Bank of the Philippine Islands

Financial Statements
As at December 31, 2011 and 2010
and for each of the three years
in the period ended December 31, 2011

Isla Lipana & Co.

Independent Auditor's Report

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

Report on the Financial Statements

We have audited the accompanying consolidated financial statements of Bank of the Philippine Islands and Subsidiaries (the BPI Group) and the parent financial statements of Bank of the Philippine Islands (the Parent Bank), which comprise the consolidated and parent statements of condition as at December 31, 2011 and 2010, and the consolidated and parent statements of income, statements of total comprehensive income, statements of changes in capital funds and statements of cash flows for each of the three years in the period ended December 31, 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

RECEIVED

pwc

Isla Lipana & Co.

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

Opinion

In our opinion, the accompanying consolidated and parent financial statements present fairly, in all material respects, the financial position of the BPI Group and of the Parent Bank as at December 31, 2011 and 2010, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2011 in accordance with Philippine Financial Reporting Standards.

Report on Bureau of Internal Revenue Requirements

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

Isla Lipana & Co.

Bapestaño

Blesilda A. Pestaño
Partner
CPA Cert. No. 40446
P.T.R. No. 0007713, January 2, 2012, Makati City
SEC A.N. (Individual) as general auditors 0049-AR-2, Category A
SEC A.N. (Firm) as general auditors 0009-FR-2
TIN 112-071-927
BIR A.N. 08-000745-7-2010, issued on May 31, 2010; effective until May 30, 2013
BOA/PRC Reg. No. 0142, effective until December 31, 2013

Makati City
February 23, 2012

DATE
RECEIVED

BANK OF THE PHILIPPINE ISLANDS

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

		Consolidated		Parent	
	Notes	2011	2010	2011	2010
RESOURCES					
CASH AND OTHER CASH ITEMS	7	22,395	18,151	21,661	17,573
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	83,759	128,487	70,807	117,806
DUE FROM OTHER BANKS	7	9,297	6,548	5,567	3,209
INTERBANK LOANS RECEIVABLE AND SECURITIES PURCHASED UNDER AGREEMENTS TO RESELL	7, 8	35,277	66,834	24,867	56,237
FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS					
- DERIVATIVE FINANCIAL ASSETS	9	5,389	6,059	5,389	6,059
- TRADING SECURITIES	10	12,275	11,449	11,638	10,293
AVAILABLE-FOR-SALE SECURITIES, net	11	74,084	112,523	64,500	98,910
HELD-TO-MATURITY SECURITIES, net	12	89,742	95,474	79,723	85,136
LOANS AND ADVANCES, net	13	454,499	378,728	337,425	276,494
ASSETS HELD FOR SALE, net	4	9,148	11,774	6,431	8,775
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT, net	14	12,322	11,606	8,199	7,847
INVESTMENT PROPERTIES, net	15	2,637	2,706	2,630	2,696
INVESTMENTS IN SUBSIDIARIES AND ASSOCIATES, net	16	3,069	2,508	7,008	6,959
ASSETS ATTRIBUTABLE TO INSURANCE OPERATIONS	5, 7	12,240	11,916	-	-
DEFERRED INCOME TAX ASSETS, net	17	4,335	5,023	2,958	3,802
OTHER RESOURCES, net	18	12,148	8,360	8,099	5,432
Total resources		842,616	878,146	656,902	707,237

(forward)

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

	Notes	Consolidated		Parent	
		2011	2010	2011	2010
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	19	681,101	719,766	544,414	591,936
DERIVATIVE FINANCIAL LIABILITIES	9	4,814	5,329	4,814	5,329
BILLS PAYABLE	20	19,136	24,868	9,887	17,243
DUE TO BANGKO SENTRAL NG PILIPINAS AND OTHER BANKS		1,717	2,000	1,717	2,003
MANAGER'S CHECKS AND DEMAND DRAFTS OUTSTANDING		4,131	4,187	3,389	3,483
ACCRUED TAXES, INTEREST AND OTHER EXPENSES		4,025	5,119	2,709	3,874
UNSECURED SUBORDINATED DEBT	21	5,000	5,000	5,000	5,000
LIABILITIES ATTRIBUTABLE TO INSURANCE OPERATIONS	5	9,937	9,213	-	-
DEFERRED CREDITS AND OTHER LIABILITIES	22	22,225	20,389	18,569	16,915
Total liabilities		752,086	795,871	590,499	645,783
CAPITAL FUNDS ATTRIBUTABLE TO THE EQUITY HOLDERS OF BPI	23				
Share capital		35,562	35,562	35,562	35,562
Share premium		8,317	8,317	8,317	8,317
Reserves		1,462	1,367	1,462	1,336
Surplus		41,643	35,318	19,870	16,542
Accumulated other comprehensive income (loss)		2,168	467	1,192	(303)
		89,152	81,031	66,403	61,454
NON-CONTROLLING INTEREST		1,378	1,244	-	-
Total capital funds		90,530	82,275	66,403	61,454
Total liabilities and capital funds		842,616	878,146	656,902	707,237

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

BANK OF THE PHILIPPINE ISLANDS

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

		Consolidated			Parent		
	Notes	2011	2010	2009	2011	2010	2009
INTEREST INCOME							
On loans and advances		27,156	25,270	24,440	16,762	15,944	16,059
On held-to-maturity securities		6,023	5,787	5,285	5,383	5,017	4,542
On available-for-sale securities		3,592	3,333	2,127	3,374	3,113	2,006
On deposits with BSP and other banks		2,488	3,409	3,018	2,001	2,952	2,602
On trading securities		812	582	361	767	539	330
Gross receipts tax		(1,382)	(1,394)	(1,344)	(1,009)	(1,063)	(1,040)
		38,689	36,987	33,887	27,278	26,502	24,499
INTEREST EXPENSE							
On deposits	19	11,721	12,069	11,229	7,601	8,081	7,299
On bills payable and other borrowings	20, 21	1,102	1,290	1,256	668	971	983
		12,823	13,359	12,485	8,269	9,052	8,282
NET INTEREST INCOME		25,866	23,628	21,402	19,009	17,450	16,217
IMPAIRMENT LOSSES	4, 11, 13, 18	2,150	3,454	2,535	1,583	2,165	1,983
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		23,716	20,174	18,867	17,426	15,285	14,234
OTHER INCOME							
Fees and commissions		4,607	4,160	3,430	3,777	2,834	2,254
Income from foreign exchange trading		1,770	2,204	1,693	1,596	2,089	1,564
Trading gain on securities		2,948	2,946	1,527	2,712	2,652	1,354
Income attributable to insurance operations	5	949	802	798	-	-	-
Other operating income	25	6,688	5,825	6,417	5,917	4,430	7,905
Gross receipts tax		(1,070)	(1,158)	(872)	(943)	(1,039)	(740)
		15,892	14,779	12,993	13,059	10,966	12,337
OTHER EXPENSES							
Compensation and fringe benefits	30	10,379	9,137	9,155	7,994	6,664	6,631
Occupancy and equipment-related expenses	14, 15, 26	6,476	6,083	5,645	5,080	4,714	4,370
Other operating expenses	27	6,610	5,734	4,876	5,296	4,407	3,882
		23,465	20,954	19,676	18,370	15,785	14,883
INCOME BEFORE INCOME TAX		16,143	13,999	12,184	12,115	10,466	11,688
PROVISION FOR INCOME TAX	28						
Current		3,570	2,866	2,597	2,556	2,033	1,880
Deferred	17	(440)	(346)	922	(297)	127	1,055
		3,130	2,520	3,519	2,259	2,160	2,935
NET INCOME FOR THE YEAR		13,013	11,479	8,665	9,856	8,306	8,753
Attributable to:							
Equity holders of BPI		12,822	11,312	8,516	9,856	8,306	8,753
Non-controlling interest		191	167	149	-	-	-
		13,013	11,479	8,665	9,856	8,306	8,753
Earnings per share for net income attributable to the equity holders of BPI during the year:							
Basic and diluted	23	3.61	3.38	2.62	2.77	2.48	2.69

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

BANK OF THE PHILIPPINE ISLANDS

STATEMENTS OF TOTAL COMPREHENSIVE INCOME
FOR EACH OF THE THREE YEARS IN THE PERIOD ENDED DECEMBER 31, 2011
(In Millions of Pesos)

		Consolidated			Parent		
	Note	2011	2010	2009	2011	2010	2009
NET INCOME FOR THE YEAR		13,013	11,479	8,665	9,856	8,306	8,753
OTHER COMPREHENSIVE INCOME	23						
Net change in fair value reserve on available-for-sale securities, net of tax effect		1,420	1,207	390	1,495	1,021	395
Fair value reserve on investments of insurance subsidiaries, net of tax effect		(63)	323	929	-	-	-
Share in other comprehensive income (loss) of associates		351	830	(134)	-	-	-
Currency translation differences		(5)	(215)	79	-	-	-
Total other comprehensive income, net of tax effect		1,703	2,145	1,264	1,495	1,021	395
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		14,716	13,624	9,929	11,351	9,327	9,148
Attributable to:							
Equity holders of BPI		14,523	13,414	9,732	11,351	9,327	9,148
Non-controlling interest		193	210	197	-	-	-
		14,716	13,624	9,929	11,351	9,327	9,148

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

BANK OF THE PHILIPPINE ISLANDS

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

	Consolidated						
	Attributable to equity holders of BPI (Note 23)						
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Non-controlling interest	Total
Balance, January 1, 2009	32,456	1,374	1,296	30,659	(2,851)	938	63,872
Comprehensive income							
Net income for the year	-	-	-	8,516	-	149	8,665
Other comprehensive income for the year	-	-	-	-	1,216	48	1,264
Total comprehensive income for the year	-	-	-	8,516	1,216	197	9,929
Transactions with owners							
Employee stock option plan:							
Exercise of options	11	38	(74)	-	-	-	(25)
Cash dividends	-	-	-	(5,843)	-	-	(5,843)
Transfer from surplus to reserves	-	-	172	(172)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	(168)	(168)
Total transactions with owners	11	38	98	(6,015)	-	(168)	(6,036)
Balance, December 31, 2009	32,467	1,412	1,394	33,160	(1,635)	967	67,765
Comprehensive income							
Net income for the year	-	-	-	11,312	-	167	11,479
Other comprehensive income for the year	-	-	-	-	2,102	43	2,145
Total comprehensive income for the year	-	-	-	11,312	2,102	210	13,624
Transactions with owners							
Issuance of shares	3,077	6,829	-	-	-	-	9,906
Employee stock option plan:							
Exercise of options	18	76	(137)	-	-	-	(43)
Cash dividends	-	-	-	(9,044)	-	-	(9,044)
Transfer from surplus to reserves	-	-	110	(110)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	67	67
Total transactions with owners	3,095	6,905	(27)	(9,154)	-	67	886
Balance, December 31, 2010	35,562	8,317	1,367	35,318	467	1,244	82,275
Comprehensive income							
Net income for the year	-	-	-	12,822	-	191	13,013
Other comprehensive income for the year	-	-	-	-	1,701	2	1,703
Total comprehensive income for the year	-	-	-	12,822	1,701	193	14,716
Transactions with owners		-	-				
Employee stock option plan:							
Expiration of options	-	-	(42)	42	-	-	-
Cash dividends	-	-	-	(6,402)	-	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-	-
Other changes in non-controlling interest	-	-	-	-	-	(59)	(59)
Total transactions with owners	-	-	95	(6,497)	-	(59)	(6,461)
Balance, December 31, 2011	35,562	8,317	1,462	41,643	2,168	1,378	90,530

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

BANK OF THE PHILIPPINE ISLANDS

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

	Parent (Note 23)					
	Share capital	Share premium	Reserves	Surplus	Accumulated other comprehensive income (loss)	Total
Balance, January 1, 2009	32,456	1,374	1,241	14,652	(1,719)	48,004
Comprehensive income						
Net income for the year	-	-	-	8,753	-	8,753
Other comprehensive income for the year	-	-	-	-	395	395
Total comprehensive income for the year	-	-	-	8,753	395	9,148
Transactions with owners						
Employee stock option plan:						
Exercise of options	11	38	(62)	-	-	(13)
Cash dividends	-	-	-	(5,843)	-	(5,843)
Transfer from surplus to reserves	-	-	172	(172)	-	-
Total transactions with owners	11	38	110	(6,015)	-	(5,856)
Balance, December 31, 2009	32,467	1,412	1,351	17,390	(1,324)	51,296
Comprehensive income						
Net income for the year	-	-	-	8,306	-	8,306
Other comprehensive income for the year	-	-	-	-	1,021	1,021
Total comprehensive income for the year	-	-	-	8,306	1,021	9,327
Transactions with owners						
Issuance of shares	3,077	6,829	-	-	-	9,906
Employee stock option plan:						
Exercise of options	18	76	(125)	-	-	(31)
Cash dividends	-	-	-	(9,044)	-	(9,044)
Transfer from surplus to reserves	-	-	110	(110)	-	-
Total transactions with owners	3,095	6,905	(15)	(9,154)	-	831
Balance, December 31, 2010	35,562	8,317	1,336	16,542	(303)	61,454
Comprehensive income						
Net income for the year	-	-	-	9,856	-	9,856
Other comprehensive income for the year	-	-	-	-	1,495	1,495
Total comprehensive income for the year	-	-	-	9,856	1,495	11,351
Transactions with owners						
Employee stock option plan:						
Expiration of options	-	-	(11)	11	-	-
Cash dividends	-	-	-	(6,402)	-	(6,402)
Transfer from surplus to reserves	-	-	137	(137)	-	-
Total transactions with owners	-	-	126	(6,528)	-	(6,402)
Balance, December 31, 2011	35,562	8,317	1,462	19,870	1,192	66,403

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

BANK OF THE PHILIPPINE ISLANDS

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

		Consolidated			Parent		
	Notes	2011	2010	2009	2011	2010	2009
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before income tax		16,143	13,999	12,184	12,115	10,466	11,688
Adjustments for:							
Impairment losses	4, 11,13, 18	2,150	3,454	2,535	1,583	2,165	1,983
Depreciation and amortization	14, 15	3,040	2,586	2,421	1,920	1,549	1,416
Share in net loss (income) of associates		(216)	(195)	21	-	-	-
Dividend income	25	(47)	(85)	(124)	(1,210)	(206)	(2,906)
Interest income		(40,071)	(38,381)	(35,231)	(28,287)	(27,565)	(25,539)
Interest expense		12,823	13,359	12,485	8,269	9,052	8,282
Operating loss before changes in operating assets and liabilities		(6,178)	(5,263)	(5,709)	(5,610)	(4,539)	(5,076)
Changes in operating assets and liabilities							
(Increase) decrease in:							
Due from Bangko Sentral ng Pilipinas		54,303	(12,731)	(5,074)	52,010	(12,300)	(4,895)
Interbank loans receivable and securities purchased under agreements to resell		3,859	20,403	(15,839)	3,861	20,956	(16,393)
Trading securities, net		(721)	41,760	(18,776)	(1,236)	41,829	(19,071)
Loans and advances, net		(77,418)	(54,907)	(10,064)	(62,188)	(38,573)	(1,907)
Assets held for sale		2,327	2,467	466	2,136	2,260	1,043
Assets attributable to insurance operations		(328)	(209)	15,154	-	-	-
Other resources		(4,185)	(539)	171	(3,006)	(30)	1,862
Increase (decrease) in:							
Deposit liabilities		(38,665)	140,295	39,119	(47,522)	119,905	31,143
Due to Bangko Sentral ng Pilipinas and other banks		(283)	67	438	(285)	68	473
Manager's checks and demand drafts outstanding		(56)	1,128	336	(95)	977	342
Accrued taxes, interest and other expenses		(536)	341	388	(654)	226	382
Liabilities attributable to insurance operations		724	450	(10,051)	-	-	-
Derivative financial instruments		154	(176)	(918)	154	(176)	(918)
Deferred credits and other liabilities		(1,364)	(35)	2,632	(1,547)	(859)	2,791
Cash (used in) generated from operations		(68,367)	133,051	(7,727)	(63,982)	129,746	(10,224)
Interest received		40,467	37,099	35,808	28,623	26,485	24,678
Interest paid		(13,380)	(13,029)	(12,574)	(8,780)	(8,703)	(8,386)
Income taxes paid		(2,442)	(2,670)	(2,735)	(1,415)	(1,824)	(2,036)
Net cash (used in) generated from operating activities		(43,722)	154,451	12,772	(45,554)	145,704	4,032
CASH FLOWS FROM INVESTING ACTIVITIES							
(Increase) decrease in:							
Available-for-sale securities, net	11	39,147	(38,596)	(7,743)	35,311	(36,533)	(9,550)
Held-to-maturity securities, net	12	5,693	(20,259)	(2,056)	5,383	(20,187)	(1,556)
Bank premises, furniture, fixtures and equipment, net	14	(3,246)	(2,531)	(2,476)	(1,784)	(1,376)	(1,478)
Investment properties, net		3	(10)	66	(1)	(10)	66
Investment in subsidiaries and associates, net		(120)	407	(247)	(39)	(17)	(240)
Assets attributable to insurance operations		183	(787)	(4,032)		-	-
Dividends received		47	85	124	1,210	436	3,584
Net cash generated from (used in) investing activities		41,707	(61,691)	(16,364)	40,060	(57,687)	(9,174)

(forward)

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

		Consolidated			Parent		
	Notes	**2011**	2010	2009	**2011**	2010	2009
CASH FLOWS FROM FINANCING ACTIVITIES							
Cash dividends paid		**(3,201)**	(9,044)	(5,843)	**(3,201)**	(9,044)	(5,843)
Proceeds from stock rights offering	23	**-**	9,906	-	**-**	9,906	-
Increase (decrease) in bills payable		**(5,733)**	(7,141)	22,074	**(7,357)**	(7,372)	19,242
Net cash (used in) generated from financing activities		**(8,934)**	(6,279)	16,231	**(10,558)**	(6,510)	13,399
NET(DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		**(10,949)**	86,481	12,639	**(16,052)**	81,507	8,257
CASH AND CASH EQUIVALENTS	7						
January 1		**161,910**	75,429	62,790	**138,954**	57,447	49,190
December 31		**150,961**	161,910	75,429	**122,902**	138,954	57,447

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

BANK OF THE PHILIPPINE ISLANDS

NOTES TO FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011 AND 2010
AND FOR EACH OF THE THREE YEARS
IN THE PERIOD ENDED DECEMBER 31, 2011

Note 1 - General Information

Bank of the Philippine Islands (BPI or the "Parent Bank") is a domestic commercial bank with an expanded banking license and with principal office at BPI Building, Ayala Avenue corner Paseo de Roxas, Makati City. BPI and its subsidiaries (collectively referred to as the "BPI Group") offer a whole breadth of financial services that include corporate banking, consumer banking, investment banking, asset management, corporate finance, securities distribution, and insurance services. At December 31, 2011, the BPI Group has 12,355 employees (2010 - 12,035 employees) and operated 814 branches and 1,868 ATMs to support its delivery of services. The BPI Group also serves its customers through alternative electronic banking channels such as telephone, mobile phone and the internet. The BPI shares have been traded in the Philippine Stock Exchange since October 12, 1971. The Parent Bank was registered with the Securities and Exchange Commission (SEC) on January 4, 1943. This license was extended for another 50 years on January 4, 1993.

These financial statements have been approved and authorized for issuance by the Board of Directors of the Parent Bank on February 15, 2012. There are no material events that occurred subsequent to February 15, 2012 until February 23, 2012.

Note 2 - Summary of Significant Accounting Policies

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

2.1 Basis of preparation

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

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

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

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

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

2.2 New standards, interpretations and amendments to published standards

The BPI Group adopted the following revised standard, amendments to existing standards and interpretations approved by the FRSC which are effective for the BPI Group beginning January 1, 2011:

- *PAS 24 (Revised), Related Party Disclosures* (effective January 1, 2011). The revised standard clarifies and simplifies the definition of a related party and removes the requirement for government-related entities to disclose details of all transactions with the government and other government-related entities. The BPI Group has applied the revised standard from January 1, 2011. As a result of adoption of the revised standard, BPI Group has identified additional related parties and made additional disclosures with respect to those parties (Note 32).

- *PAS 32 (Amendment), Financial Instruments: Presentation - Classification of Rights Issues* (effective February 1, 2010). The amendment addresses the accounting for rights issues that are denominated in a currency other than the functional currency of the issuer. Provided certain conditions are met, such rights issues are now classified as equity regardless of the currency in which the exercise price is denominated. Previously, these issues had to be accounted for as derivative liabilities. The amendment applies retrospectively in accordance with PAS 8, Accounting Policies, Changes in Accounting Estimates and Errors. The BPI Group has applied this amendment from January 1, 2011 but the adoption did not have a significant impact on the financial statements as there were no rights issues.

- *Philippine Interpretation IFRIC 14, PAS 19 - The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction (Amendment)* (effective January 1, 2011). The amendment corrects an unintended consequence of Philippine Interpretation IFRIC 14. Without the amendments, entities are not permitted to recognize as an asset some voluntary prepayments for minimum funding contributions. This was not intended when Philippine Interpretation IFRIC 14 was issued, and the amendment corrects this. The amendment should be applied retrospectively to the earliest comparative period presented. The BPI Group has applied this amendment from January 1, 2011 but the adoption did not have a significant impact on the financial statements as BPI Group's retirement plan does not have minimum funding requirements.

- *Philippine Interpretation IFRIC 19, Extinguishing Financial Liabilities with Equity Instruments* (effective July 1, 2010). The interpretation clarifies the accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to a creditor of the entity to extinguish all or part of the financial liability (debt for equity swap). It requires a gain or loss to be recognized in profit or loss, which is measured as the difference between the carrying amount of the financial liability and the fair value of the equity instruments issued. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments should be measured to reflect the fair value of the financial liability extinguished. The BPI Group has applied the interpretation from January 1, 2011 but the adoption did not have a significant impact on the financial statements as there were no renegotiated financial liabilities.

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

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

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

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

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

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

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

- *PFRS 7, Financial Instruments: Disclosures* (effective January 1, 2011). The amendment emphasizes the interaction between quantitative and qualitative disclosures about the nature and extent of risks associated with financial instruments.

- *PAS 1, Presentation of Financial Statements* (effective January 1, 2011). The amendment clarifies that an entity will present an analysis of other comprehensive income for each component of equity, either in the statement of changes in equity or in the notes to the financial statements. The BPI Group has applied this amendment by presenting the analysis of other comprehensive income in Note 23.

- *PAS 27, Consolidated and Separate Financial Statements* (effective July 1, 2010). The amendment clarifies that the consequential amendments from PAS 27 made to PAS 21, The Effect of Changes in Foreign Exchange Rates, PAS 28, Investments in Associates, and PAS 31, Interests in Joint Ventures, apply prospectively for annual periods beginning on or after July 1, 2009, or earlier when PAS 27 is applied earlier.

- *PAS 34, Interim Financial Reporting* (effective January 1, 2011). The amendment provides guidance to illustrate how to apply disclosure principles in PAS 34 and add disclosure requirements around:

  - The circumstances likely to affect fair values of financial instruments and their classification;
  - Transfers of financial instruments between different levels of the fair value hierarchy;
  - Changes in classification of financial assets; and
  - Changes in contingent liabilities and assets

- *Philippine Interpretation IFRIC 13, Customer Loyalty Programs* (effective January 1, 2011). The amendment clarifies the meaning of 'fair value' in the context of measuring award credits under customer loyalty program.

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

- *PAS 1 (Amendment), Financial Statement Presentation - Other Comprehensive Income* (effective July 1, 2012). The main change resulting from these amendments is a requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss subsequently (reclassification adjustments). The amendments do not address which items are presented in other comprehensive income. The BPI Group will apply the amendment beginning January 1, 2013. The adoption is not expected to have a significant impact on the financial statements but will result in changes in presentation in the statement of total comprehensive income.

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

  The amendments also incorporate into PAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn. The BPI Group will apply the amendments beginning January 1, 2012 but the adoption is not expected to have an impact on the financial statements as investment properties are measured using the cost model.

- *PAS 19 (Amendment), Employee Benefits* (effective January 1, 2013). These amendments eliminate the corridor approach and calculate finance costs on a net funding basis. The amendments would also require recognition of all actuarial gains and losses in other comprehensive income as they occur and of all past service costs in the profit or loss. The amendments replace interest cost and expected return on plan assets with a net interest amount that is calculated by applying the discount rate to the net defined benefit liability (asset). As at December 31, 2011, the BPI Group has unrecognized actuarial loss of P 3.1 billion (Note 30). Upon adoption of these amendments, the BPI Group will recognize the actuarial loss in other comprehensive income.

- *PAS 27 (Revised), Separate Financial Statements* (effective January 1, 2013). The revised standard includes the provisions on separate financial statements that are left after the control provisions of PAS 27 have been included in the new PFRS 10. The BPI Group will apply the revised standard beginning January 1, 2013 but the adoption is not expected to have an impact on the financial statements.

- *PAS 28 (Revised), Investments in Associates and Joint Ventures* (effective January 1, 2013). This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using the equity method following the issuance of PFRS 11. The BPI Group will apply the revised standard beginning January 1, 2013 but the adoption is not expected to have an impact on the financial statements as there are currently no investments in joint ventures.

- *PFRS 1 (Amendment), First-time Adoption of PFRS - Fixed Dates and Hyperinflation* (effective July 1, 2011). These amendments include two changes to PFRS 1, First-time adoption of PFRS. The first replaces references to a fixed date of January 1, 2004 with 'the date of transition to PFRS', thus eliminating the need for entities adopting PFRS for the first time to restate derecognition transactions that occurred before the date of transition to PFRS. The second amendment provides guidance on how an entity should resume presenting financial statements in accordance with PFRS after a period when the entity was unable to comply with PFRS because its functional currency was subject to severe hyperinflation. The BPI Group will apply the amendment beginning January 1, 2012 but the adoption is not expected to have an impact on the financial statements as the BPI Group is not a first-time adopter.

- *PFRS 7 (Amendment), Financial Instruments: Disclosures - Derecognition* (effective July 1, 2011). This amendment will promote transparency in the reporting of transfer transactions and improve users' understanding of the risk exposures relating to transfers of financial assets and the effect of those risks on an entity's financial position, particularly those involving securitization of financial assets. The BPI Group will adopt the amendment beginning January 1, 2012 and provide the additional disclosures required by the amendment upon adoption.

- *PFRS 9, Financial Instruments* (effective January 1, 2015). This standard is the first step in the process to replace PAS 39, Financial Instruments: Recognition and Measurement. PFRS 9 introduces new requirements for classifying and measuring financial assets and is likely to affect the BPI Group's accounting for its financial assets. The adoption of PFRS 9 will affect the BPI Group's accounting for its debt available for sale financial assets as the standard will only allow the recognition of fair value gains and losses in other comprehensive income if they relate to equity investments that are not held for trading. Fair value gains and losses on available-for-sale debt investments will therefore have to be recognized directly in the profit or loss. The BPI Group is currently assessing the full impact of PFRS 9 and intends to adopt PFRS 9 beginning January 1, 2015.

- *PFRS 10, Consolidated Financial Statements* (effective January 1, 2013). This new standard builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The BPI Group is currently assessing PFRS 10's full impact and intends to adopt PFRS 10 beginning January 1, 2013.

- *PFRS 11, Joint Arrangements* (effective January 1, 2013). This new standard is a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement rather than its legal form. There are two types of joint arrangement: joint operations and joint ventures. Joint operations arise where a joint operator has rights to the assets and obligations relating to the arrangement and hence accounts for its interest in assets, liabilities, revenue and expenses. Joint ventures arise where the joint operator has rights to the net assets of the arrangement and hence equity accounts for its interest. Proportional consolidation of joint ventures is no longer allowed. The BPI Group will adopt the standard beginning January 1, 2013 but the adoption is not expected to have a significant impact on the financial statements as the BPI Group is currently not engaged in joint arrangements or joint ventures.

- *PFRS 12, Disclosures of Interests in Other Entities* (effective January 1, 2013). This new standard includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The BPI Group is currently assessing PFRS 12's full impact and intends to adopt PFRS 12 beginning January 1, 2013.

- PFRS 13, Fair Value Measurement (effective January 1, 2013). This new standard aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across PFRS. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The BPI Group is currently assessing PFRS13's full impact and intends to adopt PFRS 13 beginning January 1, 2013.

2.3 Consolidation

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

Name	Country of incorporation	Principal activities	% of ownership	
			2011	2010
BPI Family Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI Capital Corporation (BPICC)	Philippines	Investment house	**100**	100
BPI Leasing Corporation	Philippines	Leasing	**100**	100
BPI Direct Savings Bank, Inc.	Philippines	Banking	**100**	100
BPI International Finance Limited	Hong Kong	Financing	**100**	100
BPI Europe Plc.	England and Wales	Banking (deposit)	**100**	100
BPI Securities Corp.	Philippines	Securities dealer	**100**	100
BPI Card Finance Corp.	Philippines	Financing	**100**	100
Filinvest Algo Financial Corp.	Philippines	Financing	**100**	100
BPI Rental Corporation.	Philippines	Rental	**100**	100
BPI Investment Management Inc.	Philippines	Investment management	**100**	100
Santiago Land Dev. Corp.	Philippines	Land holding	**100**	100
BPI Operations Management Corp.	Philippines	Operations management	**100**	100
BPI Computer Systems Corp.	Philippines	Business systems service	**100**	100
BPI Foreign Exchange Corp.	Philippines	Foreign exchange	**100**	100
BPI Express Remittance Corp. USA	USA	Remittance	**100**	100
BPI Express Remittance Center HK (Ltd.)	Hong Kong	Remittance	**100**	100
BPI Express Remittance Europe, S.p.A.	Italy	Remittance	**100**	100
FEB Insurance Brokers, Inc.	Philippines	Insurance brokers	**-**	100
Prudential Investments, Inc.	Philippines	Investment house	**100**	100
First Far - East Development Corporation	Philippines	Real estate	**100**	100
FEB Stock Brokers, Inc.	Philippines	Securities dealer	**100**	100
Citytrust Securities Corporation	Philippines	Securities dealer	**100**	100
BPI Express Remittance Spain S.A	Spain	Remittance	**100**	100
FEB Speed International	Philippines	Remittance	**100**	100
BPI Bancassurance, Inc. (BPIBI)	Philippines	Bancassurance	**-**	100
Ayala Plans, Inc.	Philippines	Pre-need	**100**	100
FGU Insurance Corporation	Philippines	Non-life insurance	**94.62**	94.62
Prudential Venture Capital Corporation	Philippines	Venture capital	**-**	100
BPI/MS Insurance Corporation	Philippines	Non-life insurance	**50.85**	50.85
BPI Globe BanKO	Philippines	Banking	**40**	40

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

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

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

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

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

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

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

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

(b) Transactions with non-controlling interests

The BPI Group treats transactions with non-controlling interests as transactions with equity owners of the group. For purchases from non-controlling interests, the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary is recorded in equity. Gains or losses on disposals to non-controlling interests are also recorded in equity.

When the BPI Group ceases to have control or significant influence, any retained interest in the entity is re-measured to its fair value, with the change in carrying amount recognized in the profit or loss. The fair value is the initial carrying amount for the purposes of subsequently accounting for the retained interest as an associate, joint venture or financial asset. In addition, any amounts previously recognized in other comprehensive income in respect of that entity are accounted for as if the BPI Group had directly disposed of the related assets or liabilities. This may mean that amounts previously recognized in other comprehensive income are reclassified to profit or loss.

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

(c) Associates

Associates are all entities over which the BPI Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights. Investments in associates in the consolidated financial statements are accounted for by the equity method of accounting and are initially recognized at cost. The BPI Group's investment in associates includes goodwill identified on acquisition (net of any accumulated impairment loss).

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

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

2.4 Investments in subsidiaries and associates

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

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

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

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

2.5 Segment reporting

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

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

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

2.6 Cash and cash equivalents

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

2.7 Sale and repurchase agreements

Securities sold subject to repurchase agreements ('repos') are reclassified in the financial statements as pledged assets when the transferee has the right by contract or custom to sell or repledge the collateral; the counterparty liability is included in deposits from banks or deposits from customers, as appropriate. Securities purchased under agreements to resell ('reverse repos') are treated as loans and advances and included in the statement condition under "Interbank loans receivable and securities purchased under agreements to resell" account. The difference between sale and repurchase price is treated as interest and accrued over the life of the agreements using the effective interest method. Securities lent to counterparties are also retained in the financial statements.

2.8 Financial assets

2.8.1 Classification

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

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

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

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

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

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

(b) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments (i) that are not quoted in an active market, (ii) with no intention of trading, and (iii) that are not designated as available-for-sale. Significant accounts falling under this category are Loans and advances, Due from BSP (liquidity and statutory reserve account) and other banks, Interbank loans receivable and securities purchased under agreements to resell and other receivables under Other resources.

(c) Held-to-maturity securities

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

(d) Available-for-sale securities

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

2.8.2 Recognition and measurement

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

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

2.8.3 Reclassification

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

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

2.8.4 Derecognition

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

2.9 Impairment of financial assets

(a) Assets carried at amortized cost

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

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

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

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

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

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

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

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

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

(b) Assets classified as available-for-sale

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

(c) Renegotiated loans

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

2.10 Financial liabilities

2.10.1 Recognition, classification and measurement

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

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

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

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

(b) Other liabilities measured at amortized cost

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

2.10.2 Derecognition

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

2.11 Determination of fair value of financial instruments

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

- Level 1 - Quoted prices (unadjusted) in active markets for identical assets or liabilities. This level includes listed equity securities and debt instruments on exchanges (for example, Philippine Stock Exchange, Inc., Philippine Dealing and Exchange Corp., etc.).

- Level 2 - Inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices). This level includes the majority of the OTC derivative contracts. The primary source of input parameters like LIBOR yield curve or counterparty credit risk is Bloomberg.

- Level 3 - Inputs for the asset or liability that are not based on observable market data (unobservable inputs). This level includes equity investments and debt instruments with significant unobservable components. This hierarchy requires the use of observable market data when available. The BPI Group considers relevant and observable market prices in its valuations where possible.

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

A financial instrument is regarded as quoted in an active market if quoted prices are readily and regularly available from an exchange, dealer, broker, industry group, pricing service or regulatory agency, and those prices represent actual and regularly occurring market transactions on an arm's length basis. If the above criteria are not met, the market is regarded as being inactive. Indications that a market is inactive are when there is a wide bid-offer spread or significant increase in the bid-offer spread or there are few recent transactions.

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

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

The fair value of over-the-counter (OTC) derivatives is determined using valuation methods that are commonly accepted in the financial markets, such as present value techniques and option pricing models. The fair value of foreign exchange forwards is generally based on current forward exchange rates. Structured interest rate derivatives are measured using appropriate option pricing models (for example, the Black-Scholes model) or other procedures such as Monte Carlo simulation.

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

2.12 Classes of financial instruments

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

	Categories (as defined by PAS 39)	Classes (as determined by the BPI Group) Main classes	Sub-classes	
Financial assets	Financial assets at fair value through profit or loss	- Trading securities	- Debt securities - Equity securities	
		- Derivative financial assets		
	Loans and receivables	- Loans and advances to banks		
		- Loans and advances to customers	- Loans to individuals (retail)	- Real estate mortgages - Auto loans - Credit cards - Others
			- Loans to corporate entities	- Large corporate customers - Small and medium enterprises
	Held-to-maturity investments	- Investment securities (debt securities)	- Government - Others	
	Available-for-sale financial assets	- Investment securities (debt securities)	- Government - Others	
		- Investment securities (equity securities)	- Listed - Unlisted	
Financial Liabilities	Financial liabilities at fair value through profit or loss	Derivative financial liabilities		
	Financial liabilities at amortized cost	- Deposits from customers	- Demand - Savings - Time	
		- Deposits from banks		
		- Unsecured subordinated debts		
		- Bills payable		
		- Other liabilities		
Off-balance sheet financial instruments	Loan commitments			
	Guarantees, acceptances and other financial facilities			

2.13 Offsetting of financial instruments

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

2.14 Derivative financial instruments

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

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

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

2.15 Bank premises, furniture, fixtures and equipment

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

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

Depreciation for buildings and furniture and equipment is calculated using the straight-line method to allocate cost or residual values over the estimated useful lives of the assets, as follows:

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

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

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount. The recoverable amount is the higher of an asset's fair value less costs to sell and value in use.

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

2.16 Investment properties

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

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

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

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

An item of investment properties is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gains and losses arising on derecognition of the asset is included in profit or loss in the period the item is derecognized.

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

2.17 Foreclosed assets

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

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

(a) Investment property is accounted for using the cost model under PAS 40;

(b) Bank-occupied property is accounted for using the cost model under PAS 16; and

(c) Financial assets are classified as available-for-sale.

2.18 Intangible assets

(a) Goodwill

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

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

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

(b) Contractual customer relationships

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

(c) Computer software

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

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

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

2.19 Impairment of non-financial assets

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

2.20 Borrowings and borrowing costs

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

Borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalized as part of the cost of the asset. All other borrowing costs are expensed as incurred.

2.21 Interest income and expense

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

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

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

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

2.22 Fees and commission income

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

2.23 Dividend income

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

2.24 Credit card income

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

2.25 Foreign currency translation

(a) Functional and presentation currency

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

(b) Transactions and balances

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

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

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

(c) Foreign subsidiaries

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

(i) assets and liabilities are translated at the closing rate at reporting date;

(ii) income and expenses are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the dates of the transactions); and

(iii) all resulting exchange differences are recognized as a separate component (Translation adjustments) of Accumulated other comprehensive income (loss) in the capital funds. When a foreign operation is sold, such exchange differences are recognized in profit or loss as part of the gain or loss on sale.

2.26 Accrued expenses and other liabilities

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

2.27 Provisions for legal or contractual obligations

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

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

2.28 Income taxes

(a) Current income tax

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

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

(b) Deferred income tax

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

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

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

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

(c) Recent tax laws and significant regulations

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

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements, income tax returns and information on taxes, duties and license fees paid or accrued during the year.

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

2.29 Employee benefits

(a) Pension obligations

The BPI Group operates various pension schemes. The schemes are funded through payments to trustee-administered funds, determined by periodic actuarial calculations. The BPI Group has a defined benefit plan that shares risks among entities within the group. A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and compensation.

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

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

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

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

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

(b) Share-based compensation

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

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

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

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

(c) Profit sharing and bonus plans

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

2.30 Capital funds

Common shares and preferred shares are classified as share capital.

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

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

2.31 Earnings per share (EPS)

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

2.32 Dividends on common shares

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

2.33 Fiduciary activities

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

2.34 Leases

(a) BPI Group is the lessee

(i) Operating lease - leases in which substantially all risks and rewards of ownership are retained by another party, the lessor, are classified as operating leases. Payments, including prepayments, made under operating leases (net of any incentives received from the lessor) are charged to the profit or loss on a straight-line basis over the period of the lease.

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

(b) BPI Group is the lessor

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

(ii) Finance lease - when assets are leased out under a finance lease, the present value of the lease payments is recognized as a receivable. The difference between the gross receivable and the present value of the receivable is recognized as unearned finance income.

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

2.35 Insurance and pre-need operations

(a) Life insurance

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

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

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

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

(b) Non-life insurance

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

(c) Pre-need

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

2.36 Related party relationships and transactions

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

2.37 Comparatives

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

Where PAS 8 applies, comparative figures have been adjusted to conform with changes in presentation in the current year.

2.38 Subsequent events (or Events after the reporting date)

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

Note 3 - Financial Risk and Capital Management

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

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

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

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

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

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

3.1 Credit risk

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

3.1.1 Credit risk management

(a) Loans and advances

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

The BPI Group assesses the probability of default of individual counterparties using internal rating tools tailored to the various categories of counterparty. The BPI Group has internal credit risk rating systems designed for corporate, small and medium-sized enterprises (SMEs), and retail accounts. For corporate and SMEs, the rating system is a 10-point scale that measures the borrower's credit risk based on quantitative and qualitative factors. The ratings of individual exposures may subsequently migrate between classes as the assessment of their probabilities of default changes. For retail, the consumer credit scoring system is a formula-based model for evaluating each credit application against a set of characteristics that experience has shown to be relevant in predicting repayment. The BPI Group regularly validates the performance of the rating systems and their predictive power with regard to default events, and enhances them if necessary. The BPI Group's internal ratings are mapped to the following standard BSP classifications:

- *Unclassified* - these are loans that do not have a greater-than-normal risk and do not possess the characteristics of loans classified below. The counterparty has the ability to satisfy the obligation in full and therefore minimal loss, if any, is anticipated.

- *Loans especially mentioned* - these are loans that have potential weaknesses that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment of the loan and thus increase the credit risk of the BPI Group.

- *Substandard* - these are loans which appear to involve a substantial degree of risk to the BPI Group because of unfavorable record or unsatisfactory characteristics. Further, these are loans with well-defined weaknesses which may include adverse trends or development of a financial, managerial, economic or political nature, or a significant deterioration in collateral.

- *Doubtful* - these are loans which have the weaknesses similar to those of the substandard classification with added characteristics that existing facts, conditions, and values make collection or liquidation in full highly improbable and substantial loss is probable.

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

(b) Debt securities and other bills

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

3.1.2 Risk limit control and mitigation policies

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

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

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

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

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

(a) Collateral

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

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

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

(b) Derivatives

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

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

(c) Master netting arrangements

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

(d) Credit-related commitments

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

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

3.1.3 Impairment and provisioning policies

As described in Note 3.1.1, the BPI Group's credit-quality mapping on loans and advances is based on the standard BSP loan classifications. Impairment provisions are recognized for financial reporting purposes based on objective evidence of impairment (Note 2.8).

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

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

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

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

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

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

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

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

The preceding table represents the maximum credit risk exposure at December 31, 2011 and 2010, without taking into account any collateral held or other credit enhancements. For on-balance-sheet assets, the exposures set out above are based on net carrying amounts as reported in the statements of condition.

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

- **97%** of the loans and advances portfolio is categorized in the top two classifications of the internal rating system in 2011 (2010 - 97%);
- Mortgage loans are backed by collateral;
- **96%** of the loans and advances portfolio is considered to be neither past due nor impaired (2010 - 95%); and
- The BPI Group continues to implement stringent selection process of granting loans and advances.

3.1.5 Credit quality of loans and advances

Loans and advances are summarized as follows:

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Neither past due nor impaired	**445,355**	370,409	**331,698**	271,001
Past due but not impaired	**3,503**	2,250	**2,410**	1,398
Impaired	**16,301**	16,311	**10,682**	11,366
	465,159	388,970	**344,790**	283,765
Allowance for impairment	**(10,660)**	(10,242)	**(7,365)**	(7,271)
	454,499	378,728	**337,425**	276,494

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

The total consolidated impairment provision for loans and advances is P1,786 million (2010 – P2,574 million), of which P1,251 million (2009 – P2,064 million) represents provision for individually impaired loans and the remaining amount of P535 million (2010 – P510 million) represents the portfolio provision. Further information of the impairment allowance for loans and advances is provided in Note 13.

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

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

(a) Loans and advances neither past due nor impaired

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

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Corporate entities:				
Large corporate customers	**271,394**	215,184	**261,883**	208,451
Small and medium enterprises	**76,655**	70,029	**51,524**	46,806
Retail customers:				
Mortgages	**76,317**	65,873	**62**	314
Credit cards	**17,506**	15,251	**17,506**	15,251
Others	**3,483**	4,072	**723**	179
	445,355	370,409	**331,698**	271,001

(b) Loans and advances past due but not impaired

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

Consolidated

	2011				2010			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	66	164	1,205	**1,435**	29	82	831	942
Past due 31 - 90 days	188	157	936	**1,281**	10	56	802	868
Past due 91 - 180 days	33	293	1	**327**	5	111	43	159
Over 180 days	224	236	-	**460**	26	253	2	281
	511	**850**	**2,142**	**3,503**	70	502	1,678	2,250
Fair value of collateral				**6,786**				5,381

Parent

	2011				2010			
	Large corporate customers	Small and medium enterprises	Retail customers	Total	Large corporate customers	Small and medium enterprises	Retail customers	Total
				(In Millions of Pesos)				
Past due up to 30 days	47	68	1,125	**1,240**	14	15	736	765
Past due 31 - 90 days	161	22	733	**916**	-	17	534	551
Past due 91 - 180 days	-	95	-	**95**	-	22	2	24
Over 180 days	128	31	-	**159**	1	57	-	58
	336	**216**	**1,858**	**2,410**	15	111	1,272	1,398
Fair value of collateral				**430**				338

(c) Loans and advances individually impaired

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

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

3.1.6 Credit quality of other financial assets

a. Due from Bangko Sentral ng Pilipinas

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

b. Due from other banks and interbank loans receivable

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

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

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

c. Derivative financial assets

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

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
AAA	**-**	-	**-**	-
AA- to AA+	**1,348**	872	**1,348**	872
A- to A+	**2,192**	3,199	**2,192**	3,199
Lower than A-	**137**	880	**137**	880
Unrated	**1,712**	1,108	**1,712**	1,108
	5,389	6,059	**5,389**	6,059

d. Debt securities, treasury bills and other government securities

The table below presents the ratings of debt securities, treasury bills and other government securities at December 31, 2011 and 2010 based on Standard & Poor's:

At December 31, 2011

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

At December 31, 2010

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

e. Other financial assets

The BPI Group's other financial assets (shown under Other resources) as of December 31, 2011 and 2010 consist mainly of sales contracts receivable, accounts receivable, accrued interest and fees receivable from various unrated counterparties with good credit standing.

3.1.7 Repossessed or foreclosed collaterals

The BPI Group acquired assets by taking possession of collaterals held as security for loans and advances. As at December 31, 2011, the BPI Group's foreclosed collaterals have carrying amount of P9,148 million (2010 – P11,774 million). The related foreclosed collaterals have aggregate fair value of P10,776 million (2010 – P13,962 million). Foreclosed collaterals include real estate (land, building, and improvements), auto or chattel, bond and stocks.

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

3.1.8 Concentrations of risks of financial assets with credit risk exposure

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

Consolidated

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

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

Parent

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

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

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

3.2 Market risk management

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

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

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

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

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

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

The average daily VaR for the trading portfolios follows:

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

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

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

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

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

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

3.2.1 Foreign exchange risk

The BPI Group takes on exposure to the effects of fluctuations in the prevailing exchange rates on its foreign currency financial position and cash flows. The table below summarizes the BPI Group's exposure to foreign currency exchange rate risk at December 31, 2011 and 2010. Included in the table are the BPI Group's financial instruments at carrying amounts, categorized by currency.

Consolidated

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

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

Parent

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

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

3.2.2 Interest rate risk

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

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

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

Consolidated

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2011					
Financial Assets					
Due from BSP	-	-	-	83,759	**83,759**
Due from other banks	-	-	-	9,297	**9,297**
Interbank loans receivable and SPAR	-	-	-	35,277	**35,277**
Financial assets at fair value through profit or loss					
Derivative financial assets	2,005	969	2,415	-	**5,389**
Trading securities - debt securities	220	-	-	11,713	**11,933**
Available-for-sale - debt securities	5,276	-	-	67,630	**72,906**
Held-to-maturity securities	6	-	-	89,736	**89,742**
Loans and advances, net	357,324	18,527	44,892	33,756	**454,499**
Other financial assets					
Sales contracts receivable, net	-	-	-	462	**462**
Accounts receivable, net	-	-	-	2,377	**2,377**
Other accrued interest and fees receivable	-	-	-	664	**664**
Rental deposits	-	-	-	270	**270**
Others, net	-	-	-	108	**108**
Total financial assets	**364,831**	**19,496**	**47,307**	**335,049**	**766,683**
Financial Liabilities					
Deposit liabilities	374,615	68,390	106,847	131,249	**681,101**
Derivative financial liabilities	1,685	813	2,316	-	**4,814**
Bills payable	-	-	-	19,136	**19,136**
Due to BSP and other banks	-	-	-	1,717	**1,717**
Manager's checks and demand drafts outstanding	-	-	-	4,131	**4,131**
Unsecured subordinated debt	-	-	-	5,000	**5,000**
Other financial liabilities					
Accounts payable	-	-	-	2,918	**2,918**
Outstanding acceptances	-	-	-	1,390	**1,390**
Deposits on lease contract	-	-	-	2,050	**2,050**
Dividends payable	-	-	-	3,201	**3,201**
Others	-	-	-	610	**610**
Total financial liabilities	**376,300**	**69,203**	**109,163**	**171,402**	**726,068**
Total interest gap	**(11,469)**	**(49,707)**	**(61,856)**	**163,647**	**40,615**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2010					
Financial Assets					
Due from BSP	-	-	-	128,487	128,487
Due from other banks	-	-	-	6,548	6,548
Interbank loans receivable and SPAR	-	-	-	66,834	66,834
Financial assets at fair value through profit or loss					
Derivative financial assets	6,059	-	-	-	6,059
Trading securities - debt securities	-	-	-	11,172	11,172
Available-for-sale - debt securities	-	-	-	111,453	111,453
Held-to-maturity securities	-	-	-	95,474	95,474
Loans and advances, net	275,154	17,786	40,515	45,273	378,728
Other financial assets					
Sales contracts receivable, net	-	-	-	534	534
Accounts receivable, net	-	-	-	1,397	1,397
Other accrued interest and fees receivable	-	-	-	667	667
Rental deposits	-	-	-	216	216
Others, net	-	-	-	135	135
Total financial assets	281,213	17,786	40,515	468,190	807,704
Financial Liabilities					
Deposit liabilities	325,202	256,420	17,690	120,454	719,766
Derivative financial liabilities	5,329	-	-	-	5,329
Bills payable	-	-	-	24,868	24,868
Due to BSP and other banks	-	-	-	2,000	2,000
Manager's checks and demand drafts outstanding				4,187	4,187
Unsecured subordinated debt	-	-	-	5,000	5,000
Other financial liabilities					
Accounts payable	-	-	-	2,937	2,937
Outstanding acceptances	-	-	-	1,031	1,031
Deposits on lease contract	-	-	-	1,728	1,728
Others	-	-	-	537	537
Total financial liabilities	330,531	256,420	17,690	162,742	767,383
Total interest gap	(49,318)	(238,634)	22,825	305,448	40,321

Parent

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
			(In Millions of Pesos)		
As at December 31, 2011					
Financial Assets					
Due from BSP	-	-	-	70,807	**70,807**
Due from other banks	-	-	-	5,567	**5,567**
Interbank loans receivable and SPAR	-	-	-	24,867	**24,867**
Financial assets at fair value through profit or loss					
Derivative financial assets	2,005	969	2,415	-	**5,389**
Trading securities - debt securities	220	-	-	11,418	**11,638**
Available-for-sale - debt securities	5,276	-	-	59,007	**64,283**
Held-to-maturity securities	6	-	-	79,717	**79,723**
Loans and advances, net	308,040	4,371	14,859	10,155	**337,425**
Other financial assets					
Sales contracts receivable, net	-	-	-	237	**237**
Accounts receivable, net	-	-	-	1,669	**1,669**
Other accrued interest and fees receivable	-	-	-	594	**594**
Rental deposits	-	-	-	223	**223**
Others, net	-	-	-	136	**136**
Total financial assets	**315,547**	**5,340**	**17,274**	**264,397**	**602,558**
Financial Liabilities					
Deposit liabilities	287,883	53,253	79,830	123,448	**544,414**
Derivative financial liabilities	1,685	813	2,316	-	**4,814**
Bills payable	-	-	-	9,887	**9,887**
Due to BSP and other banks	-	-	-	1,717	**1,717**
Manager's checks and demand drafts outstanding	-	-	-	3,389	**3,389**
Unsecured subordinated debt	-	-	-	5,000	**5,000**
Other financial liabilities					
Accounts payable	-	-	-	2,020	**2,020**
Outstanding acceptances	-	-	-	1,390	**1,390**
Dividends payable	-	-	-	3,201	**3,201**
Others	-	-	-	494	**494**
Total financial liabilities	**289,568**	**54,066**	**82,146**	**150,546**	**576,326**
Total interest gap	**25,979**	**(48,726)**	**(64,872)**	**113,851**	**26,232**

	Repricing				
	Up to 1 year	Over 1 up to 3 years	Over 3 years	Non-repricing	Total
	(In Millions of Pesos)				
As at December 31, 2010					
Financial Assets					
Due from BSP	-	-	-	117,805	117,805
Due from other banks	-	-	-	3,209	3,209
Interbank loans receivable and SPAR	-	-	-	56,237	56,237
Financial assets at fair value through profit or loss					
Derivative financial assets	6,059	-	-	-	6,059
Trading securities - debt securities	-	-	-	10,293	10,293
Available-for-sale - debt securities	-	-	-	98,701	98,701
Held-to-maturity securities	-	-	-	85,136	85,136
Loans and advances, net	234,743	6,393	14,511	20,847	276,494
Other financial assets					
Sales contracts receivable, net	-	-	-	303	303
Accounts receivable, net	-	-	-	1,138	1,138
Other accrued interest and fees receivable	-	-	-	481	481
Rental deposits	-	-	-	170	170
Others, net	-	-	-	151	151
Total financial assets	240,802	6,393	14,511	394,471	656,177
Financial Liabilities					
Deposit liabilities	261,619	217,078	22	113,217	591,936
Derivative financial liabilities	5,329	-	-	-	5,329
Bills payable	-	-	-	17,243	17,243
Due to BSP and other banks	-	-	-	2,003	2,003
Manager's checks and demand drafts outstanding	-	-	-	3,483	3,483
Unsecured subordinated debt	-	-	-	5,000	5,000
Other financial liabilities					
Accounts payable	-	-	-	1,778	1,778
Outstanding acceptances	-	-	-	1,031	1,031
Others	-	-	-	535	535
Total financial liabilities	266,948	217,078	22	144,290	628,338
Total interest gap	(26,146)	(210,685)	14,489	250,188	27,839

3.3 Liquidity risk

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

3.3.1 Liquidity risk management process

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

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

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

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

3.3.2 Funding approach

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

3.3.3 Non-derivative cash flows

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

Consolidated

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

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
As at December 31, 2010				
Financial Assets				
Cash and other cash items	18,151	-	-	18,151
Due from BSP	128,536	-	-	128,536
Due from other banks	6,548	-	-	6,548
Interbank loans receivable and securities under agreements to resell (SPAR)	68,159	-	-	68,159
Financial assets at fair value through profit or loss				
Trading securities	11,330			11,330
Available-for-sale	110,221	4,259	5,783	120,263
Held-to-maturity, net	23,611	40,749	57,025	121,385
Loans and advances, net	235,657	46,915	184,869	467,441
Other financial assets, net				
Sales contracts receivable, net	534	-	-	534
Accounts receivable, net	1,397	-	-	1,397
Other accrued interest and fees receivable	667	-	-	667
Rental deposits	216	-	-	216
Others, net	136	-	-	136
Total financial assets	605,163	91,923	247,677	944,763
Financial Liabilities				
Deposit liabilities	326,619	260,159	143,697	730,475
Bills payable	22,386	657	2,806	25,849
Due to BSP and other banks	2,000	-	-	2,000
Manager’s checks and demand drafts outstanding	4,187	-	-	4,187
Unsecured subordinated debt	423	845	7,112	8,380
Other financial liabilities				
Accounts payable	2,937	-	-	2,937
Outstanding acceptances	1,031	-	-	1,031
Deposits on lease contract	1,728	-	-	1,728
Others	537	-	-	537
Total financial liabilities	361,848	261,661	153,615	777,124
Total maturity gap	243,315	(169,738)	94,062	167,639

Parent

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

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

3.3.4 Derivative cash flows

(a) Derivatives settled on a net basis

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

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Over 3 years	Total
		(In Millions of Pesos)		
Interest rate swap contracts - held for trading				
2011	**(8)**	**(644)**	**(2,316)**	**(2,968)**
2010	(52)	(307)	(1,920)	(2,279)
Non-deliverable forwards - held for trading				
2011	**(890)**	**(146)**	-	**(1,036)**
2010	(1,274)	(851)	-	(2,125)

(b) Derivatives settled on a gross basis

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

Consolidated and Parent

	Up to 1 year	Over 1 up to 3 years	Total
		(In Millions of Pesos)	
Foreign exchange derivatives - held for trading			
2011			
- Outflow	**(76,419)**	-	**(76,419)**
- Inflow	**75,631**	-	**75,631**
2010			
- Outflow	(66,715)	-	(66,715)
- Inflow	65,792	-	65,792

3.4 Fair value of financial assets and liabilities

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

Consolidated

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

Parent

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

(i) Due from BSP and other banks and Interbank loans receivable and SPAR

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

(ii) Investment securities

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

(iii) Loans and advances

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

(iv) Financial liabilities

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

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

(v) Other financial assets / liabilities

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

3.5 Fair value hierarchy

The following table presents the BPI Group's assets and liabilities that are measured at fair value at December 31, 2011.

Consolidated

	Level 1	Level 2	Total
December 31, 2011		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	5,389	**5,389**
Trading securities			
- Debt securities	11,933	-	**11,933**
- Equity securities	342	-	**342**
Available-for-sale financial assets			
- Debt securities	63,840	9,066	**72,906**
- Equity securities	344	-	**344**
	76,459	14,455	**90,914**
Financial liabilities			
Derivative financial liabilities	-	4,814	**4,814**

	Level 1	Level 2	Total
December 31, 2010		(In Millions of Pesos)	
Financial assets			
Financial assets at fair value through profit or loss			
Derivative financial assets	-	6,059	6,059
Trading securities			
- Debt securities	11,172	-	11,172
- Equity securities	277	-	277
Available-for-sale financial assets			-
- Debt securities	102,959	8,494	111,453
- Equity securities	318	-	318
	114,726	14,553	129,279
Financial liabilities			
Derivative financial liabilities	-	5,329	5,329

Parent

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

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

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

3.6 Insurance risk management

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

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

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

3.7 Capital management

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

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

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

The Basel II framework following BSP Circular 538 took into effect on July 1, 2007. The table below summarizes the CAR under the Basel II framework for the years ended December 31, 2011 and 2010.

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

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

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

Note 4 - Critical Accounting Estimates and Judgments

The BPI Group makes estimates and assumptions that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. It is reasonably possible that the outcomes within the next financial year could differ from assumptions made at reporting date and could result in the adjustment to the carrying amount of affected assets or liabilities.

A. Critical accounting estimates

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

The BPI Group reviews its loan portfolios to assess impairment at least on a monthly basis. In determining whether an impairment loss should be recorded in the profit or loss, the BPI Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans before the decrease can be identified with an individual loan in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for loans with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience. To the extent that the net present value of estimated cash flows of individually impaired accounts and the estimated impairment for collectively assessed accounts differs by +/- 5%, impairment provision for the year ended December 31, 2011 would be an estimated P383 million (2010 - P393 million) higher or lower.

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

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

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

The BPI Group estimates its pension benefit obligation and expense for defined benefit pension plans based on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 30 and include, among others, the discount rate, expected return on plan assets and future salary increases. The present value of the defined benefit obligations of the BPI Group at December 31, 2011 and 2010 are determined using the market yields on Philippine government bonds with terms consistent with the expected payments of employee benefits. Plan assets are invested in either equity securities, debt securities or other forms of investments. Equity markets may experience volatility, which could affect the value of pension plan assets. This volatility may make it difficult to estimate the long-term rate of return on plan assets. Actual results that differ from the BPI Group's assumptions are accumulated and amortized over future periods and therefore generally affect the BPI Group's recognized expense and recorded obligation in such future periods. The BPI Group's assumptions are based on actual historical experience and external data regarding compensation and discount rate trends. The BPI Group considers that it is impracticable to disclose with sufficient reliability the possible effects of sensitivities surrounding the estimation of pension liability.

(iv) Valuation of assets held for sale

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

In 2011, the BPI Group has recognized an impairment loss on its foreclosed assets amounting to P299 million (2010 – P267 million).

B. Critical accounting judgments

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

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

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

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

(iii) Classification of assets held for sale

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

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

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

Note 5 - Assets and Liabilities Attributable to Insurance Operations

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

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

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

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

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

Note 6 - Business Segments

In 2009, segment reporting by the BPI Group was prepared for the first time in accordance with PFRS 8. Following the management approach of PFRS 8, operating segments are reported in accordance with the internal reporting provided to the chief executive officer, who is responsible for allocating resources to the reportable segments and assesses their performance. All operating segments used by the BPI Group meet the definition of a reportable segment under PFRS 8.

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

The BPI Group's main operating business segments follow:

- Consumer Banking - this segment addresses the individual and retail markets. It covers deposit taking and servicing, consumer lending such as home mortgages, auto loans and credit card finance as well as the remittance business. It includes the entire transaction processing and service delivery infrastructure consisting of the BPI and BPI Family Bank network of branches, ATMs and point-of-sale terminals as well as phone and Internet-based banking platforms.

- Corporate Banking - this segment consists of the entire lending, leasing, trade and cash management services provided by the BPI Group to corporate and institutional customers. These customers include both high-end corporations as well as various middle market clients.

- Investment Banking - this segment includes the various business groups operating in the investment markets, and dealing in activities other than lending and deposit taking. These services cover corporate finance, securities distribution, asset management, trust and fiduciary services as well as proprietary trading and investment activities.

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

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

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

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

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

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

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

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

The segment assets, liabilities and results of operations of the reportable segments of the BPI Group as of and for the years ended December 31, 2011, 2010 and 2009 are as follows:

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

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

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

Reconciliation of segment results to consolidated results of operations:

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

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

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

"Consolidation adjustments/Others" pertains to balances of support units and inter-segment elimination in accordance with the BPI Group's internal reporting.

Note 7 - Cash and Cash Equivalents

This account at December 31 consists of:

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
			(In Millions of Pesos)			
Cash and other cash items	**22,395**	18,151	18,780	**21,661**	17,573	17,987
Due from Bangko Sentral ng Pilipinas	**83,759**	74,184	21,172	**70,807**	65,795	14,755
Due from other banks	**9,297**	6,548	7,147	**5,567**	3,209	3,363
Interbank loans receivable and securities purchased under agreements to resell (Note 8)	**35,277**	62,973	28,282	**24,867**	52,377	21,342
Cash and cash equivalents attributable to insurance operations (Note 5)	**233**	54	48	-	-	-
	150,961	161,910	75,429	**122,902**	138,954	57,447

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

The account at December 31 consists of transactions with:

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

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

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

	2011	2010
Peso-denominated	**4.03 - 4.54**	2.04 - 3.07
US dollar-denominated	**0.31 - 0.34**	0.26 - 0.31

Note 9 - Derivative Financial Instruments

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

- Foreign exchange forwards represent commitments to purchase or sell one currency against another at an agreed forward rate on a specified date in the future. Settlement can be made via full delivery of forward proceeds or via payment of the difference (non-deliverable forward) between the contracted forward rate and the prevailing market rate on maturity.

- Foreign exchange swaps refer to spot purchase or sale of one currency against another with an agreement to sell or purchase the same currency at an agreed forward rate in the future.

- Interest rate swaps refer to agreement to exchange fixed rate versus floating interest payments (or vice versa) on a reference notional amount over an agreed period of time.

- Cross currency swaps refer to spot exchange of notional amounts on two currencies at a given exchange rate and with an agreement to re-exchange the same notional amounts at a specified maturity date based on the original exchange rate. Parties on the transaction agree to pay a stated interest rate on the borrowed notional amount and receive a stated interest rate on the lent notional amount, payable or receivable periodically over the term of the transaction.

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

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

Consolidated and Parent

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

Note 10 - Trading Securities

The account at December 31 consists of:

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

Note 11 - Available-for-Sale Securities

This account at December 31 consists of:

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

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

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

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

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

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

On October 22, 2008, the BPI Group reclassified certain available-for-sale securities aggregating P19.1 billion to held-to-maturity category. Likewise, on November 12, 2008, an additional portfolio of US dollar-denominated available-for-sale securities totaling US$171.6 million (or peso equivalent of P9.2 billion) was further reclassified from available-for-sale to held-to-maturity.

The reclassification was triggered by management's change in intention over the securities in the light of volatile market prices due to global economic downturn. Management believes that despite the market uncertainties, the BPI Group has the capability to hold those reclassified securities until maturity dates.

The aggregate fair value loss of those securities at reclassification dates still recognized in Accumulated other comprehensive income (under Capital funds), and which will be amortized over the remaining lives of the instruments using the effective interest rate method amounts to P1,757 million. Unamortized fair value loss as of December 31, 2011 and 2010, amounts to P694 million and P1,111 million, respectively.

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

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

Note 12 - Held-to-Maturity Securities

This account at December 31 consists of:

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

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

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

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

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

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

Note 13 - Loans and Advances

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

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

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

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

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

Details of future minimum lease collections follow:

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

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

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

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

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

2) As to collateral

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

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

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

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

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

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

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

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

Consolidated

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

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

Parent

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

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

Note 14 - Bank Premises, Furniture, Fixtures and Equipment

This account at December 31 consists of:

Consolidated

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

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

Parent

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

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

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

Note 15 - Investment Properties

This account at December 31 consists of:

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

The movement in investment properties is summarized as follows:

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

Investment properties have aggregate fair value of P5,899 million as of December 31, 2011 (2010 - P12,365 million). Fair value of investment property is determined on the basis of appraisal made by an internal or an external appraiser duly certified by the BPI Group's credit policy group. Valuation methods employed by the appraisers include the cost approach, market data approach, reproduction cost approach, development cost approach and income approach.

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

Rental income earned from investment properties amount to P245 million for the year ended December 31, 2011 (2010 – P216 million; 2009 – P195 million).

Note 16 - Investments in Subsidiaries and Associates

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

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Carrying value (net of impairment)				
Investments at equity method	**3,069**	2,508	**-**	-
Investments at cost method	**-**	-	**7,008**	6,969
	3,069	2,508	**7,008**	6,969

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

Name of entity	Percentage of ownership interest (%) 2011	2010	Acquisition cost 2011	2010
			(In Millions of Pesos)	
BPI - Philamlife Assurance Corporation*	**47.67**	47.67	**371**	371
National Reinsurance Corporation**	**15.74**	15.74	**204**	204
Beacon Properties	**20.00**	20.00	**100**	100
Victoria 1552 Investments, LP	**35.00**	35.00	**7**	7
Citytrust Realty Corporation	**40.00**	40.00	**2**	2
			684	684
Allowance for impairment			**(7)**	(7)
			677	677

**Became an associate due to loss of control in 2009*
***BPI Group has significant influence*

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

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

Summarized unaudited financial information of associates follows:

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

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

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

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

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

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

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

Note 17 - Deferred Income Taxes

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

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

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

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

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

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

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

The outstanding NOLCO at December 31 consists of:

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

The details of MCIT at December 31 are as follows:

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

Note 18 - Other Resources

The account at December 31 consists of the following:

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

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

On December 8, 2010, BPI signed an agreement with ING Bank N.V. – Manila Branch (“ING”) to purchase the latter’s trust business. On February 16, 2011, BPI and ING received the approval of the transaction from the BSP subject to certain conditions. Subsequently, the amendment of the Plan Rules of the Unit Investment Trust Funds ("UITF") managed by ING was approved by the Monetary Board in its meeting on March 25, 2011 allowing BPI to act as Trustee of these UITFs which shall be renamed Odyssey Funds.

The acquisition was finally completed on March 30, 2011. The purchase of ING’s trust department was accounted for as an acquisition of business under PFRS 3. The main assets acquired from this transaction consist of intangible asset in the form of contractual customer relationships which have an aggregate fair value of P2,775 million and certain IT and transportation equipment valued at P25 million. The contractual customer relationships are expected to have a useful life of 10 years. There were no liabilities assumed from the acquisition.

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

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

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

Note 19 - Deposit Liabilities

This account at December 31 consists of:

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

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

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

	Consolidated			Parent		
	2011	2010	2009	**2011**	2010	2009
	(In Millions of Pesos)					
Demand	**692**	628	607	**645**	583	563
Savings	**2,325**	1,608	1,136	**1,954**	1,345	938
Time	**8,704**	9,833	9,486	**5,002**	6,153	5,798
	11,721	12,069	11,229	**7,601**	8,081	7,299

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

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

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

Note 20 - Bills Payable

This account at December 31 consists of:

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

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

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

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

Bills payable include funds borrowed from Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Social Security System (SSS) which were relent to customers of the BPI Group in accordance with the financing programs of LBP, DBP and SSS and credit balances of settlement bank accounts. The average payment terms of these bills payable is 1.12 years. Loans and advances of the BPI Group arising from these financing programs serve as security for the related bills payable (Note 13).

Note 21 - Unsecured Subordinated Debt

On December 12, 2008 (issue date), the Parent Bank issued P5,000 million worth of unsecured subordinated notes (the "Notes") eligible as Lower Tier 2 capital pursuant to BSP Circular No. 280, series of 2001, as amended. The Notes will at all times, rank *pari passu* and without any preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Bank, except obligations mandatorily preferred by law. The Notes bear interest at the rate of 8.45% per annum and will mature on December 12, 2018 (maturity date). The interest is payable quarterly in arrears from December 12, 2008 until December 11, 2018. The Notes are redeemable in whole and not only in part at the exclusive option of the Parent Bank on December 13, 2013 (redemption date) subject to the satisfaction of certain regulatory approval requirements. Unless the Notes are earlier redeemed on December 13, 2013, the applicable interest rate will be increased to the rate equal to 80% multiplied by the 5-year on-the-run Philippine Treasury benchmark bid yield (benchmark rate) on the first day of the 21st interest period plus the step-up spread. The step-up spread is equal to 150% of 8.45% less 80% of the benchmark rate.

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

Note 22 - Deferred Credits and Other Liabilities

The account at December 31 consists of the following:

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

Bills purchased – contra represents liabilities arising from the outright purchases of checks before actual clearing as a means of immediate financing offered by the BPI Group. Miscellaneous liabilities include insurance and other employee-related payables.

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

Note 23 - Capital Funds

Details of authorized capital stock of the Parent Bank follow:

	2011	2010	2009
	(In Millions of Pesos Except Par Value Per Share)		
Authorized capital (at P10 par value per share)			
Common shares	49,000	49,000	49,000
Preferred A shares	600	600	600
	49,600	49,600	49,600

Details of outstanding common shares follow:

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

In August 2010, the Parent Bank offered for subscription a total of 307,692,307 of its common shares to eligible shareholders on a pre-emptive rights basis at P32.50 per share. The net proceeds from the rights offer amounting to P9.91 billion have augmented further the Parent Bank's capital base and have been fully invested in loans at December 31, 2010.

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

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

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

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

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

Surplus reserves consist of:

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

In compliance with existing BSP regulations, 10% of the Parent Bank's income from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business reaches 20% of the Parent Bank's regulatory net worth.

Reserve for self-insurance represents the amount set aside to cover losses due to fire, defalcation by and other unlawful acts of personnel and third parties.

Cash dividends declared by the Board of Directors of the Parent Bank during the years 2008 to 2011 follow:

		Amount of dividends	
Date declared	Date approved by the BSP	Per share	Total (In Millions of Pesos)
December 17, 2008	February 18, 2009	0.90	2,921
June 17, 2009	August 3, 2009	0.90	2,922
December 16, 2009	January 25, 2010	0.90	2,922
May 20, 2010	June 22, 2010	0.90	2,922
October 22, 2010	November 15, 2010	0.90	3,200
May 18, 2011	June 8, 2011	0.90	3,201
November 16, 2011	December 8, 2011	0.90	3,201

Cash dividends declared are payable to common shareholders of record as of 15th day from receipt by the Parent Bank of the approval by the Bangko Sentral and distributable on the 15th day from the said record date.

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

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

The equivalent common shares arising from potential exercise of stock options (Note 24) have insignificant effect on the calculation of diluted EPS thus, basic and diluted EPS are the same for the years presented.

Note 24 - Stock Option Plan

Movements in the number of share options are as follows:

	2011	2010
At January 1	**-**	7,617,387
Granted	**-**	-
Exercised	**-**	(7,438,864)
Cancelled	**-**	(178,523)
At December 31	**-**	-
Exercisable	**-**	-

Note 25 - Other Operating Income

Details of other operating income follow:

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

Trust and asset management fees arise from the BPI Group's asset management and trust services and are based on agreed terms with various managed funds and investments.

Rental income is earned by the BPI Group by leasing out its investment properties (Note 15) and other assets which consist mainly of fleet of vehicles.

Gain on sale of assets arises mainly from disposals of properties (including equity investments), foreclosed collaterals and non-performing assets.

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

Note 26 - Leases

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

	Consolidated	Parent
	(In Millions of Pesos)	
2011	**870**	**684**
2010	809	634
2009	777	607

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

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

Note 27 - Other Operating Expenses

Details of other operating expenses follow:

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

Note 28 - Income Taxes

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

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

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

Note 29 - Basic Quantitative Indicators of Financial Performance

The key financial performance indicators follow (in %):

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

Note 30 - Retirement Plans

BPI and its subsidiaries, and the non-life insurance company have separate trusteed, noncontributory retirement benefit plans covering all qualified officers and employees. The description of the plans follows:

BPI

BPI has a unified plan which includes its subsidiaries other than insurance companies. Under this plan, the normal retirement age is 60 years. Normal retirement benefit consists of a lump sum benefit equivalent to 200% of the basic monthly salary of the employee at the time of his retirement for each year of service, if he has rendered at least 10 years of service, or to 150% of his basic monthly salary, if he has rendered less than 10 years of service. For voluntary retirement, the benefit is equivalent to 112.50% of the employee's basic monthly salary for a minimum of 10 years of service with the rate factor progressing to a maximum of 200% of basic monthly salary for service years of 25 or more. Death or disability benefit, on the other hand, shall be determined on the same basis as in voluntary retirement.

Non-life insurance subsidiary

BPI/MS has a separate trusteed defined benefit plan. Under the plan, the normal retirement age is 60 years or the employee should have completed at least 10 years of service, whichever is earlier. The normal retirement benefit is equal to 150% of the final basic monthly salary for each year of service for below 10 years and 175% of the final basic monthly salary for each year of service for 10 years and above.

Death or disability benefit for all employees of the non-life insurance company shall be determined on the same basis as in normal or voluntary retirement as the case may be.

Following are the amounts recognized based on recent actuarial valuations:

(a) Pension liability (asset) recognized in the statement of condition

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

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

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

Experience adjustments at December 31 follow:

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

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

The movement in plan assets is summarized as follows:

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

The plan assets are comprised of the following:

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

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

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

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

(b) Expense recognized in the profit or loss

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

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

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

The expected return on plan assets was determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the reporting date. Expected returns on equity securities and property investments reflect long-term real rates of return experienced in the respective markets.

Assumptions regarding future mortality and disability experience are based on published statistics generally used for local actuarial valuation purposes.

The average remaining service life of employees under the BPI unified retirement plan as at December 31, 2011 and 2010 is 21 years. The BPI Group's expected retirement contribution for the year ending December 31, 2012 amounts to P1,119 million.

Note 31 - Trust Assets

As disclosed in Note 18, BPI and ING received on February 16, 2011 the approval from BSP of BPI's purchase of the latter's trust business subject to certain conditions. Subsequently, the amendment of the Plan Rules of UITFs managed by ING was approved by the Monetary Board in its meeting on March 25, 2011 allowing BPI to act as Trustee of these UITFs which was named as Odyssey Funds.

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

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

	Consolidated		Parent	
	2011	2010	**2011**	2010
	(In Millions of Pesos)			
Government securities	**6,241**	4,924	**6,089**	4,768

Note 32 - Related Party Transactions

In the normal course of the business, the Parent Bank transacts with related parties consisting of its subsidiaries and associates. Likewise, the BPI Group has transactions with Ayala Corporation (AC) and its subsidiaries (Ayala Group). AC has a significant influence over the BPI Group as at reporting dates.

These transactions such as loans and advances, deposit arrangements, trading of government securities and commercial papers, sale of assets, lease of bank premises, investment advisory/management, service arrangements and advances for operating expenses are made in the normal banking activities and have terms and conditions comparable to those offered to non-related parties entities.

Significant related party transactions are summarized below:

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

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

Details of DOSRI loans are as follows:

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

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

b) Deposits from related parties at December 31 follow:

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

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

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

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

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

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

d) Key management compensation

Details of key management compensation and directors' remuneration follow:

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

Note 33 - Commitments and Contingencies

At present, there are lawsuits, claims and tax assessments pending against the BPI Group. In the opinion of management, after reviewing all actions and proceedings and court decisions with legal counsels, the aggregate liability or loss, if any, arising therefrom will not have a material effect on the BPI Group's financial position or financial performance.

BPI and some of its subsidiaries are defendants in legal actions arising from normal business activities. Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the financial statements.

In the normal course of business, the BPI Group makes various commitments (Note 3.1.4) that are not presented in the financial statements. The BPI Group does not anticipate any material losses from these commitments.

Note 34 - Supplementary information required by the Bureau of Internal Revenue

(a) Supplementary information required by Revenue Regulation No 15-2010

On December 28, 2010, Revenue Regulation (RR) No. 15-2010 became effective and amended certain provisions of RR No. 21-2002 prescribing the manner of compliance with any documentary and/or procedural requirements in connection with the preparation and submission of financial statements and income tax returns. Section 2 of RR No. 21-2002 was further amended to include in the notes to financial statements information on taxes, duties and license fees paid or accrued during the year in addition to what is mandated by PFRS.

Below is the additional information required by RR No. 15-2010 that is relevant to the Parent Bank. This information is presented for purposes of filing with the Bureau of Internal Revenue (BIR) and is not a required part of the basic financial statements.

(i) Documentary stamp tax

Documentary stamp taxes paid for the years ended December 31 consist of:

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

A portion of the amount disclosed above was passed on to the counterparties.

(ii) Withholding taxes

Withholding taxes paid/accrued and/or withheld for the years ended December 31 consist of:

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

(iii) All other local and national taxes

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

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

(iv) Tax cases and assessments

As at reporting date, (i) the Parent Bank has outstanding cases filed in courts against local government units contesting certain local tax assessments and the tax authorities for various claims for tax refund. Management is of the opinion that the ultimate outcome of these cases will not have a material impact on the financial statements of the Parent Bank and (ii) the only year that remains open and currently under tax examination, for which no assessment has yet been received, is taxable year 2009.

(b) Supplementary information required by Revenue Regulation No. 19-2011

RR No. 19-2011 prescribes the new BIR forms that should be used for income tax filing covering and starting with the calendar year 2011 and modifies Revenue Memorandum Circular No. 57-2011. In the Guidelines and Instructions Section of the new BIR Form 1702 (version November 2011), a required attachment to the income tax returns is an Account Information Form and/or Financial Statements that include in the Notes to Financial Statements schedules of sales/receipts/fees, cost of sales/services, non-operating and taxable other income, itemized deductions (if the taxpayer did not avail of OSD), taxes and licenses and other information prescribed to be disclosed in the Notes to Financial statements.

Below is the additional information required by RR No. 19-2011 that is relevant to the Parent Bank. This information is presented for purposes of filing with the BIR and is not a required part of the basic financial statements.

(i) Sales/receipts/fees

	Non-taxable	Final tax	Regular rate	Total
Interest income	2,738	8,764	16,796	28,298

(ii) Cost of services/Direct costs

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

(iii) Non-operating and taxable other income

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

(iv) Itemized deductions

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

(v) Taxes and licenses

The details of the Parent Bank’s taxes and licenses are presented in section (a) of this note.

(vi) Other information

All other information prescribed to be disclosed by the BIR has been included in this note.