	9,106

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	
	2011	2010	2011	2010	2011	2010
	(In Millions of Pesos)					
Subsidiaries						
BPI Europe Plc.	1,910	1,910	-	-	1,910	1,910
Ayala Plans, Inc. (API)	863	863	-	-	863	863
BPI Leasing Corporation	644	644	-	-	644	644
BPI Capital Corporation	623	573	-	-	623	573
BPI Direct Savings Bank	392	392	-	-	392	392
FGU Insurance Corporation	303	303	-	-	303	303
Prudential Investments	300	300	-	-	300	300
BPI Globe BankO	279	200	-	-	279	200
BPI Foreign Exchange Corporation	195	195	-	-	195	195
BPI Express Remittance Corporation	191	191	-	-	191	191
BPI Family Savings Bank, Inc.	150	150	-	-	150	150
First Far-East Development Corp.	91	91	-	-	91	91
BPI-Rome Remittance Center	54	54	-	-	54	54
BPI Card Finance Corp.	50	50	-	-	50	50
BPI Bancassurance	-	50	-	-	-	50
FEB Stock Brokers	25	25	-	-	25	25
BPI Computer Systems Corp.	23	23	-	-	23	23
Speed Spain	20	20	-	-	20	20
FEB Insurance Brokers, Inc.	-	33	-	-	-	33
Others	322	329	(104)	(104)	218	225
Associates (see above)	684	684	(7)	(7)	677	677
	7,119	7,080	(111)	(111)	7,008	6,969

In November 2009, ALAI declared its entire equity holdings in API as property dividend to its shareholders, which include the Parent Bank. Consequently, the Parent Bank recognized dividend income of P863 million on its separate financial statements (see Note 25) and API became a direct subsidiary of the Parent Bank with 100% equity interest.

In September 2009, BPI and the Philippine American Life and General Insurance Company (Philamlife) signed a strategic bancassurance joint venture (the Joint Venture), wherein Philamlife agreed to acquire a 51% stake in ALAI. Proceeds from the sale calculated based on the initial net worth valuation amounted to P1,696 million which allowed BPI to generate a gain of P680 million in 2009. In 2010, BPI received an amount of P119 million as an additional consideration for the sale following the finalization of the net worth valuation.

The Joint Venture is expected to benefit from the combined synergies, first-class resources and strength of the two leading companies in the Philippines' financial industry. Following the sale, BPI's ownership in ALAI was reduced to 47.67% and the latter ceased to be a subsidiary of BPI due to loss of control. As a result, ALAI became an associate and is accounted for at equity method in the BPI Group's December 31, 2009 consolidated financial statements. Further, ALAI, as joint venture between Philamlife and BPI was renamed as BPI-Philamlife Assurance Corporation.

Also, in relation to the joint venture, BPI and Philamlife entered into a Distribution Agreement (the "Agreement") whereby Philamlife will have access to BPI's customer base for life insurance products and BPI will have reciprocal access to Philamlife's customers for banking products. The Agreement shall take effect for a period of 10 years starting in November 2009 and may be extended for another 5 years upon mutual agreement by the parties. Subject to performance of its obligations and meeting certain conditions, BPI will get a total distribution fee of P465 million under the said Agreement, of which a sum of P232.5 million was received in 2010.

## Note 17 - Deferred Income Taxes

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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	<b>5,130</b>	4,995	<b>3,793</b>	3,810
Net operating loss carry over (NOLCO)	<b>4</b>	11	-	-
Minimum corporate income tax (MCIT)	<b>3</b>	668	-	623
Others	<b>604</b>	1,179	<b>496</b>	735
Total deferred income tax assets	<b>5,741</b>	6,853	<b>4,289</b>	5,168
Deferred income tax liabilities				
Revaluation gain on properties acquired from a business combination	<b>(799)</b>	(1,017)	<b>(798)</b>	(1,017)
Fair value gain on available-for-sale securities	<b>(393)</b>	(130)	<b>(391)</b>	(104)
Excess pension asset contribution	<b>(4)</b>	(8)	-	-
Others	<b>(210)</b>	(675)	<b>(142)</b>	(245)
Total deferred income tax liabilities	<b>(1,406)</b>	(1,830)	<b>(1,331)</b>	(1,366)
	<b>4,335</b>	5,023	<b>2,958</b>	3,802

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Deferred income tax assets				
Amount to be recovered within 12 months	<b>848</b>	797	<b>768</b>	729
Amount to be recovered after 12 months	<b>4,500</b>	5,926	<b>3,130</b>	4,335
	<b>5,348</b>	6,723	<b>3,898</b>	5,064
Deferred income tax liabilities				
Amount to be settled within 12 months	<b>282</b>	187	<b>282</b>	187
Amount to be settled after 12 months	<b>731</b>	1,513	<b>658</b>	1,075
	<b>1,013</b>	1,700	<b>940</b>	1,262

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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
At January 1	<b>5,023</b>	4,872	<b>3,802</b>	4,138
Income statement charge	<b>440</b>	346	<b>297</b>	(127)
Fair value adjustment on available-for-sale securities	<b>(263)</b>	(331)	<b>(287)</b>	(375)
MCIT	<b>(665)</b>	201	<b>(623)</b>	162
Others	<b>(200)</b>	(65)	<b>(231)</b>	4
At December 31	<b>4,335</b>	5,023	<b>2,958</b>	3,802

The deferred tax charge in the profit or loss comprises the following temporary differences:

	<b>Consolidated</b>			<b>Parent</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	(In Millions of Pesos)					
Allowance for impairment	<b>(135)</b>	(465)	(438)	<b>17</b>	(106)	(291)
NOLCO	<b>7</b>	464	954	-	466	946
Pension	<b>79</b>	(113)	(229)	<b>63</b>	(77)	(176)
Leasing income differential	-	(6)	(5)	-	-	-
Others	<b>(391)</b>	(226)	640	<b>(377)</b>	(156)	576
	<b>(440)</b>	(346)	922	<b>(297)</b>	127	1,055

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2011	2010	2011	2010
(In Millions of Pesos)					
2011	2014	3	-	-	-
2010	2013	11	7	-	-
2009	2012	27	110	-	92
2008	2011	4	3	-	-
2007	2010	-	1,469	-	1,462
		45	1,589	-	1,554
Used portion during the year		(31)	(1,554)	-	(1,554)
		14	35	-	-
Tax rate		30%	30%	30%	30%
Deferred income tax asset on NOLCO		4	11	-	-

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2011	2010	2011	2010
(In Millions of Pesos)					
2011	2014	3	-	-	-
2010	2013	194	194	190	190
2009	2012	234	234	232	232
2008	2011	240	268	201	229
		671	696	623	651
Used portion during the year		(668)	-	(623)	-
Derecognized MCIT		-	(28)	-	(28)
		3	668	-	623

#### Note 18 - Other Resources

The account at December 31 consists of the following:

	Consolidated		Parent	
	2011	2010	2011	2010
(In Millions of Pesos)				
Intangible assets	3,048	1,050	3,019	1,034
Accounts receivable	3,528	2,603	2,566	2,074
Residual value of equipment for lease	1,855	1,471	-	-
Sundry debits	1,284	1,068	1,224	1,057
Accrued trust and other fees	1,012	908	910	714
Creditable withholding tax	733	738	457	547
Prepaid expenses	533	400	385	311
Rental deposits	270	216	223	170
Miscellaneous assets	1,218	1,238	604	805
	13,481	9,692	9,388	6,712
Allowance for impairment	(1,333)	(1,332)	(1,289)	(1,280)
	12,148	8,360	8,099	5,432



	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Current	<b>5,532</b>	3,909	<b>4,275</b>	3,236
Non-current	<b>7,949</b>	5,783	<b>5,113</b>	3,476
	<b>13,481</b>	9,692	<b>9,388</b>	6,712

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 finally 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 P2,775 million and certain IT and transportation equipment valued at P25 million. The contractual customer relationships are expected to have a useful life of 10 years. There were no liabilities assumed from the acquisition.

The provisional measurement of intangible asset is subject to change. The initial accounting for the acquisition has only been provisionally determined as the necessary market valuation and other calculations have not been finalized as of reporting date.

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

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
At January 1	<b>1,332</b>	1,020	<b>1,280</b>	976
Provision for impairment losses	<b>32</b>	357	<b>33</b>	343
Write-off	<b>(31)</b>	(45)	<b>(24)</b>	(39)
At December 31	<b>1,333</b>	1,332	<b>1,289</b>	1,280

#### **Note 19 - Deposit Liabilities**

This account at December 31 consists of:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Demand	<b>131,249</b>	120,528	<b>123,448</b>	113,281
Savings	<b>291,511</b>	245,769	<b>253,015</b>	211,815
Time	<b>258,341</b>	353,469	<b>167,951</b>	266,840
	<b>681,101</b>	719,766	<b>544,414</b>	591,936

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
Current	<b>505,864</b>	684,693	<b>411,331</b>	588,243
Non-current	<b>175,237</b>	35,073	<b>133,083</b>	3,693
	<b>681,101</b>	719,766	<b>544,414</b>	591,936

Related interest expense on deposit liabilities is broken down as follows:

	Consolidated			Parent	
	2011	2010	2009	2011	2009
	(In Millions of Pesos)				
Demand	692	628	607	645	583
Savings	2,325	1,608	1,136	1,954	938
Time	8,704	9,833	9,486	5,002	5,798
	11,721	12,069	11,229	7,601	7,299

Under existing BSP regulations, the BPI Group is subject to liquidity and statutory reserve requirements with respect to certain deposit liabilities. The BPI Group is in full compliance with all applicable liquidity and statutory reserve requirements.

The required liquidity and statutory reserves as reported to BSP as of December 31 comprise as follows:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Due from BSP	78,486	80,878	70,090	74,179
Cash in vault	21,330	16,788	20,707	16,348
Available for sale securities	-	2,222	-	1,682
Due from local banks	3	3	-	-
	99,819	99,891	90,797	92,209

#### Note 20 - Bills Payable

This account at December 31 consists of:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Bangko Sentral ng Pilipinas	3,048	9,252	1,070	7,363
Private firms	5,100	3,441	-	-
Local banks	2,614	2,870	444	576
Foreign banks	8,374	9,305	8,373	9,304
	19,136	24,868	9,887	17,243

Range of interest rates (%) of bills payable of the BPI Group for the year:

	2011	2010
Bangko Sentral ng Pilipinas	3.95 - 4.29	3.69 - 3.79
Private firms and Local banks – peso-denominated	6.37 - 7.12	6.32 - 6.53
Foreign banks	0.82 - 1.01	0.08 - 0.55

	Consolidated			Parent		
	2011	2010	2009	2011	2010	2009
	(In Millions of Pesos)					
Interest expense	679	867	833	245	548	561

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 lent 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 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 (issue date), 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.

Interest expense on the unsecured subordinated notes recognized during the year is P423 million (2010 and 2009: P 423 million).

## Note 22 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2011	2010	2011	2010
(In Millions of Pesos)				
Bills purchased - contra	9,150	10,429	9,141	10,422
Dividends payable	3,201	-	3,201	-
Accounts payable	2,918	2,937	2,020	1,778
Deposit on lease contract	2,050	1,728	-	-
Outstanding acceptances	1,390	1,031	1,390	1,031
Other deferred credits	1,007	923	761	813
Withholding tax payable	464	809	361	704
Vouchers payable	423	459	423	459
Due to the Treasurer of the Philippines	288	238	260	218
Miscellaneous liabilities	1,334	1,835	1,012	1,490
	22,225	20,389	18,569	16,915

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	
	2011	2010	2011	2010
(In Millions of Pesos)				
Current	18,002	17,392	16,559	13,690
Non-current	4,223	2,997	2,010	3,225
	22,225	20,389	18,569	16,915

## Note 23 - Capital Funds

Details of authorized capital stock of the Parent Bank follow:

	2011	2010	2009
	(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:

	2011	2010	2009
	(In Number of Shares)		
Issued common shares			
At January 1	3,556,328,003	3,246,770,334	3,245,711,238
Issuance of shares during the year	28,170	309,557,669	1,059,096
At December 31	3,556,356,173	3,556,328,003	3,246,770,334
Subscribed common shares	-	28,170	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.

As of December 31, 2011 and 2010, the Parent Bank has 12,921 and 13,291 common shareholders, respectively. There are no preferred shares issued and outstanding at December 31, 2011 and 2010.

Details of and movements in Accumulated other comprehensive income (loss) for the years ended December 31 follow:

	Consolidated			Parent		
	2011	2010	2009	2011	2010	2009
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities						
At January 1	328	(879)	(1,269)	(303)	(1,324)	(1,719)
Unrealized fair value gain before tax (Note 11)	1,683	1,538	487	1,782	1,396	414
Deferred income tax effect	(263)	(331)	(97)	(287)	(375)	(19)
At December 31	1,748	328	(879)	1,192	(303)	(1,324)
Share in other comprehensive income (loss) of insurance subsidiaries						
At January 1	202	(78)	(959)	-	-	-
Share in other comprehensive income (loss) for the year, before tax	(48)	341	676	-	-	-
Impact of sale of investment in a subsidiary	-	-	185	-	-	-
Deferred income tax effect	(17)	(61)	20	-	-	-
At December 31	137	202	(78)	-	-	-
Share in other comprehensive income (loss) of associates						
At January 1	765	(65)	69	-	-	-
Share in other comprehensive Income (loss) for the year	351	830	(134)	-	-	-
At December 31	1,116	765	(65)	-	-	-
Translation adjustment on foreign operations						
At January 1	(828)	(613)	(692)	-	-	-
Translation differences	(5)	(215)	79	-	-	-
At December 31	(833)	(828)	(613)	-	-	-
	2,168	467	(1,635)	1,192	(303)	(1,324)

Details of and movements in Reserves for the years ended December 31 follow:

	Consolidated			Parent		
	2011	2010	2009	2011	2010	2009
	(In Millions of Pesos)					
Stock option scheme (Note 24)						
At January 1	42	179	253	11	136	198
Exercise of options	-	(137)	(74)	-	(125)	(62)
Expiration of options	(42)	-	-	(11)	-	-
Value of employee services	-	-	-	-	-	-
At December 31	-	42	179	-	11	136
Surplus reserves						
At January 1	1,325	1,215	1,043	1,325	1,215	1,043
Transfer from surplus	137	110	172	137	110	172
At December 31	1,462	1,325	1,215	1,462	1,325	1,215
	1,462	1,367	1,394	1,462	1,336	1,351

Surplus reserves consist of:

	2011	2010	2009
	(In Millions of Pesos)		
Reserve for trust business	1,428	1,291	1,181
Reserve for self-insurance	34	34	34
	1,462	1,325	1,215

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 2008 to 2011 follow:

Date declared	Date approved by the BSP	Amount of dividends	
		Per share	Total (In Millions of Pesos)
December 17, 2008	February 18, 2009	0.90	2,921
June 17, 2009	August 3, 2009	0.90	2,922
December 16, 2009	January 25, 2010	0.90	2,922
May 20, 2010	June 22, 2010	0.90	2,922
October 22, 2010	November 15, 2010	0.90	3,200
May 18, 2011	June 8, 2011	0.90	3,201
November 16, 2011	December 8, 2011	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 Bangko Sentral and distributable on the 15th day from the said record date.

The calculation of earnings per share (EPS) is shown below:

	Consolidated			Parent		
	2011	2010	2009	2011	2010	2009
(In Millions, Except Earnings Per Share Amounts)						
a) Net income attributable to equity holders of the Parent Bank	<b>12,822</b>	11,312	8,516	<b>9,856</b>	8,306	8,753
b) Weighted average number of common shares outstanding during the year after retroactive effect of stock dividends	<b>3,556</b>	3,350	3,246	<b>3,556</b>	3,350	3,246
c) Basic EPS (a/b)	<b>3.61</b>	3.38	2.62	<b>2.77</b>	2.48	2.69

The equivalent common shares arising from potential exercise of stock options (Note 24) have insignificant effect on the calculation of diluted EPS 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:

	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		
	2011	2010	2009	2011	2010	2009
(In Millions of Pesos)						
Trust and asset management fees	<b>2,569</b>	1,816	1,685	<b>2,199</b>	1,709	1,556
Rental income	<b>1,627</b>	1,505	1,411	<b>397</b>	388	356
Credit card income	<b>1,332</b>	1,180	1,063	<b>1,332</b>	1,180	1,063
Gain on sale of assets	<b>527</b>	617	1,759	<b>310</b>	453	1,800
Dividend income	<b>47</b>	85	124	<b>1,210</b>	206	2,906
Others	<b>586</b>	622	375	<b>469</b>	494	224
	<b>6,688</b>	5,825	6,417	<b>5,917</b>	4,430	7,905

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 are mainly 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>2011</b>	<b>870</b>	<b>684</b>
2010	809	634
2009	777	607

The future minimum lease payments under non-cancellable operating leases of the BPI Group are as follows:

	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)	
No later than 1 year	<b>43</b>	40
Later than 1 year but no later than 5 years	<b>64</b>	76
	<b>107</b>	116

## Note 27 - Other Operating Expenses

Details of other operating expenses follow:

	<b>Consolidated</b>			<b>Parent</b>		
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2011</b>	<b>2010</b>	<b>2009</b>
	(In Millions of Pesos)					
Supervision and examination fees	<b>1,618</b>	1,477	1,347	<b>1,328</b>	1,227	1,100
Advertising	<b>1,410</b>	1,206	833	<b>1,256</b>	1,054	708
Travel and communication	<b>622</b>	576	503	<b>492</b>	436	392
Litigation expenses	<b>458</b>	494	492	<b>307</b>	343	343
Amortization expense	<b>308</b>	58	51	<b>305</b>	57	47
Insurance	<b>254</b>	312	206	<b>48</b>	51	36
Office supplies	<b>235</b>	234	223	<b>198</b>	194	184
Taxes and licenses	<b>233</b>	177	181	<b>127</b>	86	96
Management and other professional fees	<b>197</b>	189	261	<b>142</b>	131	194
Shared expenses	-	-	-	<b>237</b>	220	229
Others	<b>1,275</b>	1,011	779	<b>856</b>	608	553
	<b>6,610</b>	5,734	4,876	<b>5,296</b>	4,407	3,882

## 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:

	<b>Consolidated</b>					
	<b>2011</b>		<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>
	(In Millions of Pesos)					
Statutory income tax	<b>4,843</b>	30.00	4,200	30.00	3,655	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	<b>(951)</b>	(5.89)	(354)	(2.53)	(368)	(2.82)
Tax-exempt income	<b>(2,634)</b>	(16.32)	(2,879)	(20.56)	(2,115)	(17.42)
Others, net	<b>1,872</b>	11.59	1,553	11.09	2,347	18.76
Actual income tax	<b>3,130</b>	19.38	2,520	18.00	3,519	28.52

	<b>Parent</b>					
	<b>2011</b>		<b>2010</b>		<b>2009</b>	
	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>	<b>Amount</b>	<b>Rate (%)</b>
			(In Millions of Pesos)			
Statutory income tax	<b>3,634</b>	30.00	3,140	30.00	3,506	30.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	<b>(926)</b>	(7.64)	(247)	(2.36)	(400)	(3.42)
Tax-exempt income	<b>(1,838)</b>	(15.17)	(2,125)	(20.30)	(1,479)	(12.66)
Others, net	<b>1,389</b>	11.46	1,392	13.30	1,308	11.20
Actual income tax	<b>2,259</b>	18.65	2,160	20.64	2,935	25.12

#### Note 29 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
Return on average equity	<b>15.17</b>	15.57	<b>15.26</b>	14.89
Return on average assets	<b>1.62</b>	1.53	<b>1.59</b>	1.41
Net interest margin	<b>3.67</b>	3.55	<b>3.41</b>	3.28

#### 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.

##### 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 liability (asset) recognized in the statement of condition

	<b>Consolidated</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
			(In Millions of Pesos)		
Present value of defined benefit obligations	<b>11,508</b>	10,388	10,260	9,607	9,262
Fair value of plan assets	<b>(8,415)</b>	(8,421)	(6,576)	(5,615)	(6,664)
Deficit in the plan	<b>3,093</b>	1,967	3,684	3,992	2,598
Unrecognized actuarial losses	<b>(3,120)</b>	(1,995)	(2,867)	(3,938)	(2,919)
Pension liability (asset) recognized in the statement of condition	<b>(27)</b>	(28)	817	54	(321)



	<b>Parent</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(In Millions of Pesos)				
Present value of defined benefit obligations	<b>9,161</b>	8,182	7,985	7,475	7,199
Fair value of plan assets	<b>(6,796)</b>	(6,775)	(5,097)	(4,373)	(5,180)
Deficit in the plan	<b>2,365</b>	1,407	2,888	3,102	2,019
Unrecognized actuarial losses	<b>(2,363)</b>	(1,408)	(2,050)	(2,851)	(2,053)
Pension liability (asset) recognized in the statement of condition	<b>2</b>	(1)	838	251	(34)

Pension asset is shown as part of "Miscellaneous assets" within Other resources (Note 18).

Experience adjustments at December 31 follow:

	<b>Consolidated</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(In Millions of Pesos)				
Experience gain (loss) on plan liabilities	<b>329</b>	(371)	(151)	34	1,386
Experience gain (loss) on plan assets	<b>(405)</b>	479	755	(1,223)	(493)

	<b>Parent</b>				
	<b>2011</b>	<b>2010</b>	<b>2009</b>	<b>2008</b>	<b>2007</b>
	(In Millions of Pesos)				
Experience gain (loss) on plan liabilities	<b>232</b>	(255)	(99)	16	1,349
Experience gain (loss) on plan assets	<b>(329)</b>	406	583	(952)	5

The movement in plan assets is summarized as follows:

	<b>Consolidated</b>		<b>Parent</b>	
	<b>2011</b>	<b>2010</b>	<b>2011</b>	<b>2010</b>
	(In Millions of Pesos)			
At January 1	<b>8,421</b>	6,576	<b>6,775</b>	5,097
Expected return on plan assets	<b>842</b>	692	<b>677</b>	536
Fund transfer from a subsidiary	-	-	<b>77</b>	-
Contributions	<b>922</b>	1,813	<b>732</b>	1,598
Benefit payments	<b>(1,365)</b>	(1,139)	<b>(1,136)</b>	(862)
Actuarial gains (losses)	<b>(405)</b>	479	<b>(329)</b>	406
At December 31	<b>8,415</b>	8,421	<b>6,796</b>	6,775

The plan assets are comprised of the following:

	<b>Consolidated</b>				<b>Parent</b>			
	<b>2011</b>		<b>2010</b>		<b>2011</b>		<b>2010</b>	
	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>	<b>Amount</b>	<b>%</b>
	(In Millions of Pesos Except for Rates)							
Debt securities	<b>5,425</b>	<b>64</b>	4,800	57	<b>4,381</b>	<b>64</b>	3,889	57
Equity securities	<b>2,950</b>	<b>35</b>	3,537	42	<b>2,383</b>	<b>35</b>	2,845	42
Others	<b>40</b>	<b>1</b>	84	1	<b>32</b>	<b>1</b>	41	1
	<b>8,415</b>	<b>100</b>	8,421	100	<b>6,796</b>	<b>100</b>	6,775	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with fair value of P2,175 million and P2,209 million at December 31, 2011 and 2010, respectively. The actual return on plan assets of the BPI Group was P437 million and P1,171 million in 2011 and 2010, respectively.

The movement in the present value of defined benefit obligation is summarized as follows:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
At January 1	10,388	10,260	8,182	7,985
Present value of defined benefit obligation for transferred employees from a subsidiary	-	-	83	-
Current service cost	601	471	500	379
Interest cost	1,119	1,097	885	854
Benefit payments	(1,365)	(1,139)	(1,136)	(862)
Actuarial gains (loss)	765	(301)	647	(174)
At December 31	11,508	10,388	9,161	8,182

(b) Expense recognized in the profit or loss

	Consolidated			Parent		
	2011	2010	2009	2011	2010	2009
	(In Millions of Pesos)					
Current service cost	601	471	407	500	379	316
Interest cost	1,119	1,097	1,056	885	854	821
Expected return on plan assets	(842)	(692)	(344)	(677)	(536)	(268)
Net actuarial loss recognized during the year	44	92	141	24	63	100
Total expense included in Compensation and fringe benefits	922	968	1,260	732	760	969

The principal assumptions used for the actuarial valuations of the unified plan of the BPI Group were as follows:

	2011	2010	2009
Discount rate	6.97%	10.79%	10.69%
Expected return on plan assets	7.00%	10.00%	10.52%
Future salary increases	6.50%	6.50%	6.00%

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 the 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, 2011 and 2010 is 21 years. The BPI Group's expected retirement contribution for the year ending December 31, 2012 amounts to P1,119 million.

### Note 31 - Trust Assets

As disclosed in Note 18, BPI and ING received on February 16, 2011 the approval from 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 was named as Odyssey Funds.

At December 31, 2011 and 2010, the net asset value of trust assets administered by the BPI Group amounts to P664 billion and P480 billion, respectively.

Government securities deposited by the BPI Group and the Parent Bank with the Bangko Sentral in compliance with the requirements of the General Banking Act relative to the trust functions follow:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Government securities	<b>6,241</b>	4,924	<b>6,089</b>	4,768

### 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 dates.

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 comparable to those offered to non-related parties entities.

Significant related party transactions are summarized below:

#### a) Loans and advances from related parties at December 31 follow:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Subsidiaries	<b>1,681</b>	1,326	<b>1,681</b>	1,326
Associates	-	50	-	50
AC	<b>4,500</b>	4,750	<b>4,500</b>	4,750
Subsidiaries of AC	<b>202</b>	550	<b>202</b>	550
	<b>6,383</b>	6,676	<b>6,383</b>	6,676

Details of DOSRI loans are as follows:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Outstanding DOSRI loans	<b>5,067</b>	6,296	<b>5,013</b>	6,233
% to total outstanding loans and advances	<b>1.09</b>	1.62	<b>1.46</b>	2.21
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	<b>28.77</b>	27.05	<b>29.09</b>	27.33
Past due DOSRI loans	<b>1.71</b>	Nil	<b>1.71</b>	Nil
Non-performing DOSRI loans	<b>1.67</b>	Nil	<b>1.67</b>	Nil

At December 31, 2011 and 2010, the BPI Group is in full compliance with the General Banking Act and the BSP regulations on DOSRI loans.

#### b) Deposits from related parties at December 31 follow:

	Consolidated		Parent	
	2011	2010	2011	2010
	(In Millions of Pesos)			
Subsidiaries	<b>3,327</b>	2,610	<b>3,179</b>	2,008
Associates	<b>43</b>	41	<b>43</b>	41
Ayala Group	<b>17,853</b>	24,036	<b>17,853</b>	24,036
Key management personnel	<b>342</b>	306	<b>342</b>	306
	<b>21,565</b>	26,993	<b>21,417</b>	26,391

c) Details of income earned by and expenses charged to the Parent Bank are as follows:

	2011	2010	2009
	(In Millions of Pesos)		
Interest income			
Subsidiaries	37	34	57
Associates	22	1	-
AC	121	231	270
Subsidiaries of AC	-	14	46
Other income			
Subsidiaries	453	8	7
Associates	203	373	-

Other income mainly consists of rental income and revenue from service arrangements with subsidiaries. The related receivable from subsidiaries by the Parent Bank arising from these transactions amount to P53 million (2010 – P56 million).

	2011	2010	2009
	(In Millions of Pesos)		
Interest expense			
Subsidiaries	17	11	7
Ayala Group	97	239	-
Key management personnel	2	2	2
Other expenses			
Subsidiaries	473	447	443
AC	23	23	20
Subsidiaries of AC	46	44	30

Other expenses mainly consist of rental fees and management fees. The related payable to subsidiaries by the Parent Bank arising from these transactions amount to P9 million (2010 – P16 million).

d) Key management compensation

Details of key management compensation and directors' remuneration follow:

	Consolidated			Parent		
	2011	2010	2009	2011	2010	2009
	(In Millions of Pesos)					
Key management compensation						
Salaries and other short-term benefits	527	509	417	470	365	276
Post-employment benefits	27	34	32	25	24	19
Directors' remuneration	46	38	34	40	31	27

### **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 years ended December 31 consist of:

	<b>2011</b>	<b>2010</b>
Deposit and loan documents	<b>1,629</b>	1,459
Trade finance documents	<b>185</b>	219
Mortgage documents	<b>66</b>	48
Shares of stock	<b>-</b>	16
Others	<b>5</b>	10
	<b>1,885</b>	1,752

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 years ended December 31 consist of:

	2011			2010		
	Paid	Accrued	Total	Paid	Accrued	Total
Final income taxes withheld on interest on deposits and yield on deposit substitutes	1,324	136	1,460	1,207	150	1,357
Income taxes withheld on compensation	1,396	155	1,551	1,191	171	1,362
Final income taxes withheld on income payment	683	7	690	535	314	849
Creditable income taxes withheld (expanded)	594	63	657	520	58	578
Fringe benefit tax	40	9	49	36	9	45
VAT withholding tax	26	1	27	22	2	24
	<b>4,063</b>	<b>371</b>	<b>4,434</b>	<b>3,511</b>	<b>704</b>	<b>4,215</b>

(iii) All other local and national taxes

All other local and national taxes paid/accrued for the years ended December 31 consist of:

	2011			2010		
	Paid	Accrued	Total	Paid	Accrued	Total
Gross receipts tax	2,001	149	2,150	2,066	188	2,254
Real property tax	151	-	151	69	-	69
Municipal taxes	62	-	62	62	-	62
Others	15	-	15	6	-	6
	<b>2,229</b>	<b>149</b>	<b>2,378</b>	<b>2,203</b>	<b>188</b>	<b>2,391</b>

(iv) Tax cases and assessments

As at reporting date, (i) 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 and (ii) the only year that remains open and currently under tax examination, for which no assessment has yet been received, is taxable year 2009.

*(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 OSD), taxes and licenses and other information prescribed to be disclosed in the Notes to 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	2,738	8,764	16,796	28,298

(ii) Cost of services/Direct costs

	Regular rate
Manpower costs	6,182
Interest expense	4,320
Insurance – PDIC	1,070
Supervision and examination fees	258
	11,830

(iii) Non-operating and taxable other income

	Regular rate
Service charges	4,452
Trust fees	2,680
Trading gain	1,187
Foreign exchange	1,274
Rental income	397
Gain on sale of fixed assets	845
Others	440
	11,275

(iv) Itemized deductions

<b>Nature of expense/deduction</b>	<b>Regular rate</b>
Taxes and licenses	2,100
Salaries and allowances	1,541
Depreciation and amortization of leasehold rights	1,380
Advertising	1,255
Bad debts	1,097
Communication, light and water	1,006
Rental	959
Documentary stamp used	817
Other outside services	719
Repairs and maintenance	684
Amortization of intangibles	421
Litigation assets acquired expenses	307
Security services	275
Management and consultancy fee	262
Office supplies	213
SSS, GSIS, Philhealth, HDMF and other contributions	182
Janitorial and messengerial services	164
Fringe benefits	106
Transportation and travel	100
Membership fees and dues	67
Insurance	59
Amortization of pension trust contribution	53
Director's fees	40
Commissions	35
Credit card expenses	33
Representation and entertainment	30
Staff meeting	18
Freight expenses	16
Donations	13
Miscellaneous loss	12
Bank charges	8
Fuel and Oil	3
Others	158
Sub-total	14,133
NOLCO	-
Total expenses	14,133

(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.



**BANK OF THE PHILIPPINE ISLANDS**

List of Subsidiaries  
As of December 31, 2011

1. BPI FAMILY SAVINGS BANK, INC.
2. BPI CAPITAL CORPORATION
3. BPI LEASING CORPORATION
4. BPI INVESTMENT MANAGEMENT, INC.
5. BPI FOREIGN EXCHANGE CORP.
6. BPI DIRECT SAVINGS BANK, INC.
7. BPI OPERATIONS MANAGEMENT CORP.
8. BPI COMPUTER SYSTEMS CORP.
9. BPI INTERNATIONAL FINANCE LTD.
10. BPI EXPRESS REMITTANCE CORP. U.S.A.
11. BPI EUROPE PLC
12. AYALA PLANS, INC.
13. BPI/MS INSURANCE CORP.
14. FGU INSURANCE CORPORATION
15. PRUDENTIAL INVESTMENTS, INC.
16. SANTIAGO LAND DEVELOPMENT CORP.
17. FIRST FAR-EAST DEVELOPMENT CORP.
18. BPI CARD FINANCE CORP.
19. FILINVEST ALGO FINANCIAL CORP.
20. BPI EXPRESS REMITTANCE, EUROPE, S.P.A.
21. PRUDENTIAL VENTURE CAPITAL CORPORATION
22. FEB STOCK BROKERS, INC.
23. BPI EXPRESS REMITTANCE SPAIN S.A.
24. FEB SPEED INTERNATIONAL

# **EXHIBIT C**

## **(Top 100 Stockholders)**

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 100 STOCKHOLDERS  
AS OF DECEMBER 31, 2011**

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	1,207,919,939	33.9651%	1,207,919,939
2	01002970	AYALA CORPORATION 33RD FLR. AYALA TOWER ONE & EXCHANGE PLAZA, AYALA TRIANGLE AYALA AVE., MAKATI CITY ATTENTION: MANAGING DIRECTOR AND TREASURY	FIL	A	775,700,589	21.8117%	775,700,589
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	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
5	16000969	PCD NOMINEE CORPORATION (FILIPINO) 37F TOWER 1, THE ENTERPRISE CENTER, 6766 AYALA AVE. COR. PASE DE ROXAS, 1226 MAKATI CITY	FIL	A	283,581,771	7.9739%	283,581,771
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	VICENTE M. WARNS 18 PILI, SOUTH FORBES MAKATI CITY	FIL	A	12,563,882	0.3533%	12,563,882
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	13002789	MERCURY GRP. OF COMPANIES, INC NO. 7 MERCURY AVENUE LIBIS, QUEZON CITY 1110	FIL	A	3,242,767	0.0912%	3,242,767
11	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
12	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
13	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
14	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
15	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

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 100 STOCKHOLDERS  
AS OF DECEMBER 31, 2011**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
16	08001264	HYLAND REALTY & DEV'T. CORP. 21 TANGUILE RD., NORTH FORBES PARK MAKATI CITY	FIL	A	1,935,413	0.0544%	1,935,413
17	15000902	MA. INMACULADA Z. ORTOLL 1818 M.H. DEL PILAR ST., MALATE, MANILA	FIL	A	1,431,043	0.0402%	1,431,043
18	26000189	MA. ROSARIO ORTOLL ZARAGOZA 1818 M. H. DEL PILAR STREET MALATE, MANILA	FIL	A	1,430,310	0.0402%	1,430,310
19	19002804	MA. YSABEL P. SYLIANTENG 161 BALAGTA ST., MALATE, MANILA 1004	FIL	A	1,342,674	0.0378%	1,342,674
20	20000965	TELENGTAN BROTHERS & SONS, INC. KM. 14 SOUTH SUPERHIGHWAY, PARANAQUE CITY	FIL	A	1,323,215	0.0372%	1,323,215
21	01002956	CRAIG AWAD 2135 PASONG TAMO ST., MAKATI CITY	FIL	A	1,306,642	0.0367%	1,306,642
22	13002455	AURELIO R. MONTINOLA III 19/F BPI BLDG., AYALA AVE., MAKATI, MM	FIL	A	1,291,654	0.0363%	1,291,654
23	0800000006	HORIZONS REALTY INC. RFM CORP. CENTER PIONEER CORNER SHERIDAN STREETS MANDALUYONG CITY	FIL	A	1,249,908	0.0351%	1,249,908
24	0700000015	JAMES L. GO 43/F ROBINSONS EQUITABLE TOWER, ADB AVE.COR. POVEDA ROAD, PASIG CITY	FIL	A	1,200,001	0.0337%	1,200,001
25	05001190	EMPIRE INSURANCE COMPANY INC. PRUDENTIAL LIFE BLDG., PASAY RD., LEGASPI VILL., MAKATI CITY	FIL	A	1,144,142	0.0322%	1,144,142
26	15000906	JORGE Z. ORTOLL 1818 M.H. DEL PILAR ST., MALATE, MANILA	FIL	A	1,130,048	0.0318%	1,130,048
27	0600000003	FRANCISCO ORTIGAS SECURITIES, INC. ACCOUNT#10313 10F ORTIGAS BUILDING ORTIGAS AVENUE PASIG CITY	FIL	A	1,103,500	0.0310%	1,103,500
28	01002958	KEITH AWAD 2135 PASONG TAMO ST., MAKATI CITY	AMN	A	1,100,924	0.0310%	1,100,924
29	13002588	MORGAN GUARANTY INTERNATIONAL FINANCE CORPORATION 31F PHILAMLIFE TOWER, 8767 PASEO DE ROXAS, MAKATI CITY 1227	AMN	A	1,070,496	0.0301%	1,070,496
30	05000954	OCTAVIO V. ESPIRITU DELPHI GROUP, INC. 139 CORPORATE CENTER ROOM 1404, VALERO STREET SALCEDO VILLAGE, MAKATI CITY	FIL	A	1,062,453	0.0299%	1,062,453

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 100 STOCKHOLDERS  
AS OF DECEMBER 31, 2011**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
31	01030286	KENNETH AWAD 2135 PASONG TAMO ST., MAKATI CITY	FIL	A	1,057,850	0.0297%	1,057,850
32	20001754	TRUSTESHIP, INC. 3169 V. MAPA ST., STA. MESA, MANILA	FIL	A	1,051,387	0.0296%	1,051,387
33	18001108	REPUBLIC COMMODITIES CORP 308 SEN GIL J PUYAT AVE MAKATI CITY	FIL	A	917,098	0.0258%	917,098
34	16000187	SABINO B. IV PADILLA AND/OR LOUISE E.B. PADILLA 23-A TAMARIND ROAD, FORBES PARK, MAKATI CITY	FIL	A	875,920	0.0246%	875,920
35	19000258	RAMON P. SALES 58 NATHAN ST., WHITE PLAINS, QC	FIL	A	860,994	0.0242%	860,994
36	1500000001	ANTONIO O. OLBES 1903-B WEST TOWER PSEC, EXCHANGE ROAD ORTIGAS CENTER, PASIG CITY	FIL	A	796,647	0.0224%	796,647
37	13001456	MASONIC HOSPITAL FOR CRIPPLED CHILDREN PLARIDEL MASONIC TEMPLE, 1440 SAN MARCELINO ST., PACO MANILA	FIL	A	771,138	0.0217%	771,138
38	13003657	METROPOLITAN BANK & TRUST CO. METROBANK PLAZA SEN.GIL PUYAT AVENUE MAKATI CITY	FIL	A	770,400	0.0217%	770,400
39	03000947	CARMEL OF THE DIVINE INFANT JESUS OF PRAGUE, INC. C/O RYDA, MADRE PRIORA, STO ROSARIO ST., ANGELES CITY, PAMPANGA	FIL	A	760,515	0.0214%	760,515
40	04000740	GABRIEL GEMPERLE DE LEON 726-D QURINO AVE., TAMBO, PARAÑAQUE CITY	FIL	A	754,425	0.0212%	754,425
41	18002300	RELIANCE COMMERCIAL ENTERPRISES, INC. COMFOODS BUILDING PASONG TAMO COR. BUENDIA STS. MAKATI, METRO MANILA	FIL	A	710,457	0.0200%	710,457
42	19000099	SAGITRO, INC. 10TH FLR. ORTIGAS BLDG. ORTIGAS AVE., PASIG, MM	FIL	A	691,395	0.0194%	691,395
43	05000109	EDAN CORPORATION 562 HOLY CROSS ST. GREENHILLS, MANDAUYONG CITY	FIL	A	690,813	0.0194%	690,813
44	19000664	DANIELLE MARIE SANTIAGO 30 MERCURY ST., BEL-AIR VILLAGE MAKATI CITY	FIL	A	673,508	0.0189%	673,508
45	1500000047	EDUARDO OLBES UNIT 1903-B WEST TOWER, PSE CENTER, EXCHANGE ROAD ORTIGAS CENTER, PASIG CITY	FIL	A	652,800	0.0184%	652,800

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 100 STOCKHOLDERS  
AS OF DECEMBER 31, 2011**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
46	07001534	LOURDES A. GUANZON C/O GUANZON LIME DEV. CO.,INC. 478 RIZAL AVE., EXTENSION GRACE PARK, CALOOCAN CITY	FIL	A	633,246	0.0178%	633,246
47	12002198	PACITA N. LEE C/O CEBU LIBERTY LUMBER COMPANY, INC. 173 M. J. CUENCO STREET CEBU CITY 6000	FIL	A	627,175	0.0176%	627,175
48	12000790	CRISTINA INES G. DE LEON 726-D QUIRINO AVENUE, TAMBO, PARAÑAQUE CITY	FIL	A	623,490	0.0175%	623,490
49	13002310	MONDRAGON SECURITIES CORP. MONDRAGON HOUSE, 324 GIL PUYAT AVE. MAKATI, MM	FIL	A	612,852	0.0172%	612,852
50	13001019	PETER MAR AND/OR ANNABELLE C. MAR UNIT 27 LUXURY PLAZA TOWNHOUSE CELERY DRIVE, VALLE VERDE 5 PASIG CITY	FIL	A	586,733	0.0165%	586,733
51	16001530	PHILIPPINE REMNANTS CO., INC. 2135-A PASONG TAMO, MAKATI, MM	AMN	A	586,582	0.0165%	586,582
52	01002355	SUPERIOR DE LA CORPORACION FILIPINA DE PADRES AGUSTINOS RECOLETOS, INC. FORMERLY ARCHICOFRAIDIA DE NUESTRO PADRE JESUS NAZARENO DE RECOLETOS 22-24 NEPTUNE ST.,CONGRESSIONAL SUBD. CONGRESSIONAL AVE., PROJ. 6, Q.C. 1106	FIL	A	551,382	0.0155%	551,382
53	03004312	CHARLOTTE CUA CHENG 1760 DRA. PAZ GUAZON ST. PACO, MANILA	FIL	A	518,400	0.0146%	518,400
54	18001783	ROMAN CATHOLIC ARCHBISHOP OF JARO JARO ILOILO CITY	FIL	A	491,385	0.0138%	491,385
55	08000061	EDDIE L. HAO RM. 804 FEDERAL TOWER BLDG., DASMARINAS ST., BINONDO, MANILA	FIL	A	487,916	0.0137%	487,916
56	16000151	MA. DOMINGA B. PADILLA AND/OR LOUISE E.B. PADILLA C/O BPI-OFFICE OF THE CORSEC 19/F BPI BLDG., AYALA AVE., MAKATI CITY	FIL	A	463,584	0.0130%	463,584
56	16000192	TEODORO B. PADILLA AND/OR LOUISE E.B. PADILLA 23 TAMARIND ROAD, FORBES PARK, MAKATI CITY	FIL	A	463,584	0.0130%	463,584
57	16000149	MA. BARBARA B. PADILLA AND/OR PADILLA, LOUISE E.B. C/O BPI-OFFICE OF THE CORSEC 19/F BPI BLDG., AYALA AVENUE MAKATI CITY	FIL	A	463,582	0.0130%	463,582
58	0300000069	JOSE MA. J. CORTES 30 13TH STREET, NEW MANILA, QUEZON CITY	FIL	A	462,579	0.0130%	462,579
59	0400000058	MICHAEL JOHN G. DE LEON 726-D QUIRINO AVENUE, TAMBO, PARAÑAQUE CITY	FIL	A	451,279	0.0127%	451,279

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 100 STOCKHOLDERS  
AS OF DECEMBER 31, 2011**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
60	02000332	ROSANA R. BALONKITA 44 MAYON STREET, QUEZON CITY-HOLD ALL DIVIDENDS	FIL	A	427,018	0.0120%	427,018
61	13001372	CARMEN R. MARTINEZ 28 V. RANUDO ST., CEBU CITY 6000	FIL	A	412,887	0.0116%	412,887
62	01000849	ZOILO M. ALBERTO AND/OR ANNA PILAR ALBERTO 212 ACACIA AVENUE, AYALA ALABANG VILLAGE, MUNTINLUPA CITY 1780 METRO MANILA	FIL	A	405,018	0.0114%	405,018
63	20000944	ALFONSO S. TEH 14 SCOUT MADRINIAN SOUTH TRIANGLE, Q.C.	FIL	A	400,000	0.0112%	400,000
64	22000373	LOURDES C. VELEZ 12/F UNIT 1204A SKYLAND PLAZA CONDOMINIUM SEN. GIL PUYAT AVENUE MAKATI CITY	FIL	A	394,107	0.0111%	394,107
64	22000377	TERESITA C. VELEZ 12TH FLR. UNIT 1204A SKYLAND PLAZA CONDOMINIUM SEN. GIL PUYAT AVENUE MAKATI CITY	FIL	A	394,107	0.0111%	394,107
65	09000382	INTER ISLANDS INVESTMENTS, INC. C/O VP CARLOS B. AQUINO BPI CORP. SEC. OFFICE, 19/F BPI BLDG., AYALA AVENUE MAKATI CITY	FIL	A	388,699	0.0109%	388,699
66	20000897	FREDERICK C. TE 34 CHICO ST., VALLE VERDE I PASIG CITY	FIL	A	385,105	0.0108%	385,105
67	03002886	CORPORACION DE PADRES DOMINICOS 183 BLUMENTRITT, SAN JUAN, M.M.	FIL	A	380,307	0.0107%	380,307
68	1400000014	VIRGINIA MARIA L. NICOLAS 172 APITONG STREET AYALA ALABANG VILLAGE MUNTINLUPA CITY	FIL	A	378,452	0.0106%	378,452
69	08000955	HORIZON REALTY, INC. RFM CORP. CENTER, PIONEER CORNER SHERIDAN STS., MANDALUYONG CITY	FIL	A	370,080	0.0104%	370,080
70	11000078	KENG SUN MAR AND/OR EDITH UY MAR 74-A VALENZUELA ST., SAN JUAN, MM	FIL	A	370,067	0.0104%	370,067
71	03003816	WILLIAM T. CHUA NO. 9 IPIL PLACE COR. TAMARIND ROAD SOUTH FORBES PARK MAKATI CITY	FIL	A	364,021	0.0102%	364,021
72	02001493	CESAR F. BOCALING AND/OR BOCALING, VICTOR H. 30 HERCULES ST., BEL-AIR II MAKATI, METRO MANILA 1209	FIL	A	363,916	0.0102%	363,916
73	19003656	KATRINA G. SANTOS 106 D. TUAZON, Q. C.	FIL	A	362,367	0.0102%	362,367

**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 100 STOCKHOLDERS  
AS OF DECEMBER 31, 2011**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
74	03001843	CHENG HAN SUI AND/OR BERCK Y. CHENG 10/F HANSTON BUILDING EMERALD AVENUE, ORTIGAS CENTER PASIG CITY	FIL	A	354,181	0.0100%	354,181
75	20000896	FELIMON CHAN TE 34 CHICO ST. VALLE VERDE PASIG CITY	FIL	A	344,433	0.0097%	344,433
76	19000002	S & A INDUSTRIAL CORPORATION C/O FRITZ INT'L. PHILS., INC. U506 5F METROSTAR BLDG. 1007 METROPOLITAN AVE. MAKATI CITY	FIL	A	340,056	0.0096%	340,056
77	02000329	ELENA R. BALONKITA 44 MAYON STREET, QUEZON CITY HOLD ALL DIVIDENDS	FIL	A	336,567	0.0095%	336,567
78	19003654	JOSE AUGUSTO G. SANTOS 106 D. TUAZON, Q.C.	FIL	A	318,851	0.0090%	318,851
79	16002814	LEA MARIA DE LEON PALOU 130 MALVAR ST. AYALA ALABANG VILLAGE MUNTINLUPA CITY	FIL	A	317,656	0.0089%	317,656
80	04002334	BENIGNO DELA VEGA AND/OR KATRINA DELA VEGA 56 TINIO ST., MANDALUYONG CITY	FIL	A	316,224	0.0089%	316,224
81	05000078	DAPHNE G. EBRO 207 ORBIT ST., BEL AIR II , MAKATI CITY	FIL	A	315,097	0.0089%	315,097
82	0100000002	ROGER C. ANG 401 DUKE STREET GREENHILLS EAST, MANDALUYONG CITY	FIL	A	314,960	0.0089%	314,960
83	2500000008	MARIE EILEEN JUGO YONZON NO. 6 BALTAZAR STREET, AYALA HEIGHTS VILLAGE, OLD BALARA, QUEZON CITY	FIL	A	310,226	0.0087%	310,226
84	04000963	DECKTA PACIFIC EQUITIES , INC. C/O 562 HOLY CROSS ST.,BO. GREENHILLS, MANDALUYONG	FIL	A	308,774	0.0087%	308,774
85	04002589	MA. MARGARITA J. DE ORTOLL PACIFIC PLAZA TOWERS NORTH, APT 6-C, 4TH AVENUE COR. 25TH STREET, WEST BONIFACIO GLOBAL CITY, TAGUIG	FIL	A	300,756	0.0085%	300,756
86	1300000064	LISA IRENE DE LEON MUNOZ 138 TANAUAN STREET, AYALA ALABANG, MUNTINLUPA CITY	FIL	A	296,216	0.0083%	296,216
87	20000565	WIGBERTO E. TANADA 2348 MILFLORES STREET DASMARINAS VILL., MAKATI CITY	FIL	A	291,805	0.0082%	291,805
88	23000141	WODEL, INCORPORATED 34 SAN LUIS STREET PASAY, METRO MANILA	FIL	A	290,347	0.0082%	290,347



**BPI STOCK TRANSFER OFFICE  
BANK OF THE PHILIPPINE ISLANDS  
TOP 100 STOCKHOLDERS  
AS OF DECEMBER 31, 2011**

RANK	STOCKHOLDER NUMBER	STOCKHOLDER NAME	NATIONALITY	CERTIFICATE CLASS	OUTSTANDING SHARES	PERCENTAGE	TOTAL
89	2000000005	HENRY DY TAN AND/OR SHERLEY GARGANTOS TAN 815-B ESPELETA ST., STA. CRUZ, MANILA	FIL	A	290,307	0.0082%	290,307
90	0300000061	CHING TIONG KENG 1656 DASMARIÑAS AVENUE, DASMARIÑAS VILLAGE, MAKATI CITY	FIL	A	281,210	0.0079%	281,210
91	03002250	TOMAS LIM CHUA 6 MABINI ST., AYALA HEIGHTS VILLAGE TANDANG SORA, Q.C.	FIL	A	274,752	0.0077%	274,752
92	18001792	ROMAN CATHOLIC ARCHBISHOP OF ZAMBOANGA SACRED HEART CENTER P.O. BOX 1, ZAMBOANGA CITY	FIL	A	269,982	0.0076%	269,982
93	01002994	JESUS V. AYALA 2ND FLR. STATE COND. I SALCEDO ST. LEGASPI VILLAGE, MAKATI, MM	FIL	A	267,235	0.0075%	267,235
94	20000525	TERESITA B. TAN 626 LEE ST., MANDALUYONG CITY 1550	FIL	A	266,786	0.0075%	266,786
95	07000926	CATHERINE S. GO C/O CECILE BORLONGAN 9F BPI MAIN BLDG., AYALA AVE. COR PASEO DE ROXAS MAKATI CITY	FIL	A	265,466	0.0075%	265,466
96	20001936	TY YAN GUAN 610 SANTO CRISTO ST., MANILA	FIL	A	259,200	0.0073%	259,200
97	0300000059	CHIAO HUA CHING HOLD - NO SSC	FIL	A	253,910	0.0071%	253,910
97	0300000058	CHIAO I JULIET CHING HOLD - NO SSC	FIL	A	253,910	0.0071%	253,910
97	0300000057	JACQUELINE CHIAO LUN CHING HOLD - NO SSC	FIL	A	253,910	0.0071%	253,910
97	0300000056	CHIAO LIANG JULIANA CHING HOLD - NO SSC	FIL	A	253,910	0.0071%	253,910
98	02001735	BPI AS TRUSTEE OF THE BPI RETIREMENT FUND AMTG-AOD CUSTODY UNIT 18/F BPI HEAD OFFICE AYALA AVE. COR. PASEO DE ROXAS MAKATI CITY	FIL	A	252,591	0.0071%	252,591
99	16000190	SABINO JR. PADILLA C/O PADILLA LAW OFFICE, P.DELOS REYES BLDG. JUAN LUNA, MANILA	FIL	A	250,832	0.0071%	250,832
100	03003787	KONG CHIP A. CHIA RM. 1501 TYTANA PLAZA BUILDING BINONDO, MANILA	FIL	A	244,795	0.0069%	244,795

<b>GRAND TOTAL</b>	<b>3,490,206,513</b>
--------------------	----------------------

**SCHEDULE B**  
**AMOUNTS RECEIVABLE FROM DIRECTORS,**  
**OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS**  
**(OTHER THAN AFFILIATES)**

Name and Designation of Debtor	Balance at Beg. of Period	Additions	Amounts Collected	Amount Written Off	Current	Not Current	Balance at end of Period
--------------------------------	---------------------------	-----------	-------------------	--------------------	---------	-------------	--------------------------

Please refer to the attached printout reports (Annex A) for the details.

**SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS AS OF DECEMBER 31, 2011**

NAME AND DESIGNATION OF DEBTOR (1)	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	AMOUNTS COLLECTED (2)	AMOUNTS WRITTEN OFF (3)	CURRENT	NOT CURRENT	BALANCE AT END OF PERIOD
ALABANG COMMERCIAL CORP	50,000,000.00						50,000,000.00
	50,000,000.00						50,000,000.00
AYALA CORP	1,425,000,000.00	-	75,000,000.00				1,350,000,000.00
	1,900,000,000.00	-	100,000,000.00				1,800,000,000.00
	1,425,000,000.00	-	75,000,000.00				1,350,000,000.00
IMA LANDHOLDINGS	207,000,000.00						207,000,000.00
MANILA WATER CO. INC		\$180,000.00	\$180,000.00				\$0.00
MANILA WATER CO. INC		\$180,000.00	\$180,000.00				\$0.00
AYALA LAND INC		\$214,300.00	\$214,300.00				\$0.00
FUJITSU PHILS INC		\$5,954.46	\$5,954.46				\$0.00
FUJITSU PHILS INC		\$28,372.13	\$28,372.13				\$0.00

prepared by:

  
BETTINA

Noted by:

  
ASST. MGR MARY ROSE R. ALQUIZA

**SCHEDULE K  
CAPITAL STOCK**

Title of Issue	Number of Shares Authorized	Number of shares issued and outstanding as shown under related balance sheet caption	Number of shares reserved for options, warrants, conversion and other rights	Number of shares held by affiliates	Directors, officers and employees	Others
Common Shares	4,900,000,00	3,556,356,173	- 0 -	- 0 -	8,099,887	3,548,256,286
Preferred A Shares	60,000,000	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -