

**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 COR. PASEO DE ROXAS, MAKATI CITY
818-5541 to 48
December 31, 2008
SEC FORM I7 -A (Form type)**

AMENDMENT DESIGNATION (if applicable)

FOR THE PERIOD ENDED DECEMBER 31, 2008
(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, 2008**
2. SEC Identification Number : **121**
3. BIR Tax Identification No. : **TIN: 047-000-438-366**
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 1226**
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
Common	3,245,739,408
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

2. 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").

Shares Held by Non-Affiliates	Market Value per share as of 04/08/09	Total Market Value
3,245,739,408	P37.5	P 121,715,227,800.00

**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. It has a significant market share in deposits, lending, and asset management and trust business. It is recognized as the top commercial bank in OFW 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 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 1856. 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 (2006-2008).

In October 2006, BPI/MS Insurance Corporation, the bank's non-life insurance company, acquired the insurance portfolio in the Philippines of Aviva General Insurance Pte, Ltd. of Singapore, a wholly owned subsidiary of Mitsui Sumitomo. The addition of the Aviva's balanced portfolio strengthened and improved BPI/MS healthy mix of retail and corporate accounts.

In December 2006, BPI sold its entire shareholdings in Far East Savings Bank, Inc. (FESBI), a wholly-owned subsidiary to JTKC Equities, Inc., Surewell Equities Inc. and Star Equities, Inc.

In April 2007, BPI obtained a UK Banking licence from the Financial Services Authority to operate the Bank of the Philippine Islands (Europe) Plc, a wholly owned subsidiary. This was officially opened to the public in October 2007. This will serve as the bank's gateway to all countries in the European Union and the rest of Europe.

In October 2008, BPI, Ayala Corporation and Globe Telecom signed a Memorandum of Agreement to form the country's first mobile microfinance bank. The venture will extend wholesale microfinance loans to microfinance institutions and offer other microfinance products in the future, and will use mobile technology to deliver financial services and expand its retail client base. BPI and Globe will have an equal stake of 40% while Ayala Corporation will own 20% of the bank.

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 quasi-bank concentrating on lease finance. Its quasi-banking license was inherited from the merger with Citytrust Investment Phils. Inc. in May 1998. It was originally established as Makati Leasing and Finance Corporation in 1970. It merged with FEB Leasing & Finance Corporation on February 20, 2001. It wholly owns BPI Rental Corporation which offers operating leases.
- (4) BPI Direct Savings Bank is a savings bank that provides internet and mobile banking services to its customers. It started operating as such on February 17, 2000 upon approval by the Bangko Sentral ng Pilipinas.
- (5) BPI International Finance Limited, Hong Kong is a deposit taking company in Hong Kong. It was originally established in August 1974.
- (6) BPI Express Remittance Corp. (U.S.A) is a remittance center for overseas Filipino workers and was incorporated on September 24, 1990.
- (7) Bank of the Philippine Island (Europe) Plc was granted a UK banking license by the Financial Services Authority (FSA) on April 26, 2007. It was officially opened to the public on October 1, 2007. In July 2008, BPI Europe was permitted by the FSA to carry out cross-border services in other EEA Member States.
- (8) Ayala Life Assurance Inc. is a life insurance company acquired by BPI through its merger with Ayala Insurance Holdings Corp. (AIHC) in April 2000. It was originally established in 1933 as Filipinas Life Assurance Co. and has a 100% owned subsidiary, Ayala Plans, a pre-need company.
- (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 65% of revenues. The second category covers services other than and auxiliary to the core deposit taking, lending, and investing business and from which is derived 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

	2006	2007	2008
Share in Total Revenue (%)	1.28	1.82	2.12
Hongkong	0.38	0.72	0.39
USA	0.46	0.35	0.42
Europe	0.45	0.75	1.30
Share in Total Net Income (%)	0.73	1.78	0.98
Hongkong	0.32	1.51	0.42
USA	0.28	0.11	(0.25)
Europe	0.13	0.16	0.82

Distribution Network

BPI has 831 traditional branches across the country, including 161 Express Banking Centers (EBCs) by the end of 2008. EBCs are kiosk 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.

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 2008, the ExpressNet consortium had a total of 3,597 ATMs servicing its customers nationwide. And with the interconnection with Megalink and Bancnet since 1997 and 2006, respectively, BPI ATM cardholders have access to over 8,000 ATMs. BPI's ATM network is likewise interconnected with the Cirrus International ATM network and Visa International. In addition, BPI operates an Express Payment System (point-of-sale/debit card system) involving 21,771 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. The bank also provides Mobile banking service for busy and mobile depositors.

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 also allows investment transactions through its BPI Trade platform where customers can invest in equities without the need of any dealer or broker.

BPI also maintains a specialized network of remittance centers for servicing overseas remittances from contract workers and other Filipinos working abroad. To date, BPI has 21 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 8 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 2008.

In 2008, industry lending posted a substantial 20.5% growth. Loans growth was broad based. Corporate lending though remained to be very competitive. While multinational companies continue to operate their finance activities on a regional basis, there were some requirements which were funded locally. Several large corporations likewise accessed the debt market. Net interest spreads however improved as the banks slowly moved towards a risk based pricing approach to lending in view of the global financial crisis.

The weak demand for corporate loans in the previous years prodded banks to venture more extensively into consumer lending. 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.

The Overseas Filipino Workers (OFW) remained to be the focus market among banks as it continued to contribute significantly to the economy. In view of this, BPI continued to strengthen its stake in this segment by actively cross selling products other than the remittance service and exhibited growth in OFW deposits and housing loans. Over the years, redeployment and migration is seen to be a preferred option for Filipino workers and professionals as long as the domestic economy can not provide meaningful employment.

Based on required published statements by the Bangko Sentral ng Pilipinas (BSP) as of December 2008, BPI is the third largest bank operating in the country in terms of assets, loans and deposits, second in terms of asset management and trust business and the largest in terms of capital. Total assets of BPI based on 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 mini branches
- (2) Express Banking Center, for its banking kiosks
- (3) Express Loan Center, for the banking kiosks of BPI Family Savings Bank
- (4) Express Teller, for its ATM
- (5) Express Deposit Service, for its cash acceptance machine
- (6) Express Payment System or EPS, for its debit card system
- (7) ExpressNet, for its shared ATM network
- (8) Express Credit, for its credit cards
- (9) Express Cash, for its electronic cash card
- (10) Express Phone, for its call center facility
- (11) Express Online, for its internet based transaction platform for retail customers
- (12) Express Mobile, for its mobile banking facility
- (13) ExpressLink, for its internet based transaction platform for corporate customers

(14) Express Collect, for its corporate deposit related services

At BPI Family Savings Bank, the product trademarks include the Build your Dream Housing Loan, the Drive your Dream Auto Loan and the Grow your SME Business Loan. Other product brands of BPI and BFSB are Maxi-One, Platinum Savings, Multi-Earner Savings, Jumpstart Savings, Get Started Savings Account and Plan Ahead Time Deposit. BPI Direct Savings bank products are BPIInoy Savings, BPIInoy Housing Loan, BPIInoy Auto Loan and BPI Direct Save-Up.

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

BPI extends loans to its Directors, Officers, Stockholders and their Related Interests or DOSRI in the normal course of business and on equal terms with those offered to unrelated third parties. The BSP imposes an aggregate ceiling of 15% of the bank's loan portfolio for these types of loans with the unsecured portion limited to thirty percent (30%) of the outstanding loans, other credit accommodations and guarantees. As of December 31, 2008, DOSRI loans amounted to 2.3% of loans and advances as per Note 31 of the 2008 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.

The Special Purpose Vehicle Law was passed in 2002 and allows the creation of special purpose vehicles (SPV) to invest in and acquire non-performing assets of financial institutions. Transactions eligible under the law are exempt from capital gains tax. In April 2006, the law was amended to allow further registration of SPVs for a period of 18 months. Sellers who may incur losses in their transactions which may result in negative tax positions may utilize their NOLCO for a maximum period of 5 years.

Research and Development Activities

BPI spent the following for the last three years:

		<u>% of Revenues</u>
2006	228.7	0.8
2007	209.3	0.6
2008	200.8	0.7

Employees

Below is a breakdown of the manpower complement of BPI in 2008 as well as the approved headcount for 2009.

	December 31 2008			2009
	Officers	Staff	Total	Plan
Unibank	4,090	7,358	11,448	11,520
Insurance Companies	157	484	641	680
TOTAL	4,247	7,842	12,089	12,200

Majority of the rank and file employees are members of various unions. New Collective Bargaining Agreements (CBAs) of the parent company with the employees union in different areas were concluded/signed from June 30, 2006 to December 5, 2006. The new CBA covers the period 2006 – 2009.

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 continues to be the largest single risk that the bank faces. Credit risk management involves the thorough evaluation, appropriate approval, management and continuous monitoring of counterparty risk, product risk, and industry risk relating to each loan account and/or portfolio. 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. 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 thru a common structure and process but use separate conceptual and measurement frameworks that are compatible with each other. Liquidity risk management involves the matching of asset and liability tenors to limit the bank's vulnerability to abnormal outflows of funds. Price risk management involves measuring the probable losses arising from changes in the values of financial instruments and major asset and liability components as a result of changes in market rates, prices and volatility.

Operational risk management involves creating and maintaining an operating environment that ensures and protects the integrity of the institution's assets, transactions, records and data, the enforceability of its 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 831 branches, 688 operate as BPI branches: 367 in Metro Manila/Greater Metro Manila Area and 321 in the provincial area. The parent bank owns 34% of these branches and leases the remaining 66%. Total annual lease amounted to Php 510 million. Expiration dates of the lease contracts vary from branch to branch.

BPI Family Savings Bank operates 139 branches of which 22% are bank owned while 78% are leased. Total annual lease amounted to Php 95 million.

The head offices of BPI and BPI Family Savings Bank as well as the 831 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 Express Banking Centers (kiosk branches) as it adjusts to the needs of its customers.

Total lease expense for 2008 for BPI and its subsidiaries amounted to P813 million as per Note 25 of Audited Financial Statement.

Item 3. Legal Proceedings

NONE

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 since 1966.

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

	High	Low
Year Ended December 31, 2007		
1st Quarter	P 72.50	62.00
2 nd Quarter	72.50	63.50
3 rd Quarter	72.00	53.50
4th Quarter	71.50	57.50

Year Ended December 31, 2008

1st Quarter	P 52.92	39.58
2 nd Quarter	46.67	35.83
3 rd Quarter	48.50	33.33 *
4th Quarter	48.00	34.00

* A 20% stock dividend took effect on 30 July 2008.

The high and low sales prices of BPI at the Philippine Stock Exchange on April 8, 2009 were P37.50 and P36.50, respectively.

Holder of Common Equity

There were approximately 13,792 common share holders of BPI as of December 31, 2008. 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, 2007 & 2008 are as follows:

<u>BPI</u>	<u>Amount Declared</u>	<u>Amount Paid</u>
Year Ending December 31, 2007	7,573 Million	7,572 Million
Year Ending December 31, 2008	5,842 Million	8,060 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: 2006, 2007, and 2008)

Highlights of the balance sheet and income statement for each year together with the compounded growth rate over the three year period (2006 - 2008) are shown below:

In Million Pesos	2005	2006	2007	2008	CAGR
Assets	529,285	583,133	637,285	666,612	7.99%
Deposits	420,110	467,076	513,444	540,352	8.75%
Loans (Net)	228,887	243,191	273,756	320,216	11.84%
Capital	58,528	64,439	70,011	62,934	2.45%

The bank's asset level from 2006 to 2008 registered a compounded annual growth rate (CAGR) of 8.0% driven by the 8.8% deposit growth. Loans' CAGR also increased by 11.8% over the same period. Capital grew by 2.4% coming from the profits generated annually net of cash dividends paid.

2006

Total Assets grew by P52.7 billion or 9.9% to P582.0 billion mainly due to the increase in **Deposits** of P47.0 billion or 11.2% to P467.1 billion. Deposit growth came from **Demand** and **Time Deposits**, which posted increases of 14.0% and 15.8%, respectively. **Savings Deposits** on the other hand was relatively flat.

Bills Payable was down P7.9 billion or 57.9% due to matured borrowings of ex-Prudential Bank. **Due to BSP and Other Banks** was up by P232 million on higher tax collections and **Manager's Checks and Demand Drafts Outstanding** increased by P326 million due to the higher level of manager's check issued which has not been negotiated. The increase in **Liabilities Attributable to Insurance Operations** of P706 million was due to additional actuarial reserves set-up relative to the volume of policies issued. **Deferred Credits and Other Liabilities** grew by P6.9 billion or 49.8% on higher bills purchased contra account (up by P1.9 billion) and miscellaneous liabilities (up by P5.1 billion). Higher miscellaneous liabilities arose from the P5.1 billion dividend payable which was approved by BSP on 12 December 2006.

Capital Funds expanded by P5.8 billion to P64.4 billion primarily from this year's profits and mark-to-market valuation of available for sale securities, net of P7.6 billion in cash dividends declared. **Capital Stock** grew by P4.6 billion or 20.3% brought about by the 20% stock dividends distributed in June 2006. On the other hand, **Surplus** contracted by P3.1 billion or 9.3% as the combined stock and cash dividend amounting to P12.1 billion more than offset the P9.0 billion net income for the year. **Reserves** increased by P4.2 billion largely from the increased value of investments. The increase of P283 million in **Paid-in Surplus** resulted from the full payment of subscribed shares. The stronger peso also resulted in minimal **Translation Loss Adjustments** in the balances of the bank's overseas subsidiaries. **Minority Interest** declined by P492 million or 31.9% due to the decrease in the percentage holdings of the bank in Universal Malayan Reinsurance Corp. (UMRC).

Loans grew at a relatively slower pace than deposits increasing by only P14.3 billion or 6.2% to P243.2 billion. Hence, excess funds were invested in **Due from BSP**, which went up by P36.6 billion or double last year's numbers. Funds from matured **Held-to-Maturity Securities** of P10.2 billion and placements in **Due from Other Banks** of P8.7 billion were reinvested in **Interbank Loans Receivable and Securities Purchased under Agreements to Resell, Trading Securities and Available for Sale Securities**. The latter accounts posted increases of P15.2 billion or 2.0x, P2.3 billion or 19.3% and P1.6 billion, respectively. **Cash and Other Cash Items** were likewise up by P1.8 billion or 18.4% due to the higher level of cash requirements in 2006.

Bank Premises, Furniture, Fixtures & Equipment went up by P878 million due to purchases of ATMs, computer equipments, furniture and renovations of various branches. **Asset Held for Sale** on the other hand dropped by P2.3 billion or 11.6% due to the sale of foreclosed properties and the additional impairment loss on some real estate properties. **Equity Investments** ended higher by P745 million due to the inclusion of URM. The merger of URM with National Reinsurance Corp. has reduced the bank's stake in the merged entity, hence the need to change from line by line consolidation to just equity accounting.

2007

Resources reached P637.3 billion, P54.2 billion or 9.3% higher than the previous year largely due to **Total Liabilities** increase of P48.5 billion or 9.4%. The Liabilities increase was mainly due to **Deposit Liabilities'** growth of P46.4 billion or 9.9%, resulting from a 17% expansion in peso deposits and reflected in all types of deposits. **Demand Deposits** exhibited the strongest growth of 20.0% or P14.5 billion while **Time Deposits** reflected the biggest gain in volume of P25.3 billion or 9.3%. **Savings Deposits** likewise showed a modest increase of P6.5 billion or 5.3%. Foreign currency deposits on the other hand contracted largely from the translation effect of the stronger peso.

Liabilities Attributable to Insurance Operations grew by P1.3 billion or 8.5% on higher reserves associated with new policies issued. The higher level of deposits consequently resulted in higher accrual

of interest expense, which together with the higher accrued taxes and licenses as well as expenses caused **Accrued Taxes, Interest and Other Expenses** to rise by P707 million. **Derivative Financial Liabilities** grew by P2.2 billion or 1.9x due to the higher level of currency swaps transactions and the increased interest rate volatilities in U.S. Dollars and the Philippine Pesos. Increases were likewise registered in **Manager's Checks and Demand Draft Outstanding** by P464 million (20.6%) on increased issuance of manager's checks, and **Due to Bangko Sentral ng Pilipinas and Other Banks** by P296 million (29.5%) on higher collection of taxes. All these increases were negated by decreases in other liability accounts. **Deferred Credits and Other Liabilities** dropped by P2.5 billion or 11.6% on lower miscellaneous liabilities. Last year's account included a cash dividend payable versus none this year pending receipt of the BSP approval. **Bills Payable** was also P341 million or 6.0% below last year on lower requirements for the year following a substantial increase in deposit funds.

Capital funds improved by P5.6 billion or 8.6% due to this year's accumulated earnings net of cash dividends paid. **Surplus** grew by P7.2 billion or 23.5% to P37.8 billion on this year's profits of P10.0 billion reduced by the P2.4 billion cash dividends payment in July 2007. **Reserves** on the other hand dropped by P1.1 billion or 20.6% on the recognition of gains on sale of available-for-sale securities. Downward **Translation Adjustments** on the balances of overseas subsidiaries was higher by P485 million or 5.1x due to the continued strengthening of the peso. **Minority Interest in Subsidiaries** was P72.0 million or 6.8% higher against last year due to the better performance of the insurance subsidiaries.

On the asset side, **Net Loans and Advances** reflected a 12.6% growth of P30.6 billion from last year to P273.8 billion. Corporate loans recorded higher than its average growth rate over the past years, and consumer loans continued with its ever growing trend. **Due from BSP** increased by P18.3 billion or 33.5%, it being the preferred investment outlet for regulatory reserves in place of **Held-to-Maturity Securities**, which contracted by P16.3 billion or 23.7%. Excess funds were likewise invested in **Available-for-Sale Securities** (up P12.9 billion or 14.2%) and **Interbank Loans Receivable and Securities Purchased under Agreements to Resell** (up by P8.8 billion or 38.5%). **Derivative Financial Assets** grew by P2.0 billion or 1.9x on higher level of currency swap transactions and the increased interest rate volatilities in U.S. Dollars and the Philippine Pesos. **Trading Securities** on the other hand contracted by P5.0 billion on profit taking. **Due from Other Banks** was also down by P954 million or 12.0% on lower foreign currency placements.

Assets Attributable to Insurance Operations expanded by P2.2 billion or 11.2% on higher investment portfolio resulting from premiums received on new policies issued. **Other Resources** went up by P3.4 billion or 47.4% due to higher accounts receivable and miscellaneous assets. **Bank Premises, Furniture, Fixtures & Equipment** dropped by P829 million due to the reclassification of certain ex-Prudential assets to **Investment Property**, which in turn posted an increase of P451 million or 19.1%.

2008

Total resources at P666.6 billion ended higher by P29.3 billion or 4.6% driven by the P26.9 billion or 5.2% expansion in deposits to P540.4 billion. Deposit expansion came from increases in peso and foreign currency denominated **Savings Deposits** totaling P32.5 billion or 25.0% and **Demand Deposits** amounting to P5.6 billion or 6.4%. **Time Deposits** on the other hand contracted by P11.2 billion or 3.8% coming from peso time deposits in view of the bank's strategy of offering higher yielding trust products to its price sensitive depositors. The bank issued P5.0 billion in Tier 2 eligible capital in December 2008 as reflected in **Unsecured Subordinated Debt**. **Bills Payable** likewise grew by P4.6 billion or 84.8% for gapping purposes and to fund new leases of the bank's leasing subsidiaries. **Liabilities Attributable to Insurance Operations** went up by P2.3 billion or 14.1% on higher actuarial reserves set up for the year. **Due to Bangko Sentral ng Pilipinas and Other Banks** ended higher by P193 million due to higher deposits maintained by foreign banks. **Deferred Credits and Other Liabilities** declined by P1.1 billion or 5.7% due to drop in bills purchased – contra account. **Derivative Financial Liability** dropped by P813 million due to the decline in foreign exchange forward bought volume while **Accrued Taxes, Interest and Other Expenses** also went down by P520 million on lower accruals of expenses, taxes and interest on time deposits.

Capital Funds ended at P63.9 billion, P7.3 billion or 10.2% lower than last year. The decrease came from the P7.1 billion or 18.9% drop in **Surplus** brought about by the P5.4 billion stock dividend and the P8.1 billion cash dividends paid which totally **negated** this year's profits of P6.4 billion. Correspondingly, **Capital Stock** grew by P5.4 billion or 20.0%. **Reserves** also declined by P5.3 billion or 1.2x due to this year's unrealized losses on mark-to-market valuation of available-for-sale securities. This year's unrealized losses however included P1.6 billion related to available for sale securities transferred to held to maturity category based on a change in intention. This amount will be accreted over the life of these securities. The debit balance of **Translation Adjustment** pertaining to overseas subsidiaries further increased by P112 million or 19.3% due to the stronger peso against the dollar. **Minority Interest in Subsidiaries** dropped by P182 million or 16.3% with the declaration of cash dividends and downward valuation of investments of the insurance subsidiaries.

On the asset side, **Loans and Advances (Net)** grew by P46.5 billion or 17.0% on strong demand from the corporate and individual borrowers. **Trading Securities** increased by P25.2 billion or 2.7x as the bank opted to invest its foreign currency funds into U.S. Treasury. The reclassification of **Available for Sale Securities** to **Held-to-Maturity Securities** resulted in the latter's increase of P20.4 billion or 39.0%. **Cash and Other Cash Items** also went up by P9.1 billion or 68.9% on higher cash requirement especially towards the end of 2008. **Due from Other banks** ended higher by P7.3 billion largely from higher remittances. Above assets were funded not only by the increase in deposits but also by proceeds from the sale of **Available-for-Sale Securities**, lower account balances under **Due from Bangko Sentral ng Pilipinas** and maturities of **Interbank Loans Receivable and Securities Purchased under Agreements to Resell**, which declined by P39.8 billion, P24.5 billion and P9.2 billion, respectively.

Assets Held for Sale was down by P2.0 billion or 11.9% due to the sale of foreclosed properties. **Other Resources'** drop of P2.6 billion or 23.9% was due to the decline in miscellaneous assets and receivables. **Derivative Financial Asset** was lower by P941 million or 30.1% due to the drop in foreign exchange forward sold volume. **Deferred Tax Assets** fell by P475 million or 7.7% due to the utilization and partial write-off of expiring net operating loss carry over (NOLCO). **Equity Investment's** decrease of P167 million was due to the receipt of dividends from unconsolidated subsidiaries.

Asset Quality. The bank sustained its broad mix of loan portfolio broken down into corporate at 39%, middle market at 38% and consumer at 23%. Gross 90 days non-performing loans (NPL) ratio improved to 3.9% this year vs. last year's 4.8% due to collection, restructuring and foreclosure. The NPL ratio continued to improve from 2006's 7.4%.

Allowance for Impairment at P7.5 billion was P899 million up from last year's P6.6 billion. Reserves level in 2006 was at P9.1 billion.

NPL ratio based on BSP definition of 30 days net NPL (net of fully reserved accounts) further improved to 3.0% this year from the 3.5% of 2007 and 5.5% of 2006. The bank's NPL ratio was better compared to the industry average of 3.5%.

BPI shall continue to exert efforts to further reduce its NPLs through collection or restructuring, where appropriate.

Liquidity. BPI is one of the industry's most liquid banks deriving 97% of its funding from deposits. Loan to deposit ratios were 54% in 2006, 55% in 2007 and 60% in 2008. The bank is thus well positioned to finance any increase in loan demand. Excess funds are invested in cash and highly liquid assets as well as in non-risk government securities.

Results of Operations

In Million Pesos	2005	2006	2007	2008	CAGR
Net Interest Income	18,300	19,196	18,950	19,463	2.08%
Non-Interest Income	9,252	10,641	13,604	10,321	3.71%
Impairment Losses	2,000	1,524	1,250	1,930	-1.18%

Operating Expenses	14,819	16,663	18,311	18,312	7.31%
Net Income	8,383	9,040	10,012	6,423	-8.50%

Net income of the bank over the last three (3) years went down by 8.5% due to increased operating expenses of 7.3% and higher level of impairment losses. Net interest income and non-interest income both improved by 2.1% and 3.7%, respectively.

2006 vs. 2005. The bank's **Net Income** for 2006 reached P9.0 billion or 7.8% better than 2005's profits of P8.4 billion as improvement in revenues of P2.5 billion and lower impairment losses of P476 million more than covered the increase in overhead and taxes of P2.0 billion and P277 million, respectively.

Net Interest Income at P20.0 billion was higher by P1.1 billion or 5.8% due to the P50.5 billion average asset expansion. The impact of the asset increase was tempered by the 17 basis points decline in net spreads as the average benchmark Treasury Bill rate contracted by 133 basis points across all tenors.

- **Interest Income** of P33.7 billion was ahead by P3.2 billion or 10.5% over last year's P30.5 billion. Interest income on **Loans and Advances** improved by P1.9 billion on increased volume while **Deposit with banks** was higher by P695 million on higher volume and better rates. Interest income on **Available for Sale Securities** grew by P1.5 billion due to the higher yield on inventory while interest income on **Held-to-Maturity** and **Trading Securities** declined by P784 million due to lower rates.
- **Interest Expense** was up by P2.1 billion due largely to the increased financial cost of **Deposits** by P2.2 billion or 19.9% on higher volume of time deposits. Interest expense on **Bills Payable** and **Other Borrowings** however dropped by P84 million as both volume and rates contracted.

Non-interest Income reached P10.6 billion, up P1.4 billion or 15.0% against 2005's P9.3 billion. **Income from Foreign Exchange Trading and Trading Securities** grew by P1.1 billion largely on opportunities provided by the volatile and decreasing rates. **Service Charges and Commissions** was up by P257 million due to increased transactions from ex-Prudential branches as well as higher service fees. **Other Operating Income** was likewise ahead by P369 million from higher asset management and trust fees, rental on bank assets and miscellaneous income. **Income Attributable to Insurance Operations** was down by P138 million on lower investment income. With the improved level of income, **GRT** increased by P216 million or 49.8%.

Other Expenses increased by P2.0 billion or 13.3% largely on the back of the added cost of ex-Prudential operations. **Compensation and Fringe Benefits** grew by P1.3 billion or 21.3% on expanded headcount, salary increases and other benefits. **Occupancy and equipment-related expenses** was up by P782 million due to higher premises costs, software costs and leased lines expenses. **Other Operating Expenses** was relatively flat against last year.

This year's **Impairment Losses** of P1.5 billion was P476 million lower than last year. A major portion of this year's impairment loss was for foreclosed assets which were reappraised this year.

Provision for Income Tax was up by P277 million or 12.7% on the reversal of **Deferred Income Tax** which was not fully utilized for the year due to loan write-offs recognized largely from the NPL sale. **Current Income Tax** is thus lower by P445 million.

2007 vs. 2006. Full year **Net Income** stood at P10.0 billion, P972 million or 10.7% higher than 2006's earnings of P9.0 billion. This was due to improvement in revenues by P2.7 billion or 9.1 % and a slight drop in impairment losses by P274 million tempered by the increase in overhead by P1.6 billion and taxes by P311 million.

Net interest income at P19.0 billion was flat against 2006. Average asset base expanded by P44.8 billion, but was negated by a 33 basis points drop in net spreads.

- **Interest income** of P32.4 billion was P1.3 billion lower than last year. This resulted from a P1.4 billion drop in interest income on **Loans and Advances** due to lower interest yields. Interest income on **Held-to-Maturity and Trading Securities** also decreased by P1.4 billion on lower volume. On the other hand, interest income on **Deposits with Banks** and **Available-for-Sale Securities** improved by P986 million and P366 million on higher volume. Correspondingly, **GRT** contracted by P71 million or 5.4% as a result of the net decrease in interest income.
- **Interest expense** was down by P1.1 billion due to an almost equivalent amount of savings in interest expense on **Deposits**. Interest expense on **Bills Payable and Other Borrowings** also decreased by P37 million or 7.4%. These decreases were accounted for by the lower interest rates prevailing then.

Other income more than compensated for the flattish net interest income as it rose by P3.0 billion or 27.8% to P13.6 billion this year versus last year's P10.6 billion. **Income from Foreign Exchange and Securities Trading** was up by P555 million or 18.8% on opportunities provided by the strengthening peso as well as the relatively low interest rate environment. **Service Charges and Commissions** were likewise up by P177 million or 6.9% on higher service charges collected on deposit related transactions. The larger contribution however came from **Income Attributable to Insurance Operations** and **Other Income**. The pre-tax income of the insurance companies grew by P893 million or almost double the previous year on unprecedented gains on investments. Moreover, **Other Income** grew by P1.6 billion or 33.0% boosted by higher income from the sale of bank and foreclosed assets, rental and operating lease income, credit card income and investment banking income.

Other Expenses rose by P1.6 billion or 9.9% to P 18.3 billion this year. **Compensation and Fringe Benefits** was up by P650 million or 8.6% due to the yearly salary increase and the full recognition of some merger-related manpower benefits. **Other Operating Costs** also grew by P780 million on higher marketing costs, regulatory costs and non-credit write-offs.

Impairment Losses at P1.2 billion was P274 lower than last year on lower specific requirements this year.

Provision for Income Tax for the year was P2.8 billion, P311 million or 12.7% ahead of 2006. **Current Income Tax** increased by P203 million on higher final taxes paid. **Deferred Income Tax** also rose by P108 million or 43.0% on higher tax write-off of unutilized tax credit on net operating loss carry over (NOLCO), following the deductibility of the reserves on the NPLs sold.

2008 vs. 2007. This year's **Net Income** was P6.4 billion, P3.6 billion or 35.8% lower than the previous year. Revenues were down by P2.8 billion and at the same time, impairment losses and income taxes increased by P680 million and P218 million, respectively. Operating expenses were flat against last year.

Net Interest Income at P19.5 billion was P513 million or 2.7% higher than last year despite the 7 basis points drop in spreads. This was primarily accounted for by the increased average asset base of P30.5 billion.

- **Interest Income** was higher by P882 million against previous year. This was brought about by the increase in interest income on **loans and advances** by P2.4 billion or 11.3% on higher volume. Increase in interest income was reduced by the P1.2 billion or 24.0% drop in interest on **available-for-sale securities** on lower portfolio and lower yields. Interest on **held-to-maturity** and interest on **trading securities** also went down by P286 million or 6.6% on lower volume and P143 million or 27.8% on lower yields, respectively. The improvement in interest income this year resulted to an increase in **GRT** by P76 million or 6.1%.

- **Interest Expense** rose by P369 million from last year as both interest expense on **Deposits** and interest expense on **Bills Payable and Other Borrowings** increased by P350 million and P19 million, respectively.

Other Operating Income at P10.3 billion was P3.3 billion or 24.1% lower than 2007's P13.6 billion. This came from the P2.3 billion or 65.8% drop in **Income from Foreign Exchange and Securities Trading** as the bank pursued a cut-loss strategy and sold down part of its available for sale securities due to rising interest rates. **Income Attributable to Insurance Operations** was also down by P1.3 billion or 68.3% on non-recurring investment income of the previous year. The impact of these drops was partly cushioned by the increase in **Fees and Commissions** of P309 million or 11.2% largely on higher volume of remittances and ATM transactions. As a consequence of the overall decline in other income, **GRT** dropped by P281 million or 31.3%.

Other Expenses was flat at P18.3 billion. **Occupancy and Equipment-Related Expenses** increased by P450 million or 9.3% on higher depreciation on bank owned and leased out equipments, rent, contractual and software expenses. This was however offset by the savings in **Other Operating Expenses** and **Compensation and Fringe Benefits** of P354 million and P95 million, respectively. Lower other operating expenses were due to non-recurring prior period tax settlements paid the previous year.

Provision for Income Tax ended higher by P218 million or 7.9% to P3.0 billion against 2007's P2.8 billion despite the lower pre-tax income of the bank. This was due to increase in **Deferred Taxes** by P503 million or 1.4x due to the utilization and partial write-off of net operating loss carry over (NOLCO). The bank reverted to a positive tax position but was not able to fully utilize its expiring NOLCO. **Current taxes** were down by P285 million or 11.8% as corporate income taxes of the subsidiaries and final taxes declined.

Income to Minority Interest declined by P80 million or 37.4% due to lower profits of the insurance subsidiaries.

Key Performance Indicators

	2006	2007	2008
Return on Equity (%)	14.4	15.3	10.0
Return on Assets (%)	1.7	1.7	1.1
Net Interest Margin (%)*	4.2	3.8	3.8
Operating Efficiency Ratio (%)	55.8	56.2	61.5
Capital Adequacy Ratio (%)**	15.9	14.6	14.2

* Adjusted to incorporate documentary stamps as part of deposit costs

** BSP BIS Ratio (Basel II)

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, for the last three years indicated efficient utilization of capital. ROE for 2008 however was down to 10.0% from last year's 15.3% and 2006's 14.4% due to the lack of securities trading gain. **Return on assets (ROA)**, the ratio of net income to average assets, at 1.1% for 2008 still reflects the bank's ability to effectively utilize its resources to generate profits even in difficult and trying times. BPI's ROA for 2007 and 2006 were at 1.7%.

Net interest margin (NIM), the ratio of net interest income to interest bearing assets, was flat against last year at 3.8% but lower than 2006's 4.2%. The steady performance of the bank's net interest differential business shows the bank's ability to manage its balance sheet despite the interest rate volatility during the year.

The **operating efficiency ratio (cost to income)**, the ratio of operating expenses to income, increased to 61.5% in 2008 from 2007's 56.2% even with operating expense remaining flat against last year as revenues dropped due to securities trading losses and lower income from the insurance subsidiaries. Operating efficiency ratio in 2006 was 55.8%.

Capital adequacy ratio (CAR), computed using the standards 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 Basel II framework reflected a slightly downward trend as loans grew at double digit rates for the past two (2) years. BPI's CAR, though lower, remained significantly above the 10% minimum BSP requirement. The bank's capital was largely composed of Tier 1 capital. In 2008, a P5.0 billion Tier 2 eligible capital was raised in preparation for any possible acquisition. The bank's consistent profitability contributed to the strength of its capital and enabled it to pay its regular dividends.

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) Any event that will trigger direct or contingent financial obligation that is material to the bank, 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 global financial downturn experienced in 2008 has spawned a business climate fraught with uncertainty and pessimism. The recession in most developed countries is to impact negatively the country's export and tourism industry and OFW remittances. The business process outsourcing (BPO) sector, on the other hand, is likely to withstand the recessionary conditions abroad as foreign firms continue to outsource in order to save on cost. Moreover, the anticipated continuous drop in oil prices and the planned domestic fiscal stimulus should cushion domestic demand and overall GDP growth from the negative effects of the global economic downturn. GDP is thus projected at a slower 3.6% with inflation at 4.0%. Risks to the GDP forecasts however leans to the downside, especially if the impact on remittances of the global economic downturn turns out to be deeper than expected.

For 2009, BPI aims to grow loans by 5 to 10% notwithstanding the unfavorable business expectations. The bank will continue to focus on its core businesses, grow its credit cards business and deepen its banking relationship with the overseas Filipinos.

In line with the "Expect More in Life with BPI" campaign of the bank, BPI will continue to engage its customers to attain more financial progress and freedom through its high value and innovative products, excellent customer service and varied alternative channels that make banking services accessible anytime, anywhere.

In the face of a very difficult year ahead, BPI will further strengthen its corporate governance and risk management structures.

Medium to Long Term Prospects. Despite the highly unfavorable global economic scenario, BPI remains positive that the Philippine economy will be able to ride out the present crisis and deliver a respectable, albeit more moderate pace of economic growth. The structural reforms in the fiscal, monetary and banking sectors implemented in the past, the lesser dependence on merchandise exports, and the expected resilience of remittances should help cushion domestic demand. On the other hand, barring any major increase in commodity prices, the prudent monetary policy stance of the BSP should also help keep inflation low and moderate. GDP growth is projected at an annual average of 3.0 - 4.0% in 2009 - 2011 with inflation at 4.0 - 4.5%.

The bank will maintain the healthy diversification of its loan portfolio across market segments anchoring on its strength in corporate and consumer lending. The bank will continue to focus in growing its middle/SME lending, card banking, bancassurance, and explore more capital markets opportunities. Service-wise, it will preserve its leadership in technology by introducing more product and alternative channel innovations to keep up with the constant change in customer needs. Profitability wise, with the looming economic uncertainty, the bank will strive to stay ahead by keeping its cost under control.

Item 7. Financial Statements

Please refer to the attached Audited Financial Statements for 2008 audited by the principal accountant, Accounting Firm of Isla Lipana & Co. and signed by partner Ms. Judith V. Lopez.

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, 2008)

The Board of Directors and Nominees

Jaime Augusto Zobel de Ayala II

Directors' term of Office	-	April 03, 2008 to March 31, 2009
Period Served	-	April 03, 2008 to Present

1. **JAIME AUGUSTO ZOBEL DE AYALA II**, 49, 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 a Member of the Board of BPI since 1990 and as Vice-Chairman from 1995 to March 2004. He is also currently the Chairman of the Executive Committee and Nomination Committee of BPI. He also holds the following positions: Chairman of the Board of Directors, Executive Committee, Nomination Committee and Personnel & Compensation Committee of BPI Family Savings Bank, Inc. and BPI Capital Corporation; Chairman of the Board of Directors and Executive Committee, Member of the Nomination Committee and Chief Executive Officer of Ayala Corporation; Chairman of the Board of Directors and Nomination Committee of Integrated Microelectronics, Inc.; Chairman of the Board of Directors of Globe Telecom, Inc., Al North America and Azalea Technology Investments, Inc.; Member of the Board of Directors and Alternate Member of the Executive Committee of Alabang Commercial Corporation and Member of the Board of Directors and Executive Committee of Ayala Hotels, Inc.; Chairman of the Board of Trustees of: Ramon Magsaysay Awards Foundation, World Wildlife Fund Philippines, Co-Vice Chairman of the Board of Directors and Co-Vice Chairman of the Executive Committee of Mermac, Inc.; Vice-Chairman of the Board of Trustees of Asia Society Philippine Foundation, Inc., Member of the Board of Trustees of Children's Hour

Philippines, Inc., The Conference Board and Asian Institute of Management; Co-Vice-Chairman of the Board of Trustees of Ayala Foundation, Inc.; Vice-Chairman of the Board of Directors and Member of the Executive Committee and Member of the Personnel and Compensation Committee of Ayala Land, Inc.; Vice-Chairman of the Board of Directors, Member of the Executive Committee and Member of the Nomination Committee of Manila Water Company, Inc.; Member of the Board of Directors of Ayala International Pte. Ltd.; Vice-Chairman of the Board of Directors of Makati Business Club; National Council Member of World Wildlife Fund (U.S.); 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, The Asia Society International Council, Toshiba International Advisory Group and Pacific Basin Economic Council. He graduated with B.A. in Economics (Cum Laude) at the Harvard College in 1981 and took up his MBA (with Distinction) at the Harvard Graduate School of Business Administration in 1987.

Fernando Zobel de Ayala

Directors' term of Office	-	April 03, 2008 to March 31, 2009
Period Served	-	April 03, 2008 to Present

2. **FERNANDO ZOBEL DE AYALA**, 48, Filipino, has been a member of the Board of Directors of BPI since 1994. He also holds the following positions: Chairman of the Personnel and Compensation Committee and Vice-Chairman of the Executive Committee and Trust Committee of BPI; Chairman of the Board of Trustees of BPI Foundation, Inc.; Vice-Chairman of the Board of Directors, President and Chief Operating Officer and Member of the Executive Committee and Nomination Committee of Ayala Corporation; Chairman of the Board, Executive Committee, Nomination Committee and Personnel and Compensation Committee of Ayala Land, Inc.; Chairman of the Board and Executive Committee of Alabang Commercial Corporation, Ayala Hotels, Inc. and Manila Water Company, Inc.; Chairman of the Board of Directors and Chairman of the Compensation Committee of Integrated Micro-Electronics, Inc.; Chairman of the Board of Directors of AC International Finance Ltd., Ayala Automotive Holdings, Inc., Ayala DBS 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. and Vesta Property Holdings, Inc.; Co-Vice Chairman of the Board of Trustees and Member of the Executive Committee of Ayala Foundation, Inc.; Co-Vice Chairman of the Board and Executive Committee of Mermac, Inc.; and Member of the Board of Director of Asiacom Philippines, Inc., Al North America, Globe Telecom and Habitat for Humanity International. He graduated with B.A. Liberal Arts degree at the Harvard College in 1982.

Aurelio R. Montinola III

Directors' term of Office	-	April 03, 2008 to March 31, 2009
Period Served	-	April 03, 2008 to Present

3. **AURELIO R. MONTINOLA III**, 57, Filipino, assumed his post as President of BPI on 01 January 2005. He has been a Member of the Board of Directors of BPI since January 2004. He is the Chairman of the Credit Committee and a member of the Executive Committee, Trust Committee, Risk Management Committee and Retirement/Pension Committee of BPI; Director and Member of the Executive Committee and Nomination Committee of BPI Family Savings Bank, Inc.; Director of BPI Capital Corporation; Chairman of the Board of Directors, Executive Committee and Nomination Committee of BPI Direct Savings Bank, Inc.; Chairman of the Board of Directors and Executive Committee of BPI/MS Insurance Corporation; Chairman and Executive Director of Bank of the Philippine Islands (Europe) Plc; Vice-Chairman and Trustee of Far Eastern University; Chairman of the Board of Directors of BPI Computer Systems Corporation, Derrc, Inc., Armon Realty, Seyrel Investment & Realty Corp., Desrey, Inc., Monterey, Inc., East Asia Computer Center, Inc. and Amon Trading Corp.; Chairman of the Board of Directors and Trustee of East Asia Educational Foundation; Vice-Chairman & President of BPI

Foundation, Inc.; Vice-Chairman of Republic Cement Corporation and LGU Guarantee Corporation; Co-Chairman of Philippine-France Business Council; Vice Chairman of the Board of Directors and Chairman of the Executive Committee of Ayala Life Assurance, Inc.; Vice-Chairman of A/P Regional Advisory Board of Directors of Mastercard Incorporated; President of Bankers Association of the Philippines; Director and Member of Audit Committee of Manila Water Company, Inc.; Director of Ayala Land, Inc., BPI Bancassurance, Inc., Mere, Inc. and Western Resources Corp.; Member of the Board of Trustees of Ayala Foundation, Inc., Philippine Business for Education, Inc. and International School Manila; and Member of Management Association of the Philippines and Makati Business Club. 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.

Gerardo C. Ablaza, Jr.

Directors' term of Office

- **April 03, 2008 to March 31, 2009**

Period Served

- **April 03, 2008 to Present**

4. **GERARDO C. ABLAZA, JR.**, 55, Filipino, is a member of the Board of Directors of BPI since 2001. He is a member of the Trust Committee and Risk Management Committee of BPI. He also holds the following positions: Director and Member of the Risk Management Committee of BPI Family Savings Bank, Inc.; Director of BPI Card Finance Corporation, Asiacom Philippines, Inc. and Azalea Technology Investment, Inc.; President, CEO and Director of Globe Telecom, Inc.; Senior Managing Director of Ayala Corporation; and Chairman of the Board of Directors of Innove Communications, Inc. He graduated with AB Mathematics (Honors Program) at the De La Salle University in 1974.

Emily A. Abrera

Directors' term of Office

- **April 03, 2008 to March 31, 2009**

Period Served

- **April 03, 2008 to Present**

5. **EMILY A. ABRERA**, 61, Filipino, was elected as member of the Board of Directors of BPI on 29 March 2007 and was re-elected on 03 April 2008. She joined McCann-Erickson Philippines as Creative Group Head in 1978 and in 1992, she was named President/Chief Executive Officer of McCann-Erickson Philippines which is acknowledged as the leading advertising agency in the Philippines since 1987. In January 1999, she assumed the Chairmanship of McCann-Erickson Philippines. Currently, she also holds the following positions: Chairman Emeritus of McCann Worldgroup and Non-Executive Chairman of McCann Worldgroup Asia Pacific; Chairman of the Cultural Center of the Philippines and of CCI-Asia, the Content-production Company behind Living Asia Channel and Isla Advocacy Programs; President of Foundation for Communication Initiatives, Vice-Chairman of the Board of Trustees of Ramon Magsaysay Award Foundation, and is a member of the Board of Trustees of: Museo Pambata (Children's Museum), Children's Hour Inc., Philippine Board on Books for Young People, Philippine Eagle Foundation, and ABS-CBN Foundation. She is a founding member of the Women's Business Council. She took up Mass Communications and Journalism at Maryknoll College and University of the Philippines.

Lilia R. Bautista

Directors' term of Office

- **April 03, 2008 to March 31, 2009**

Period Served

- **April 03, 2008 to Present**

6. **LILIA R. BAUTISTA***, 73, Filipino, was elected as Independent Director of BPI on 21 September 2005 and has been a director since then. She is also the Chairman of the Corporate Governance Committee and member of the Audit Committee of BPI. She also sits as Independent Director of BPI Capital Corporation and she is also a member of the Audit Committee and Corporate Governance Committee of the said corporation. She currently holds the following positions: Independent Member of the Board of Directors, Chairman of the Audit Committee and Member of the Investment Committee of RFM Corporation; Independent Member of the Board of Directors of

Transnational Diversified Group; Member of the Board of Directors of Philja Development Center, Inc. She is a Professional Lecturer of Philippine Judicial Academy and other Institutions. She is also a member of the World Trade Organization Appellate Body and CIBI Foundation. She has held various positions in government offices from 1958 to 2004, such as Legal Officer of the Office of the President (on detail from Agricultural Credit Administration), Hearing Officer of the Juvenile and Domestic Relations Court of Manila, Legal Officer, Chief Legal Officer and Assistant Director of the Board of Investments, Assistant Secretary/BOI Governor, Undersecretary/BOI Governor, Acting Secretary with ex-officio posts, e.g. Member of Monetary Board, BOI Chairperson, Senior Undersecretary and Special Trade Negotiator of the Department of Trade and Industry, Ambassador Extraordinary and Plenipotentiary, Chief of Mission Class I of the Department of Foreign Affairs, and Chairperson of the Securities and Exchange Commission, among others, as well as in other private institutions from 1964 to 1980s such as: Legal Editor of the Corporation Trust Co. (New York) and Prentice Hall (New Jersey), DBP nominee-director to two corporations, Director of Erectors, Eastern Bus Co. and Interbank. She finished Bachelor of Laws from the University of the Philippines in 1957, Master of Laws from the University of Michigan in 1963, MBA from the University of the Philippines in 1970, special courses in corporate finance and reorganization from the New York University in 1966 and Investment Negotiation course from the Georgetown University in 1974.

Romeo L. Bernardo

Directors' term of Office

- **April 03, 2008 to March 31, 2009**

Period Served

- **April 03, 2008 to Present**

7. **ROMEO L. BERNARDO***, 54, Filipino, has served as a Member of the Board of Directors of BPI from February 1998 to April 2001. He was again re-elected as an Independent Director since August 2002. He is a member of the Corporate Governance, Nomination, Personnel & Compensation and Trust Committee of BPI. He also sits as Independent Director of BPI Family Savings Bank, Inc. where he is a Member of the following Committees: Audit, Personnel & Compensation and Corporate Governance; also an Independent Director, Chairman of Audit & Risk Management Committee and Member of Nomination, Personnel & Compensation and Corporate Governance Committee of BPI Capital Corporation; Independent Director, Chairman of Risk Management Committee and Member of Audit and Nomination Committee of BPI Direct Savings Bank, Inc.; Independent Director and Member of Audit Committee of BPI Leasing Corporation and BPI Rental Corporation. He is an Independent Director and Member of the Audit Committee of Ayala Life Assurance, Inc. and Ayala Plans, Inc. He is also an Independent Director of BPI Foreign Exchange Corporation, Pilipinas Savings Bank, Inc., National Reinsurance Corporation of the Philippines, Philippine Investment Management, Inc., Globe Telecom, Inc. and RFM Corporation; Director of Philippine Institute for Development Studies and PSi Technologies Holdings, Inc. (a NASDAQ Listed Company); Chairman of the Board and Independent Director of Ayala Life Fixed-Income Fund Peso, Dollar, Euro Bond Funds and Philippine Stock Index Fund; President of Lazaro Bernardo Tiu & Associates, Inc.; Vice-Chairman and Founding Fellow of Foundation for Economic Freedom; Advisor of Global Source/Latin Source, Network of Independent Advisors and Chairman of the Board of Trustees of UP School of Economics Alumni Association; Vice President for Capital Market Development of Financial Executives Institute of the Philippines (FINEX) and Member of the Board of Directors of the Institute for Development and Econometric Analysis, Inc., and Aboitiz Power Corporation. 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 03, 2008 to March 31, 2009**

Period Served

- **April 03, 2008 to Present**

8. **CHNG SOK HUI**, 48, Singaporean, has been a Member of the Board of Directors of BPI since April 2003. She is an Alternate Member of the Executive Committee and Member of the Risk

Management Committee and Audit Committee of BPI and currently a Managing Director and the Chief Finance Officer of DBS Bank Ltd. (Singapore). She was awarded a DBS scholarship and joined DBS 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.

Rolando R. Dela Cruz

Directors' term of Office - **December 19, 2007 to March 31, 2009**
Period Served - **December 19, 2007 to March 31, 2009**

9. **ROLANDO R. DELA CRUZ**, 49 years old, Filipino, was elected as Member of the Board of Directors, Member of the Executive Committee, Trust Committee, Personnel & Compensation Committee, and Retirement/Pension Committee of BPI on December 19, 2007 replacing Ms. Rebecca G. Fernando who has resigned from the Board. He was elected to the following positions in BPI Capital Corporation on January 16, 2008: Member of the Board of Directors, Member of the Audit Committee and Personnel & Compensation Committee, also replacing Ms. Fernando. He is also a Director of BPI Family Savings Bank, Inc. and the Treasurer of Archdiocese of Manila. He graduated with AB Philosophy from the San Carlos Seminary in 1981 and took-up his post graduate course in Theology from the same Seminary in 1985. He obtained his degree in MA School Leadership from the Dela Salle University Manila in 1997.

Octavio V. Espiritu

Directors' term of Office - **April 03, 2008 to March 31, 2009**
Period Served - **April 03, 2008 to Present**

10. **OCTAVIO V. ESPIRITU***, 65, 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 03 April 2008. He is the Chairman of the Audit Committee and Risk Management Committee and a Member of the Executive Committee of BPI. He also holds the following positions: Chairman of Delphi Group, Inc.; Chairman and President of MAROV Holding Company, Inc.; Director of International Container Terminal Services, Inc., Netvoice, Inc., Pueblo de Oro Golf and Country Club, SM Development Corporation, Digital Telecommunications Philippines, Inc. and Pilipinas Savings Bank, Inc. He graduated with AB Economics degree at the Ateneo de Manila University in 1963 and obtained his M.A. Economics degree from the Georgetown University, USA in 1966.

Xavier P. Loinaz

Directors' term of Office - **April 03, 2008 to March 31, 2009**
Period Served - **April 03, 2008 to Present**

11. **XAVIER P. LOINAZ**, 65, 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. Concurrently, he holds the following corporate positions: Member of the Executive Committee, Trust Committee and Nomination Committee of BPI; Director and Member of the Executive Committee, Nomination Committee, Personnel and Compensation and Trust Committee of BPI Family Savings Bank, Inc. and BPI Capital Corporation; Director and Member of the Executive Committee and Nomination Committee of BPI Direct Savings Bank, Inc.; Chairman of the Board of Directors of Ayala Life Assurance, Inc.; Vice-Chairman of FGU Insurance Corporation; Director of BPI/MS Insurance Corporation, Ayala Corporation and Globe Telecom, Inc. and Member of the Board of Trustees of BPI Foundation, Inc. He graduated with 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.

Ma Yuen Lin Annie

Directors' term of Office - **April 03, 2008 to March 31, 2009**

Period Served - **April 03, 2008 to Present**

12. **MA YUEN LIN ANNIE**, 42, British, was elected member of the Board of Directors of BPI last 29 March 2007 and holds that position up to the present. She is currently the Managing Director, Marketing, Consumer Banking of DBS Bank (HK) Ltd. Her scope of responsibilities encompasses products, customer segmentation and marketing communications, a key position in shaping the customer strategy of Consumer Banking in Hong Kong. Ms. Annie manages the Deposits and Bancassurance business of DBS Bank (HK) Ltd. particularly the business strategies and delivery of business results. She also takes on a regional role in the Priority Banking segment. She was one of the key leaders in managing and supporting the merger of the 3 banks in Hong Kong to become DBS Bank in 2003. She holds a Bachelor Degree in Marketing, Business Administration and was recently awarded by the Hong Kong Institute of Bankers as the Certified Financial Management Planner.

Mercedita S. Nolleto

Directors' term of Office

- **April 03, 2008 to March 31, 2009**

Period Served

- **April 03, 2008 to Present**

13. **MERCEDITA S. NOLLEDO**, 67, Filipino, has served as a Director of BPI since 1991. She is the Chairman of the Trust Committee and Retirement/Pension Committee, Member of Corporate Governance Committee and an Alternate Member of the Executive Committee of BPI. She also holds the following positions: Director, Chairman of the Corporate Governance Committee and Member of the Executive Committee and Personnel and Compensation Committee of BPI Family Savings Bank, Inc.; Director, Chairman of the Corporate Governance Committee, General Alternate Member of the Executive Committee and Member of the Risk Management of BPI Capital Corporation; Chairman of the Board of Directors of BPI Investment Management, Inc. and BPI Asset Management, Inc; Director, Senior Managing Director, Corporate Secretary and Senior Counsel of Ayala Corporation; Senior Counsel of the Ayala Group of Companies; Director and Corporate Secretary of Ayala Land, Inc.; Member of the Board of Trustees of Ayala Foundation, Inc.; Member of the Board of Trustees of BPI Foundation, Inc.; Director of Anvaya Cove, Ayala Automotive Holdings, Inc., Ayalafil, Inc., Honda Cars Cebu, Inc., Honda Cars Makati, Inc., HCM Insurance Agency, Inc., Isuzu Automotive Dealership, Inc., Isuzu Cebu, Inc. and Mandaue Primeland, Inc.; Treasurer of JMY Realty Development Corporation and Philippine Tuberculosis Society, Inc. She graduated with the degree of Bachelor of Science in Business Administration major in Accounting from the University of the Philippines in 1960 and topped the CPA exams (second place) given in the same year. In 1965, she finished Bachelor of Laws also from the University of the Philippines where she also topped the Bar exams (second place) given in the same year.

Oscar S. Reyes

Directors' term of Office

- **April 03, 2008 to March 31, 2009**

Period Served

- **April 03, 2008 to Present**

14. **OSCAR S. REYES**, 62, 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 and Corporate Governance Committee of BPI. Among his other positions are: Chairman of Link Edge, Inc., MRL Gold Philippines, Inc., Director of the following Companies: Manila Water Company, Pepsi Cola Products Phils., Inc., Basic Energy Corporation, Philippine Long Distance Telephone Co., Sun Life Financial Plans, Inc., Sunlife of Canada, Philippines, Inc., SMART Communications, Inc., Tower Club, Inc., CEO's Inc., Global Resources for Outsourced Workers (GROW), Inc., Mindoro Resources Ltd., First Philippine Electric Corporation, Sunlife Prosperity Dollar Abundance Fund, Sunlife Prosperity Dollar Advantage Fund, Lnl Archipelago Minerals, Inc. and Petrolift Corporation.

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.

Wong Ann Chai

Directors' term of Office	-	April 16, 2008 to March 31, 2009
Period Served	-	April 16, 2008 to Present

15. **WONG ANN CHAI**, 41, Singaporean, was elected as Member of the Board of Directors of BPI on 16 April 2008. He is a member of the Executive Committee, Nomination Committee and Personnel and Compensation Committee of BPI. Among his other positions are: Director of BPI Capital Corporation, Managing Director of Equity and Capital Markets and Global Financial Markets of DBS Bank. Ltd.; Director of Spring Singapore Corporation and Cholanmandalam-DBC Finance, Ltd.; Member of Nanyang Business Advisory Board for Curriculum.

Mr. Wong was from Singapore Administrative Service, which is the elite of the Singapore Civil Service. A former Brigadier General, Mr. Wong was Chief of Armour and was Assistant Chief of General Staff before joining DBS Bank in 2007.

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**
 56 years old, Filipino, has served as the Head of the Corporate Banking Group of BPI since 1996. He also holds the following positions: Chairman of the Board of Directors and Nomination Committee of BPI Leasing Corporation; Chairman of the Board of Directors of BPI Bancassurance, Inc., Citytrust Realty Corporation, BPI Rental Corporation, BPI International Finance Ltd., BPI Express Remittance Corporation, Pilipinas Savings Bank, Inc., and Prudential Investments, Inc.; Director of BPI Family Savings Bank, Inc., BPI Computer Systems Corporation, BPI Direct Savings Bank, Inc., Citytrust Securities Corporation, Ayala Life Assurance, Inc., and Ayala Plans, Inc.; Member of the Board of Trustees of BPI Foundation, Inc. He graduated with 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**
 50 years old, Filipino, has served as the Treasurer and Head of Financial Markets Group of BPI since November 2002. Currently, he is a member of the Board of Directors of the following corporations: AF Money Brokers, Inc., Citytrust Securities Corporation, BPI International Finance, Ltd., Pilipinas Savings Bank, Inc. He is also a Director and the 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 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 from Harvard Business School in Boston, USA.

- 5. NATIVIDAD N. ALEJO - Senior Vice-President**
 52 years old, Filipino, is the Head of Consumer Banking Group of BPI. She has also served as the President and Director of BPI Capital Corporation and BPI Securities Corporation from 2001 to 2006. She joined BPI in 1989 with the rank of Senior Manager. She is also a member of the Board of Directors of the following corporations: BPI Family Savings Bank, Inc., Pilipinas Savings Bank, Inc., Beacon Property Ventures, Inc., Ayala Life Assurance, Inc., BPI Bancassurance, Inc., Santiago Land Development Corp., Cebu Holdings Inc., Cebu Property Ventures & Development Corp., Citytrust Realty Corporation, First Batangas Hotel Corp., FEB Speed International, Inc. and Shemberg Biotech. She graduated with AB Economics (Summa Cum Laude) from the Divine Word University, Tacloban City in 1976. She took up MA Economics at the University of the Philippines in 1978 and completed the Advanced Management Program at the Harvard Business School in Fall 2005.
- 6. GREGORIO B. ANONAS, III*** - Senior Vice-President**
 60 years old, Filipino, has served as the Head of Customer Segments and Sales Group of BPI since 2000. He is the Chairman and President of Ayala Life-FGU Makati Condominium Corporation and Ayala Life-FGU Alabang Condominium Corporation. He is also a member of the Board of Directors of the following corporations: Ayala Life Assurance, Inc., BPI Operations Management, Inc. and Shenton Corporation. He graduated with BSBA Management from Georgetown University, USA in 1972 and obtained his MBA-International Studies from American University, USA in 1973.
- 7. CESAREO A. DE LEON III - Senior Vice-President**
 57 years old, Filipino, is the Head of the Risk Management Office of BPI. He is also a Director of FEB Speed International, Inc., First Far East Development Corporation and BPI International Finance, Ltd. He graduated with Bachelor of Science in Commerce from Dela Salle University in 1971. He is a Certified Public Accountant.
- 8. GEORGINA O. ESPALDON - Senior Vice-President**
 57 years old, Filipino, is the Head of Cash Management of BPI since January 2004 and Centralized Branch Operations and Card Services since January 2006. She joined BPI in 1979 as a Manager assigned in BPI Information Systems Group, Data Processing Operations. She was the Head of the various offices such as Call Center, CBG MIS, CBG, Special Projects and Total Quality Office from 1991 to 2006. She is also the Director and President of BPI Operations Management Corporation, a wholly owned subsidiary of BPI. She graduated with a degree of Bachelor of Science in Statistics at the University of the Philippines in 1971. She obtained her Master of Science in Statistics and Masters in Business Administration both in the University of the Philippines in 1976.
- 9. ELVIRA V. MAYO - Senior Vice-President**
 57 years old, Filipino, is a Division Head of the Corporate Banking of BPI, handling the Bank's relationship with Top Corporates and the deposits of Non-Borrowing Corporates. She joined Commercial Bank and Trust Co. (later on merged with BPI) in 1972 and held various positions in different units of the bank. Presently, she is a Director of BPI Direct Savings Bank, Inc., Santiago Land & Development Corporation and First Far East Development Corporation. She graduated in 1972 with a degree in Bachelor of Science in Business Administration major in Economics from St. Theresa's College, Quezon City and obtained her Masters in Business Administration from the Ateneo Graduate School of Business.
- 10. MA. CORAZON S. REMO - Senior Vice-President**
 50 years old, Filipino, heads the Head Office & Subsidiaries Centralized Operations of BPI. At present, she is a member of the Board of Directors of BPI Computer Systems Corporation, BPI Operations Management Corporation, Citytrust Realty Corporation, BPI Paseo de Roxas Condominium Corporation, Greentop Condominium Corporation, and FGU Insurance Corporation. She graduated with a B.S. Business Economics degree from the University of the

Philippines in 1978 and obtained her MBA from the Ateneo de Manila University in 1988.

11. MA. YSABEL P. SYLIANTENG - Senior Vice-President

57 years old, Filipino, is the Head of Card Banking Group of BPI. She has also served as the Head of Financial Control Group and Corporate Planning of BPI from 1987 to December 2004. She joined BPI in 1983 with the rank of Assistant Vice-President. She is the Chairman of the Board of Directors of the following corporations: Ayala Plans, Inc., Santiago Land Development Corporation, BPI Card Finance Corporation, First Far East Development Corporation and Filinvest Algo Financial Corporation. She is also a member of the Board of Directors of the following corporations: BPI Family Savings Bank, Inc., BPI Direct Savings Bank, Inc., BPI Computer Systems Corporation, BPI Operations Management Corporation, Ayala Life Assurance, Inc., BPI Bancassurance, Inc., FGU Insurance Corporation, BPI Express Remittance Corporation (USA), BPI International Finance Ltd. Hong Kong, BPI Remittance Center S.p.a., FEB Speed International, CityTrust Realty Corporation, FEB Stock Brokers, Inc., BPI Paseo de Roxas Condominium Corporation, Greentop Condominium Corporation and AF Money Brokers, Inc. She graduated with AB-BSC Major in Accounting from the Assumption College in 1973 and obtained her MBA from the Stanford University in 1977. She is a Certified Public Accountant.

12. TERESITA B. TAN - Senior Vice-President

57 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 BPI Information Systems Group Systems Marketing Division. She handled BPI – Consumer Banking Group’s Card Banking Division from 1996 to 2005. She is the Chairman of the Board of Directors of the following corporations: BPI Foreign Exchange Corporation, BPI Operations Management Corporation, BPI Remittance UK Plc-United Kingdom, BPI Express Remittance Spain, S.A., and BPI Express Remittance (Europe) – Italy. Concurrently she is a member of the Board of Directors of the following corporations: BPI Direct Savings Bank, Bank of the Philippine Islands (Europe), Plc., BPI Card Finance Corporation, BPI Express Remittance Corporation-USA and BPI Remittance Center Hongkong, Ltd. She graduated with a degree of Bachelor of Arts in Mathematics at Maryknoll College (Magna Cum Laude) in 1973 and she took-up her post graduate degree in M.S. Operations Research at the Stanford University in 1975.

* *Independent Director as defined in Sec. 38 of the Securities Regulation Code and BSP Circular 296*

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

****Retired effective January 01, 2009.*

List of Other Executive Officers as of December 31, 2008

NAME	AGE	POSITION	OFFICE
Dimayuga, Raul D.	46	Senior Vice President	Overseas Banking & Channel Services
Go, Ma. Cristina L.	39	Senior Vice President	Card Banking Group
Javier, Maria Theresa M.	38	Senior Vice President	Asset Management and Trust Group
Kimseng, Arturo L.	58	Senior Vice President	Office of the Chairman
Ocampo, Marie Josephine M.	46	Senior Vice President	Consumer Banking Group
Palou, Mario B.	55	Senior Vice President	Corporate Banking Group
Pascual, Albert E.	56	Senior Vice President	Corporate Banking Group
Santiano, Angela C.	52	Senior Vice President	Office of the President
Tagaza, Manuel B.	46	Senior Vice President	Information Systems Group
Tan, Cecilia L.	48	Senior Vice President	Consumer Banking Group
Trillo, Imelda	56	Senior Vice President	Consumer Banking Group

List of Resigned / Retired Executive Officers as of December 31, 2008

NAME	AGE	POSITION	OFFICE
Claravall, Ma. Lourdes A.	60	Senior Vice President	Corporate Banking
Jose, Eduardo Jr. D.	60	Senior Vice President	Corporate Banking
Adelbert A. Legasto	60	Executive Vice President	Asset Management and Trust 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 company's set goals and objectives.

A-3. Family Relationships

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

A-4. Involvement in Certain Legal Proceedings

None

Item 10. Executive Compensation

Summary Compensation Table
Annual Compensation and Bonus

Name	Position	2007		
		Salary	Bonuses	Other Salary
Aurelio R. Montinola III	President & CEO			
Gil A. Buenaventura	Senior EVP			
Antonio V. Paner	EVP			
Adelbert A. Legasto	EVP			
Natividad N. Alejo	SVP			
Gregorio B. Anonas III	SVP			
Cesareo A. de Leon III	SVP			
Elvira V. Mayo	SVP			
Ma. Corazon S. Remo	SVP			
Ma. Ysabel P. Sylianteng	SVP			
All above-named Directors & Officers as a group		117,554,592.66	44,698,745.00	
All other unnamed Officers as a group		2,125,960,760.42	279,857,285.00	N.A.
All Directors			18,000,000.00	

Name	Position	2008		
		Salary	Bonuses	Other Salary
Aurelio R. Montinola III	President & CEO			
Gil A. Buenaventura	Senior EVP			
Antonio V. Paner	Executive VP			
Natividad N. Alejo	SVP			
Gregorio B. Anonas III*	SVP			
Georgina O. Espaldon	SVP			
Cesario A. de Leon III	SVP			
Elvira V. Mayo	SVP			
Ma. Corazon S. Remo	SVP			
Ma. Ysabel P. Sylanteng	SVP			
All above-named Director & Officers as a group		133,697,826.17	50,076,870.00	
All other unnamed Officers as a group		2,421,265,530.12	300,508,030.00	N.A.
All Directors			18,000,000.00	

**Retired as of January 1, 2009*

	Position	2009 Estimate		
		Salary	Bonuses	Other Salary
Aurelio R. Montinola III	President & CEO			
Gil A. Buenaventura	Senior EVP			
Antonio V. Paner	Executive VP			
Natividad N. Alejo	SVP			
Georgina O. Espaldon	SVP			
Cesario A. de Leon III	SVP			
Elvira V. Mayo	SVP			
Ma. Corazon S. Remo	SVP			
Ma. Ysabel P. Sylanteng	SVP			
Teresita B. Tan	SVP			
All above-named Directors & Officers as a group		138,317,631.57	53,503,404.60	
All other unnamed Officers as a group		2,566,541,461.93	318,538,511.80	N.A.
All Directors			18,000,000.00	

Bonus or Profit Sharing

At the 2008 Annual Stockholders' Meeting of the Bank, the stockholders approved the grant of P1.2M bonus to each member of the Board of Directors for the services rendered by them to the Bank during the year 2007. Said bonus was pro-rated with respect to Directors who served for less than one (1) year. For this year's stockholders meeting, the Board of Directors will determine prior to the stockholders meeting its proposal for Directors Bonus for the year 2008 and to be submitted to the stockholders for approval.

The Directors' Bonus to be proposed to the stockholders during the annual meeting on March 31, 2009 is a different item from last year directors' bonus taken up and approved during the 2008 stockholders' meeting for services rendered by the directors in the year 2007.

Historically, the Bank has been paying Directors' Bonus equivalent to an average of 0.35% of the net income of the Bank for the past ten years. Said Bonus is always pro-rated with respect to directors who have served for less than one year.

Standard Arrangement

Other than the usual per diem arrangement for Board and Board Committee meetings and the abovementioned Directors' Bonus, 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, 2008

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	PCD Nominee Corp. (Non-Filipino) <i>- Standard Chartered Bank Stockholder</i>	Various Stockholders Client <i>-DBS Bank, Ltd. Custodian holds 8.704% or 282,512,954 shares</i>	Various <i>Singaporean</i>	1,066,952,662	32.87%
	PCD Nominee Corp. (Filipino) G/F MSE Building 6767 Ayala Ave., Makati City Stockholder	Various Stockholders Client	Filipino	247,205,405 1,314,158,067	7.62% 40.49%
Common	Ayala Corporation Tower I, Ayala Triangle Ayala Ave., Makati City Stockholder	Ayala Corporation	Filipino	699,391,261	21.55%
Common	Ayala DBS Holdings, Inc. 11/F Pacific Star Bldg., Sen. Gil Puyat Ave., Makati Ave., Makati City Stockholder	Ayala DBS Holdings, Inc.	Filipino	692,246,658	21.33%
Common	Roman Catholic Archbishop of Manila 121 Arzobispo St., Intramuros, Manila Stockholder	Roman Catholic Archbishop of Manila	Filipino	274,975,115	8.47%

PCD Nominee Corporation (PCD) now known as Philippine Depository and Trust Corporation (PDTC) - Non-Filipino & Filipino, holds 40.48% 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 21.55% interest. Mermac, Inc. and the Mitsubishi Group own 50.92% and 10.58%, respectively (or a total of 61.50%) 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 21.33% 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 8.47% 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 2008

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 II	Chairman	271	R/B	Filipino	0.0000%
Common	Aurelio R. Montinola III	Director & President	1,082,328	R/B	Filipino	0.0333%
Common	Gerardo C. Ablaza, Jr.	Director	193	R/B	Filipino	0.0000%
Common	Emily A. Abrera	Director	12	R/B	Filipino	0.0000%
Common	Lilia R. Bautista	Director	14	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	Rolando R. Dela Cruz	Director	12	R/B	Filipino	0.0000%
Common	Octavio V. Espiritu	Director	970,506	R/B	Filipino	0.0299%
Common	Xavier P. Loinaz	Director	2,853,153	R/B	Filipino	0.0879%
Common	Ma Yuen Lin Annie	Director	19	R/B	British	0.0000%
Common	Mercedita S. Nollado	Director	121,320	R/B	Filipino	0.0037%
Common	Oscar S. Reyes	Director	1,076	R/B	Filipino	0.0000%
Common	Fernando Zobel de Ayala	Director	120	R/B	Filipino	0.0000%
Common	Wong Ann Chai	Director	19	R/B	Singaporean	0.0000%
Common	Gil A. Buenaventura	Sr. Exec. VP	227,499	R/B	Filipino	0.0070%
Common	Antonio V. Paner	Executive VP	41,581	R/B	Filipino	0.0013%
Common	Natividad N. Alejo	Senior VP	90,034	R/B	Filipino	0.0028%
Common	Gregorio B. Anonas III*	Senior VP	20,057	R/B	Filipino	0.0006%
Common	Cesario A. De Leon III	Senior VP	160,796	R/B	Filipino	0.0050%
Common	Georgina O. Espaldon	Senior VP	59,776	R/B	Filipino	0.0018%
Common	Elvira V. Mayo	Senior VP	360,586	R/B	Filipino	0.0111%
Common	Ma. Corazon S. Remo	Senior VP	159,778	R/B	Filipino	0.0049%
Common	Ma. Ysabel P. Sylanteng	Senior VP	1,191,419	R/B	Filipino	0.0367%
Common	Teresita B. Tan	Senior VP	259,461	R/B	Filipino	0.0080%
Aggregate Shareholdings of Directors & Officers as a Group			7,600,061			0.2341%

* Retired as of January 1, 2009

N.B. Above listed beneficial or record owners do not have the right to acquire additional shares arising from any arrangement within thirty (30) days.

Item 12. Certain Relationships and Related Transactions

In the regular course of the bank's business, Ayala Corporation was granted a loan amounting to P5.0 billion as of December 31, 2008.

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 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. For 2008, BPI maintained its CAMELS 4 rating, the highest among local banks.

Board of Directors

The Board of Directors consists of fifteen members, including three 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, the setup of appropriate organizational structures, oversight of major risk-taking activities, and the monitoring of business and management performance

In 2008, 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, 2008 to December 31, 2008 is as follows:

Name of Director	# of Meetings Attended	% Present
1. Jaime Augusto Zobel de Ayala II	10	77%
2. Fernando Zobel de Ayala	10	77%
3. Aurelio R. Montinola III	12	92%
4. Gerardo C. Ablaza, Jr.	9	69%
5. Emily A. Abrera	10	77%
6. Lilia R. Bautista	10	77%
7. Romeo L. Bernardo	13	100%
8. Chng Sok Hui	8	62%
9. Rolando R. Dela Cruz	13	100%
10. Octavio V. Espiritu	13	100%
11. Xavier P. Loinaz	12	92%
12. Ma Yuen Lin Annie	7	54%

13. Mercedita S. Nollado	11	85%
14. Oscar S. Reyes	12	92%
15. Wong Ann Chai	5	56%

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 seven sub-committees.

1. The Executive Committee is composed of seven members of the Board, including one independent director, with two alternate members. This committee takes on the primary responsibilities of the Board and serves as the Board's operating arm on all corporate governance matters and for approving all major credit risks. In 2008, the committee held 41 meetings.
2. The Nominations Committee is composed of four members of the Board including one independent director. 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 2008, the committee held 2 meetings.
3. The Personnel and Compensation Committee is composed of four members of the Board including one independent director. This committee implements the Bank's human resources objectives, particularly those relating to talent development and hiring, promotions and succession planning, compensation and benefits, and performance evaluation.

In 2008, the committee had seven meetings. Some of the matters deliberated upon and endorsed to the board for approval were revisions/amendments to specific benefits.

4. The Audit Committee is composed of four members of the Board including two independent directors. This committee oversees the overall management of operating risks, financial reporting and control, internal auditors and external auditors, and compliance with the Corporate Governance Manual and the BSP audit recommendations. The committee is governed by the Audit Committee Charter.

In 2008, the committee held two special and twelve regular meetings where the following actions were taken-up:

- i. Discussion of approximately 761 reports from Internal Audit, Credit Policy Group, Office of Risk Management and Isla Lipana and Co.. The 2007 Audited Financial Statement, with unqualified opinion submitted by Isla Lipana and Co. and quarterly financial reports of Management were among those reports reviewed to ensure compliance with the applicable Philippine Financial Reporting Standards (PFRS).
- ii. Recommendation to the stockholders of the re-engagement of Isla Lipana and Company as the Bank's external auditor for 2008.
- iii. Review and approval of the 2009 Internal Audit Work Plan and the changes in the Internal Audit Risk Assessment Model as well as the Audit Committee Charter, Internal Audit Charter, and the Audit Rating Framework and Guidelines.
- iv. Review of the Minutes of Meetings conducted by the respective Audit Committees of various subsidiaries of the Bank.
- v. Review of the results of the credit reviews by Credit Policy Group, the quarterly report of compliance office, and the status of unresolved issues from the Operating Risk Management Unit.

5. The Corporate Governance Committee is composed of five members of the Board including two independent directors. This committee assists the Board in ensuring observance of sound corporate governance principles and guidelines.

In 2008, the committee held one meeting where it deliberated and endorsed to the Board the following:

- i. Review of the 2008 Corporate Governance Scorecard of BPI and Survey For Publicly Listed Companies
 - ii. Review of Bank's compliance with BPI Corporate Governance Manual particularly on the attendance of the Board of Directors and the qualification and disqualification of board members pursuant to existing BSP Circulars, BPI By-Laws, SEC rules.
 - iii. Amendments to BPI Corporate Governance Manual and the BPI Corporate Governance Committee Charter both to include the duty to conduct an annual performance evaluation of the Board of Directors and Senior Management.
 - iv. Review of Bank's Board Committees, their organization and their function.
 - v. Setting up of a Corporate Governance Seminar for Senior Officers including the most recent member of the BPI Board of Directors, Mr. Wong Ann Chai of DBS Bank, Ltd.
6. The Trust Committee is composed of nine members of the Board, including one independent director, and one senior officer of the Bank. This committee oversees the management of the trust and fiduciary functions of the Bank.

The committee had twelve meetings in 2008 where it discussed and endorsed to the Board various performance reports, and a number of credit and investment matters.

7. The Risk Management Committee is composed of five members of the Board including two independent directors. This committee sets risk management policies and procedures and manages -- identifies, measures, monitors and controls -- all risks that the Bank is and may be subjected to, and fosters risk awareness, control, and management throughout the Bank's organization.

The committee had twelve regular and two special meetings in 2008 where various risk strategies, policies, compliance and reports were approved and/or noted.

Executive Officers of the Bank

The executive Officers of BPI are the Chairman, the Vice-Chairman, the President and Chief Executive 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.

Conflict of Interest Policy

The personal interest of directors and officers are subordinate to 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.

Operating Management / Risk Management

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 officers and his senior management team.

Operating management is supported by specific management committees namely, Credit Committee, Finance and Risk Management Committee, Investment Committee and Asset and Liability Committee. These committees are formed to cover all major risks of the Bank.

In addition, the Personnel Committee of the Board approved the creation of a Chief Risk Officer position at the Operating Management Level in 2005. The Chief Risk Officer is responsible for establishing policies and controls all risk-taking activities of the bank.

At the management level, the Bank's risk exposure is managed by several units and committees.

Compliance System

The Compliance Office promotes compliance with the regulations of the BSP through active liaison and dialogue with regulators as well as the dissemination within the Bank of new regulations.

Enforcement of compliance to the Bank's Corporate Governance Manual, policies, and code of conduct happens in two parts. The first part is self-regulation within work units. The second part is the audit reviews of the Internal Audit Office, the Compliance Office, and the external auditors. The Audit Committee reviews the audit reports.

The Internal Audit Office 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	NA
	Sch. K -Capital Stock	Exhibit E

b. Reports on SEC Form 17-C

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

- (1) Approval of the regular cash dividend of ninety centavos (P0.90) per share for the first semester of the year 2008 by the Bangko Sentral ng Pilipinas
- (2) Approval by the Board of Directors in its meeting held on 15 October 2008 of the issuance of P10.0 – P15.0 Billion, peso denominated Lower Tier 2 eligible capital subject to the approval of the Monetary Board of the Bangko Sentral ng Pilipinas
- (3) Signing of the Memorandum of Agreement of Bank of the Philippine Islands, Ayala Corporation and Globe Telecom to form the country's first mobile microfinance bank subject to Bangko Sentral ng Pilipinas approval.
- (4) Declaration of regular cash dividend of ninety centavos (P0.90) per share for the second semester of the year 2008 last December 17, 2008.
- (5) Approval of the holding of the 2009 Annual stockholders last 10 December 2008

SIGNATURES

Pursuant to the requirements of Section 17 of the Code and Section 141 of the Corporation Code, this report is signed on behalf of the issuer by the undersigned, thereto duly notarized, in the City of Makati on April 15, 2009.

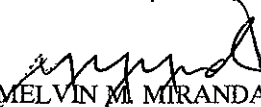
BANK OF THE PHILIPPINE ISLANDS
Issuer

By:


AURELIO R. MONTINOLA III
President and Chief Executive Officer


MARIE CHRISTINE O. LOPEZ
Vice President/Treasurer -OIC


GERTIE K. SINIO
Vice President-Corporate Planning & Accounting


MELVIN M. MIRANDA
Vice President - Central Accounting


CARLOS B. AQUINO
Vice President & Corporate Secretary

SUBSCRIBED AND SWORN to before me this APR 15 2009 day of APR 15 2009, affiant(s) exhibiting to me his/her Residence Certificates, as follows:

NAME(S)	RES. CERT. NO.	DATE	PLACE OF ISSUE
Aurelio R. Montinola III	12351136	January 14, 2009	Makati City
Marie Christine O. Lopez	25637425	February 20, 2009	Alabang, Muntinlupa
Gertie K. Sinio	26782995	January 17, 2008	Pasig City
Melvin M. Miranda	21667434	January 27, 2008	Parañaque City
Carlos B. Aquino	26497982	January 23, 2009	San Juan, Metro Manila

Doc. No. 265
Page No. 42
Book No. IV
Series 2009



DENCIO B. BARGAS
Notary Public for Makati City
Until December 31, 2010, Appointment No. 121
Unit 606, Madrigal Bldg., Ayala Ave., Makati City
PTR No. 1567852 - 1/5/09 Makati City
IBP No. 764298 - 12/8/08 Quezon City
Attorney's Roll No. 26223

EXHIBIT A
(Annual Report to Security Holders)

Statement of Management's Responsibility for Financial Statements

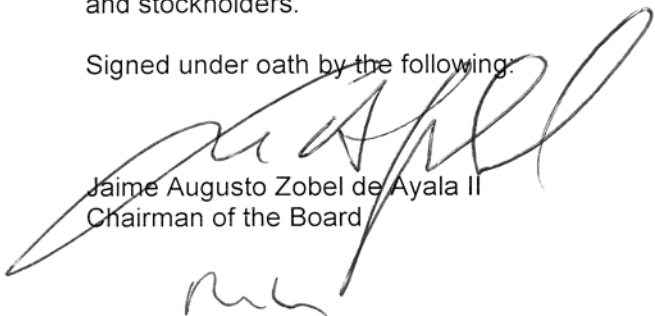
The management of Bank of the Philippine Islands is responsible for all information and representations contained in the financial statements as of December 31, 2008 and 2007 and for each of the three years in the period ended December 31, 2008. The financial statements have been prepared in conformity with Philippine Financial Reporting Standards and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.


In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the bank's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

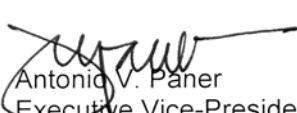
The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the bank.

Isla Lipana & Co., the independent auditors appointed by the stockholders, has examined the financial statements of the bank in accordance with Philippine Standards on Auditing and has expressed its opinion on the fairness of presentation in accordance with Philippine Financial Reporting Standards upon completion of such examination, in its report to the Board of Directors and stockholders.

Signed under oath by the following:


Jaime Augusto Zobel de Ayala II
Chairman of the Board


Aurelio R. Montinola III
President and Chief Executive Officer


Antonio V. Paner
Executive Vice-President

FEB 11 2009 SUBSCRIBED AND SWORN to before me at Makati City, Metro Manila this
affiants exhibited to me their Community Tax Certificate Nos.:

Name	Com. Tax. Cert. No.	Date/Place of Issue
Jaime Augusto Zobel de Ayala II	19324091	Feb. 15, 2008/Makati City
Aurelio R. Montinola III	12351136	Jan. 14, 2009/Makati City
Antonio V. Paner	20422259	Jan. 22, 2009/Mandaluyong City

Doc. No. 841 ;
Page No. 70 ;
Book No. II ;
Series of 2009.


DENCIO B. BARGAS
Notary Public for Makati City

Until December 31, 2010, appointment No. 110
2nd Fl., Madrigal Bldg., Ayala Ave., Makati City
PPR No. 1567632 - 11500 Makati City
IBP No. 764298 - 12/8/08 Quezon City
Attorney's Roll No. 26223

BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City, Philippines

Independent Auditor's Report

Isla Lipana & Co.

A member firm of

PRICEWATERHOUSECOOPERS 

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

Isla Lipana & Co.
 29th Floor Philamlife Tower
 8767 Paseo de Roxas
 1226 Makati City, Philippines
 Telephone + 63 (2) 845 2728
 Facsimile + 63 (2) 845 2806
 www.pwc.com

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 of December 31, 2008 and 2007, and the consolidated and parent statements of income, changes in capital funds and cash flows for each of the three years in the period ended December 31, 2008, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Philippine Financial Reporting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of 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.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 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.

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 of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008 in accordance with Philippine Financial Reporting Standards.

Isla Lipana & Co.



Judith V. Lopez

Partner

CPA Cert. No. 37018

P.T.R. No. 1579226, January 13, 2009, Makati City

SEC A.N. (Individual) as general auditors 0053-AR-1

SEC A.N. (Firm) as general auditors 0009-FR-1

TIN 112-071-433

BIR A.N. 08-000745-4-2007, issued on August 24, 2007; effective until August 24, 2010

BOA/PRC Reg. No. 0142, effective until December 31, 2010

Makati City
 February 11, 2009

Statements of Condition

DECEMBER 31, 2008 and 2007

(In Millions of Pesos)

		Consolidated		Parent	
	Notes	2008	2007	2008	2007
<u>RESOURCES</u>					
CASH AND OTHER CASH ITEMS	7	P 22,366	P 13,243	P 21,781	P 12,760
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	48,422	72,878	41,428	62,107
DUE FROM OTHER BANKS	7	14,278	6,969	8,114	1,845
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	7, 8	22,584	31,772	21,107	29,161
DERIVATIVE FINANCIAL ASSETS	10	2,182	3,123	2,182	3,123
TRADING SECURITIES	9	34,399	9,194	32,999	7,571
INVESTMENT SECURITIES					
- AVAILABLE-FOR-SALE SECURITIES, net	11	63,787	103,564	50,731	81,971
- HELD-TO-MATURITY SECURITIES, net	12	72,884	52,432	63,196	45,555
LOANS AND ADVANCES, net	13	320,216	273,756	240,681	207,435
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	14	11,176	10,898	7,654	7,841
INVESTMENT PROPERTY, net	15	2,828	2,816	2,817	2,785
ASSETS HELD FOR SALE, net	4	14,837	16,844	12,168	14,013
EQUITY INVESTMENTS, net	16	766	933	6,747	7,799
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	5	22,068	22,004	-	-
DEFERRED INCOME TAX ASSETS, net	17	5,676	6,151	4,981	5,544
OTHER RESOURCES, net	18	8,143	10,708	6,800	8,579
Total resources		P 666,612	P637,285	P523,386	P498,089

(forward)

Statements of Condition

DECEMBER 31, 2008 and 2007

(In Millions of Pesos)

		Consolidated		Parent	
	Notes	2008	2007	2008	2007
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES					
Demand		P 92,496	P 86,923	P 86,116	P81,309
Savings		162,465	129,955	140,543	112,084
Time		285,391	296,566	214,230	225,250
		540,352	513,444	440,889	418,643
DERIVATIVE FINANCIAL LIABILITIES	10	2,547	3,360	2,547	3,360
BILLS PAYABLE	19	9,934	5,375	5,373	2,090
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		1,496	1,303	1,462	1,271
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		2,723	2,713	2,164	2,081
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		4,150	4,670	3,020	3,448
UNSECURED SUBORDINATED DEBT	20	5,000	-	5,000	-
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	5	18,813	16,484	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	21	17,725	18,805	14,927	16,774
Total liabilities		602,740	566,154	475,382	447,667
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY					
HOLDERS OF BPI	22				
Capital stock		32,456	27,044	32,456	27,044
Paid-in surplus		1,374	1,360	1,374	1,360
Translation adjustments		(692)	(580)	-	-
Reserves	11	(863)	4,402	(478)	2,122
Surplus		30,659	37,785	14,652	19,896
		62,934	70,011	48,004	50,422
MINORITY INTEREST		938	1,120	-	-
Total capital funds		63,872	71,131	48,004	50,422
Total liabilities and capital funds		P 666,612	P637,285	P 523,386	P98,089

(The notes on pages 48 to 97 are an integral part of these financial statements.)

Statements of Income

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

(In Millions of Pesos, Except Per Share Amounts)

		Consolidated			Parent		
	Notes	2008	2007	2006	2008	2007	2006
INTEREST INCOME							
On loans and advances		P24,100	P 21,658	P23,045	P 16,565	P15,159	P16,904
On held-to-maturity securities		4,058	4,344	5,477	3,339	3,691	4,751
On available-for-sale securities		3,668	4,826	4,460	3,145	3,781	3,503
On deposits with BSP and other banks		2,428	2,325	1,339	1,919	1,655	1,017
On trading securities		372	515	757	325	466	674
Gross receipts tax		(1,329)	(1,253)	(1,324)	(1,027)	(938)	(1,020)
		33,297	32,415	33,754	24,266	23,814	25,829
INTEREST EXPENSE							
On deposits		13,352	13,002	14,058	8,958	9,339	10,622
On bills payable and other borrowings		482	463	500	282	296	357
		13,834	13,465	14,558	9,240	9,635	10,979
NET INTEREST INCOME		19,463	18,950	19,196	15,026	14,179	14,850
IMPAIRMENT LOSSES	4, 11, 13, 18	1,930	1,250	1,524	1,484	846	1,081
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES							
		17,533	17,700	17,672	13,542	13,333	13,769
OTHER INCOME							
Fees and commissions		3,056	2,747	2,570	2,137	2,038	1,908
Income from foreign exchange trading and trading securities		1,196	3,502	2,947	903	2,893	2,364
Income attributable to insurance operations	5	588	1,855	962	-	-	-
Other operating income	24	6,098	6,398	4,811	8,301	6,599	6,563
Gross receipts tax		(617)	(898)	(649)	(497)	(704)	(567)
		10,321	13,604	10,641	10,844	10,826	10,268
OTHER EXPENSES							
Compensation and fringe benefits		8,098	8,193	7,543	5,823	5,894	5,341
Occupancy and equipment-related expenses	14, 15	5,303	4,853	4,635	4,066	3,829	3,712
Other operating expenses	26	4,911	5,265	4,485	3,958	4,579	4,054
		18,312	18,311	16,663	13,847	14,302	13,107
INCOME BEFORE INCOME TAX		9,542	12,993	11,650	10,539	9,857	10,930
PROVISION FOR INCOME TAX	27						
Current		2,123	2,408	2,205	1,370	1,424	1,423
Deferred	17	862	359	251	864	449	407
		2,985	2,767	2,456	2,234	1,873	1,830
NET INCOME FOR THE YEAR		P 6,557	P10,226	P 9,194	P 8,305	P 7,984	P 9,100
Attributable to:							
Equity holders of BPI		P 6,423	P10,012	P 9,040	P 8,305	P 7,984	P 9,100
Minority interest		134	214	154	-	-	-
		P 6,557	P10,226	P 9,194	P 8,305	P 7,984	P 9,100
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	22	P 1.98	P 3.09	P 2.79	P 2.56	P 2.46	P 2.80

(The notes on pages 48 to 97 are an integral part of these financial statements.)

Statements of Changes in Capital Funds

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

(In Millions of Pesos)

	Consolidated						Total
	Attributable to equity holders of BPI (Note 22)						
	Capital stock	Paid-in surplus	Translation adjustments	Reserves	Surplus	Minority interest	
Balance, January 1, 2006	P22,479	P1,073	P (46)	P1,300	P33,722	P1,540	
Net change in available-for-sale securities, net of deferred income tax effect	-	-	-	3,749	-	-	
Currency translation differences	-	-	(49)	-	-	-	
Fair value reserve on investments of insurance subsidiaries, net	-	-	-	315	-	-	
Net income (loss) recognized directly in equity	-	-	(49)	4,064	-	-	
Net income for the year	-	-	-	-	9,040	154	
Total recognized income and expenses for the year	-	-	(49)	4,064	9,040	154	
Issuance of shares	57	-	-	-	-	-	
Change in paid-in surplus	-	283	-	-	-	-	
Transfer from surplus to reserves	-	-	-	91	(91)	-	
Value of employee services under the stock option plan	-	-	-	89	-	-	
Cash dividends	-	-	-	-	(7,573)	-	
Stock dividends	4,507	-	-	-	(4,507)	-	
Other changes in minority interest	-	-	-	-	-	(646)	
Balance, December 31, 2006	27,043	1,356	(95)	5,544	30,591	1,048	
Effect of change in accounting policy on pre-need reserves of a pre-need subsidiary (Note 2)	-	-	-	-	(254)	-	
Balance as adjusted, January 1, 2007	27,043	1,356	(95)	5,544	30,337	1,048	
Net change in available-for-sale securities, net of deferred income tax effect	-	-	-	(1,164)	-	-	
Currency translation differences	-	-	(485)	-	-	-	
Fair value reserve on investments of insurance subsidiaries, net	-	-	-	(249)	-	-	
Net loss recognized directly in equity	-	-	(485)	(1,413)	-	-	
Net income for the year	-	-	-	-	10,012	214	
Total recognized income and expenses for the year	-	-	(485)	(1,413)	10,012	214	
Employee stock option plan:							
Value of employee services	-	-	-	146	-	-	
Exercise of options	1	4	-	(5)	-	-	
Cash dividends	-	-	-	-	(2,434)	-	
Transfer from surplus to reserves	-	-	-	130	(130)	-	
Other changes in minority interest	-	-	-	-	-	(142)	
Balance, December 31, 2007	27,044	1,360	(580)	4,402	37,785	1,120	
Net change in available-for-sale securities, net of deferred income tax effect	-	-	-	(4,255)	-	-	
Currency translation differences	-	-	(112)	-	-	-	
Fair value reserve on investments of insurance subsidiaries, net	-	-	-	(1,113)	-	-	
Net loss recognized directly in equity	-	-	(112)	(5,368)	-	-	
Net income for the year	-	-	-	-	6,423	134	
Total recognized income and expenses for the year	-	-	(112)	(5,368)	6,423	134	
Employee stock option plan:							
Value of employee services	-	-	-	44	-	-	
Exercise of options	3	14	-	(21)	-	-	
Cash dividends	-	-	-	-	(8,060)	-	
Stock dividends	5,409	-	-	-	(5,409)	-	
Transfer from surplus to reserves	-	-	-	80	(80)	-	
Other changes in minority interest	-	-	-	-	-	(316)	
Balance, December 31, 2008	P32,456	P1,374	P (692)	P (863)	P30,659	P 938	

(The notes on pages 48 to 97 are an integral part of these financial statements.)

Statements of Changes in Capital Funds

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

(In Millions of Pesos)

	Parent (Note 22)				
	Capital stock	Paid-in surplus	Reserves	Surplus	Total
Balance, January 1, 2006	P22,479	P 1,073	P 232	P17,547	P41,331
Net change in available-for-sale securities, net of deferred income tax effect	-	-	2,482	-	2,482
Net income recognized directly in equity	-	-	2,482	-	2,482
Net income for the year	-	-	-	9,100	9,100
Total recognized income and expenses for the year	-	-	2,482	9,100	11,582
Issuance of shares	57	-	-	-	57
Change in paid-in surplus	-	283	-	-	283
Transfer from surplus to reserves	-	-	91	(91)	-
Value of employee services under the stock option plan	-	-	70	-	70
Cash dividends	-	-	-	(7,573)	(7,573)
Stock dividends	4,507	-	-	(4,507)	-
Balance, December 31, 2006	27,043	1,356	2,875	14,476	45,750
Net change in available-for-sale securities, net of deferred income tax effect	-	-	(995)	-	(995)
Net loss recognized directly in equity	-	-	(995)	-	(995)
Net income for the year	-	-	-	7,984	7,984
Total recognized income and expenses for the year	-	-	(995)	7,984	6,989
Employee stock option plan:					
Value of employee services	-	-	117	-	117
Exercise of options	1	4	(5)	-	-
Cash dividends	-	-	-	(2,434)	(2,434)
Transfer from surplus to reserves	-	-	130	(130)	-
Balance, December 31, 2007	27,044	1,360	2,122	19,896	50,422
Net change in available-for-sale securities, net of deferred income tax effect	-	-	(2,696)	-	(2,696)
Net loss recognized directly in equity	-	-	(2,696)	-	(2,696)
Net income for the year	-	-	-	8,305	8,305
Total recognized income and expenses for the year	-	-	(2,696)	8,305	5,609
Employee stock option plan:					
Value of employee services	-	-	37	-	37
Exercise of options	3	14	(21)	-	(4)
Cash dividends	-	-	-	(8,060)	(8,060)
Stock dividends	5,409	-	-	(5,409)	-
Transfer from surplus to reserves	-	-	80	(80)	-
Balance, December 31, 2008	P32,456	P 1,374	P (478)	P14,652	P48,004

(The notes on pages 48 to 97 are an integral part of these financial statements.)

Statements of Cash Flows

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

(In Millions of Pesos)

		Consolidated			Parent		
	Notes	2008	2007	2006	2008	2007	2006
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		P9,542	P12,993	P11,650	P10,539	P9,857	P 10,930
Adjustments for:							
Impairment losses	4, 11, 13, 18	1,930	1,250	1,524	1,484	846	1,081
Depreciation and amortization	14, 15	2,188	1,836	1,611	1,358	1,192	1,191
Share in net (income) loss of associates		28	9	(36)	-	-	-
Share-based compensation	23	44	146	89	37	117	70
Dividend income	24	(67)	(53)	(47)	(4,061)	(2,631)	(2,928)
Interest income		(34,626)	(33,668)	(35,078)	(25,293)	(24,752)	(26,849)
Interest received		34,535	33,626	33,930	24,873	25,499	27,336
Interest expense		13,834	13,465	14,558	9,240	9,635	10,979
Interest paid		(14,086)	(13,114)	(14,247)	(9,519)	(9,372)	(10,819)
Operating income before changes in operating assets and liabilities		13,322	16,490	13,954	8,658	10,391	10,991
Changes in operating assets and liabilities (Increase) decrease in:							
Due from Bangko Sentral ng Pilipinas		(772)	(16,296)	(1,421)	(965)	(13,640)	(5,446)
Interbank loans receivable and securities purchased under agreements to resell		(1,509)	5,737	(9,470)	(1,509)	5,737	(9,470)
Trading securities, net	9	(25,206)	4,815	(2,625)	(25,423)	4,899	(2,621)
Loans and advances, net		(47,280)	(31,851)	(14,669)	(33,565)	(21,506)	(8,306)
Assets held for sale		1,338	706	1,464	1,252	541	503
Assets attributable to insurance operations		887	(846)	(410)	-	-	-
Other resources		2,157	(3,615)	1,507	2,239	(4,063)	2,694
Increase (decrease) in:							
Deposit liabilities		26,908	46,368	46,966	22,246	33,842	28,276
Due to Bangko Sentral ng Pilipinas and other banks		193	297	232	191	290	805
Manager's checks and demand drafts outstanding		10	464	325	83	183	310
Accrued taxes, interest and other expenses		(268)	356	(894)	(157)	463	(1,095)
Liabilities attributable to insurance operations		2,329	1,287	706	-	-	-
Derivative financial instruments		128	148	69	128	148	69
Deferred credits and other liabilities		(1,088)	2,667	4,365	(1,847)	3,226	2,435
Net cash (used in) generated from operating activities before income tax		(28,851)	26,727	40,099	(28,669)	20,511	19,145
Income taxes paid		(2,510)	(2,560)	(2,124)	(1,671)	(1,734)	(1,421)
Net cash (used in) generated from operating activities		(31,361)	24,167	37,975	(30,340)	18,777	17,724
(forward)							

Statements of Cash Flows

FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

(In Millions of Pesos)

		Consolidated			Parent		
	Notes	2008	2007	2006	2008	2007	2006
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	11	35,017	(13,888)	2,699	28,232	(10,735)	3,002
Held-to-maturity securities, net	12	(19,948)	16,340	10,450	(17,164)	15,815	9,952
Bank premises, furniture, fixtures and equipment, net	14	(2,406)	(721)	(2,224)	(32)	212	(1,155)
Investment property, net		(12)	(451)	89	(1,171)	(431)	98
Dividends received		67	53	47	3,283	2,580	2,854
Equity investments		(1,402)	(886)	(1,089)	1,052	(1,900)	481
Assets attributable to insurance operations		(963)	(1,574)	(148)	-	-	-
Net cash generated from (used in) investing activities		10,353	(1,127)	9,824	14,200	5,541	15,232
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends		(8,060)	(7,572)	(4,463)	(8,060)	(7,572)	(4,463)
Collection on stock subscriptions		-	-	340	-	-	340
Increase (decrease) in bills payable		4,559	(341)	(7,855)	3,283	(1,167)	(9,131)
Proceeds from issuance of unsecured subordinated debt	20	5,000	-	-	5,000	-	-
Net cash generated from (used in) financing activities		1,499	(7,913)	(11,978)	223	(8,739)	(13,254)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS							
CASH AND CASH EQUIVALENTS January 1	7	(19,509)	15,127	35,821	(15,917)	15,579	19,702
December 31		82,299	67,172	31,351	65,107	49,528	29,826
		P62,790	P82,299	P67,172	P49,190	P65,107	P49,528

(The notes on pages 48 to 97 are an integral part of these financial statements.)

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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, 2008, the BPI Group had 12,089 employees (2007 - 11,925 employees) and operated 831 branches, 1,556 ATMs and 21,771 point-of-sale terminals 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 Executive Committee of the Board of Directors of the Parent Bank on February 11, 2009.

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, Philippines Accounting Standards (PAS), Philippine Interpretations Committee (PIC)/Standing Interpretations Committee (SIC)/International Financial Reporting Interpretations Committee (IFRIC) interpretations 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.

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

The preparation of these 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. 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.

Standards, interpretations and amendments to published
standards effective beginning January 1, 2008 and onwards

The BPI Group adopted the following accounting standards and interpretations approved by the FRSC which are effective for annual periods beginning on or after January 1, 2008:

- *Philippine Interpretation IFRIC 11, PFRS 2, Group and Treasury Share Transactions* (effective from March 1, 2007) provides guidance on whether share-based transactions involving treasury shares or involving group entities (for example, options over a parent's shares) should be accounted for as equity-settled or cash-settled share-based payment transactions in the stand-alone accounts of the parent and group companies. This interpretation did not have a significant impact on the BPI Group's financial statements.
- *Philippine Interpretation IFRIC 14 - PAS 19, The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction*, (effective on or after January 1, 2008). For purposes of measuring defined benefit asset, this interpretation addresses an issue on when refunds or reductions in future contributions should be regarded as available, particularly when minimum funding requirement exists. This interpretation did not have a significant impact on the BPI Group's financial statements.

- *Amendments to PAS 39 and PFRS 7, Reclassification of Financial Assets.* The amendments permit an entity to reclassify non-derivative financial assets (other than those designated at fair value through profit or loss by the entity upon initial recognition) out of the fair value through profit or loss category in rare circumstances or if the financial asset is no longer held for the purpose of selling or repurchasing it in the near term. Likewise, it also allows transfer from the available-for-sale (AFS) category to the loans and receivables category a financial asset that would have met the definition of loans and receivables (if the financial asset had not been designated as AFS), if the entity has the intention and ability to hold that financial asset for the foreseeable future. For Philippine financial reporting purposes, an entity shall apply those amendments from July 1, 2008 and any reclassification of a financial asset made in periods beginning on or after November 15, 2008 shall take effect only from the date of reclassification. These amendments did not have an impact on the BPI Group as no reclassification of its trading securities was made nor did it reclassify certain AFS investments to loans and receivables.

Likewise, the following standards, amendments and interpretations to existing standards have been published and are applicable for the BPI Group beginning on or after January 1, 2009 but the BPI Group has not early adopted.

- *Philippine Interpretation IFRIC 13, Customer Loyalty Program*, (effective for accounting periods beginning on or after July 1, 2008). This interpretation clarifies that loyalty programmes are multiple element arrangements, in which the consideration received for the sale of goods and services (from which award credits are earned) is allocated to (a) the goods or service delivered; and (b) the award credits that will be redeemed in the future. This interpretation will affect the BPI Group's accounting for its obligation under its existing card reward redemption program however, management expects that the impact will not be significant.
- *Philippine Interpretation IFRIC 16, Hedges of a Net Investment in a Foreign Operation* (effective for accounting periods beginning on or after October 1, 2008). This interpretation provides guidance on the following: (a) identifying the foreign currency risks that can qualify as a "hedged risk" in the hedge of a net investment in a foreign operation; (b) identifying situations where hedging instruments that are hedges of a net investment in a foreign operation can qualify for hedge accounting under PAS39; and (c) determining the amounts to be reclassified from equity to profit and loss for both the hedging instrument and the hedged item when using hedge accounting under PAS39. This interpretation will not have a significant impact on the BPI Group's financial statements as net investments in foreign operations are currently not hedged.
- *Philippine Interpretation IFRIC 17, Distribution of Non-Cash Assets to Owners* (effective for accounting periods beginning on or after July 1, 2009). This interpretation addresses accounting by an entity that makes a non-cash asset distribution to owners. An entity shall measure a liability to distribute non-cash assets as a dividend to its owners at the fair value of the assets to be distributed. If an entity gives its owners a choice of receiving either a non-cash asset or a cash alternative, the entity shall estimate the dividend payable by considering both the fair value of each alternative and the associated probability of owners selecting each alternative. At the end of each reporting period and at the date of settlement, the entity shall review and adjust the carrying amount of the dividend payable, with any changes in the carrying amount of the dividend payable recognized in equity as adjustments to the amount of the distribution. This interpretation will be adopted by the BPI Group on its financial statements beginning January 1, 2010.
- *PAS 1, Presentation of Financial Statements*, (effective from January 1, 2009). The amendment requires that all changes in equity arising from transactions with owners in their capacity as owners (i.e. owner changes in equity) to be presented separately from non-owner changes in equity. An entity is not permitted to present components of comprehensive income (i.e. non-owner changes in equity) in the statement of changes in equity. Dividends recognized as distributions to owners and related per share amounts should be presented on the face of the statement of changes in equity or in the notes and not on the face of the statement of comprehensive income or the face of the income statement. The changes in the presentation will be adopted by the BPI Group on its financial statements beginning January 1, 2009.
- *PAS 23 (Amendment), Borrowing Costs* (effective from January 1, 2009). The amendment requires an entity to capitalize borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset (one that takes a substantial period of time to get ready for use or sale) as part of the cost of that asset. The option of immediately expensing those borrowing costs has been removed. The amendments will not have an impact on the BPI Group as there are no qualifying assets.
- *PAS 27 (Revised), Consolidated and Separate Financial Statements* (effective from July 1, 2009). The revised standard requires the effects of all transactions with non-controlling interests to be recorded in equity if there is no change in control and these transactions will no longer result in goodwill or gains and losses. The standard also specifies the accounting when control is lost. Any remaining interest in the entity is re-measured to fair value and a gain or loss is recognized in profit or loss. The BPI Group will apply this revised standard prospectively to transactions with non-controlling interests from January 1, 2010.
- *PAS 32 (Amendment), Financial Instruments: Presentation, and PAS 1 (Amendment), Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation* (effective from January 1, 2009). The amended standards require entities to classify puttable financial instruments, or components of instruments that impose on the entity an obligation to deliver to another party a pro rata share of the net assets of the entity only on liquidation as equity, provided the financial instruments have particular features and meet specific conditions. This amendment will not have a significant impact on the BPI Group's financial statements.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

- **PFRS 2 (Amendment), Share-based Payment** (effective from January 1, 2009). The amended standard deals with vesting conditions and cancellations. It clarifies that vesting conditions are service conditions and performance conditions only. Other features of a share-based payment are not vesting conditions. As such these features would need to be included in the grant date fair value for transactions with employees and others providing similar services, that is, these features would not impact the number of awards expected to vest or valuation thereof subsequent to grant date. All cancellations, whether by the entity or by other parties, should receive the same accounting treatment. This amendment is not expected to have a significant impact on the BPI Group's financial statements.
- **PFRS 3 (Revised), Business Combinations** (effective July 1, 2009). This revision enhances the relevance, reliability and comparability of the information that an entity provides in its financial statements about a business combination and its effects by establishing principles and requirements for how an acquirer (a) recognizes and measures in its financial statements the identifiable assets acquired, the liabilities assumed and any non-controlling interest in the acquiree; (b) recognizes and measures the goodwill acquired in the business combination or a gain from a bargain purchase; and (c) determines what information to disclose to enable users of the financial statements to evaluate the nature and financial effects of the business combination. This revised standard will be applied by the BPI Group in its financial statements for the period commencing January 1, 2010.
- **PFRS 8, Operating Segments** (effective January 1, 2009). This new standard requires a "management approach", under which segment information is presented on the same basis as that used for internal reporting purposes. The expected impact is still being assessed in detail by management, but it appears likely that the number of reportable segments, as well as the manner in which the segments are reported, will change in a manner that is consistent with the internal reporting provided to the chief operating decision-maker. As goodwill is allocated to groups of cash-generating units based on segment level, the change will also require management to reallocate goodwill to the newly identified operating segments. Management does not anticipate that this will result in any material impairment to the goodwill balance.

The following are the relevant amendments to PFRS that will result in changes in accounting, presentation, recognition and measurement. It also includes amendments that are terminology or editorial changes only which have either minimal or no effect on accounting. These amendments are part of the annual improvements project published by the International Accounting Standards Board (IASB) in May 2008.

- **PFRS 5 (Amendment), Non-current Assets Held for Sale and Discontinued Operations (and consequential amendment to PFRS 1, First-time Adoption)** (effective from July 1, 2009). The amendment clarifies that all of a subsidiary's assets and liabilities are classified as held for sale if a partial disposal sale plan results in loss of control, and relevant disclosure should be made for this subsidiary if the definition of a discontinued operation is met. A consequential amendment to PFRS 1 states that these amendments are applied prospectively from the date of transition to PFRS. The BPI Group will apply this amendment prospectively to all partial disposals of subsidiaries, if any from January 1, 2010.
- **PAS 1 (Amendment), Presentation of Financial Statements** (effective from January 1, 2009). The amendment clarifies that some rather than all financial assets and liabilities classified as held for trading in accordance with PAS 39 are examples of current assets and liabilities, respectively. This amendment is not expected to have an impact on the BPI Group's financial statements.
- **PAS 16 (Amendment), Property, Plant and Equipment (and consequential amendment to PAS 7, "Statement of Cash Flows")** (effective from January 1, 2009). Entities whose ordinary activities comprise renting and subsequently selling assets should present proceeds from the sale of those assets as revenue and should transfer the carrying amount of the asset to inventories when the asset becomes held for sale. A consequential amendment to PAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. The amendment will not have a significant impact on the BPI Group's financial statements.
- **PAS 19 (Amendment), Employee Benefits** (effective from January 1, 2009). The amendments include clarification on the definition of return on plan assets, distinction between short term and long term employee benefits and plan amendments that are considered curtailment. Likewise, PAS 19 has been amended to be consistent with PAS 37, Provisions, Contingent Liabilities and Contingent assets. This amendment is not expected to have a significant impact on the BPI Group.
- **PAS 23 (Amendment), Borrowing Costs** (effective from January 1, 2009). The definition of borrowing costs has been amended so that interest expense is calculated using the effective interest method defined in PAS 39. This eliminates the inconsistency of terms between PAS 39 and PAS 23. The BPI Group will apply this amendment prospectively to the capitalization of borrowing costs on qualifying assets, if any from January 1, 2009.
- **PAS 27, Consolidated and Separate Financial Statements** (effective from January 1, 2009). This amendment requires measurement of subsidiary held for sale that is accounted for under PAS 39 or at cost be measured under PFRS 5 and PAS 39, respectively.
- **PAS 28 (Amendment), Investments in Associates (and consequential amendments to PAS 32 and PFRS 7, Financial Instruments: Disclosures)** (effective from January 1, 2009). An investment in associate is treated as a single asset for the purposes of impairment testing and any impairment loss is not allocated to specific assets included within the investment, for example, goodwill. Reversals of impairment are recorded as an adjustment to the investment balance to the extent that the recoverable amount of the associate increases. The BPI Group will apply this amendment to impairment tests related to investment in associates and any related impairment losses from January 1, 2009.

- *PAS 31 (Amendment), Interests in Joint Ventures (and consequential amendments to PAS 32 and PFRS 7)* (effective from January 1, 2009). Where an investment in joint venture is accounted for in accordance with PAS 39, only certain rather than all disclosure requirements in PAS 31 need to be made in addition to disclosures required by PAS 32 and PFRS 7. The amendment will not have an impact on the BPI Group's operations as there are no interests held in joint ventures.
- *PAS 36 (Amendment), Impairment of Assets* (effective from January 1, 2009). Where fair value less costs to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. The BPI Group will apply this amendment and provide the required disclosure where applicable for impairment tests from January 1, 2009.
- *PAS 38 (Amendment), Intangible Assets* (effective from January 1, 2009). A prepayment may only be recognized in the event that payment has been made in advance for obtaining right of access to goods or receipt of services. This amendment will not have a significant impact on the BPI Group's financial statements.
- *PAS 39 (Amendment)*, (effective from January 1, 2009). This amendment clarifies that it is possible to have movements into and out of the fair value through profit or loss category where a derivative commences or ceases to qualify as a hedging instrument in cash flow or net investment hedge. This amendment is not expected to have an impact on the BPI Group's financial statements.
- *PAS 40 (Amendment), Investment Property (and consequential amendments to PAS 16)* (effective from January 1, 2009). Property that is under construction or development for future use as investment property is within the scope of PAS 40. Where the fair value model is applied, such property is, therefore, measured at fair value. However, where fair value of investment property under construction is not reliably measurable, the property is measured at cost until the earlier of the date construction is completed and the date at which fair value becomes reliably measurable. The amendment will not have a significant impact on the BPI Group's financial statements.

2.2 Consolidation

(a) Subsidiaries

Subsidiaries are all entities over which the BPI Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the BPI Group controls another entity. 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 purchase method of accounting is used to account for the acquisition of subsidiaries by the BPI Group. The cost of an acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the BPI Group's share of the identifiable net assets acquired is recorded as goodwill.

Intercompany transactions, balances and unrealized gains on transactions between the BPI Group of companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of an impairment of the asset transferred. The accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the BPI Group.

(b) 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).

BPI's share of its associates' post-acquisition profits or losses is recognized in the statement of income, and its share of post-acquisition movements in reserves is recognized in the statement of capital funds. 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.

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

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

The consolidated financial statements comprise the financial statements of the Parent Bank and its subsidiaries. The subsidiaries' financial statements are prepared for the same reporting periods as the Parent Bank. The percentages of effective ownership of BPI in major operating subsidiaries at December 31, 2008 and 2007 are as follows:

	Country of incorporation	% of ownership
BPI Family Savings Bank, Inc. (BPI Family Bank)	Philippines	100.00
BPI Capital Corporation (BPI Capital)	Philippines	100.00
BPI Leasing Corporation (BPI Leasing)	Philippines	100.00
BPI Direct Savings Bank, Inc. (BPI Direct)	Philippines	100.00
BPI International Finance Limited, Hong Kong (BPI IFL)	Hong Kong	100.00
BPI Europe Plc. (Note 16)	England and Wales	100.00
Insurance companies:		
Ayala Life Assurance, Inc. and subsidiaries (ALAI)	Philippines	98.67
BPI/MS Insurance Corporation (BPI/MS)	Philippines	50.85

2.3 Segment reporting

A business segment is a group of assets and operations engaged in providing products or services that are subject to risks and returns that are different from those of other business segments. A geographical segment is engaged in providing products or services within a particular economic environment that is subject to risks and returns that are different from those of segments operating in other economic environments.

2.4 Equity investments

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

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

2.5 Cash and cash equivalents

Cash and cash equivalents consist of Cash and other cash items, Due from Bangko Sentral ng Pilipinas (clearing account), 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.

2.6 Financial assets

2.6.1 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 investments 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 or incurred 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 BPI Group's investment strategy. Information about these financial assets is provided internally on a fair value basis to the BPI Group entity's key management personnel.

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 that are not quoted in an active market and with no intention of trading. 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 (other than those classified as cash equivalents) and other receivables.

(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 reclassified as available-for-sale.

(d) Available-for-sale securities

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

2.6.2 Financial asset 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.

2.6.3 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 are recognized 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 are derecognized when the rights to receive cash flows from the financial assets have expired or where the BPI Group has transferred substantially all risks and rewards of ownership.

Available-for-sale securities and financial assets at fair value through profit or loss are subsequently carried at fair value. Loans and receivables and held-to-maturity securities are subsequently carried at amortized cost using the effective interest method. Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss are included in the statement of income 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 the statement of capital funds, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in capital funds should be recognized in the statement of income. 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 statement of income. Dividends on equity instruments are recognized in the statement of income when the BPI Group's right to receive payment is established.

The fair values of quoted investments in active markets are based on current bid prices. If there is no active market for a financial asset, the BPI Group establishes fair value by using valuation techniques. These include the use of recent arm's length transactions, reference to other instruments that are substantially the same, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

2.7 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 (for example, equity ratio, net income percentage of sales);
- Breach of loan covenants or conditions;
- Initiation of bankruptcy proceedings;
- Deterioration of the borrower's competitive position; and
- Deterioration in the value of collateral.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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 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. Impairment loss is recognized in the statement of income and the carrying amount of the asset is reduced through the use of an allowance.

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 the statement of income as a reduction of impairment losses for the year.

(b) Assets classified as available-for-sale

The BPI Group assesses at each balance sheet date whether there is evidence that a debt security classified as available-for-sale is impaired. 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 capital funds and recognized in the statement of income 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 the statement of income. Reversal of impairment losses recognized previously on equity instruments is made directly to capital funds.

(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.

2.8 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.

2.9 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 the statement of income.

2.10 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.

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 the statement of income during the year in which they are incurred.

Depreciation 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

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. Major renovations are depreciated over the remaining useful life of the related asset.

The assets' residual values and useful lives are reviewed at each reporting date.

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.

Gains and losses on disposals are determined by comparing proceeds with carrying amount and are recognized in the statement of income.

2.11 Investment property

Property that is held either to earn rental income or for capital appreciation or for both and that is not significantly occupied by the BPI Group is classified as investment property.

Investment property comprises land and building. Investment property is 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.

2.12 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.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

2.13 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 Equity investments. Separately recognized goodwill is tested annually for impairment and 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.

(b) 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 the basis of 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.

2.14 Borrowings

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 the statement of income over the period of the borrowings using the effective interest method.

Related borrowing costs are recognized as expense in the year in which they are incurred.

2.15 Interest income and expense

Interest income and expense are recognized in the statement of income for all interest-bearing financial instruments using the effective interest method.

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.

2.16 Fee and commission income

Fees and commissions are generally recognized on an accrual basis when the service has been provided.

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.

2.17 Dividend income

Dividend income is recognized in the statement of income when the BPI Group's right to receive payment is established.

2.18 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 the statement of income.

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 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 capital funds. When a foreign operation is sold, such exchange differences are recognized in the statement of income as part of the gain or loss on sale.

2.19 Provisions

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.

2.20 Income taxes

(a) 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 substantially enacted by 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 can be utilized.

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

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) Recent tax laws

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 30% effective January 1, 2009; 2) change in allowable deduction for interest expense from 38% to 42% effective November 1, 2005 and 33% beginning January 1, 2009; and 3) revised rates for gross receipts tax (GRT).

On December 20, 2008, Revenue Regulations No. 16-2008 on the Optional Standard Deduction (OSD) was published. The regulation prescribed the rules for the OSD application by corporations in the computation of their final taxable income. The BPI Group did not avail of the OSD for purposes of income tax calculation in 2008.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

2.21 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 income over the employees' expected average remaining working lives.

Past-service costs are recognized immediately in income, 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's management awards high-performing employees bonuses in the form of stock options, from time to time, on a discretionary basis. The options are subject to certain service vesting condition, and their fair value is recognized as an employee benefits expense with a corresponding increase in reserve equity over the vesting period. 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.

2.22 Capital stock

Common shares are classified as capital stock.

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.

2.23 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.

2.24 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 Bangko Sentral.

2.25 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 30).

2.26 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 statement of income 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 the statement of income 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 property in the statement of condition. Rental income under operating leases is recognized in the statement of income 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 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.

2.27 Insurance 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 contracts may also transfer financial risk. As a general guideline, the life insurance 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 are recognized as revenue when received instead of over the life of the policy; (b) policy acquisition costs are charged to current operations as incurred rather than amortized over the premium-paying periods of the policies; (c) financial assets and liabilities are measured following the classification and valuation provisions of PAS 39 (d) 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.

(b) Non-life insurance

The more significant accounting policies observed by the non-life insurance subsidiary follow: (a) premiums from short duration insurance contracts are recognized as revenue over the period of the contracts 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) income from the sale of pre-need pension and education plans is recognized as earned when collected; (b) commissions relating to the sale of pre-need plans are expensed as incurred; (c) pre-need reserves is set up for all pre-need benefits guaranteed and payable by the pre-need company as defined in the pre-need plan contract; the computation of related assumptions is validated by a qualified actuary of the subsidiary. The increase or decrease in pre-need reserves during the year is charged or credited to income; and (d) insurance premium reserves which represent the amount that must be set aside by the pre-need subsidiary to pay for premiums for insurance coverage of fully paid planholders, are actuarially computed based on standards and guidelines set forth by the SEC.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

On April 2, 2007, the SEC issued a notice revising the requirements on the reserving and recognition of actuarial liability of pre-need companies effective January 1, 2007. As allowed by the SEC, the additional pre-need reserves amounting to P254 million calculated by the pre-need subsidiary following the revised guidelines of the SEC were recognized against the surplus balance as of January 1, 2007.

2.28 Reclassification

Certain amounts in the 2007 and 2006 financial statements and supporting note disclosures have been reclassified to conform to the current year's presentation. The reclassifications include amounts due from BSP of P37,152 million (2006 - P32,761 million) and P28,257 million (2006 - P22,794 million) which were not reflected as Cash equivalents in the 2007 and 2006 consolidated and parent statements of cash flows, respectively.

The above reclassifications however, which resulted to a better presentation of accounts, did not have any impact on the net income or surplus reported in 2007 and 2006.

Note 3 - Financial Risk Management

The BPI Group's activities expose it to a variety of financial risks and those activities involve the analysis, evaluation, acceptance and management of some degree of risk or combination of risks. Taking risk is core to the financial business, and the operational risks are an inevitable consequence of being in business. The BPI Group's aim is therefore to achieve an appropriate balance between risk and return and minimize potential adverse effects on the BPI Group's financial performance.

The BPI Group's risk management policies are designed to identify and analyze these risks, to set appropriate risk limits and controls, and to monitor the risks and adherence to limits by means of reliable and up-to-date information systems. The BPI Group regularly reviews its risk management policies and systems to reflect changes in markets, products and emerging best practices.

The Board of Directors provides written principles for overall risk management, as well as written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, liquidity risk and use of derivative and non-derivative financial instruments, among others.

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 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.

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. In the BPI Group's rating scale, exposures migrate between classes as the assessment of their probabilities of default changes. The rating tools are reviewed and upgraded as necessary. The BPI Group regularly validates the performance of the rating and their predictive power with regard to default events. Clients of the BPI Group are segmented based on their internal ratings and 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 equivalent 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 subject to an 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 control limits on net open derivative positions (i.e., the difference between purchase and sale contracts), by both amount and term. At any one time, the amount subject to credit risk is limited to the net current fair value of instruments resulting in a net receivable amount for the BPI Group, 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.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

(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, however, are recognized for financial reporting purposes only for losses that have been incurred at the reporting date based on objective evidence of impairment (Note 2.7).

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

	Consolidated			
	2008		2007	
	Loans and advances (%)	Allowance for impairment (%)	Loans and advances (%)	Allowance for impairment (%)
Unclassified	95.35	0.09	94.17	0.17
Loans especially mentioned	0.59	5.41	1.00	3.93
Substandard	1.80	15.27	2.50	12.62
Doubtful	0.93	61.20	1.29	67.38
Loss	1.33	100.00	1.04	91.03
	100.00		100.00	

	Parent			
	2008		2007	
	Loans and advances (%)	Allowance for impairment (%)	Loans and advances (%)	Allowance for impairment (%)
Unclassified	94.99	0.09	93.40	0.11
Loans especially mentioned	0.62	4.97	1.18	3.74
Substandard	2.13	13.25	2.98	11.01
Doubtful	0.76	62.83	1.34	69.20
Loss	1.50	100.00	1.10	88.89
	100.00		100.00	

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

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Due from BSP	P 48,422	P 72,878	P 41,428	P 62,107
Due from other banks	14,278	6,969	8,114	1,845
Interbank loans receivable and securities purchased under agreements to resell (SPAR)	22,584	31,772	21,107	29,161
Derivative financial assets	2,182	3,123	2,182	3,123
Trading securities - debt securities	34,318	8,980	32,999	7,571
Investment securities				
- Available-for-sale - debt securities	62,194	101,017	50,532	81,757
- Held-to-maturity, net	72,884	52,432	63,196	45,555
Loans and advances, net	320,216	273,756	240,681	207,435
Other resources, net	4,381	5,568	3,431	4,168

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Undrawn loan commitments	P 230,622	P 220,427	P 223,091	P 213,946
Bills for collection	12,143	6,339	12,121	6,313
Unused letters of credit	7,737	7,362	7,694	7,238
Others	1,077	3,046	979	2,916

The above table represents the maximum credit risk exposure of the BPI Group at December 31, 2008 and 2007, 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 statement 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:

- 96% of the loans and advances portfolio is categorized in the top two classifications of the internal rating system in 2008 and 2007;
- Mortgage loans are backed by collateral;
- 95% of the loans and advances portfolio is considered to be neither past due nor impaired (2007 - 91%); and
- The BPI Group has introduced a more stringent selection process of granting loans and advances.

3.1.5 Loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Neither past due nor impaired	P 310,101	P 256,070	P 233,352	P 196,120
Past due but not impaired	2,388	8,543	841	6,719
Impaired	15,244	15,761	12,354	9,901
	327,733	280,374	246,547	212,740
Allowance for impairment	(7,517)	(6,618)	(5,866)	(5,305)
	P 320,216	P 273,756	P 240,681	P 207,435

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

The increase in impaired category in 2008 is due to large secured corporate accounts whose expected recoverable amounts from the foreclosure of the underlying collateral fell below the carrying amounts of the loans.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

The total consolidated impairment provision for loans and advances is P1,245 million (2007 - P1,163 million) of which P582 million (2007 - P358 million) represents provision for individually impaired loans and the remaining amount of P663 million (2007 - P805 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 13.

During the year ended December 31, 2008, the BPI Group's total loans and advances increased by 17% as a result of the expansion of the lending business. 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.

(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 until the loss can be specifically identified with the individual loan account. Details of these accounts follow:

	Consolidated		Parent	
	2008	2007	2008	2007
(In Millions of Pesos)				
Corporate entities:				
Large corporate customers	P 215,294	P 178,462	P 193,898	P 171,277
Small and medium enterprises	61,641	29,682	26,066	14,092
Retail customers:				
Mortgages	20,517	38,254	751	1,169
Credit cards	12,580	9,582	12,580	9,582
Others	69	90	57	-
	P 310,101	P 256,070	P 233,352	P 196,120

(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

	2008				2007			
	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	P 56	P 410	P 617	P 1,083	P 963	P 479	P 485	P 1,927
Past due 31 - 90 days	96	299	296	691	899	756	295	1,950
Past due 91 - 180 days	15	70	30	115	180	162	-	342
Over 180 days	127	228	144	499	3,339	985	-	4,324
	P 294	P 1,007	P 1,087	P 2,388	P 5,381	P 2,382	P 780	P 8,543
Fair value of collateral				P 3,084				P10,091

Parent

	2008				2007			
	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	P 55	P 6	P 353	P 414	P 638	P 165	P 485	P 1,288
Past due 31 - 90 days	96	-	189	285	668	486	295	1,449
Past due 91 - 180 days	15	-	-	15	93	70	-	163
Over 180 days	103	24	-	127	3,052	767	-	3,819
	P 269	P 30	P 542	P 841	P 4,451	P 1,488	P 780	P 6,719
Fair value of collateral	P 1,026				P 7,720			

(c) Loans and advances individually impaired

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

	Consolidated		Parent	
	2008	2007	2008	2007
(In Millions of Pesos)				
Corporate entities:				
Large corporate customers	P 7,044	P 6,035	P 7,043	P 5,943
Small and medium enterprises	4,624	2,263	3,710	2,072
Retail customers:				
Mortgages	460	419	14	3
Credit cards	1,030	739	1,030	739
	P 13,158	P 9,456	P 11,797	P 8,757
Fair value of collateral	P 11,221	P 8,326	P 10,422	P 7,779

(d) Loans and advances renegotiated/restructured

In 2008, a large corporate account amounting to P69 million was renegotiated (2007 - nil).

3.1.6 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, 2008 and 2007 based on *Standard & Poor's*:

At December 31, 2008

	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	P 21,118	P 1,712	P 18,308	P 41,138	P 21,118	P 1,712	P 11,026	P 33,856
AA- to AA+	475	478	4,030	4,983	475	478	4,030	4,983
A- to A+	85	-	476	561	-	-	476	476
Lower than A-	12,571	70,673	37,245	120,489	11,262	60,985	32,868	105,115
Unrated	69	21	2,135	2,225	144	21	2,132	2,297
	P 34,318	P72,884	P 62,194	P 169,396	P 32,999	P63,196	P 50,532	P146,727

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

At December 31, 2007

	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	P 3,733	P 8,563	P 30,195	P 42,491	P 3,733	P 8,563	P 23,544	P 35,840
AA- to AA+	338	414	1,166	1,918	215	414	920	1,549
A- to A+	700	11	-	711	700	-	-	700
Lower than A-	4,201	42,705	68,990	115,896	2,921	36,190	56,627	95,738
Unrated	8	739	666	1,413	2	388	666	1,056
	P 8,980	P52,432	P101,017	P162,429	P 7,571	P45,555	P 81,757	P134,883

3.1.7 Repossessed or foreclosed collaterals

In 2008, the BPI Group acquired assets by taking possession of collaterals held as security for loans and advances with carrying amount of P1,311 million (2007 - P1,133 million). The related foreclosed collaterals have aggregate fair value of P1,771 million (2007 - P1,720 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	P 48,422	P -	P -	P -	P -	P -	P 48,422
Due from other banks	14,278	-	-	-	-	-	14,278
Interbank loans receivable and SPAR	22,584	-	-	-	-	-	22,584
Derivative financial assets	2,106	-	31	-	45	-	2,182
Trading securities - debt securities	1,335	-	-	1	32,982	-	34,318
Investment securities							
- Available-for-sale							
- debt securities	6,769	-	697	-	54,728	-	62,194
- Held-to-maturity	498	-	-	-	72,386	-	72,884
Loans and advances, net	21,037	29,592	80,418	72,893	123,793	(7,517)	320,216
Other resources, net	-	-	-	-	5,407	(1,026)	4,381
At December 31, 2008	P117,029	P29,592	P 81,146	P 72,894	P289,341	P(8,543)	P 581,459
2007	P133,829	P67,821	P 62,767	P 49,030	P250,695	P(7,647)	P 556,495

Parent

	Financial institutions	Consumer	Manufacturing	Real estate	Others	Less - allowance	Total
Due from BSP	P 41,428	P -	P -	P -	P -	P -	P 41,428
Due from other banks	8,114	-	-	-	-	-	8,114
Interbank loans receivable and SPAR	21,107	-	-	-	-	-	21,107
Derivative financial assets	2,106	-	31	-	45	-	2,182
Trading securities - debt securities	1,335	-	-	-	31,664	-	32,999
Investment securities					-	-	
- Available-for-sale							
- debt securities	6,769	-	697	-	43,066	-	50,532
- Held-to-maturity	498	-	-	-	62,698	-	63,196
Loans and advances, net	20,216	15,049	78,391	27,504	105,387	(5,866)	240,681
Other resources, net	-	-	-	-	4,421	(990)	3,431
At December 31							
2008	P101,573	P15,049	P 79,119	P 27,504	P247,281	P (6,856)	P 463,670
2007	P113,957	P18,008	P 62,139	P 34,195	P220,723	P (6,300)	P 442,772

Trading and investment 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.

To estimate its exposure to market risk, the BPI Group computes the statistical "value at risk" (VAR) of its trading and non-trading portfolios. The VAR measurement estimate, at 99% degree of confidence, is the maximum loss due to adverse market movements that could be incurred by portfolios over assumed holding periods. As such, there remains 1% statistical probability that portfolios' actual loss could be greater than the VAR estimate.

The average daily VAR follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Local fixed-income	P 969	P 822	P 830	P 607
Foreign fixed-income	210	165	196	161
Equity securities	124	126	-	-
Derivatives	29	45	29	45
Foreign exchange	14	13	12	12
	P 1,346	P 1,171	P 1,067	P 825

VAR is an integral part of the BPI Group's market risk control system. VAR limits for all trading portfolios are set by the RMC. Actual market risk exposures vis-à-vis market risk limits are reported daily to the FRMC.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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.

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 Board of Director sets limits on the level of exposure by currency and in aggregate for both overnight and intra-day positions, which are monitored daily. The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31, 2008 and 2007. 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)						
As at December 31, 2008						
Financial Assets						
Cash and other cash items	P 1,606	P 75	P 60	P 9	P -	P 1,750
Due from other banks	7,603	211	906	1,488	-	10,208
Interbank loans receivable and SPAR	11,470	1,057	409	-	-	12,936
Derivative financial assets	1,796	10	4	3	-	1,813
Trading securities						
- debt securities	21,748	-	-	-	-	21,748
Investment securities						
- Available-for-sale						
- debt securities	28,421	-	1,393	376	-	30,190
- Held-to-maturity	13,069	-	399	-	-	13,468
Loans and advances, net	25,777	1,735	63	29	(275)	27,329
Other resources, net	193	1	11	28	(1)	232
Total financial assets	111,683	3,089	3,245	1,933	(276)	119,674
Financial Liabilities						
Deposit liabilities	102,657	2,647	2,117	271	-	107,692
Derivative financial liabilities	1,657	2	51	-	-	1,710
Bills payable	3,097	-	-	-	-	3,097
Due to BSP and other banks	265	-	-	-	-	265
Manager's checks and demand drafts outstanding	277	1	38	12	-	328
Other liabilities	781	189	145	18	-	1,133
Total financial liabilities	108,734	2,839	2,351	301	-	114,225
Net on-balance sheet financial position	P 2,949	P 250	P 894	P 1,632	P (276)	P 5,449
As at December 31, 2007						
Total financial assets	P 111,110	P 1,833	P 2,499	P 2,024	P (233)	P 117,233
Total financial liabilities	93,304	1,593	1,767	262	-	96,926
Net on-balance sheet financial position	P 17,806	P 240	P 732	P 1,762	P (233)	P 20,307

Parent

	USD	JPY	EUR	GBP	Less - allowance	Total
(In Millions of Pesos)						
As at December 31, 2008						
Financial Assets						
Cash and other cash items	P 1,443	P 75	P 51	P 8	P -	P 1,577
Due from other banks	6,762	210	690	45	-	7,707
Interbank loans receivable and SPAR	11,470	1,057	409	-	-	12,936
Derivative financial assets	1,789	10	4	3	-	1,806
Trading securities						
- debt securities	21,748	-	-	-	-	21,748
Investment securities						
- Available-for-sale						
- debt securities	20,774	-	1,393	376	-	22,543
- Held-to-maturity	11,708	-	399	-	-	12,107
Loans and advances, net	25,777	1,735	63	-	(275)	27,300
Other resources, net	193	1	16	-	(1)	209
Total financial assets	101,664	3,088	3,025	432	(276)	107,933
Financial Liabilities						
Deposit liabilities	93,534	2,647	2,101	205	-	98,487
Derivative financial liabilities	1,657	2	51	-	-	1,710
Bills payable	3,097	-	-	-	-	3,097
Due to BSP and other banks	265	-	-	-	-	265
Manager's checks and demand drafts outstanding	257	1	38	12	-	308
Other liabilities	765	189	40	-	-	994
Total financial liabilities	99,575	2,839	2,230	217	-	104,861
Net on-balance sheet financial position	P 2,089	P 249	P 795	P 215	P (276)	P 3,072
As at December 31, 2007						
Total financial assets	P 102,752	P 1,876	P 2,282	P 262	P (233)	P 106,939
Total financial liabilities	85,525	1,637	1,646	166	-	88,974
Net on-balance sheet financial position	P 17,227	P 239	P 636	P 96	P (233)	P 17,965

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

3.2.2 Interest rate risk

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. Fair value interest rate risk is the risk that the value 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 and cash flow risks. 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 daily 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, 2008					
Financial Assets					
Due from BSP	P -	P -	P -	P 48,422	P 48,422
Due from other banks	-	-	-	14,278	14,278
Interbank loans receivable and SPAR	-	-	-	22,584	22,584
Derivative financial assets	2,182	-	-	-	2,182
Trading securities - debt securities	-	-	-	34,318	34,318
Investment securities					
- Available-for-sale - debt securities	2,964	-	-	59,230	62,194
- Held-to-maturity	-	-	-	72,884	72,884
Loans and advances, net	196,707	21,727	30,531	71,251	320,216
Other resources, net	-	-	-	4,381	4,381
Total financial assets	201,853	21,727	30,531	327,348	581,459
Financial Liabilities					
Deposit liabilities	261,067	176,191	10,598	92,496	540,352
Derivative financial liabilities	2,547	-	-	-	2,547
Bills payable	988	-	-	8,946	9,934
Due to BSP and other banks	-	-	-	1,496	1,496
Manager's checks and demand drafts outstanding	-	-	-	2,723	2,723
Unsecured subordinated debt	-	-	-	5,000	5,000
Other liabilities	-	-	-	16,159	16,159
Total financial liabilities	264,602	176,191	10,598	126,820	578,211
Total interest gap	P (62,749)	P (154,464)	P 19,933	P 200,528	P 3,248

	Repricing			Non-repricing	Total
	Up to 1 year	Over 1 up to 3 years	Over 3 years		
As at December 31, 2007					
Total financial assets	P 255,724	P 22,106	P 49,911	P 228,754	P 556,495
Total financial liabilities	294,147	129,193	13,689	105,986	543,015
Total interest gap	P (38,423)	P (107,087)	P 36,222	P 122,768	P 13,480

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, 2008					
Financial Assets					
Due from BSP	P -	P -	P -	P 41,428	P 41,428
Due from other banks	-	-	-	8,114	8,114
Interbank loans receivable and SPAR	-	-	-	21,107	21,107
Derivative financial assets	2,182	-	-	-	2,182
Trading securities - debt securities	-	-	-	32,999	32,999
Investment securities					
- Available-for-sale debt securities	2,964	-	-	47,568	50,532
- Held-to-maturity	-	-	-	63,196	63,196
Loans and advances, net	186,132	6,574	10,651	37,324	240,681
Other resources, net	-	-	-	3,431	3,431
Total financial assets	191,278	6,574	10,651	255,167	463,670
Financial Liabilities					
Deposit liabilities	207,151	142,619	5,003	86,116	440,889
Derivative financial liabilities	2,547	-	-	-	2,547
Bills payable	988	-	-	4,385	5,373
Due to BSP and other banks	-	-	-	1,462	1,462
Manager's checks and demand drafts outstanding	-	-	-	2,164	2,164
Unsecured subordinated debt	-	-	-	5,000	5,000
Other liabilities	-	-	-	13,894	13,894
Total financial liabilities	210,686	142,619	5,003	113,021	471,329
Total interest gap	P (19,408)	P (136,045)	P 5,648	P 142,146	P (7,659)
As at December 31, 2007					
Total financial assets	P 197,226	P 11,278	P 27,670	P 206,548	P 442,722
Total financial liabilities	234,521	104,476	5,869	97,666	442,532
Total interest gap	P (37,295)	P (93,198)	P 21,801	P 108,882	P 190

3.3 Liquidity risk

Liquidity risk is the risk that the BPI Group is 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 ratios 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.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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 significant cash flows payable by the BPI Group under non-derivative financial liabilities by expected maturities at the reporting date. The amounts disclosed in the table are the expected undiscounted cash flows, which the BPI Group uses to manage the inherent liquidity risk.

Consolidated

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)				
As at December 31, 2008				
Financial Liabilities				
Deposit liabilities	P 259,770	P 180,733	P 106,571	P 547,074
Bills payable	8,674	877	570	10,121
Due to BSP and other banks	1,496	-	-	1,496
Manager's checks and demand drafts outstanding	2,723	-	-	2,723
Unsecured subordinated debt	423	845	7,996	9,264
Other liabilities	16,159	-	-	16,159
	P 289,245	P 182,455	P 115,137	P 586,837

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)				
As at December 31, 2007				
Financial Liabilities				
Deposit liabilities	P 402,991	P 99,002	P 128,654	P 630,647
Bills payable	3,626	1,065	1,051	5,742
Due to BSP and other banks	1,303	-	-	1,303
Manager's checks and demand drafts outstanding	2,713	-	-	2,713
Other liabilities	16,820	-	-	16,820
	P 427,453	P 100,067	P 129,705	P 657,225

Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
(In Millions of Pesos)				
As at December 31, 2008				
Financial Liabilities				
Deposit liabilities	P 208,369	P 144,381	P 92,273	P 445,023
Bills payable	4,237	863	550	5,650
Due to BSP and other banks	1,462	-	-	1,462
Manager's checks and demand drafts outstanding	2,164	-	-	2,164
Unsecured subordinated debt	423	845	7,996	9,264
Other liabilities	13,894	-	-	13,894
	P 230,549	P 146,089	P 100,819	P 477,457

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
	(In Millions of Pesos)			
As at December 31, 2007				
Financial Liabilities				
Deposit liabilities	P 309,216	P 61,538	P 80,623	P 451,377
Bills payable	341	1,065	1,051	2,457
Due to BSP and other banks	1,271	-	-	1,271
Manager's checks and demand drafts outstanding	2,081	-	-	2,081
Other liabilities	15,087	-	-	15,087
	P 327,996	P 62,603	P 81,674	P 472,273

Assets available to meet all of the liabilities include cash, due from BSP and other banks, trading securities, available-for-sale securities and loans and advances to customers. In the normal course of business, a proportion of customer loans contractually repayable within one year will be extended. The BPI Group would also be able to meet unexpected net cash outflows by accessing additional funding sources.

On April 20, 2007, the Monetary Board of the Bangko Sentral ng Pilipinas approved the Bank's issuance of P5,000 million worth of Long-Term Negotiable Certificates of Deposits (LTNCD) Series 1. The LTNCD (included in Deposit liabilities) will mature five years and one month from the date of issue and carries a fixed rate interest of 6.125%.

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. 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				
2008	P (25)	P (158)	P (93)	P (276)
2007	P (84)	P (283)	P (106)	P (473)

(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			
2008			
- Outflow	P (84,865)	P -	P (84,865)
- Inflow	84,992	-	84,992
2007			
- Outflow	P (133,905)	P (209)	P (134,114)
- Inflow	133,761	207	133,968

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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	
	2008	2007	2008	2007
(In Millions of Pesos)				
Financial assets				
Due from BSP	P 48,422	P 72,878	P 48,422	P 72,878
Due from other banks	14,278	6,969	14,278	6,969
Interbank loans receivable and SPAR	22,584	31,772	22,584	31,772
Investment securities				
Held-to-maturity, net	72,884	52,432	74,299	56,606
Loans and advances, net	320,216	273,756	323,830	278,896
Other resources, net	4,381	5,568	4,381	5,568
Financial liabilities				
Deposit liabilities	540,352	513,444	540,352	513,444
Bills payable	9,934	5,375	9,934	5,375
Due to BSP and other banks	1,496	1,303	1,496	1,303
Manager's checks and demand drafts outstanding	2,723	2,713	2,723	2,713
Unsecured subordinated debt	5,000	-	5,000	-
Other liabilities	16,159	16,820	16,159	16,820

Parent

	Carrying amount		Fair value	
	2008	2007	2008	2007
(In Millions of Pesos)				
Financial assets				
Due from BSP	P 41,428	P 62,107	P 41,428	P 62,107
Due from other banks	8,114	1,845	8,114	1,845
Interbank loans receivable and SPAR	21,107	29,161	21,107	29,161
Investment securities				
Held-to-maturity, net	63,196	45,555	64,364	49,099
Loans and advances, net	240,681	207,435	241,637	207,962
Other resources, net	3,431	4,168	3,431	4,168
Financial liabilities				
Deposit liabilities	440,889	418,643	440,889	418,643
Bills payable	5,373	2,090	5,373	2,090
Due to BSP and other banks	1,462	1,271	1,462	1,271
Manager's checks and demand drafts outstanding	2,164	2,081	2,164	2,081
Unsecured subordinated debt	5,000	-	5,000	-
Other liabilities	13,894	15,087	13,894	15,087

(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 resources/liabilities

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

3.5 Insurance risk management

The life and non-life insurance subsidiaries 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 subsidiaries arrange reinsurances either thru treaties or facultative placements. They also accredit reinsurers based on certain criteria and set limits as to what can be reinsured. The reinsurance treaties and the accreditation of reinsurers require Board of Directors' approval.

3.6 Capital management

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 unsubordinated debt (see Note 20), net unrealized fair value gains on available-for-sale investments, and general loan loss provisions for BSP reporting purposes.

The table below summarizes the CAR of the BPI Parent and BPI consolidated under the Basel II framework for the years ended December 31, 2008 and 2007. The Basel II framework following BSP Circular 538 took into effect on July 1, 2007.

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
CAR (%)	14.16	14.61	12.52	11.46
Qualifying capital	P 57,365	P 51,272	P 40,882	P 31,781
Total risk weighted assets	P 405,016	P 351,022	P 326,593	P 277,310

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

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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) 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 statement of income, 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.

(b) Fair value of derivatives and other financial instruments (Notes 3.4 and 10)

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.

(c) 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.

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

The BPI Group follows the guidance of PAS 39 on 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.

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

In 2008, the BPI Group has recognized an impairment loss on its foreclosed assets amounting to P669 million (2007 - P87 million).

(f) 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 can not 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:

	2008	2007
	(In Millions of Pesos)	
Cash and cash equivalents (Note 7)	P 63	P 79
Insurance balances receivable, net	2,476	1,732
Investments	17,735	16,771
Land, building and equipment	701	1,461
Accounts receivable and other assets	1,093	1,961
	P 22,068	P 22,004
Reserves and other balances	P 17, 562	P 15,389
Accounts payable, accrued expenses and other payables	1,251	1,095
	P 18,813	P 16,484

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

	2008	2007	2006
	(In Millions of Pesos)		
Premiums earned and related income	P 4,534	P 3,822	P 2,921
Investment and other income	333	1,333	1,680
	4,867	5,155	4,601
Benefits, claims and maturities	1,669	1,280	1,349
Increase in actuarial reserve liabilities	1,068	969	1,030
Management and general expenses	755	755	823
Commissions	581	248	403
Other expenses	206	48	34
	4,279	3,300	3,639
Income before income tax and minority interest	P 588	P 1,855	P 962

Note 6 - Business Segments

The BPI Group derives revenue from the following main operating business segments:

- 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.

Transactions between business segments are on normal commercial terms and conditions.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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, 2008, 2007 and 2006 are as follows:

	2008				
	Consumer Banking	Corporate Banking	Investment Banking	Corporate/ Others	Total
	(In Millions of Pesos)				
Net interest income and other income	P 19,330	P 7,002	P 4,388	P (936)	P 29,784
Operating and other expenses	(14,113)	(2,695)	(872)	(632)	(18,312)
Income before impairment losses and income tax	5,217	4,307	3,516	(1,568)	11,472
Impairment losses	(800)	(1,129)	(1)	-	(1,930)
Income before income tax	4,417	3,178	3,515	(1,568)	9,542
Provision for income tax					(2,985)
Net income for the year					6,557
Segment assets	218,480	224,565	202,126	21,441	666,612
Segment liabilities	561,584	9,716	8,370	23,070	602,740
Other segment items:					
Capital expenditures	1,061	1,393	9	435	2,898
Depreciation and amortization	895	747	19	467	2,128

	2007				
	Consumer Banking	Corporate Banking	Investment Banking	Corporate/ Others	Total
	(In Millions of Pesos)				
Net interest income and other income	P 16,312	P 5,433	P 9,076	P 1,733	P 32,554
Operating and other expenses	(14,381)	(1,876)	(807)	(1,247)	(18,311)
Income before impairment losses and income tax	1,931	3,557	8,269	486	14,243
Impairment losses	(880)	(972)	-	602	(1,250)
Income before income tax	1,051	2,585	8,269	1,088	12,993
Provision for income tax					(2,767)
Net income for the year					10,226
Segment assets	204,421	187,387	223,065	22,412	637,285
Segment liabilities	535,886	8,124	5,612	16,532	566,154
Other segment items:					
Capital expenditures	2,413	79	14	439	2,945
Depreciation and amortization	817	611	14	394	1,836

	2006				
	Consumer Banking	Corporate Banking	Investment Banking	Corporate/ Others	Total
	(In Millions of Pesos)				
Net interest income and other income	P 18,141	P 5,777	P 6,378	P (459)	P 29,837
Operating and other expenses	(12,779)	(1,766)	(539)	(1,579)	(16,663)
Income before impairment losses and income tax	5,362	4,011	5,839	(2,038)	13,174
Impairment losses	(521)	(975)	(28)	-	(1,524)
Income before income tax	4,841	3,036	5,811	(2,038)	11,650
Provision for income tax					(2,456)
Net income for the year					9,194
Segment assets	148,303	168,771	234,874	31,185	583,133
Segment liabilities	484,871	9,520	3,501	19,754	517,646
Other segment items:					
Capital expenditures	2,228	6	4	1,011	3,249
Depreciation and amortization	758	382	15	456	1,611

Segment revenue includes net interest income and other non-interest income. Segment result is represented by income before income tax.

The business segment results presented above include internal transfer pricing adjustments across segments as deemed appropriate by management. Segment assets of corporate banking segment include foreclosed assets classified as assets held for sale in the statement of condition.

Capital expenditures comprise additions to bank premises, furniture, fixtures and equipment.

The Corporate/Others column includes insurance operations, support units and corporate offices.

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

Note 7 - Cash and Cash Equivalents

This account at December 31 consists of:

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
	(In Millions of Pesos)					
Cash and other cash items	P 22,366	P 13,243	P 13,763	P 21,781	P 12,760	P 13,290
Due from Bangko Sentral ng Pilipinas	11,924	37,152	35,161	6,613	28,257	22,794
Due from other banks	14,278	6,969	7,923	8,114	1,845	4,840
Interbank loans receivable and securities purchased under agreements to resell	14,159	24,856	10,289	12,682	22,245	8,604
Cash and cash equivalents attributable to insurance operations	63	79	36	-	-	-
	P 62,790	P 82,299	P 67,172	P 49,190	P 65,107	P 49,528

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

Interbank loans receivable of the Parent Bank in 2008 include overnight lendings to BPI Leasing of P180 million (2007 - P272 million). The account also included lendings to various banks of P13,034 million (2007 - P28,889 million). SPAR of the BPI Group include reverse purchase agreement with Bangko Sentral aggregating P7,790 million (2007 - P2,883 million).

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

Average effective interest rate (%) of interbank loans receivable of the BPI Group at December 31 follow:

	2008	2007
Peso-denominated accounts	5.53	4.99
US dollar-denominated accounts	2.68	4.97

Note 9 - Trading Securities

The account at December 31 consists of:

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Debt securities				
Government securities	P 32,882	P 8,893	P 31,587	P 7,503
Commercial papers of private companies	1,349	-	1,339	-
	34,231	8,893	32,926	7,503
Accrued interest receivable	87	87	73	68
	34,318	8,980	32,999	7,571
Equity securities - listed	81	214	-	-
At December 31	P 34,399	P 9,194	P 32,999	P 7,571

The movement in trading securities is summarized as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
At January 1	P 9,194	P 14,161	P 7,571	P 12,633
Additions	721,000	509,487	594,681	405,877
Disposals	(697,927)	(513,362)	(571,469)	(409,771)
Fair value adjustments	197	(166)	276	(231)
Exchange differences	1,935	(774)	1,935	(774)
Net change in accrued interest receivable	-	(152)	5	(163)
At December 31	P 34,399	P 9,194	P 32,999	P 7,571

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

Note 10 - Derivative Financial Instruments

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

- Currency forwards represent commitments to purchase foreign and domestic currency, including undelivered spot transactions. Forward rate agreements are privately negotiated interest rate futures that call for a cash settlement at a future date for the difference between a contracted rate of interest and the current market rate, based on a notional principal amount.
- Currency and interest rate swaps are commitments to exchange one set of cash flows for another. Swaps result in an economic exchange of currencies or interest rates (for example, fixed rate for floating rate) or a combination of all these (ie, cross-currency interest rate swaps). No exchange of principal takes place, except for certain currency swaps.

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 instrument provide a basis for comparison with instruments recognized on the statement of condition but do not necessarily indicate the amounts of future cash flows involved or the current fair value of the instruments and, therefore, do not indicate 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, the extent to which instruments are favorable or unfavorable, and thus the aggregate fair values of derivative financial assets and liabilities, 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			
	2008	2007	Assets		Liabilities	
			2008	2007	2008	2007
(In Millions of Pesos)						
Freestanding derivatives						
Foreign exchange derivatives						
Currency swaps	P 79,802	P 129,245	P 1,171	P 2,820	P (1,348)	P (2,836)
Currency forwards	5,063	11,834	88	48	(12)	(180)
Interest rate swaps	32,497	27,563	914	255	(1,152)	(344)
Embedded credit derivatives	-	-	9	-	(35)	-
Total derivatives assets (liabilities) held for trading			P 2,182	P 3,123	P (2,547)	P (3,360)

Note 11 - Available-for-Sale Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2008	2007	2008	2007
(In Millions of Pesos)				
Debt securities				
Government securities	P 53,091	P 98,617	P 41,656	P 79,638
Others	8,134	938	7,980	911
	61,225	99,555	49,636	80,549
Accrued interest receivable	969	1,462	896	1,208
	62,194	101,017	50,532	81,757
Equity securities				
Listed	1,268	2,431	11	143
Unlisted	527	396	388	278
	1,795	2,827	399	421
	63,989	103,844	50,931	82,178
Allowance for impairment	(202)	(280)	(200)	(207)
	P 63,787	P 103,564	P 50,731	P 81,971

Average effective interest rates (%) of available-for-sale debt securities of the BPI Group at December 31 follow:

	2008	2007
Peso-denominated accounts	6.07	6.06
Foreign currency-denominated accounts	4.23	5.05

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
At January 1	P 103,564	P 90,680	P 81,971	P 72,666
Additions	248,207	878,249	204,435	822,640
Disposals	(261,865)	(857,450)	(211,042)	(808,320)
Reclassification to Held-to-maturity (Note 12)	(28,276)	-	(26,914)	-
Amortization of (premium)/discount	930	(1,731)	632	(1,250)
Fair value adjustments (Note 22)	(330)	(1,979)	515	(948)
Exchange differences	1,972	(4,336)	1,439	(2,909)
Net change in allowance for impairment	78	(28)	7	(34)
Net change in accrued interest receivable	(493)	159	(312)	126
At December 31	P 63,787	P 103,564	P 50,731	P 81,971

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 (Note 12).

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 Reserves (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, 2008, amounts to P1,711 million.

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
At January 1	P 280	P 252	P 207	P 173
Provision for impairment losses	(78)	34	(7)	34
Write-offs	-	(6)	-	-
At December 31	P 202	P 280	P 200	P 207

Note 12 - Held-to-Maturity Securities

This account at December 31 consists of:

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Government securities	P 67,581	P 51,115	P 58,204	P 44,388
Commercial papers of private companies	3,445	-	3,348	-
	71,026	51,115	61,552	44,388
Accrued interest receivable	1,858	1,317	1,644	1,167
	P 72,884	P 52,432	P 63,196	P 45,555

Average effective interest rates (%) of held-to-maturity securities at December 31 of the BPI Group follow:

	2008	2007
Peso-denominated accounts	8.73	8.97
Foreign currency-denominated accounts	4.42	4.05

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
At January 1	P 52,432	P 68,752	P 45,555	P 61,355
Additions	63,853	114,124	60,133	111,264
Maturities	(72,334)	(126,532)	(70,024)	(123,153)
Reclassification from Available-for-sale (Note 11)	28,276	-	26,914	-
Amortization of premium	(613)	(2,431)	(584)	(2,427)
Exchange differences	729	(1,550)	725	(1,548)
Net change in allowance for impairment	-	49	-	49
Net change in accrued interest receivable	541	20	477	15
At December 31	P 72,884	P 52,432	P 63,196	P 45,555

Note 13 - Loans and Advances

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Loans and discounts	P 301,931	P 255,929	P 217,600	P 185,665
Customers' liability on drafts under letters of credit/trust receipts and bank's acceptances	18,930	15,018	18,864	14,939
Bills purchased	8,739	11,298	8,733	11,294
	329,600	282,245	245,197	211,898
Accrued interest receivable	2,019	1,329	1,627	1,056
Unearned discount/income	(3,886)	(3,200)	(277)	(214)
	327,733	280,374	246,547	212,740
Allowance for impairment	(7,517)	(6,618)	(5,866)	(5,305)
	P 320,216	P 273,756	P 240,681	P 207,435

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

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

	Consolidated		Parent	
	2008	2007	2008	2007
Consumer	28.18	29.11	6.10	8.03
Manufacturing	24.09	22.18	31.80	28.90
Real estate, renting and other related activities	8.53	12.17	11.16	15.98
Agriculture and forestry	10.87	7.67	14.34	10.07
Wholesale and retail trade	9.65	12.31	12.53	15.95
Financial institutions	6.21	5.66	8.20	7.42
Others	12.47	10.90	15.87	13.65
	100.00	100.00	100.00	100.00

2) As to collateral

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Secured loans				
Real estate mortgage	P 111,615	P 98,023	P 58,163	P 52,854
Chattel mortgage	16,148	16,789	2,144	1,076
Others	68,991	14,942	63,892	13,041
	196,754	129,754	124,199	66,971
Unsecured loans	128,960	149,291	120,721	144,713
	P 325,714	P 279,045	P 244,920	P 211,684

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 P6,837 million (2007 - P2,124 million) and P2,276 million (2007 - P2,090 million) are used as security for bills payable (Note 19) of the BPI Group and Parent Bank, respectively.

Average effective interest rates (%) of loans and advances of the BPI Group at December 31 follow:

	2008	2007
Commercial loans		
Peso-denominated loans	6.77	6.50
Foreign currency-denominated loans	4.37	5.61
Mortgage loans	9.71	10.01
Auto loans	11.06	12.08

Non-performing accounts (over 90 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	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Non-performing accounts (NPL 90)	P 12,776	P 13,425	P 10,010	P 10,965
“Loss” category loans with 100% reserves	2,451	2,525	2,408	2,153
Net NPL 90	P 10,325	P 10,900	P 7,602	P 8,812
NPL ratio	3.15%	3.50%	3.08%	3.66%

The non-performing accounts (over 30 days past due) of the BPI Group and the Parent Bank, net of accounts in the “loss” category follow:

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Net NPL 30	P 10,533	P 10,972	P 7,805	P 8,884

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

Consolidated

	2008					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	P 4,041	P 193	P 636	P 1,088	P 660	P 6,618
Provision for impairment losses	113	469	129	515	19	1,245
Transfers / Reallocation	(1,573)	1,586	1	-	17	31
Write-off/disposal	(75)	(23)	-	(222)	(21)	(341)
Unwind of discount	(16)	(20)	-	-	-	(36)
At December 31	P 2,490	P 2,205	P 766	P 1,381	P 675	P 7,517

	2007					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
	(In Millions of Pesos)					
At January 1	P 6,823	P 262	P 360	P 1,061	P 583	P 9,089
Provision for impairment losses	280	78	290	430	85	1,163
Transfer / Reallocation	19	(104)	-	-	(5)	(90)
Write-off/disposal	(2,893)	(21)	(14)	(403)	(3)	(3,334)
Unwind of discount	(188)	(22)	-	-	-	(210)
At December 31	P 4,041	P 193	P 636	P 1,088	P 660	P 6,618

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

Parent

	2008					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
(In Millions of Pesos)						
At January 1	P 720	P 3,273	P 221	P 1,088	P 3	P 5,305
Provision for (reversal of) impairment losses	112	249	(19)	515	33	890
Transfers/Reallocation	1,866	(1,836)	-	-	-	30
Write-off/disposal	(74)	(7)	-	(222)	(21)	(324)
Unwind of discount	(16)	(19)	-	-	-	(35)
At December 31	P 2,608	P 1,660	P 202	P 1,381	P 15	P 5,866
	2007					
	Corporate entities		Retail customers			
	Large corporate customers	Small and medium enterprises	Mortgages	Credit cards	Others	Total
(In Millions of Pesos)						
At January 1	P 2,825	P 3,517	P 45	P 1,061	P 17	P 7,465
Provision for (reversal of) impairment losses	32	208	178	430	(12)	836
Transfers / Reallocation	-	19	-	-	-	19
Write-off/disposal	(2,114)	(315)	(2)	(403)	(2)	(2,836)
Unwind of discount	(23)	(156)	-	-	-	(179)
At December 31	P 720	P 3,273	P 221	P 1,088	P 3	P 5,305

In 2007, the BPI Group sold non-performing loans with aggregate net carrying amount of P642 million (2008 - nil).

Note 14 - Bank Premises, Furniture, Fixtures and Equipment

This account at December 31 consists of:

	Consolidated				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
	(In Millions of Pesos)				
Cost					
January 1, 2008	P 3,763	P 4,385	P 10,784	P 2,786	P 21,718
Additions	5	388	1,178	1,327	2,898
Disposals/amortizations	(209)	(208)	(860)	(540)	(1,817)
Transfers	(32)	32	(1)	-	(1)
December 31, 2008	3,527	4,597	11,101	3,573	22,798
Accumulated depreciation					
January 1, 2008	-	1,634	8,506	680	10,820
Depreciation	-	150	1,039	652	1,841
Disposals/transfers	-	(52)	(776)	(211)	(1,039)
December 31, 2008	-	1,732	8,769	1,121	11,622
Net book value, December 31, 2008	P 3,527	P 2,865	P 2,332	P 2,452	P 11,176

	Consolidated				
	Land	Buildings and leasehold improvements	Furniture and equipment	Equipment for lease	Total
(In Millions of Pesos)					
Cost					
January 1, 2007	P 5,133	P 4,620	P 10,095	P 1,876	P 21,724
Additions	2	315	1,352	1,276	2,945
Disposals/amortizations	(230)	(550)	(663)	(366)	(1,809)
Transfers	(1,142)	-	-	-	(1,142)
December 31, 2007	3,763	4,385	10,784	2,786	21,718
Accumulated depreciation					
January 1, 2007	-	1,664	8,036	297	9,997
Depreciation	-	120	900	498	1,518
Disposals	-	(150)	(430)	(115)	(695)
December 31, 2007	-	1,634	8,506	680	10,820
Net book value, December 31, 2007	P 3,763	P 2,751	P 2,278	P 2,106	P 10,898

	Parent			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
(In Millions of Pesos)				
Cost				
January 1, 2008	P 3,307	P 3,826	P 10,037	P17,170
Additions	4	286	1,024	1,314
Disposals/amortizations	(192)	(187)	(724)	(1,103)
Transfers	(40)	34	-	(6)
December 31, 2008	3,079	3,959	10,337	17,375
Accumulated depreciation				
January 1, 2008	-	1,449	7,880	9,329
Depreciation	-	124	925	1,049
Disposals/transfers	-	(48)	(609)	(657)
December 31, 2008	-	1,525	8,196	9,721
Net book value, December 31, 2008	P 3,079	P 2,434	P 2,141	P 7,654

	Parent			
	Land	Buildings and leasehold improvements	Furniture and equipment	Total
(In Millions of Pesos)				
Cost				
January 1, 2007	P 4,650	P 3,990	P 9,409	P18,049
Additions	2	210	1,272	1,484
Disposals/amortizations	(230)	(374)	(629)	(1,233)
Transfers	(1,115)	-	(15)	(1,130)
December 31, 2007	3,307	3,826	10,037	17,170
Accumulated depreciation				
January 1, 2007	-	1,486	7,444	8,930
Depreciation	-	100	806	906
Disposals/transfers	-	(137)	(370)	(507)
December 31, 2007	-	1,449	7,880	9,329
Net book value, December 31, 2007	P 3,307	P 2,377	P 2,157	P 7,841

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

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

Note 15 - Investment Property

This account at December 31 consists of:

	Consolidated		Parent	
	2008	2007	2008	2007
			(In Millions of Pesos)	
Land	P 3,208	P 3,150	P 3,202	P 3,123
Buildings	1,754	1,738	1,747	1,732
	4,962	4,888	4,949	4,855
Accumulated depreciation	(881)	(819)	(879)	(817)
Allowance for impairment	(1,253)	(1,253)	(1,253)	(1,253)
	P 2,828	P 2,816	P 2,817	P 2,785

The movement in investment property is summarized as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
			(In Millions of Pesos)	
At January 1	P 2,816	P 2,365	P 2,785	P 2,354
Transfers	94	1,218	94	1,198
Disposals	(20)	(673)	-	(673)
Depreciation	(62)	(94)	(62)	(94)
At December 31	P 2,828	P 2,816	P 2,817	P 2,785

Investment property has an aggregate fair value of P4,228 million as of December 2008 and 2007. Depreciation is included in Occupancy and equipment-related expenses in the statement of income.

Note 16 - Equity Investments

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

	Consolidated		Parent	
	2008	2007	2008	2007
			(In Millions of Pesos)	
Carrying value (net of impairment)				
Investments at equity method	P 766	P 933	P -	P -
Investments at cost method	-	-	6,747	7,799
	P 766	P 933	P 6,747	P 7,799

The details of equity investments at cost method in the separate financial statements of the Parent Bank at December 31 are as follows:

	Acquisition cost		Allowance for impairment		Carrying value	
	2008	2007	2008	2007	2008	2007
					(In Millions of Pesos)	
BPI Europe Plc.	P 1,910	P 1,910	P -	P -	P 1,910	P 1,910
BPI Capital	573	1,573	-	-	573	1,573
ALAI	768	768	-	-	768	768
BPI Leasing	645	645	-	-	645	645
Pilipinas Savings Bank	428	428	-	-	428	428
BPI Direct	392	392	-	-	392	392
FGU Insurance Corporation	303	303	-	-	303	303
National Reinsurance Corporation of the Philippines (PhilNaRe)	204	204	-	-	204	204
BPI Family Bank	150	150	-	-	150	150
BPI IFL	143	143	(104)	(104)	39	39
Other equity investments	1,342	1,398	(7)	(11)	1,335	1,387
	P 6,858	P 7,914	P (111)	P (115)	P 6,747	P 7,799

BPI Europe Plc. was incorporated as a bank in England and Wales on July 27, 2006 and started commercial operations in October 2007. This wholly-owned subsidiary is established primarily to expand the BPI Group's banking services to overseas Filipinos.

In 2008, BPI Capital, at its option, redeemed its previously issued preferred shares held by the Parent Bank. The preferred shares were redeemed at par value totaling P1,000 million.

Note 17 - Deferred Income Taxes

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Deferred income tax assets				
Allowance for impairment	P 4,092	P 3,878	P 3,413	P 3,225
Net operating loss carry over (NOLCO)	1,429	2,136	1,412	2,134
Fair value loss on available-for-sale securities	298	224	290	218
Minimum corporate income tax (MCIT)	529	466	457	433
Others	480	802	513	721
Total deferred income tax assets	6,828	7,506	6,085	6,731
Deferred income tax liabilities				
Revaluation gain on properties	(1,104)	(1,136)	(1,104)	(1,136)
Leasing income differential between finance and operating leases	(11)	(68)	-	-
Excess pension asset contribution	-	(111)	-	(12)
Others	(37)	(40)	-	(39)
Total deferred income tax liabilities	(1,152)	(1,355)	(1,104)	(1,187)
	P 5,676	P 6,151	P 4,981	P 5,544

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

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
At January 1	P 6,151	P 6,358	P 5,544	P 5,838
Income statement charge	(862)	(359)	(864)	(449)
Fair value adjustment on available-for-sale securities	74	(79)	72	(73)
Others	313	231	229	228
At December 31	P 5,676	P 6,151	P 4,981	P 5,544

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

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
	(In Millions of Pesos)					
Allowance for impairment	P (214)	P 754	P 794	P (188)	P 712	P 864
NOLCO	708	(187)	(396)	722	(185)	(396)
Pension	(34)	10	37	(12)	7	37
Leasing income differential	57	(94)	(63)	-	-	-
Others	345	(124)	(121)	342	(85)	(98)
	P 862	P 359	P 251	P 864	P 449	P 407

The outstanding NOLCO at December 31 consists of:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2008	2007	2008	2007
		(In Millions of Pesos)			
2008	2011	P 48	P -	P -	P -
2007	2010	1,469	1,469	1,462	1,462
2004/2006	2009	3,245	3,245	3,245	3,245
2005	2008	1,389	1,389	1,389	1,389
2004	2007	-	934	-	934
		6,151	7,037	6,096	7,030
Used portion during the year		(1,116)	-	(1,116)	-
Expired portion during the year		(273)	(934)	(273)	(934)
		4,762	6,103	4,707	6,096
Tax rate		30%	35%	30%	35%
Deferred income tax asset on NOLCO		P 1,429	P 2,136	P 1,412	P 2,134

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

NOLCO expiring in 2009 includes losses sustained from sale of non-performing assets to special purpose vehicle (SPV) entities in 2004 which are carried forward for a period of five years in accordance with the Philippine SPV law.

The details of MCIT at December 31 are as follows:

Year of Incurrence	Year of Expiration	Consolidated		Parent	
		2008	2007	2008	2007
(In Millions of Pesos)					
2008	2011	P 268	P -	P 229	P -
2007	2010	258	258	228	228
2006	2009	208	208	205	205
2005	2008	-	207	-	207
Derecognized MCIT		734	673	662	640
		(205)	(207)	(205)	(207)
		P 529	P 466	P 457	P 433

Note 18 - Other Resources

The account at December 31 consists of the following:

	Consolidated		Parent	
	2008	2007	2008	2007
(In Millions of Pesos)				
Accounts receivable	P 2,572	P 3,069	P 3,202	P 2,865
Residual value of equipment for lease	1,051	960	-	-
Prepaid expenses	690	490	623	431
Other accrued interest receivable	486	922	426	850
Creditable withholding tax	480	304	323	191
Deferred charges	434	479	361	387
Documentary stamp tax	325	328	269	273
Sales contracts receivable	290	494	254	457
Inter-office float items	201	-	332	22
Accrued trust income	198	208	190	200
Returned checks and other cash items	92	442	86	437
Miscellaneous assets	2,350	4,041	1,724	3,461
	9,169	11,737	7,790	9,574
Allowance for impairment	(1,026)	(1,029)	(990)	(995)
	P 8,143	P 10,708	P 6,800	P 8,579

Miscellaneous assets include deposits on leased properties, goodwill and miscellaneous checks.

Note 19 - Bills Payable

This account at December 31 consists of:

	Consolidated		Parent	
	2008	2007	2008	2007
(In Millions of Pesos)				
Foreign banks	P 3,097	P -	P 3,097	P -
Local banks	1,434	2,020	1,406	1,989
Bangko Sentral ng Pilipinas	870	101	870	101
Private firms and individuals	4,533	3,254	-	-
	P 9,934	P 5,375	P 5,373	P 2,090

Average interest rates (%) of bills payable of the BPI Group follow:

	2008	2007
Foreign banks	2.30	-
Local banks - peso-denominated	7.27	10.95
Bangko Sentral ng Pilipinas	5.96	4.19
Private firms and individuals	10.00	7.75

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. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 13).

Note 20 - 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% multiplied by the benchmark rate.

Note 21 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

	Consolidated		Parent	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Bills purchased - contra	P 8,673	P 11,188	P 8,667	P11,183
Accounts payable	2,444	3,144	1,762	2,600
Deposit on lease contract	1,187	983	-	-
Sundry credits	1,082	630	607	590
Vouchers payable	774	279	774	279
Acceptances outstanding	750	638	750	638
Other credits - dormant	396	378	335	330
Withholding tax payable	392	370	311	300
Due to the Treasurer of the Philippines	178	156	164	118
Miscellaneous liabilities	1,849	1,039	1,556	736
	P 17,725	P 18,805	P 14,927	P16,774

Note 22 - Capital Funds

Details of authorized capital stock of the Parent Bank follow:

	2008	2007	2006
	(In Millions of Pesos)		
	Except Par Value Per Share)		
Authorized capital (at P10 par value per share)			
Common shares	P 49,000	P 29,000	P 29,000
Preferred A shares	600	600	600
	P 49,600	P 29,600	P 29,600

On March 18, 2008, the Parent Bank declared 20% stock dividends on total issued and outstanding common shares, distributed to all common shareholders of record 15 working days after the approval by the SEC of the increase in authorized capital stock of the Parent Bank as discussed below.

On June 24, 2008, the SEC approved the Parent Bank's application for increase in its authorized capital stock from P29.6 billion to P49.6 billion as follows:

	From		To	
	Number of shares	Amount (In Millions of Pesos)	Number of shares	Amount (In Millions of Pesos)
Authorized shares (at P10 par value per share)				
Common shares	2,900,000,000	P 29,000	4,900,000,000	P 49,000
Preferred A shares	60,000,000	600	60,000,000	600
		P 29,600		P 49,600

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

	2008	2007	2006
	(In Number of Shares)		
Issued common shares			
At January 1	2,704,452,240	2,704,370,414	2,244,648,263
Transfer from subscribed shares	-	1,450	8,988,812
Stock dividends	540,940,769	-	450,733,339
Issuance of shares during the year	318,229	80,376	-
At December 31	3,245,711,238	2,704,452,240	2,704,370,414
Subscribed common shares			
At January 1	28,170	29,620	9,018,432
Full payment of common shares subscribed	-	(1,450)	(8,988,812)
At December 31	28,170	28,170	29,620

As of December 31, 2008 and 2007, the Parent Bank has 13,792 and 13,877 common stockholders, respectively. There are no preferred shares issued and outstanding at December 31, 2008 and 2007.

Details of movement in reserves for the years ended December 31 follow:

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
	(In Millions of Pesos)					
Fair value reserve on available-for-sale securities, net of deferred income tax						
At January 1	P 2,986	P 4,150	P 401	P 977	P 1,972	P (510)
Net change in fair value (Note 11)	(4,255)	(1,164)	3,749	(2,696)	(995)	2,482
At December 31	(1,269)	2,986	4,150	(1,719)	977	1,972
Fair value reserve on investments of insurance subsidiaries, net of deferred income tax						
At January 1	223	472	157	-	-	-
Net change in fair value	(1,113)	(249)	315	-	-	-
At December 31	(890)	223	472	-	-	-
Stock option scheme (Note 23)						
At January 1	230	89	-	182	70	-
Exercise of options	(21)	(5)	-	(21)	(5)	-
Value of employee services	44	146	89	37	117	70
At December 31	253	230	89	198	182	70
Surplus reserve						
At January 1	963	833	742	963	833	742
Transfer from surplus	80	130	91	80	130	91
At December 31	1,043	963	833	1,043	963	833
	P (863)	P 4,402	P 5,544	P (478)	P 2,122	P 2,875

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2006 to 2008 follow:

Date Declared	Date Approved by the Bangko Sentral	Amount of Dividends	
		Per Share	Total
		(In Millions of Pesos)	
June 21, 2006	July 13, 2006	0.90	P 2,434
October 18, 2006	November 20, 2006	1.00	2,705
November 15, 2006	December 11, 2006	0.90	2,434
April 18, 2007	June 7, 2007	0.90	2,434
November 21, 2007	January 18, 2008	0.90	2,434
November 21, 2007	January 18, 2008	1.00	2,705
June 18, 2008	August 3, 2008	0.90	2,921
December 17, 2008	Pending approval	0.90	2,921

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		
	2008	2007	2006	2008	2007	2006
(In Millions, Except Earnings Per Share Amounts)						
a) Net income attributable to equity holders of the Parent Bank	P 6,423	P 10,012	P 9,040	P 8,305	P 7,984	P 9,100
b) Weighted average number of common shares outstanding during the year after retroactive effect of stock dividends	3,246	3,245	3,245	3,246	3,245	3,245
c) Basic EPS (a/b)	P 1.98	P 3.09	P 2.79	P 2.56	P 2.46	P 2.80

The equivalent common shares arising from potential exercise of stock options (Note 23) have insignificant effect on the calculation of diluted EPS thus, basic and diluted EPS are the same for the years presented.

Note 23 - Stock Option Plan

The BPI Group grants options to qualified officers under its Executive Stock Option Plan (ESOP). The options vest over a period of three years as follows: (a) 40% after the second anniversary of the option grant date; and (b) 60% after the third anniversary of the option grant date. The option to purchase shares under this plan shall expire five years from grant date.

Movements in the number of share options are as follows:

	2008	2007
At January 1	11,926,290	10,568,445
Granted	2,201,663	2,041,421
Exercised	(1,345,182)	(322,238)
Cancelled	(54,704)	(361,338)
At December 31	12,728,067	11,926,290
Exercisable	12,728,067	4,770,516

Options granted in 2008 represent additional entitlement as a result of the declaration of stock dividends by the Parent Bank (Note 22).

The fair value of options granted in 2007 using the Black-Scholes model amounted to P80 million. The significant inputs into the model were share prices of P61.50 at the grant date, exercise price of P37.78, standard deviation of expected share price returns of 30%, option life of 3 years, and annual risk free interest rate of 5.25%. The volatility measured at the standard deviation of expected share price returns is based on statistical analysis of daily share prices over the last three years.

The weighted average share price for share options exercised in 2008 is P31.48 (2007 - P37.78). Options outstanding at December 31, 2008 have remaining contractual life of 2 years and weighted exercise price of P31.48. All outstanding options are fully exercisable as at December 31, 2008.

Note 24 - Other Operating Income

Details of other operating income follow:

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
(In Millions of Pesos)						
Trust and asset management fees	P 1,604	P 1,512	P 1,472	P 1,488	P 1,418	P 1,417
Gain on sale of assets	1,437	1,478	404	986	615	262
Rental income	1,259	1,041	737	309	301	311
Credit card income	785	703	593	785	703	593
Dividend income	67	53	47	4,061	2,631	2,928
Others	946	1,611	1,558	672	931	1,052
	P 6,098	P 6,398	P 4,811	P 8,301	P 6,599	P 6,563

Gain on sale of assets arises mainly from disposals of properties, foreclosed collaterals and non-performing assets.

Dividend income recognized by the Parent Bank substantially pertains to dividend distribution of subsidiaries.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

Note 25 - Leases

The BPI Group and the Parent Bank have various lease agreements which are renewable under certain terms and conditions. The rentals (included in Occupancy and equipment-related expenses) under these lease contracts are as follows:

	Consolidated	Parent
	(In Millions of Pesos)	
2008	P 813	P 562
2007	763	524
2006	718	485

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

	2008	2007
	(In Millions of Pesos)	
No later than 1 year	P 30	P 97
Later than 1 year but no later than 5 years	54	-
	P 84	P 97

Note 26 - Other Operating Expenses

Details of other operating expenses follow:

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
	(In Millions of Pesos)					
Supervision and examination fees	P 1,219	P 1,170	P 1,074	P 997	P 960	P 911
Advertising	802	765	636	628	609	482
Litigation expenses	586	680	633	467	538	474
Travel and communication	511	517	501	388	404	404
Documentary stamps	118	348	356	58	344	346
Management and other professional fees	252	178	166	198	110	112
Office supplies	226	256	394	183	199	338
Insurance	148	125	120	53	37	32
Representation and entertainment	38	31	33	30	24	27
Others	1,011	1,195	572	956	1,354	928
	P 4,911	P 5,265	P 4,485	P 3,958	P 4,579	P 4,054

Note 27 - Income Taxes

A reconciliation between the provision for income tax at the statutory tax rate and the actual provision for income tax for the years ended December 31 follows:

	Consolidated					
	2008		2007		2006	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	P 3,340	35.00	P 4,548	35.00	P 4,078	35.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(285)	(2.98)	(428)	(3.29)	(371)	(3.18)
Tax-exempt income	(1,768)	(18.53)	(2,463)	(18.96)	(2,045)	(17.55)
Others, net	1,698	17.80	1,110	8.54	794	6.81
Actual income tax	P 2,985	31.29	P 2,767	21.29	P 2,456	21.08

	Parent					
	2008		2007		2006	
	Amount	Rate (%)	Amount	Rate (%)	Amount	Rate (%)
	(In Millions of Pesos)					
Statutory income tax	P 3,688	35.00	P 3,450	35.00	P 3,826	35.00
Effect of items not subject to statutory tax rate:						
Income subjected to lower tax rates	(105)	(1.00)	(336)	(3.41)	(386)	(3.53)
Tax-exempt income	(1,900)	(18.03)	(1,868)	(18.95)	(1,842)	(16.85)
Others, net	551	5.23	627	6.36	232	2.12
Actual income tax	P 2,234	21.20	P 1,873	19.00	P 1,830	16.74

"Others, net" in 2008 includes impact of change in corporate income tax rates from 35% to 30% on future deductible and taxable differences.

Note 28 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

	Consolidated		Parent	
	2008	2007	2008	2007
Return on average equity	10.01	15.34	16.46	15.99
Return on average assets	1.06	1.73	1.76	1.77
Net interest margin	3.76	3.83	3.72	3.64

Note 29 - Retirement Plans

BPI and its subsidiaries, and the insurance company subsidiaries 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.

Insurance company subsidiaries

The insurance company subsidiaries have separate retirement benefit plans which are either funded or unfunded and non-contributory. The normal retirement age under these plans is 60 years.

Normal retirement benefits for ALAI employees consist of a lump sum benefit equivalent to 175% of the monthly salary of the employee at the time of his retirement for each year of service or the sum of all contributions made by the respective companies on his behalf including related investment earnings, whichever is larger. Voluntary retirement is allowed for ALAI employees who have attained at least age 50 years and have completed at least 20 years of continuous service and the benefit is determined on the same basis as normal retirement.

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 insurance company subsidiaries 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) Liability (Asset) recognized in the statement of condition

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
	(In Millions of Pesos)					
Present value of defined benefit obligations	P 9,607	P 9,262	P 8,645	P 7,475	P 7,199	P 6,487
Fair value of plan assets	(5,615)	(6,664)	(6,831)	(4,373)	(5,180)	(4,968)
Present value of unfunded obligation	3992	2,598	1,814	3,102	2,019	1,519
Unrecognized actuarial losses	(3,938)	(2,919)	(2,138)	(2,851)	(2,053)	(1,566)
Liability (Asset) recognized in the statement of condition	P 54	P (321)	P (324)	P 251	P (34)	P (47)

Pension liability and asset are included in "Miscellaneous liabilities" (Note 21) and "Miscellaneous assets" (Note 18), respectively.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

Experience adjustments at December 31 follow:

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
(In Millions of Pesos)						
Experience gain on plan liabilities	P 34	P 1,386	P 2,456	P 16	P 1,349	P 1,898
Experience gain (loss) on plan assets	(1,223)	(493)	1,033	(952)	5	707

The movement in plan assets is summarized as follows:

	Consolidated				Parent			
	2008	2007	2006	2005	2008	2007	2006	2005
(In Millions of Pesos)								
At January 1	P6,664	P6,831	P5,272	P4,658	P 5,180	P4,968	P3,883	P 3,313
Expected return on plan assets	553	820	578	503	430	596	426	359
Contributions	471	459	605	337	363	349	496	241
Benefit payments	(850)	(953)	(657)	(508)	(648)	(738)	(479)	(325)
Assets acquired from business combination	-	-	-	406	-	-	-	406
Portion of assets allocated to subsidiaries due to transfer of employees	-	-	-	-	-	-	(65)	-
Actuarial gains (losses)	(1,223)	(493)	1,033	(124)	(952)	5	707	(111)
At December 31	P5,615	P6,664	P6,831	P5,272	P4,373	P5,180	P4,968	P 3,883

The plan assets are comprised of the following:

	Consolidated				Parent			
	2008	2007	2008	2007	2008	2007	2008	2007
	Amount	%	Amount	%	Amount	%	Amount	%
(In Millions of Pesos Except for Rates)								
Equity securities	P2,920	52	P 3,876	58	P2,274	52	P 3,004	58
Debt securities	2,636	47	2,732	41	2,041	47	2,124	41
Others	59	1	56	1	58	1	52	1
	P5,615	100	P 6,664	100	P4,373	100	P 5,180	100

Pension plan assets of the unified retirement plan include investment in BPI's common shares with fair value of P2,370 million and P3,156 million at December 31, 2008 and 2007, respectively. The actual return on plan assets was P670 million loss and P327 million gain at December 31, 2008 and 2007, respectively.

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

	Consolidated				Parent			
	2008	2007	2006	2005	2008	2007	2006	2005
(In Millions of Pesos)								
At January 1	P 9,262	P 8,645	P 5,846	P3,564	P7,199	P6,487	P4,500	P2,535
Current service cost	536	530	333	216	417	396	252	154
Interest cost	769	692	686	500	598	519	521	355
Liability acquired from business combination	-	-	-	1,131	-	-	-	1,131
Portion of liability allocated to subsidiaries due to transfer of employees	-	-	-	-	-	-	(65)	-
Benefit payments	(850)	(953)	(657)	(508)	(648)	(738)	(479)	(325)
Actuarial (gains) losses	(110)	348	2,437	943	(91)	535	1,758	650
At December 31	P 9,607	P 9,262	P 8,645	P5,846	P7,475	P7,199	P6,487	P4,500

(b) Expense recognized in the statement of income

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
	(In Millions of Pesos)					
Current service cost	P 536	P 530	P 333	P 417	P 396	P 252
Interest cost	769	692	686	598	519	521
Expected return on plan assets	(553)	(820)	(578)	(430)	(596)	(426)
Net actuarial loss recognized during the year	95	61	10	64	44	7
Effect of asset ceiling	-	-	(153)	-	-	(153)
Total expense included in Compensation and fringe benefits	P 847	P 463	P 298	P 649	P 363	P 201

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

	2008	2007	2006
Discount rate	10.98%	8.31%	8.00%
Expected return on plan assets	6.13%	12.00%	10.80%
Future salary increases	6.00%	6.00%	8.00%

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, 2008 and 2007 is 21 years. The BPI Group's expected retirement expense for the year ending December 31, 2009 amounts to P1,259 million.

Note 30 - Trust Assets

At December 31, 2008 and 2007, the net asset value of trust assets administered by the BPI Group amounts to about P290 billion and P251 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	
	2008	2007	2008	2007
	(In Millions of Pesos)			
Government securities	P 2,714	P 2,418	P 2,546	P 2,199

Note 31 - Related Party Transactions

Included in the financial statements are various transactions of the BPI Group 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.

Notes to Financial Statements

AS OF DECEMBER 31, 2008 AND 2007 AND EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2008

Significant related party transactions are summarized below:

a) Loans and advances and deposits from related parties

Details of DOSRI loans and interest income earned are as follows:

	Consolidated		Parent	
	2008	2007	2008	2007
		(In Millions of Pesos)		
Outstanding DOSRI loans	7,339	P 7,336	P 7,269	P 7,248
% to total outstanding loans and advances	2.26	2.36	2.97	3.01
% to total outstanding DOSRI loans				
Unsecured DOSRI loans	14.69	26.54	14.83	26.82
Past due DOSRI loans	Nil	Nil	Nil	Nil
Non-performing DOSRI loans	Nil	Nil	Nil	Nil

At December 31, 2008 and 2007, the BPI Group is in full compliance with the General Banking Act and the Bangko Sentral regulations on DOSRI loans.

Deposits from related parties at December 31, 2008 follow:

	Consolidated		Parent	
	2008	2007	2008	2007
		(In Millions of Pesos)		
Subsidiaries	P 1,781	P 1,843	P 1,685	P 1,694
Others	32,696	17,178	32,696	17,178
Total	P 34,477	P 19,021	P 34,381	P 8,872

b) Details of income earned by the Parent Bank from subsidiaries are as follow:

	2008	2007	2006
	(In Millions of Pesos)		
Interest income	P 263	P 70	P 321
Other income	8	8	6

c) Details of expenses charged to the Parent Bank by related parties are as follows:

	2008	2007	2006
	(In Millions of Pesos)		
Interest expense			
Subsidiaries	P 20	P 22	P 5
Others	221	140	104
Other expenses			
Subsidiaries	220	297	278

d) Key management compensation

Details of key management compensation and directors' remuneration follow:

	Consolidated			Parent		
	2008	2007	2006	2008	2007	2006
	(In Millions of Pesos)					
Key management compensation						
Salaries and other short-term benefits	P 404	P 316	P 263	P 240	P 175	P 226
Post-employment benefits	99	89	18	70	61	15
Share-based compensation	8	28	29	4	15	26
Directors' remuneration	40	36	35	34	31	32

Note 32 - Commitments and Contingencies

At present, there are lawsuits and 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.

BANK OF THE PHILIPPINE ISLANDS

List of Subsidiaries
As of December 31, 2008

1. BPI FAMILY SAVINGS BANK
2. BPI CAPITAL CORPORATION
3. PRUDENTIAL INVESTMENT, INC.
4. BPI LEASING CORPORATION
5. BPI INVESTMENT MANAGEMENT, INC.
6. BPI FOREX CORPORATION
7. BPI DIRECT SAVINGS BANK
8. PILIPINAS SAVINGS BANK
9. BPI OPERATIONS MANAGEMENT CORP.
10. BPI COMPUTER SYSTEMS CORPORATION
11. BPI INTERNATIONAL FINANCE LTD
12. BPI EXPRESS REMITTANCE CORP. U.S.A.
13. AYALA LIFE ASSURANCE INC.
14. BPI/MS INSURANCE CORP.
15. BPI BANCASSURANCE, INC.
16. SANTIAGO LAND DEVELOPMENT CORP.
17. FIRST FAR EAST DEVELOPMENT CORP.
18. BPI EUROPE PLC.

BANK OF THE PHILIPPINE ISLANDS

Top 100 Stockholders

As of December 31, 2008

RANK	TOP 100 SHAREHOLDERS	NO. OF SHARES	% *
1	PCD NOMINEE CORPORATION (NON-FILIPINO)	1,066,952,662	32.870%
2	AYALA CORPORATION	699,391,261	21.550%
3	AYALA DBS HOLDINGS, INC.	692,246,658	21.3278%
4	PCD NOMINEE CORPORATION (FILIPINO)	247,205,405	7.6163%
5	MICHIGAN HOLDINGS, INC.	67,093,848	2.0671%
6	TA# 10319838 - BPI GROUP OF COS.	44,412,009	1.3683%
7	ROMAN CATHOLIC ARCHBISHOP OF MLA (REAL CASA DE MISERICORDIA)	37,825,212	1.1653%
8	ROMAN CATHOLIC ARCHBISHOP OF MANILA (HOSPITAL DE SAN JUAN DE DIOS)	24,076,686	0.740%
9	ROMAN CATHOLIC ARCHBISHOP OF MLA (HOSPICIO DE SAN JOSE)	5,495,930	0.1693%
10	BPI GROUP OF COMPANIES RETIREMENT FUND	5,009,091	0.1543%
11	MERCURY GRP. OF COMPANIES, INC	2,962,130	0.0912%
12	XAVIER P. LOINAZ	2,853,153	0.0879%
13	ROMAN CATHOLIC ARCHBISHOP OF MLA (MAYORDOMIA DELA CATEDRAL)	2,433,694	0.0749%
14	SAHARA MGT. & DEV. CORP.	2,264,587	0.0697%
15	TTC DEVELOPMENT CORPORATION	1,827,866	0.0563%
16	FORESIGHT REALTY & DEVELOPMENT CORPORATION	1,769,070	0.0545%
17	VICENTE M. WARNS	1,768,261	0.050%
18	HYLAND REALTY & DEV'T. CORP.	1,767,918	0.0544%
19	ROMAN CATHOLIC ARCHBISHOP OF MLA (ST. PAUL'S HOSPITAL)	1,619,029	0.0498%
20	CHING TAN	1,523,462	0.0469%
21	THE INSULAR LIFE ASSURANCE CO., LTD.	1,489,946	0.0459%
22	MA. INMACULADA Z. ORTOLL	1,431,043	0.0440%
23	MA. ROSARIO ORTOLL ZARAGOZA	1,430,310	0.0440%
24	AMPARO JOVEN DE CORTES	1,267,642	0.0390%
25	TELENTAN BROTHERS & SONS, INC.	1,208,701	0.0372%
26	JAMES L. GO	1,200,000	0.0369%
27	MA. YSABEL P. SYLIANTENG	1,191,419	0.0367%
28	CRAIG AWAD	1,187,586	0.0365%
29	JORGE Z. ORTOLL	1,130,048	0.0348%
30	SOUTHWOOD MINDANAO CORP.	1,104,720	0.0340%
31	AURELIO R. MONTINOLA III	1,082,328	0.0333%
32	MORGAN GUARANTY INTERNATIONAL FINANCE CORPORATION	1,070,496	0.0329%
33	TRUSTEESHIP, INC.	1,051,387	0.0323%
34	EMPIRE INSURANCE COMPANY INC.	1,043,560	0.0321%
35	FRANCISCO ORTIGAS SECURITIES, INC. ACCOUNT#10313	1,008,000	0.0310%
36	KEITH AWAD	1,005,648	0.0309%
37	OCTAVIO V. ESPIRITU	970,506	0.0299%
38	KENNETH AWAD	966,301	0.0297%
39	SALVADOR A. DE LEON	886,075	0.0272%
40	REPUBLIC COMMODITIES CORP	837,730	0.0258%
41	HORIZONS REALTY INC.	804,241	0.0247%
42	METROPOLITAN BANK & TRUST CO.	770,400	0.0237%
43	CARMEL OF THE DIVINE INFANT JESUS OF PRAGUE, INC.	726,819	0.0223%
44	MASONIC HOSPITAL FOR CRIPPLED CHILDREN	704,402	0.0217%
45	SABINO B. IV PADILLA AND/OR LOUISE E.B. PADILLA	667,563	0.0205%
46	EDUARDO OLBES	652,800	0.0201%
46	ANTONIO O. OLBES	652,800	0.0201%
47	RELIANCE COMMERCIAL ENTERPRISES, INC.	648,000	0.0199%
48	ALBERTO L. JUGO	634,582	0.0195%
49	SAGITRO, INC.	631,560	0.0194%
50	EDAN CORPORATION	631,029	0.0194%
51	MONDRAGON SECURITIES CORP.	612,852	0.0188%

52	AGATON L. TIU AND/OR REMINGTON TIU	600,000	0.0184%
53	DANIELLE MARIE SANTIAGO	580,320	0.0178%
54	LOURDES A. GUANZON	575,952	0.0177%
55	PACITA N. LEE	572,875	0.0176%
56	ARCHICOFRADIA DE NUESTRO PADRE JESUS NAZARENO DE RECOLETOS	531,382	0.0163%
57	PETER MAR AND/OR ANNABELLE C. MAR	523,848	0.0161%
58	CHARLOTTE CUA CHENG	518,400	0.0159%
59	ROMAN CATHOLIC ARCHBISHOP OF JARO	491,385	0.0151%
60	RAMON P. SALES	482,730	0.0148%
61	MA. DOMINGA B. PADILLA AND/OR LOUISE E.B. PADILLA	463,584	0.0142%
61	TEODORO B. PADILLA AND/OR LOUISE E.B. PADILLA	463,584	0.0142%
62	MA. BARBARA B. PADILLA AND/OR PADILLA, LOUISE E.B.	463,582	0.0142%
63	ANA MARIA G. SANTOS	459,187	0.0141%
63	CARLOS EDUARDO G. SANTOS	459,187	0.0141%
64	KATRINA G. SANTOS	459,165	0.0141%
64	MA. PATRICIA G. SANTOS	459,165	0.0141%
65	JOSE AUGUSTO G. SANTOS	459,145	0.0141%
65	MA. MAGDALENA G. SANTOS	459,145	0.0141%
66	PHILIPPINE REMNANTS CO., INC.	458,293	0.0141%
67	GABRIEL GEMPERLE DE LEON	457,514	0.0140%
68	OSCAR TE SE UAN	450,914	0.0138%
69	ARISTON ESTRADA JR	450,835	0.0138%
70	KONG LIONG CHIA	437,781	0.0134%
71	AMADO A. CASTRO	414,972	0.0127%
72	ZOILO M. ALBERTO AND/OR ANNA PILAR ALBERTO	405,018	0.0124%
73	LOURDES C. VELEZ	394,107	0.0121%
73	TERESITA C. VELEZ	394,107	0.0121%
74	ROSANA R. BALONKITA	390,063	0.0120%
75	BLANQUITA S. GONZALEZ	389,160	0.0119%
76	INTER ISLANDS INVESTMENTS, INC.	388,699	0.0119%
77	ARAVAL, INC.	377,512	0.0116%
78	HORIZON REALTY, INC.	370,080	0.0114%
79	JUDY CHIA	368,854	0.0113%
80	WILLIAM T. CHUA	364,021	0.0112%
81	CESAR F. BOCALING AND/OR BOCALING, VICTOR H.	363,916	0.0112%
82	CARMEN R. MARTINEZ	360,226	0.0110%
83	KENG SUN MAR AND/OR EDITH UY MAR	357,580	0.0110%
84	CHENG HAN SUI AND/OR BERCK Y. CHENG	354,181	0.0109%
85	MARGARITA G. DE LEON	347,565	0.0107%
86	CORPORACION DE PADRES DOMINICOS	346,874	0.0106%
87	FELIMON CHAN TE	344,433	0.0106%
88	FREDERICK C. TE	342,115	0.0105%
89	S & A INDUSTRIAL CORPORATION	340,056	0.0104%
90	ELENA R. BALONKITA	336,567	0.0103%
91	EDDIE L. HAO	323,412	0.0099%
92	CARLOS Z. ORTOLL	317,086	0.0097%
93	BENIGNO DELA VEGA AND/OR KATRINA DELA VEGA	316,224	0.0097%
94	RAMON P. SALES	302,575	0.0093%
95	KONG CHIP A. CHIA	297,141	0.0091%
96	MA. YSABEL P. SYLIANTENG AND/OR BENEDICT P. SYLIANTENG	296,467	0.0091%
97	AUGUSTO ANGEL S. GONZALEZ	293,500	0.0090%
97	CLARISSA S. GONZALEZ	293,500	0.0090%
97	RENATO S. GONZALEZ JR.	293,500	0.0090%
98	WODEL, INCORPORATED	290,347	0.0089%
99	DAPHNE G. EBRO	287,828	0.0088%
100	DAVID Y. HWANG	285,336	0.0088%

* Percentage to total subscribed Common (voting) shares of 3,245,739,408.

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 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	3,245,739,408	- 0 -	- 0 -	7,600,061	3,238,139,347
Preferred A Shares	60,000,000	- 0 -	- 0 -	- 0 -	- 0 -	- 0 -

SCHEDULE B. AMOUNTS RECEIVABLE FROM DIRECTORS, OFFICERS, EMPLOYEES, RELATED PARTIES AND PRINCIPAL STOCKHOLDERS AS OF DECEMBER 31, 2009

NAME AND DESCRIPTION OF DEBTORS	BALANCE AT BEGINNING OF PERIOD	ADDITIONS	AMOUNTS COLLECTED (P)	AMOUNTS WRITTEN OFF (P)	CURRENT	NOT CURRENT	BALANCE AT END OF PERIOD	DUE DATE	INTEREST RATE	TERMS OF PAYMENT	COLLATERAL
ALABANG COMMERCIAL CORP	50,000,000.00		-	-			50,000,000.00	01/12/2009	7.750	LUMP SUM	CLEAN
	50,000,000.00		-	-			50,000,000.00	01/12/2009	7.750	LUMP SUM	CLEAN
AURORA PROPERTIES	44,000,000.00		44,000,000.00				-	07/22/2008	5.8750	LUMP SUM	CLEAN
AYALA CORP	200,000,000.00		200,000,000.00				-	10/24/2008	5.0000	LUMP SUM	SH OF STOCKS
	200,000,000.00		200,000,000.00				-	10/24/2008	4.5000	LUMP SUM	HOLD OUT
	1,500,000,000.00		-	-			1,500,000,000.00	12/27/2013	6.5000	LUMP SUM	SH OF STOCKS
	2,000,000,000.00		-	-			2,000,000,000.00	12/27/2013	6.5010	LUMP SUM	SH OF STOCKS
		1,509,000,000.00					1,500,000,000.00	12/27/2013	6.5010	LUMP SUM	SH OF STOCKS
AYALA GREENFIELD	20,000,000.00		20,000,000.00				-	01/28/2008	5.8750	LUMP SUM	LOA
	80,000,000.00		60,000,000.00				-	01/25/2008	5.8750	LUMP SUM	LOA
	90,000,000.00		90,000,000.00				-	04/10/2008	5.8750	LUMP SUM	
AYALA SYSTEMS	13,000,000.00		13,000,000.00				-	05/17/2008	6.5000	LUMP SUM	CLEAN
	20,000,000.00		20,000,000.00				-	02/15/2008	5.5010	LUMP SUM	CLEAN
	5,000,000.00		5,000,000.00				-	01/06/2008	6.5010	LUMP SUM	CLEAN
	10,000,000.00		10,000,000.00				-	01/22/2008	6.5010	LUMP SUM	CLEAN
	2,000,000.00		2,000,000.00				-	02/04/2008	6.5010	LUMP SUM	CLEAN
CEBU HOLDINGS INC	180,000,000.00						180,000,000.00	06/09/2012	7.6210	LUMP SUM	REM
CEBU INSULAR HOTEL INC	50,000,000.00						<u>50,000,000.00</u>	12/10/2014	8.0088	LUMP SUM	MTI
	100,000,000.00						<u>100,000,000.00</u>	12/10/2014	8.0088	LUMP SUM	MTI
		100,000,000.00					100,000,000.00	12/10/2014	8.0350	LUMP SUM	MTI
		100,000,000.00					100,000,000.00	12/10/2014	7.1250	LUMP SUM	MPC
IMA LANDHOLDINGS	207,000,000.00						207,000,000.00	09/23/2008	8.0060	LUMP SUM	REM-COMM
AVIDA LAND CORPORATION	100,000,000.00		100,000,000.00				-	02/01/2008	5.7500	LUMP SUM	CLEAN
	50,000,000.00		50,000,000.00				-	01/29/2008	5.7500	LUMP SUM	CLEAN
	50,000,000.00		50,000,000.00				-	01/29/2008	5.7500	LUMP SUM	CLEAN
PANGAN, GREGORIO V. /FE ESPERANZA		2,614,840.00	2,614,840.00				-	09/03/2008	8.7500	LUMP SUM	TR-UNSEC
		920,114.00	920,114.00				-	04/30/2008	8.7500	LUMP SUM	TR-UNSEC
		1,698,875.00	1,698,875.00				-	11/19/2008	9.2510	LUMP SUM	TR-UNSEC
		2,446,048.73	2,446,048.73				-	02/23/2009	9.7510	LUMP SUM	TR-UNSEC
PUS XI CATHOLIC CENTER	26,875,000.00		3,625,000.00								
			3,625,000.00								
			3,625,000.00								
			3,875,000.00				11,625,000.00	09/09/2009	7.4777	LUMP SUM	HOLD-OUT
VALMAYOR HERNANDES	500,000.00		232,947.94								
			249,100.71								
			18,851.35					08/11/2008	9.0060	LUMP SUM	REM-COMM
	500,000.00		208,134.97								
			247,283.27								
			44,801.76					08/11/2008	8.2500	LUMP SUM	REM-COMM
		500,000.00	500,000.00					08/11/2008	9.2500	LUMP SUM	REM-COMM

prepared by:

BETTINA

Noted by:

MGR. EVELYN A. DE LEON