ANNUAL REPORT 2012


BDO
BDO
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ANNUAL REPORT 2012
Financial Supplements

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CORPORATE MISSION

To be the preferred bank in every market we serve by consistently providing innovative products and flawless delivery of services, proactively reinventing ourselves to meet market demands, creating shareholders value through superior returns, cultivating in our people a sense of pride and ownership, and striving to be always better than what we are today…tomorrow.

CORE VALUES

Commitment to Customers
We are committed to deliver products and services that surpass customer expectations in value and every aspect of customer service, while remaining to be prudent and trustworthy stewards of their wealth.

Commitment to a Dynamic and Efficient Organization
We are committed to creating an organization that is flexible, responds to change and encourages innovation and creativity. We are committed to the process of continuous improvements in everything we do.

Commitment to Employees
We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism and performance are valued above all else.

Commitment to Shareholders
We are committed to provide our shareholders with superior returns over the long term.

CORPORATE PROFILE

The product of a merger heralded as unprecedented in size and scale in the Philippine banking industry, BDO Unibank, Inc. (BDO) today represents a firm consolidation of distinct strengths and advantages built over the years by the entities behind its history. BDO is an institution that honors its past, continues to improve on its present, and moves towards the future with confidence and strength.

BDO is a full-service universal bank in the Philippines. It has the ability to provide a complete array of industry-leading products and services including Lending (corporate, middle market, SME, and consumer), Deposit-taking, Foreign Exchange, Brokering, Trust and Investments, Credit Cards, Corporate Cash Management and Remittances. Through its subsidiaries, the Bank offers Leasing and Financing, Investment Banking, Private Banking, Bancassurance, Insurance, Brokerage and Stock Brokerage services.

BDO's institutional strengths and value-added products and services hold the key to its successful business relationships with customers. On the front line, its branches remain at the forefront of setting high standards as a sales and service-oriented, customer-focused force. BDO has one of the largest distribution networks, with more than 760 operating branches and over 1,900 ATMs nationwide.

Through selective acquisitions and organic growth, BDO has positioned itself for increased balance sheet strength and continuing expansion into new markets. As of 31 December 2012, BDO is the country's largest bank in terms of total resources, capital, customer loans, total deposits and assets under management.

BDO is a member of the SM Group, one of the country's largest and most successful conglomerates with businesses spanning between retail, mall operations, property development (residential, commercial, resorts/hotel) and financial services.

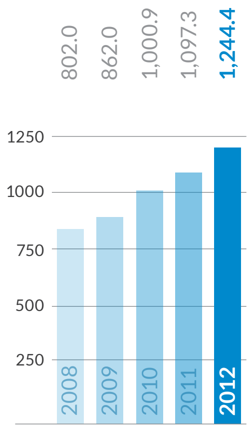
FINANCIAL HIGHLIGHTS
(In Billion Php)

	2012	2011	Change
Resources	**1,244.4**	1,097.3	13%
Gross Customer Loans	**769.0**	670.1	15%
Deposits	**931.6**	858.6	9%
Total Equity*	**157.3**	97.0	62%
Net Profit**	**14.3**	10.5	36%
OPERATING HIGHLIGHTS			
Operating Branches	**763**	744	3%
ATMs	**1,877**	1,596	18%
Employees	**21,746**	20,804	5%
FINANCIAL PERFORMANCE INDICATORS (in %)			
Return on Average Equity	**11.3%**	11.4%	-0.1%
Return on Average Common Equity	**11.5%**	11.7%	-0.2%
Return on Average Assets	**1.2%**	1.0%	0.2%
Net Interest Margin	**3.4%**	3.5%	-0.1%
Capital Adequacy Ratio***	**19.2%**	15.8%	3.4%
SHAREHOLDER INFORMATION (in Php)			
Share Price (actual end of period)	**72.80**	59.00	23%
Basic Earnings per Share	**4.46**	3.80	17%
Diluted Earnings per Share	**4.46**	3.80	17%
Cash Dividends per Common Share	**-**	1.00	
Stock Dividends (%)	**3%**	-	
Book Value per Share	**42.29**	35.03	21%
Price to Book Value Ratio (x)	**1.7x**	1.7x	

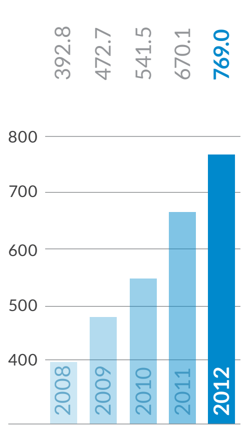
* Total capital accounts, inclusive of minority interest and preferred shares
** Net Income attributable to shareholders of the parent bank
*** Per note 19 of the audited financial statements

ACCOUNT
(In Billion Php)

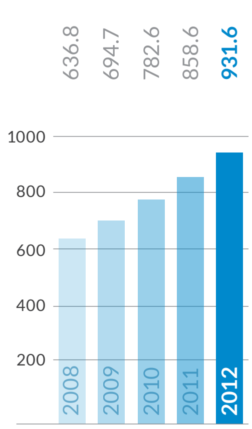
Resources



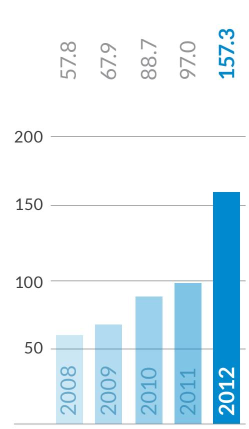
Gross Customer Loans



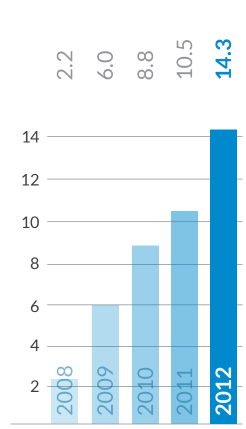
Deposit Liabilities



Capital Funds



Net Income*



* Attributable to shareholders of the parent bank

STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The management of BDO Unibank, Inc. (the Bank), is responsible for the preparation and fair presentation of the financial statements for the years ended December 31, 2012, 2011 and 2010 in accordance with the financial reporting standards in the Philippines for banks, including the additional components attached therein:

a. Supplementary schedules required under Annex 68-E of the Securities Regulation Code
b. Reconciliation of retained earnings available for dividend declaration
c. Map showing the relationship between and among related entities
d. Schedule of Philippine Financial Reporting Standards and Interpretations as of December 31, 2012

Management responsibility on the financial statements includes designing and implementing internal controls relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error, selecting and applying appropriate accounting policies, and making accounting estimates that are reasonable in the circumstances.

The Board of Directors reviews and approves the financial statements, including the additional supplemental information, and submits the same to the stockholders.

Punongbayan & Araullo, the independent auditors appointed by the stockholders, has examined the financial statements of the Bank in accordance with Philippine Standards on Auditing and, in its report to the Board of Directors and stockholders, has expressed its opinion on the fairness of presentation upon completion of such examination.

TERESITA T. SY
Chairman of the Board

NESTOR V. TAN
President

PEDRO M. FLORESCIO III
Treasurer

Signed this 6th day of March 2013

SUBSCRIBED and SWORN to me before this 6th day of March, 2013 affiant exhibiting to me their Competent Evidence of Identity (CEI), as follows:

Name	CEI Number	Date & Place of Issue
1. Teresita T. Sy	Passport No. – EB0826424 CTC No. – 15870321	08.25.2010/Manila 02.08.2013/Manila
2. Nestor V. Tan	Passport No. – EB7352142 CTC No. – 10712990	02.11.2013/Manila 02.28.2013/Makati
3. Pedro M. Florescio III	Passport No. – EB 1502366 CTC No. – 01372088	12.03.2010/Manila 02.19.2013/Manila

WITNESS BY HAND AND SEAL on the day first above-mentioned in Makati City.

Doc. No. 284
Page No. 58
Book No. III
Series of 2013

(Sgd.) Atty. Sandra Sheila R. Tuboro
Notary Public for Makati City, Philippines
until 31 December 2013
Appointment No. 14-333
19/F BDO North Tower, BDO Corporate Center
7899 Makati Avenue, Makati City
Roll No. 54658
IBP Lifetime No. 010488, PPLM
PTR No. 3673329, 1/4/2013, Makati City
MCLE Compliance No. IV 14-0010217, 12/11/2012

REPORT OF INDEPENDENT AUDITORS

The Board of Directors and Stockholders
BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

We have audited the accompanying financial statements of the BDO Unibank, Inc. and subsidiaries (together hereinafter referred to as the BDO Unibank Group) and BDO Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2012 and 2011, and the statements of income, statements of comprehensive income, statements of changes in equity and statements of cash flows for each of the three years in the period ended December 31, 2012, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Philippine Standards on Auditing. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance 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.

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 financial statements present fairly, in all material respects, the financial position of the BDO Unibank Group and of the Parent Bank as at December 31, 2012 and 2011, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2012, in accordance with financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements.

Emphasis of a Matter

As discussed in Note 27 to the financial statements, the Parent Bank presented the supplementary information required by the Bureau of Internal Revenue for the year ended December 31, 2012 in a supplementary schedule filed separately from the basic financial statements. Such supplementary information is the responsibility of management. The supplementary information is presented for purposes of additional analysis and is not a required part of the basic financial statements prepared in accordance with the financial reporting standards in the Philippines for banks; it is neither a required disclosure under Philippine Securities and Exchange Commission rules and regulations covering form and content of financial statements under Securities Regulation Code 68.

PUNONGBAYAN & ARAULLO

By: Romualdo V. Murcia III
Partner

CPA Reg. No. 0095626
TIN 906-174-059
PTR No. 3671457, January 2, 2013, Makati City
SEC Group A Accreditation
Partner - No. 0628-AR-1 (until Aug. 25, 2013)
Firm - No. 0002-FR-3 (until Jan. 18, 2015)
BIR AN 08-002511-22-2011 (until Feb. 3, 2014)
Firm's BOA/PRC Cert. of Reg. No. 0002 (until Dec. 31, 2015)

February 23, 2013

STATEMENTS OF FINANCIAL POSITION

DECEMBER 31, 2012 AND 2011

(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group 2012	BDO Unibank Group 2011	Parent Bank 2012	Parent Bank 2011
RESOURCES					
CASH AND OTHER CASH ITEMS	7	P 21,539	P 33,129	P 21,512	P 33,102
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	156,591	124,894	151,303	115,992
DUE FROM OTHER BANKS	8	12,645	24,719	11,488	22,777
TRADING AND INVESTMENT SECURITIES	9	237,294	188,418	218,322	171,081
LOANS AND OTHER RECEIVABLES - Net	10	760,500	673,927	746,299	653,857
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	16,390	15,690	15,616	15,074
INVESTMENT PROPERTIES - Net	12	9,089	10,137	8,609	9,571
OTHER RESOURCES - Net	13	30,360	26,435	37,535	33,804
TOTAL RESOURCES		P 1,244,408	P 1,097,349	P 1,210,684	P 1,055,258
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	P 931,641	P 858,569	P 919,794	P 838,748
BILLS PAYABLE	16	72,179	59,474	65,177	51,378
SUBORDINATED NOTES PAYABLE	17	28,180	38,255	28,180	38,255
OTHER LIABILITIES	18	55,156	44,089	49,120	37,294
Total Liabilities		1,087,156	1,000,387	1,062,271	965,675
EQUITY	19				
Attributable to:					
Shareholders of the Parent Bank		156,595	96,329	148,413	89,583
Non-controlling Interests		657	633	-	-
		157,252	96,962	148,413	89,583
TOTAL LIABILITIES AND EQUITY		P 1,244,408	P 1,097,349	P 1,210,684	P 1,055,258

See Notes to Financial Statements.

STATEMENTS OF INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		BDO Unibank Group			Parent Bank		
	Notes	2012	2011	2010	2012	2011	2010
INTEREST INCOME	20	P 54,014	P 50,467	P 49,930	P 51,657	P 48,024	P 46,544
INTEREST EXPENSE	21	17,816	16,688	15,772	17,175	16,039	14,990
NET INTEREST INCOME		36,198	33,779	34,158	34,482	31,985	31,554
IMPAIRMENT LOSSES - Net	14	4,941	6,144	6,698	4,850	5,945	6,374
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		31,257	27,635	27,460	29,632	26,040	25,180
OTHER OPERATING INCOME	22	24,427	20,899	17,841	21,703	17,976	16,404
OTHER OPERATING EXPENSES	22	39,857	36,316	34,789	37,443	33,863	31,854
PROFIT BEFORE TAX		15,827	12,218	10,512	13,892	10,153	9,730
TAX EXPENSE	27	1,485	1,630	1,631	1,036	1,199	1,297
NET PROFIT		P 14,342	P 10,588	P 8,881	P 12,856	P 8,954	P 8,433
Attributable To:							
Shareholders of the Parent Bank		P 14,283	P 10,531	P 8,825			
Non-controlling Interests		59	57	56			
		P 14,342	P 10,588	P 8,881			
Earnings Per Share:	28						
Basic		P 4.46	P 3.80	P 3.26	P 4.00	P 3.21	P 3.11
Diluted		P 4.46	P 3.80	P 3.26	P 4.00	P 3.21	P 3.11

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Millions of Philippine Pesos, Except Per Share Data)

		BDO Unibank Group			Parent Bank		
	Note	**2012**	2011	2010	**2012**	2011	2010
NET PROFIT		**P 14,342**	P 10,588	P 8,881	**P 12,856**	P 8,954	P 8,433
OTHER COMPREHENSIVE INCOME							
Unrealized fair value gains on available-for-sale securities	9	**2,813**	846	3,020	**2,774**	1,096	1,951
Transfer of realized fair value losses (gains) on available-for-sale securities to statements of income		**471**	(209)	768	**468**	(118)	1,352
Net fair value gains on available for sale securities		**3,284**	637	3,788	**3,242**	978	3,303
Translation adjustment related to foreign operations		**(62)**	(9)	(350)	**(32)**	-	(317)
Total Other Comprehensive Income, Net of Tax		**3,222**	628	3,438	**3,210**	978	2,986
TOTAL COMPREHENSIVE INCOME		**P 17,564**	P 11,216	P 12,319	**P 16,066**	P 9,932	P 11,419
Attributable To:							
Shareholders of the Parent Bank		**P 17,502**	P 11,218	P 12,231			
Non-controlling Interests		**62**	(2)	88			
		P 17,564	P 11,216	P 12,319			

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group											
	Notes	Common Stock	Preferred Stock	Common Stock Options	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available for-sale Securities	Revaluation Increment	Accumulated Translation Adjustment	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interests	Total Equity
BALANCE AT JANUARY 1, 2012		P 26,074	P 5,000	P -	P 25,175	P 1,696	P 33,271	P 4,360	P 1,118	(P 365)	P 96,329	P 633	P 96,962
Transaction with owners													
Stock rights issuance	19	8,952	-	-	34,147	-	-	-	-	-	43,099	-	43,099
Cash dividends	19	-	-	-	-	-	(330)	-	-	-	(330)	(38)	(368)
Stock dividends	19	782	150	-	4,586	-	(5,524)	-	-	-	(6)	-	(6)
Total transaction with owners		9,734	150	-	38,733	-	(5,854)	-	-	-	42,763	(38)	42,725
Total comprehensive income		-	-	-	-	-	14,283	3,281	-	(62)	17,502	62	17,564
Transfer to (from) Surplus Free													
Appropriations during the year	19	-	-	-	-	415	(415)	-	-	-	-	-	-
Trust reserve	25	-	-	-	-	143	(143)	-	-	-	-	-	-
Revaluation increment on land written-off		-	-	-	-	-	3	-	(2)	-	1	-	1
		-	-	-	-	558	(555)	-	(2)	-	1	-	1
BALANCE AT DECEMBER 31, 2012		**P 35,808**	**P 5,150**	**P -**	**P 63,908**	**P 2,254**	**P 41,145**	**P 7,641**	**P 1,116**	**(P 427)**	**P 156,595**	**P 657**	**P 157,252**
BALANCE AT JANUARY 1, 2011		P 26,074	P 5,000	P -	P 25,175	P 1,550	P 25,737	P 3,664	P 1,165	(P 356)	P 88,009	P 723	P 88,732
Transaction with owners													
Cash dividends	19	-	-	-	-	-	(2,937)	-	-	-	(2,937)	(88)	(3,025)
Total comprehensive income		-	-	-	-	-	10,531	696	-	(9)	11,218	(2)	11,216
Transfer to (from) Surplus Free													
Trust reserve	25	-	-	-	-	146	(146)	-	-	-	-	-	-
Revaluation increment on land and building sold		-	-	-	-	-	86	-	(47)	-	39	-	39
		-	-	-	-	146	(60)	-	(47)	-	39	-	39
BALANCE AT DECEMBER 31, 2011		P 26,074	P 5,000	P -	P 25,175	P 1,696	P 33,271	P 4,360	P 1,118	(P 365)	P 96,329	P 633	P 96,962
BALANCE AT JANUARY 1, 2010		P 23,397	P 5,000	P 7	P 16,858	P 1,532	P 19,377	(P 92)	P 1,179	(P 6)	P 67,252	P 635	P 67,887
Transactions with owners													
Issuance of additional shares	19	2,677	-	-	-	-	-	-	-	-	2,677	-	2,677
Premium on issuance of new shares, net of listing fees	19	-	-	-	8,317	-	-	-	-	-	8,317	-	8,317
Cash dividends	19	-	-	-	-	-	(2,447)	-	-	-	(2,447)	-	(2,447)
Contribution to stock options		-	-	(7)	-	-	-	-	-	-	(7)	-	(7)
Total transactions with owners		2,677	-	(7)	8,317	-	(2,447)	-	-	-	8,540	-	8,540
Total comprehensive income		-	-	-	-	-	8,825	3,756	-	(350)	12,231	88	12,319
Transfer to (from) Surplus Free													
Reversal of appropriation		-	-	-	-	(71)	71	-	-	-	-	-	-
Trust reserve		-	-	-	-	89	(89)	-	-	-	-	-	-
Revaluation increment on land and building sold		-	-	-	-	-	-	-	(14)	-	(14)	-	(14)
		-	-	-	-	18	(18)	-	(14)	-	(14)	-	(14)
BALANCE AT DECEMBER 31, 2010		P 26,074	P 5,000	P -	P 25,175	P 1,550	P 25,737	P 3,664	P 1,165	(P 356)	P 88,009	P 723	P 88,732

Parent Bank

	Notes	Common Stock	Preferred Stock	Common Stock Options	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Revaluation Increment	Accumulated Translation Adjustment	Total Equity
BALANCE AT JANUARY 1, 2012		P 26,074	P 5,000	P -	P 25,156	P 1,295	P 27,095	P 4,165	P 1,115	(P 317)	P 89,583
Transactions with owners											
Stock rights issuance	19	8,952	-	-	34,147	-	-	-	-	-	43,099
Cash dividends	19	-	-	-	-	-	(330)	-	-	-	(330)
Stock dividends	19	782	150	-	4,586	-	(5,524)	-	-	-	(6)
Total transaction with owners		9,734	150	-	38,733	-	(5,854)	-	-	-	42,763
Total comprehensive income		-	-	-	-	-	12,856	3,242	-	(32)	16,066
Transfer to (from) Surplus Free											
Trust reserve	25	-	-	-	-	119	(119)	-	-	-	-
Revaluation increment on land written-off		-	-	-	-	-	3	-	(2)	-	1
		-	-	-	-	119	(116)	-	(2)	-	1
BALANCE AT DECEMBER 31, 2012		**P 35,808**	**P 5,150**	**P -**	**P 63,889**	**P 1,414**	**P 33,981**	**P 7,407**	**P 1,113**	**(P 349)**	**P 148,413**
BALANCE AT JANUARY 1, 2011		P 26,074	P 5,000	P -	P 25,156	P 1,189	P 21,098	P 3,187	P 1,162	(P 317)	P 82,549
Transactions with owners											
Cash dividends	19	-	-	-	-	-	(2,937)	-	-	-	(2,937)
Total comprehensive income		-	-	-	-	-	8,954	978	-	-	9,932
Transfer to (from) Surplus Free											
Trust reserve		-	-	-	-	106	(106)	-	-	-	-
Revaluation increment on land and building sold	25	-	-	-	-	-	86	-	(47)	-	39
		-	-	-	-	106	(20)	-	(47)	-	39
BALANCE AT DECEMBER 31, 2011		P 26,074	P 5,000	P -	P 25,156	P 1,295	P 27,095	P 4,165	P 1,115	(P 317)	P 89,583
BALANCE AT JANUARY 1, 2010		P 23,397	P 5,000	P 7	P 16,839	P 1,100	P 15,169	(P 116)	P 1,176	P -	P 62,572
Transactions with owners											
Issuance of additional shares	19	2,677	-	-	-	-	-	-	-	-	2,677
Premium on issuance of shares, net of listing fees	19	-	-	-	8,317	-	-	-	-	-	8,317
Cash dividends	19	-	-	-	-	-	(2,415)	-	-	-	(2,415)
Contribution to stock options, net of recognition		-	-	(7)	-	-	-	-	-	-	(7)
Total transactions with owners		2,677	-	(7)	8,317	-	(2,415)	-	-	-	8,572
Total comprehensive income		-	-	-	-	-	8,433	3,303	-	(317)	11,419
Transfer to (from) Surplus Free											
Trust reserve		-	-	-	-	89	(89)	-	-	-	-
Revaluation increment on land and building sold		-	-	-	-	-	-	-	(14)	-	(14)
		-	-	-	-	89	(89)	-	(14)	-	(14)
BALANCE AT DECEMBER 31, 2010		P 26,074	P 5,000	P -	P 25,156	P 1,189	P 21,098	P 3,187	P 1,162	(P 317)	P 82,549

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED DECEMBER 31, 2012, 2011 AND 2010

(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2012**	2011	2010	**2012**	2011	2010
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 15,827**	P 12,218	P 10,512	**P 13,892**	P 10,153	P 9,730
Adjustments for:							
Interest income	20	**(54,014)**	(50,467)	(49,930)	**(51,657)**	(48,024)	(46,544)
Interest received		**53,495**	47,288	49,859	**51,153**	45,336	46,384
Interest expense	21	**17,816**	16,688	15,772	**17,175**	16,039	14,990
Interest paid		**(17,625)**	(16,519)	(16,657)	**(16,953)**	(15,944)	(15,291)
Impairment losses	14	**4,941**	6,144	6,698	**4,850**	5,945	6,374
Depreciation and amortization	11, 12, 13	**3,059**	2,850	2,880	**2,798**	2,503	1,986
Share in net profit of associates	13	**(470)**	(681)	(16)	**-**	-	-
Fair value loss (gain)	9	**(178)**	587	131	**(269)**	392	270
Operating profit before changes in operating resources and liabilities		**22,851**	18,108	19,249	**20,989**	16,400	17,899
Decrease (increase) in financial assets at fair value through profit or loss		**(4,134)**	1,969	1,126	**(2,385)**	1,578	1,950
Increase in loans and other receivables		**(91,202)**	(113,511)	(57,878)	**(97,006)**	(115,467)	(66,108)
Decrease in investment properties		**1,188**	1,498	1,235	**1,130**	1,266	992
Decrease (increase) in other resources		**(5,600)**	(4,006)	5,737	**(5,513)**	214	(31)
Increase in deposit liabilities		**72,945**	75,929	91,969	**80,874**	76,094	95,896
Increase (decrease) in other liabilities		**11,763**	5,192	(6,157)	**11,919**	2,233	(5,507)
Cash generated from (used in) operations		**7,811**	(14,821)	55,281	**10,008**	(17,682)	45,091
Cash paid for income tax		**(1,346)**	(1,687)	(1,846)	**(630)**	(1,090)	(1,329)
Net Cash From (Used in) Operating Activities		**6,465**	(16,508)	53,435	**9,378**	(18,772)	43,762
CASH FLOWS FROM INVESTING ACTIVITIES							
Acqusitions of available-for-sale securities		**(428,794)**	(400,320)	(487,648)	**(424,254)**	(397,304)	(485,044)
Proceeds from disposals of available-for-sale securities		**391,344**	399,775	451,319	**387,278**	395,919	452,441
Acquisitions of held-to-maturity investments		**(24,411)**	(12,205)	(25,446)	**(24,410)**	(10,589)	(22,632)
Maturities and disposals of held-to-maturity investments		**21,094**	22,099	45,163	**20,565**	21,016	41,706
Acquisitions of premises, furniture, fixtures and equipment	11	**(2,975)**	(3,089)	(2,461)	**(2,571)**	(2,749)	(2,200)
Proceeds from disposals of premises, furniture, fixtures and equipment		**32**	531	222	**22**	151	95
Acquisitions of equity investments	13	**-**	-	(1,405)	**-**	-	(1,405)
Net Cash From (Used in) Investing Activities		**(43,710)**	6,791	(20,256)	**(43,370)**	6,444	(17,039)
CASH FLOWS FROM FINANCING ACTIVITIES							
Net proceeds from issuance of stock rights	19	**43,099**	-	-	**43,099**	-	-
Proceeds from issuance of senior notes payable	16	**12,790**	-	13,105	**12,790**	-	13,105
Proceeds from (payment of) unsecured subordinated notes	17	**(10,000)**	14,905	-	**(10,000)**	14,905	-
Dividends paid	19	**(368)**	(3,025)	(2,447)	**(330)**	(2,937)	(2,415)
Net proceeds from (payments of) bills payable		**(237)**	(6,353)	19,993	**871**	(4,580)	20,564
Transaction costs paid from issuance of stock dividends	19	**(6)**	-	-	**(6)**	-	-
Proceeds from issuance of common shares		**-**	-	10,993	**-**	-	10,994
Net Cash From Financing Activities		**45,278**	5,527	41,644	**46,424**	7,388	42,248
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(Carried Forward)***		**P 8,033**	(P 4,190)	P 74,823	**P 12,432**	(P 4,940)	P 68,971

	Notes	BDO Unibank Group 2012	BDO Unibank Group 2011	BDO Unibank Group 2010	Parent Bank 2012	Parent Bank 2011	Parent Bank 2010
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS ***(Brought Forward)***		**P 8,033**	(P 4,190)	P 74,823	**P 12,432**	(P 4,940)	P 68,971
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**33,129**	26,673	30,544	**33,102**	26,660	30,365
Due from Bangko Sentral ng Pilipinas	7	**124,894**	138,482	64,833	**115,992**	129,718	62,864
Due from other banks	8	**24,719**	21,777	16,732	**22,777**	20,433	14,611
		182,742	186,932	112,109	**171,871**	176,811	107,840
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**21,539**	33,129	26,673	**21,512**	33,102	26,660
Due from Bangko Sentral ng Pilipinas	7	**156,591**	124,894	138,482	**151,303**	115,992	129,718
Due from other banks	8	**12,645**	24,719	21,777	**11,488**	22,777	20,433
		P 190,775	P 182,742	P 186,932	**P 184,303**	P 171,871	P 176,811

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. On March 22, 2012, the Parent Bank declared 3% stock dividends on its outstanding common and preferred shares, equivalent to 78,218,589 common shares at P68.70 per share and 15,000,000 preferred shares at par. The declaration resulted in the recognition of additional paid-in capital of P4,586, net of issue costs (see Note 19.5). The dividends were distributed on June 8, 2012.

b. On July 24, 2012, the Parent Bank acquired Rural Bank of San Juan, Inc.'s assets amounting to P695 and assumed the liabilities amounting to P1,320 which resulted in the recognition of branch licenses of P481 and goodwill of P144 (see Note 13.5).

c. In 2011, the Parent Bank agreed to transfer, cede and convey absolutely to SM Keppel Land, Inc. (SM Keppel) the outstanding advances totalling P364 recognized as part of Other receivables under Loans and Other Receivables in exchange for 36,401,500 preferred shares of SM Keppel for a subscription price of P364 (see Note 13).

d. On April 30, 2011, the Board of Directors approved the five-way merger (the Merger) of wholly-owned subsidiaries: BDO Strategic Holdings, Inc. (BDOSHI), Equitable Card Network, Inc., EBC Strategic Holdings Corporation (ESHC), BDO Technology Center, Inc. and Strategic Property Holdings, Inc. with BDOSHI as the surviving corporation. The Merger was approved by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission on November 29, 2011 and December 29, 2011, respectively. As a consideration for the Merger, the Bank invested additional P4,580 in BDOSHI through dacion en pago by ESHC of its 3,621,159 preferred shares and 2,000,001 common shares and conversion of advances to the subsidiaries (see Note 26.1).

e. In 2010, the BDO Unibank Group and the Parent Bank participated in the Global Bond Exchange by exchanging Republic of the Philippines bonds recognized under Financial Assets at Fair Value through Profit or Loss amounting to US$1.3 million of the Parent Bank and Held-to-maturity (HTM) Investments amounting to US$111.5 million and US$75.4 million of the BDO Unibank Group and Parent Bank, respectively (see Note 9.3). This resulted in a gain of P77 and P63 for BDO Unibank Group and Parent Bank, respectively, shown as part of Trading gain - net under Other Operating Income (see Note 22) and P615 and P545 for HTM by the BDO Unibank Group and Parent Bank, respectively, shown as part of Unearned income under Other Liabilities (see Note 18).

See Notes to Financial Statements.

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1. CORPORATE MATTERS

1.1 Incorporation and Operations

BDO Unibank, Inc. (BDO Unibank or the Parent Bank) was incorporated in the Philippines on August 16, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Parent Bank and its subsidiaries (collectively referred to as BDO Unibank Group or the Group) offer a wide range of commercial, investment, private and other banking services. These services include traditional loan and deposit products, as well as treasury, asset management, realty management, leasing and finance, remittance, trade services, retail cash cards, insurance, credit card services, stockbrokerage, trust and others.

On January 29, 2011, the Parent Bank's Board of Directors (BOD) approved the change in BDO Unibank's registered name from Banco De Oro Unibank, Inc. to BDO Unibank, Inc. The change in BDO Unibank's registered name was approved by the Philippine Securities and Exchange Commission (SEC) on November 4, 2011.

As a banking institution, BDO Unibank Group's operations are regulated and supervised by the BSP. In this regard, BDO Unibank Group is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. BDO Unibank Group is subject to the provisions of the General Banking Law of 2000 Republic Act (RA) No. 8791.

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2012, the Parent Bank has 763 branches (including one foreign branch) and 1,054 on-site and 823 off-site automated teller machines (ATM). The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and the United States. In 2012, 2011 and 2010, these foreign operations accounted for 0.7%, 0.5% and 0.4%, respectively, of BDO Unibank Group's total revenues and 0.5%, 1.1% and 0.1%, respectively, of BDO Unibank Group's total resources. BDO Unibank Group's subsidiaries and associates are shown in Note 13.1.

1.2 Approval of Financial Statements

The financial statements of BDO Unibank Group and the Parent Bank for the year ended December 31, 2012 (with comparatives for the years ended December 31, 2011 and 2010) were approved and authorized for issue by the Parent Bank's BOD on February 23, 2013.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Consolidated Financial Statements

(a) Statement of Compliance with Financial Reporting Standards in the Philippines for Banks

The consolidated financial statements of BDO Unibank Group and the separate financial statements of the Parent Bank have been prepared in accordance with the financial reporting standards in the Philippines (FRSP) for banks. FRSP for banks and Philippine Financial Reporting Standards (PFRS) are similar except for the reclassification of credit-linked notes (CLNs) that are linked to Republic of the Philippines (ROP) bonds (without bifurcating the related embedded derivative) from fair value through profit or loss (FVTPL) to unquoted debt securities classified as loans or UDSCL (included as part of Loans and Other Receivables), that are outstanding as of the effective date of reclassification, which is permitted by the BSP for prudential reporting, and by the SEC for financial reporting.

PFRSs are adopted by the Financial Reporting Standards Council (FRSC) from the pronouncements issued by the International Accounting Standards Board (IASB).

The financial statements have been prepared using the measurement bases specified by PFRS for each type of resources, liabilities, income and expense. The measurement bases are more fully described in the accounting policies that follow.

The reconciliations and explanatory notes thereto in the succeeding pages describe the difference on the statements of financial position under FRSP and PFRS.

(i) The reconciliations of the equity reported under FRSP to equity under PFRS as of December 31 follow:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Equity under FRSP	**P 157,252**	P 96,962	**P 148,413**	P 89,583
Prior year reconciling items	**22**	311	**22**	240
Current year reconciling items:				
Amortization of premium/discount due to change in effective interest rates	**59**	(16)	**59**	(16)
Amortization of negative fair value of embedded derivatives on CLNs reclassified to loans and other receivables	**-**	9	**-**	-
Reversal of net adjustments to equity due to:				
Unrealized mark-to-market gain (loss) on embedded derivatives on CLNs reclassified to loans and other receivables	**(59)**	202	**(59)**	202
Unwinding of CLNs	**-**	80	**-**	-
	-	(289)	**-**	(218)
Total adjustments to equity	**22**	22	**22**	22
Equity under PFRS	**P 157,274**	P 96,984	**P 148,435**	P 89,605

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(ii) Differences in the measurement of items in the statements of financial position as of December 31 are summarized below.

BDO Unibank Group

	2012		
	FRSP	**Difference**	**PFRS**
Changes in resources:			
Trading and investment securities	**P 237,294**	**P -**	**P 237,294**
Loans and other receivables	**760,500**	**22**	**760,522**
	P 997,794		**P 997,816**
Total adjustments to equity		**P 22**	

	2011		
	FRSP	Difference	PFRS
Changes in resources:			
Trading and investment securities	P 188,418	(P 218)	P 188,200
Loans and other receivables	673,927	240	674,167
	P 862,345		P 862,367
Total adjustments to equity		P 22	

Parent Bank

	2012		
	FRSP	**Difference**	**PFRS**
Changes in resources:			
Trading and investment securities	**P 218,322**	**P -**	**P 218,322**
Loans and other receivables	**746,299**	**22**	**746,321**
	P 964,621		**P 964,643**
Total adjustments to equity		**P 22**	

	2011		
	FRSP	Difference	PFRS
Changes in resources:			
Trading and investment securities	P 171,081	(P 218)	P 170,863
Loans and other receivables	653,857	240	654,097
	P 824,938		P 824,960
Total adjustments to equity		P 22	

*(iii)*The reconciliations of net profit reported under FRSP to net profit under PFRS for the years ended December 31 follow:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Net profit under FRSP	**P 14,342**	P 10,588	**P 12,856**	P 8,954
Unrealized mark-to-market loss on embedded derivatives on CLNs reclassified to loans and other receivables	**(59)**	(202)	**(59)**	(202)
Amortization of premium/discount due to change in effective interest rates	**59**	(16)	**59**	(16)
Reversal of net adjustments to equity due to unwinding of CLNs	**-**	(80)	**-**	-
Amortization of negative fair value of embedded derivatives on CLNs reclassified to loans and receivables	**-**	9	**-**	-
	-	(289)	**-**	(218)
Net profit under PFRS	**P 14,342**	P 10,299	**P 12,856**	P 8,736

(b) *Presentation of Financial Statements*

The financial statements are presented in accordance with Philippine Accounting Standards (PAS) 1, *Presentation of Financial Statements*. BDO Unibank Group presents the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income.

Two comparative periods are presented for the statement of financial position when BDO Unibank Group applies an accounting policy retrospectively, makes retrospective restatement of items in its financial statements, or reclassifies items in the financial statements.

(c) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated (see also Note 2.26). The financial statements of the foreign currency deposit units (FCDUs) of BDO Unibank Group and foreign subsidiaries are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Items included in the financial statements of BDO Unibank Group are measured using its functional currency. Functional currency is the currency of the primary economic environment in which BDO Unibank Group operates.

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2.2 Adoption of New and Amended PFRS

(a) Effective in 2012 that are Relevant to BDO Unibank Group

In 2012, BDO Unibank Group adopted the following amendments to PFRS that are relevant to the Group and effective for financial statements for the annual period beginning on or after July 1, 2011 or January 1, 2012:

PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Transfers of Financial Assets
PAS 12 (Amendment)	:	Income Taxes – Deferred Taxes: Recovery of Underlying Assets

Discussed below are the relevant information about these amended standards.

(i) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Transfers of Financial Assets*. The amendment requires additional disclosures that will allow users of financial statements to understand the relationship between transferred financial assets that are not derecognized in their entirety and the associated liabilities; and, to evaluate the nature of, and risk associated with any continuing involvement of the reporting entity in financial assets that are derecognized in their entirety. BDO Unibank Group did not usually enter into this type of arrangement with regard to transfer of any financial asset. Hence, the amendment did not result in any significant change in BDO Unibank Group's disclosures in its financial statements.

(ii) PAS 12 (Amendment), *Income Taxes – Deferred Tax: Recovery of Underlying Assets*. The amendment introduces a rebuttable presumption that the measurement of a deferred tax liability or asset that arises from investment property measured at fair value under PAS 40, *Investment Property* should reflect the tax consequence of recovering the carrying amount of the asset entirely through sale. The presumption is rebutted for depreciable investment property (e.g., building) that is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the asset over time, rather than through sale. Moreover, Standing Interpretation Committee (SIC) 21, *Income Taxes – Recovery of Revalued Non-Depreciable Assets*, is accordingly withdrawn and is incorporated under PAS 12 requiring that deferred tax on non-depreciable assets that are measured using the revaluation model in PAS 16, *Property, Plant and Equipment* should always be measured on a sale basis of the asset. The amendment has no significant impact on BDO Unibank Group's financial statements as the Group's investment properties and land classified as premises, furniture, fixtures and equipment are measured at cost. Nonetheless, certain land classified as premises, furniture, fixtures and equipment revalued in accordance with PFRS 1, *First-time Adoption of PFRS,* are taxable with the same rate regardless of whether these assets will be sold or used in operation.

(b) Effective in 2012 that is not Relevant to BDO Unibank Group

PFRS 1, *First-time Adoption of PFRS,* was amended to provide relief for first-time adopters of PFRS from having to reconstruct transactions that occurred before the date of transition to PFRS and to provide guidance for entities emerging from severe hyperinflation either to resume presenting PFRS financial statements or to present PFRS financial statements for the first time. The amendment became effective for annual periods beginning on or after July 1, 2011 but is not relevant to BDO Unibank Group's financial statements.

(c) Effective Subsequent to 2012 but not Adopted Early

There are new PFRS, amendments, annual improvements and interpretations to existing standards that are effective for periods subsequent to 2012. Management has initially determined the following pronouncements, which BDO Unibank Group will apply in accordance with their transitional provisions, to be relevant to its financial statements:

(i) PAS 1 (Amendment), *Financial Statements Presentation – Presentation of Items of Other Comprehensive Income* (effective from July 1, 2012). The amendment requires an entity to group items presented in other comprehensive income into those that, in accordance with other PFRSs: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss when specific conditions are met. BDO Unibank Group's management expects that this will change the current presentation of items in other comprehensive income (i.e., segregation of revaluation reserve on premises, furniture, fixtures and equipment, unrealized fair value gains and losses on available-for-sale (AFS) securities and translation adjustment of foreign operation).

(ii) PAS 19 (Revised), *Employee Benefits* (effective from January 1, 2013). The revision made a number of changes as part of the improvements throughout the standard. The main changes relate to defined benefit plans as follows:

- eliminates the corridor approach under the existing guidance of PAS 19 and requires an entity to recognize all actuarial gains and losses arising in the reporting period;
- streamlines the presentation of changes in plan assets and liabilities resulting in the disaggregation of changes into three main components of service costs, net interest on net defined benefit obligation or asset, and remeasurement; and,
- enhances disclosure requirements, including information about the characteristics of defined benefit plans and the risks that entities are exposed to through participation in those plans.

Currently, BDO Unibank Group is using the corridor approach. The unrecognized actuarial losses of BDO Unibank Group and the Parent Bank as of December 31, 2012 amounted to P4,116 and P3,874, respectively (see Note 23.2), which will be recognized in 2013 in other comprehensive income applied retrospectively.

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(iii) Consolidation Standards

BDO Unibank Group is currently reviewing the impact on its financial statements of the following consolidation standards which will be effective from January 1, 2013:

- PFRS 10, *Consolidated Financial Statements.* This standard builds on existing principles of consolidation by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements. The standard also provides additional guidance to assist in determining control where this is difficult to assess.

- PFRS 12, *Disclosure of Interests in Other Entities.* This standard integrates and makes consistent the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and unconsolidated structured entities. This also introduces new disclosure requirements about the risks to which an entity is exposed from its involvement with structured entities.

- PAS 27 (Amendment), *Separate Financial Statements.* This revised standard now covers the requirements pertaining solely to separate financial statements after the relevant discussions on control and consolidated financial statements have been transferred and included in PFRS 10. No new major changes relating to separate financial statements have been introduced as a result of the revision.

- PAS 28 (Amendment), *Investments in Associate and Joint Venture.* This revised standard includes the requirements for joint ventures, as well as associates, to be accounted for using equity method following the issuance of PFRS 11, *Joint Arrangement.*

Subsequent to the issuance of the foregoing consolidation standards, the IASB made some changes to the transitional provisions in International Financial Reporting Standards (IFRS) 10, IFRS 11 and IFRS 12, which were also adopted by the FRSC. The guidance confirms that an entity is not required to apply PFRS 10 retrospectively in certain circumstances and clarifies the requirements to present adjusted comparatives. The guidance also made changes to PFRS 10 and PFRS 12 which provide similar relief from the presentation or adjustment of comparative information for periods prior to the immediately preceding period. Further, it provides relief by removing the requirement to present comparatives for disclosures relating to unconsolidated structured entities for any period before the first annual period for which PFRS 12 is applied.

(iv) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2013). The amendment requires qualitative and quantitative disclosures relating to gross and net amounts of recognized financial instruments that are set-off in accordance with PAS 32, *Financial Instruments: Presentation*. The amendment also requires disclosure of information about recognized financial instruments subject to enforceable master netting arrangements or similar agreements, even if they are not set-off in the statement of financial position, including those which do not meet some or all of the offsetting criteria under PAS 32, and amounts related to a financial collateral. These disclosures will allow financial statement users to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with recognized financial assets and financial liabilities on the entity's financial position. BDO Unibank Group is currently assessing the impact of the amendment on its financial statements.

(v) PFRS 13, *Fair Value Measurement* (effective from January 1, 2013). This 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 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. Management is in the process of reviewing its valuation methodologies for conformity with the new requirements and has yet to assess the impact of the new standard on BDO Unibank Group's financial statements.

(vi) PAS 32 (Amendment), *Financial Instruments: Presentation – Offsetting Financial Assets and Financial Liabilities* (effective from January 1, 2014). The amendment provides guidance to address inconsistencies in applying the criteria for offsetting financial assets and financial liabilities. It clarifies that a right of set-off is required to be legally enforceable, in the normal course of business, in the event of default and in the event of insolvency or bankruptcy of the entity and all of the counterparties. The amendment also clarifies the principle behind net settlement and includes an example of a gross settlement system with characteristics that would satisfy the criterion for net settlement. BDO Unibank Group is currently assessing the impact of the amendment on BDO Unibank Group's financial statements.

(vii) PFRS 9, *Financial Instruments: Classification and Measurement* (effective from January 1, 2015). This is the first part of a new standard on financial instruments that will replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety. This chapter covers the classification and measurement of financial assets and financial liabilities and it deals with two measurement categories for financial assets: amortized cost and fair value. All equity instruments will be measured at fair value while debt instruments will be measured at amortized cost only if the entity is holding it to collect contractual cash flows which represent payment of principal and interest. The accounting for embedded derivatives in host contracts that are financial assets is simplified by removing the requirement to consider whether or not they are closely related and, in most arrangement, does not require separation from the host contract.

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For liabilities, the standard retains most of the PAS 39 requirements which include amortized cost accounting for most financial liabilities, with bifurcation of embedded derivatives. The main change is that, in case where the fair value option is taken for financial liabilities, the part of a fair value change due to an entity's own credit risk is recorded in other comprehensive income rather than in profit or loss, unless this creates an accounting mismatch.

To date, other chapters of PFRS 9 dealing with impairment methodology and hedge accounting are still being completed.

Further, in November 2011, the IASB tentatively decided to consider making limited modifications to IFRS 9's financial asset classification model to address certain application issues.

BDO Unibank Group does not expect to implement and adopt PFRS 9 until its effective date or until all chapters of this new standard have been published. In addition, management is currently assessing the impact of PFRS 9 on the financial statements of BDO Unibank Group and it plans to conduct a comprehensive study of the potential impact of this standard prior to its mandatory adoption date to assess the impact of all changes.

(viii) 2009-2011 Annual Improvements to PFRS. Annual improvements to PFRS (2009-2011 Cycle) made minor amendments to a number of PFRS, which are effective for annual period beginning on or after January 1, 2013. Among those improvements, the following amendments are relevant to BDO Unibank Group but management does not expect a material impact on BDO Unibank Group's financial statements:

(a) PAS 1 (Amendment), *Presentation of Financial Statements – Clarification of the Requirements for Comparative Information*. The amendment clarifies the requirements for presenting comparative information for the following:

- Requirements for opening statement of financial position

  If an entity applies an accounting policy retrospectively, or makes a retrospective restatement or reclassification of items that has a material effect on the information in the statement of financial position at the beginning of the preceding period (i.e., opening statement of financial position), it shall present such third statement of financial position.

  Other than disclosure of certain specified information in accordance with PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*, related notes to the opening statement of financial position as at the beginning of the preceding period are not required to be presented.

- Requirements for additional comparative information beyond minimum requirements

  If an entity presented comparative information in the financial statements beyond the minimum comparative information requirements, the additional financial statements information should be presented in accordance with PFRS including disclosure of comparative information in the related notes for that additional information. Presenting additional comparative information voluntarily would not trigger a requirement to provide a complete set of financial statements.

(b) PAS 32 (Amendment), *Financial Instruments – Presentation – Tax Effect of Distributions to Holders of Equity Instruments*. The amendment clarifies that the consequences of income tax relating to distributions to holders of an equity instrument and to transaction costs of an equity transaction shall be accounted for in accordance with PAS 12. Accordingly, income tax relating to distributions to holders of an equity instrument is recognized in profit or loss while income tax related to the transaction costs of an equity transaction is recognized in equity.

2.3 Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with PAS 1. BDO Unibank Group has elected to present the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income.

Two comparative periods are presented for the statements of financial position when BDO Unibank Group:

(a) applies an accounting policy retrospectively;
(b) makes a retrospective restatement of items in its financial statements; or,
(c) reclassifies items in the financial statements.

2.4 Basis of Consolidation

BDO Unibank Group obtains and exercises control through voting rights. BDO Unibank Group's consolidated financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13.1, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in BDO Unibank Group's financial statements.

The financial statements of subsidiaries are prepared for the same reporting period as the Parent Bank, using consistent accounting principles.

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BDO Unibank Group accounts for its investments in subsidiaries and transactions with non-controlling interest as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which BDO Unibank Group has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. BDO Unibank Group obtains and exercises control over subsidiaries through voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether BDO Unibank Group controls another entity. Subsidiaries are consolidated from the date BDO Unibank Group obtains control until such time that such control ceases.

Except as otherwise indicated, the acquisition of subsidiaries are accounted for using the acquisition method (see Note 2.14). Acquisition method requires recognizing and measuring the identifiable resources acquired, the liabilities assumed and any non-controlling interest in the acquiree. 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 Parent Bank, if any. The consideration transferred also includes the fair value of any asset or liability resulting from a contingent consideration arrangement. Acquisition-related costs are expensed as incurred and subsequent change in the fair value of contingent consideration is recognized directly in profit or loss.

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, BDO Unibank Group recognizes any non-controlling interest in the acquiree either at fair value or at the non-controlling interest's proportionate share of the acquiree's identifiable net assets.

The excess of the consideration transferred, the amount of any non-controlling interest in the acquiree and the acquisition-date fair value of any existing equity interest in the acquiree over the acquisition-date fair value of the Group's share of the identifiable net assets acquired is recognized 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 as a gain in profit or loss (see Note 2.14).

On the other hand, business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparative periods presented are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's financial statements at their carrying amounts. The components of equity of the acquired entities are added to the same components within BDO Unibank Group's equity.

(b) Transactions with Non-controlling Interests

BDO Unibank Group's transactions with non-controlling interests that do not result in loss of control are accounted for as equity transactions – that is, as transaction with the owners of BDO Unibank Group in their capacity as owners. The difference between the fair value of any consideration paid and the relevant share acquired of the carrying value of the subsidiary's net assets is recognized in equity. Disposals of equity investments to non-controlling interests which result in gains or losses for BDO Unibank Group are also recognized in equity.

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

In BDO Unibank Group's financial statements, the non-controlling interest component is shown in its statement of changes in equity, and in its statement of income and statement of comprehensive income for the share of profit or loss and movement of other comprehensive income, respectively, during the year. Non-controlling interests in 2012, 2011 and 2010 represent the interests not held by BDO Unibank Group in BDO Leasing and Finance, Inc. (BDO Leasing), BDO Elite Savings Bank, Inc. (BDO Elite) and Equimark – NFC Development Corporation (Equimark).

2.5 Segment Reporting

Operating segments are reported in a manner consistent with the internal reporting provided to BDO Unibank Group's chief operating decision-maker. The chief operating decision-maker is responsible for allocating resources and assessing performance of the operating segments.

In identifying its operating segments, management generally follows BDO Unibank Group's products and services as disclosed in Note 5, which represent the main products and services provided by BDO Unibank Group.

Each of these operating segments is managed separately as each of these services requires different technologies and resources as well as marketing approaches. All inter-segment transfers are carried out at arm's length prices.

The measurement policies of BDO Unibank Group uses for segment reporting under PFRS 8, *Operating Segments*, is the same as those used in its financial statements. In addition, corporate assets which are not directly attributable to the business activities of any operating segment are not allocated to a segment.

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There have been no changes from prior periods in the measurement methods used to determine reported segment profit or loss.

BDO Unibank Group's operations are organized according to the nature of the products and services provided. Financial information on operating segments is presented in Note 5.

2.6 Financial Assets

Financial assets, which are recognized when BDO Unibank Group becomes a party to contractual terms of the financial instrument, include cash and other financial instruments. Financial assets, other than those designated and effective as hedging instruments, are classified into the following categories: financial assets at FVTPL, loans and receivables, held-to-maturity (HTM) investments and AFS securities. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. Except for derivative financial instruments and financial assets designated at FVTPL, the designation of financial assets is re-evaluated at the end of each reporting period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Regular purchases and sales of financial assets are recognized on their settlement date. All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus any directly attributable transaction costs. Financial assets carried at FVTPL are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

A more detailed description of the four categories of financial assets is as follows:

(a) Financial Assets at FVTPL

This category includes derivative financial instruments and financial assets that are either classified as held for trading (HFT) or that meets certain conditions and are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the near term or if so designated by management. Derivatives are also categorized as "held for trading" unless they are designated and effective as hedging instrument.

Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets (except derivatives and financial instruments originally designated as financial assets at FVTPL) may be subsequently reclassified out of FVTPL category:

(i) only in rare circumstances and if there is a change in intention (i.e., the financial asset is no longer held for the purpose of selling or repurchasing it in the near future);

(ii) if the financial asset would have met the definition of loans receivables and if the financial asset had not been required to be classified as HFT at initial recognition and the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity; and,

(iii) for CLNs and derivatives embedded in CLNs linked to ROP bonds as permitted by the BSP for prudential reporting and by the SEC for financial reporting.

(b) Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. These arise when BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, interbank loans receivables, sales contract receivables and all receivables from customers and other banks. Loans and receivables also include the aggregate rental on finance lease transactions. Unearned income on finance lease transactions is shown as a deduction from loans and receivables.

Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses, if any. Any change in the value of loans and receivables is recognized in profit or loss, except for reclassified financial assets under PAS 39 and PFRS 7. Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. Securities Purchased Under Reverse Repurchase Agreement (SPURRA), wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the straight line method.

BDO Unibank Group's financial assets categorized as loans and receivables are presented as Cash and cash equivalents and Loans and Other Receivables in the statement of financial position. Cash and cash equivalents consist of cash and non-restricted balances with the BSP and amounts due from other banks. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, interbank call loans receivable and SPURRA with original maturities of three months or less from placement date.

Impairment loss is the estimated amount of loss in BDO Unibank Group's loan portfolio, based on the evaluation of the estimated future cash flows discounted at the loan's original effective interest rate or the last repricing rate for loans issued at variable rates (see Note 2.24). Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

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(c) HTM Investments

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity that BDO Unibank Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included under this category.

HTM investments consist of government and private debt securities. If BDO Unibank Group were to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS securities. The tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on its fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group.

Subsequent to initial recognition, HTM investments are measured at amortized costs using effective interest method, less impairment losses, if any. Impairment loss, which is the difference between the carrying value and the present value of estimated cash flows of the investment, is recognized when there is objective evidence that the investment has been impaired. Any changes to the carrying amount of the investment due to impairment are recognized in profit or loss.

(d) AFS Securities

This category includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

Non-derivative financial asset classified as AFS securities may be reclassified to loans and receivables category if that financial asset would have met the definition of loans and receivables and if there is an intention and ability to hold that financial asset for the foreseeable future or until maturity.

All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in other comprehensive income, net of any effects arising from income taxes. Cumulative gains and losses arising from securities classified as AFS securities are reclassified from other comprehensive income to profit or loss when these are sold or when the investments are impaired; and such is presented as a reclassification adjustment within other comprehensive income.

Reversal of impairment losses is recognized in other comprehensive income, except for financial assets that are debt securities which are recognized in profit or loss only if the reversal can be objectively related to an event occurring after the impairment loss was recognized.

The fair values of quoted investments in active markets are based on current closing prices. If the market for a financial asset is not active and for unlisted securities, BDO Unibank Group establishes the fair value by using valuation techniques, which include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Gains and losses arising from changes in the fair value of the financial assets at FVTPL category are reported as part of Trading gain under Other Operating Income account in the statement of income in the period in which these arise. Gains and losses arising from changes in the fair value of AFS securities are recognized 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 shall be reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss.

Non-compounding interest, dividend income and other cash flows resulting from holding impaired financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

The financial assets are derecognized when the contractual rights to receive cash flows from the financial instruments expire or when the financial assets are transferred and all substantial risks and rewards of ownership have been transferred.

2.7 Derivative Financial Instruments and Hedge Accounting

BDO Unibank Group is a party to various foreign-currency forwards and cross-currency and interest rate swaps. These contracts are entered into as a service to customers and as a means of reducing or managing BDO Unibank Group's foreign exchange and interest rate exposures, as well as for trading purposes.

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value (except for the embedded derivatives in CLNs linked to ROP bonds which BDO Unibank Group reclassified to loans and other receivables together with the host CLN). Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models and option pricing models, as appropriate. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (the fair value of the consideration given or received) unless the fair value of the instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, BDO Unibank Group recognizes profit or loss at initial recognition.

For more complex instruments, BDO Unibank Group uses proprietary models, which usually are developed from recognized valuation models. Some or all of the inputs into these models may not be market observable, and are derived from market prices or rates or are estimated based on assumptions. When entering into a transaction, the financial instrument is recognized initially at the transaction price, which is the best indicator of fair value, although the value obtained from the valuation model may differ from the transaction price. This initial difference in fair value indicated by valuation techniques is recognized as profit or loss depending upon the individual facts and circumstances of each transaction and not later than when the market data becomes observable.

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The value produced by a model or other valuation technique is adjusted to allow for a number of factors as appropriate, because valuation techniques cannot appropriately reflect all factors market participants take into account when entering into a transaction. Valuation adjustments are recorded to allow for model risks, bid-ask spreads, liquidity risks as well as other factors. Management believes that these valuation adjustments are necessary and appropriate to fairly state financial instruments carried at fair value in the statement of financial position.

Certain derivatives embedded in other financial instruments are considered 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. These embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss (except for the embedded derivatives in CLNs linked to ROP bonds which were not bifurcated from the host contracts and were reclassified to loans and other receivables as permitted by the BSP and SEC). Reassessment of embedded derivatives is only done when there are changes in the contract that significantly modifies contractual cash flows.

Certain derivatives may be designated as either: *(i)* hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or, *(ii)* hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Changes in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument depends on the hedging relationship designated by BDO Unibank Group.

2.8 Non-current Assets Held for Sale

Assets held for sale include real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale.

BDO Unibank Group classifies a non-current asset as held for sale if its carrying amount will be recovered principally through a sale transaction rather than through continuing use. In the event that the sale of the asset is extended beyond one year, the extension of the period required to complete the sale does not preclude an asset from being classified as held for sale if the delay is caused by events or circumstances beyond BDO Unibank Group's control and there is sufficient evidence that BDO Unibank Group remains committed to its plan to sell the asset.

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as assets held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortization. The profit or loss arising from the sale of assets held for sale is included as part of Income from assets sold or exchanged under Other Operating Income account in profit or loss.

2.9 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable costs incurred. This also includes land and building acquired by BDO Unibank Group from defaulting borrowers not held for sale in the next 12 months. For these assets, the cost is recognized initially at fair value. Investment properties except land are depreciated on a straight-line basis over a period of 10 years.

BDO Unibank Group adopted the cost model in measuring its investment properties; hence, these are carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in premises, furniture, fixtures and equipment (see Note 2.25).

Investment properties are derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from their disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in profit or loss is presented as part of Income from assets sold or exchanged under Other Operating Income in the year of retirement or disposal.

2.10 Real Properties for Development and Sale

Real properties for development and sale (included as part of Other Resources account) consist of subdivision land for sale and development, and land acquired for home building, home development, and other types of real estate development. These are carried at the lower of aggregate cost and net realizable value (NRV). Costs, which is determined through specific identification, include acquisition costs and costs incurred for development, improvement and construction of subdivision land. NRV is the selling price less estimated cost to complete, commissions and other marketing costs.

Land acquired for home building, home development and other types of real estate development is also carried at the lower of aggregate cost and NRV. Costs include acquisition costs and, once real estate development commences, the cost of these properties, including development costs incurred, will be reclassified to Real Properties for Development and Sale and is presented as part of Other Resources in the statement of financial position.

2.11 Equity Investments

In BDO Unibank Group's financial statements, investments in associates (presented as Equity Investments under Other Resources account) are accounted for under the equity method of accounting and are initially recognized at cost less allowance for impairment, if any (see Note 2.25). Associates are all entities over which BDO Unibank Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

BDO Unibank 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 reserves as part of statement of changes in equity. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When BDO Unibank Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, BDO Unibank Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

In the Parent Bank's financial statements, the investments in subsidiaries and associates (presented as Equity Investments under Other Resources account) are carried at cost, less any impairment in value.

2.12 Prepayments and Other Resources

Prepayments and other resources pertain to other assets that are controlled by BDO Unibank Group as a result of past events. These are recognized in the financial statements when it is probable that the future economic benefits will flow to BDO Unibank Group and the asset has a cost or value that can be measured reliably.

2.13 Premises, Furniture, Fixtures and Equipment

Premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and any impairment in value. Property items of the former Equitable PCI Bank (EPCIB) stated at appraised values were included in BDO Unibank Group balances at their deemed costs at the date of transition to PFRS in 2005. The revaluation increment is credited to Revaluation Increment account in the Equity section, net of applicable deferred tax.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred.

Depreciation is computed on a straight-line basis over the estimated useful lives of the depreciable assets as follows:

Buildings	10 - 50 years
Leasehold rights and improvements	5 years
Furniture, fixtures and equipment	3 - 5 years

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 (see Note 2.25).

The residual values and estimated useful lives of premises, furniture, fixtures and equipment are reviewed and adjusted, if appropriate, at the end of each reporting period.

An item of premises, furniture, fixtures and equipment, including the related accumulated depreciation, amortization and any impairment loss, 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.

2.14 Business Combination

Except as indicated otherwise, business acquisitions are accounted for using the acquisition method of accounting.

Goodwill acquired in a business combination is initially measured at cost being the excess of the cost of a business combination over BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Subsequent to initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired (see Note 2.25).

Impairment losses on goodwill are not reversed. Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost is recognized directly in profit or loss.

For the purpose of impairment testing, goodwill is allocated to cash-generating units or groups of cash-generating units that are expected to benefit from the business combination in which the goodwill arose. The cash-generating units or groups of cash-generating units are identified according to operating segments.

Gains and losses on the disposal of an interest in a subsidiary include the carrying amount of goodwill relating to it.

If the business combination is achieved in stages, the acquirer is required to remeasure its previously held equity interest in the acquiree at its acquisition-date fair value and recognize the resulting gain or loss, if any, in profit or loss or other comprehensive income, as appropriate.

Any contingent consideration to be transferred by BDO Unibank Group is recognized at fair value at the acquisition date. Subsequent changes to the fair value of the contingent consideration that is deemed to be an asset or liability is recognized in accordance with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, either in profit or loss or as a change to other comprehensive income. Contingent consideration that is classified as equity is not remeasured, and its subsequent settlement is accounted for within equity.

Transfers of assets between commonly-controlled entities are accounted for under historical cost accounting or pooling-of-interest method.

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2.15 Intangible Assets

Intangible assets include goodwill, branch licenses and computer software licenses.

Goodwill represents the excess of the cost of acquisition over the fair value of the net assets acquired and branch licenses at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life, and thus, not subject to amortization but to an annual test for impairment (see Note 2.25). Goodwill is subsequently carried at cost less any accumulated impairment losses.

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

Branch licenses, on the other hand, represent the rights given to BDO Unibank Group to establish certain number of branches as an incentive in acquiring distressed banks. Branch licenses are not subject to amortization but to an annual test of impairment.

Acquired computer software licenses are capitalized on the basis of the costs incurred to acquire and install the specific software. These costs are amortized on straight-line basis over the expected useful life of five years. Costs associated with maintaining computer software are expensed as incurred.

When an intangible asset is disposed of, the gain or loss on disposal is determined as the difference between the proceeds and the carrying amount of the asset and is recognized in profit or loss.

2.16 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, subordinated notes payable and other liabilities (including derivatives with negative fair values, except withholding taxes payable, unearned income and capitalized interest and other charges).

Financial liabilities are recognized when BDO Unibank Group becomes a party to the contractual terms of the instrument.

Deposit liabilities and other liabilities are recognized initially at fair value and subsequently measured at amortized cost less settlement payments.

Bills payable and subordinated notes payable, except for government financial assistance, are recognized initially at fair value, equivalent to the issue proceeds (fair value of consideration received), net of direct issue costs. Bills payable and subordinated notes payable are subsequently measured at amortized cost; any difference between 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.

Financial assistance from the Philippine Deposit Insurance Corporation (PDIC), arising from the acquisition of First e-Bank in 2002, is accounted for under PAS 20, *Accounting for Government Grants and Disclosure of Government Assistance*, whereby the loan received is initially recorded at the amount borrowed with no re-measurement to fair value or imputation of market interest. Financial assistance from the PDIC is recorded as part of Bills Payable in the 2011 statement of financial position.

Derivatives with negative fair values are recognized initially and subsequently measured at fair value with changes in fair value recognized in profit or loss.

Lease deposits from operating and finance leases (presented as Lease deposits under Other Liabilities account in the statement of financial position) are initially recognized at fair value. The excess of the principal amount of the deposits over its fair or present value is immediately recognized as day one gain and is included as part of Miscellaneous under Other Operating Income account in the statement of income. Meanwhile, interest expense on the subsequent amortization of the lease deposits is accrued using the effective interest method and is included as part of Interest Expense in the statement of income.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are declared by BDO Unibank Group and are subject for approval by the BSP.

Financial liabilities are derecognized in the statement of financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.17 Offsetting Financial Instruments

Financial assets and liabilities are offset and the resulting net amount is reported in the statement of financial position 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.

2.18 Terminal Value of Leased Assets and Guaranty Deposits on Finance Lease

The terminal value of leased assets, which approximates the amount of guaranty deposit paid by the lessee at the inception of the lease, is the estimated proceeds from the disposal of the leased asset at the end of the lease term. At the end of the lease term, the residual value of the leased asset is generally applied against the guaranty deposit of the lessee.

2.19 Related Party Transactions

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

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

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

2.20 Equity

Capital stock represents the nominal value of shares that have been issued.

Additional paid-in capital includes any premiums received on the issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Surplus reserves pertain to a portion of BDO Unibank Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for additional working capital for underwriting and equity trading securities and reserve fund requirement for subsidiaries engaged in the security brokerage business (see Note 19.6).

Surplus free includes all current and prior period results as disclosed in profit or loss and which are available and not restricted for use by BDO Unibank Group, reduced by the amounts of dividends declared.

Net unrealized fair value gains (losses) on AFS securities pertain to cumulative mark-to-market valuation of AFS securities.

Revaluation increment consists of gains arising from the revaluation of land under premises, furniture, fixtures and equipment.

Accumulated translation adjustment pertains to exchange differences arising on translation of the resources and liabilities of foreign subsidiaries and overseas branch that are taken up in other comprehensive income (see Note 2.26).

Non-controlling interests represent the portion of the net resources and profit or loss not attributable to BDO Unibank Group which are presented separately in BDO Unibank Group's statement of income and within the equity in BDO Unibank Group's statements of financial position and changes in equity.

2.21 Revenue and Expense Recognition

Revenue is recognized to the extent that the revenue can be reliably measured; it is probable that future economic benefits will flow to BDO Unibank Group; and the expenses and costs incurred and to be incurred can be measured reliably. Expenses and costs, if any, are recognized in profit or loss upon utilization of the assets or services or at the date these are incurred. The following specific recognition criteria of income and expenses must also be met before revenue and expense are recognized:

(a) *Interest* – Interest income and expenses are recognized in profit or loss for all financial assets or liabilities 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, BDO Unibank Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(b) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. These include the following accounts:

(i) *Loan syndication fees* are recognized as revenue when the syndication has been completed and that BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants.

(ii) *Commission and fees* arising from negotiating, or participating in the negotiation of a transaction for a third party such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses are recognized at the completion of the underlying transaction.

(iii) *Portfolio and other management advisory and service fees* are recognized based on the applicable service contracts, usually on a time-proportionate basis.

(iv) *Trust fees* related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

(v) *Commissions earned on credit cards* – Commissions earned on credit cards are taken up as income upon receipt from member establishments of charges arising from credit availments by credit cardholders. These commissions are computed based on certain agreed rates and are deducted from amounts remittable to member establishments

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(c) *Trading gain* – Trading gain is recognized when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities at year-end. Only trading gain arising from mark-to-market valuation of financial assets at FVTPL is recognized in profit or loss by BDO Unibank Group.

(d) *Income from assets sold or exchanged* – Income from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or when the collectability of the entire sales price is reasonably assured. This is included in profit or loss as part of Other Operating Income.

(e) *Dividend* – Dividend income is recognized when BDO Unibank Group's right to receive dividend is established.

(f) *Rental income* – Rental income arising from leased properties accounted for as operating lease is recognized on a straight-line basis over the lease terms and is recorded in profit or loss as part of Miscellaneous – net under Other Operating Income (see Note 2.23).

(g) *Income on direct financing leases and receivables financed* – Income on loans and receivables financed with short-term maturities is recognized using the effective interest method. Interest and finance fees on loans and receivables financed with long-term maturities and the excess of the aggregate lease rental plus the estimated terminal value of the leased equipment accounted for as finance lease over its cost are credited to unearned discount and amortized over the term of the note or lease using the effective interest method. Unearned income ceases to be amortized when receivables become past due.

(h) *Real property sales* – Revenue is accounted for using the full accrual method. Under this method, sale is recognized when the earning process is virtually complete and collectibility of the entire sales price is reasonably assured.

    Collections from accounts which did not qualify from revenue recognition are treated as customers' deposit included in Accounts Payable under Other Liabilities in the statement of financial position.

BDO Unibank Group records its revenue at gross and separately recognizes an expense and liability relative to the fair value of the reward points earned by clients and customers (see Note 3.2) since such points are redeemable significantly from the goods or services provided by a third party participating in the program, for example, SM Group (a related party) and rewards partners of the Parent Bank.

2.22 Provisions and Contingencies

Provisions are recognized when present obligations will probably lead to an outflow of economic resources and these can be estimated reliably even if the timing or amount of the outflow may still be uncertain. A present obligation arises from the presence of a legal or constructive commitment that has resulted from past events (e.g. legal disputes or onerous contracts).

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the end of reporting period, including the risks and uncertainties associated with the present obligation. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values using a pretax rate that reflects market assessment and the risks specific to the obligation, where time value of money is material.

Provisions are reviewed at the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements. On the other hand, any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain, as a separate asset, not exceeding the amount of the related provision. Similarly, probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

2.23 Leases

BDO Unibank Group accounts for its leases as follows:

(a) BDO Unibank Group as Lessor

Leases, wherein BDO Unibank Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to BDO Unibank Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on BDO Unibank Group's net investment outstanding in respect of the finance lease.

Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset, are classified as operating leases. Operating lease collections are recognized as income in profit or loss on a straight-line basis over the lease term.

(b) BDO Unibank Group as Lessee

Leases, which do not transfer to BDO Unibank Group substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease payments are recognized as expense in profit or loss on a straight-line basis over the lease term.

BDO Unibank Group determines whether an arrangement is, or contains, a lease based on the substance of the arrangement. It makes an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

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2.24 Impairment of Financial Assets

BDO Unibank Group assesses at the end of each reporting period 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 if, and 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 has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of BDO Unibank Group about certain loss events, including, among others: *(i)* significant financial difficulty of the issuer or debtor; *(ii)* a breach of contract, such as a default or delinquency in interest or principal payments; *(iii)* the probability that the borrower will enter bankruptcy or other financial reorganization; *(iv)* the disappearance of an active market for that financial asset because of financial difficulties; or, *(v)* observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group.

(a) Assets carried at amortized cost.

BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, BDO Unibank Group 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.

If there is an objective evidence that an impairment loss on loans and receivables or HTM investments carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in profit or loss. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. When practicable, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from foreclosures less costs for obtaining and selling the collateral, whether or not the foreclosure is probable.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit risk characteristics, i.e., on the basis of BDO Unibank Group's or BSP's grading process that considers asset type, industry, collateral type, 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 and historical loss experience for assets with credit risk characteristics similar to those in the 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 exist currently.

Estimates of changes in future cash flows for groups of assets should reflect and be consistent with changes in related observable data from period to period. The methodologies and assumptions used for estimating future cash flows are reviewed regularly by BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the BOD, have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment loss in profit or loss. 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.

When possible, BDO Unibank Group seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, the loan is no longer considered past due. Management continuously reviews restructured loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loans' original effective interest rate. The difference between the recorded sale of the original loan and the present value of the restructured cash flows, discounted at the original effective interest rate, is recognized in profit or loss as part of Impairment Losses.

In addition, under Section 9(f) of the Rules and Regulations to implement the provisions of Republic Act No. 8556, *The Financing Company Act of 1998*, a 100% allowance is also set up by BDO Leasing, a subsidiary, for the following:

(i) clean loans and advances past due for a period of more than six months;
(ii) past due loans secured by collateral such as inventories, receivables, equipment and other chattels that have declined in value by more than 50%, without the borrower offering additional collateral for the loans;
(iii) past due loans secured by real estate mortgage the title to which is subject to an adverse claim rendering settlement through foreclosure doubtful;

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(iv) when the borrower, and his co-maker or guarantor, is insolvent or where their whereabouts is unknown, or their earning power is permanently impaired;
(v) accrued interest receivable that remains uncollected after six months from the maturity date of the loan to which it accrues; and
(vi) accounts receivable past due for 361 days or more.

These requirements and conditions were accordingly considered by BDO Unibank Group in the determination of impairment loss provision on assets carried at amortized cost particularly loans and other receivables related to financing.

(b) Assets carried at fair value with changes recognized in other comprehensive income.

In the case of investments classified as AFS securities, a significant or prolonged decline in the fair value of the security below its cost is considered in determining whether the assets are impaired. If any such evidence exists for AFS securities, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that financial asset previously recognized in other comprehensive income as part of equity – is reclassified from other comprehensive income to profit or loss as a reclassification adjustment. Impairment losses recognized in profit or loss on equity instruments are not reversed through profit or loss. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed through profit or loss.

(c) Assets carried at cost.

BDO Unibank Group assesses at the end of each reporting period whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost, may be impaired. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

2.25 Impairment of Non-financial Assets

BDO Unibank Group's real properties for development and sale, equity investments, goodwill, branch licenses (recorded as part of Other Resources), premises, furniture, fixtures and equipment and investment properties are subject to impairment testing. Intangible assets with an indefinite useful life, such as goodwill are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

For purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash flows (cash-generating units). As a result, assets are tested for impairment either individually or at the cash-generating unit level.

An impairment loss is recognized for the amount by which the asset's or cash-generating unit's carrying amount exceeds its recoverable amounts which is the higher of its fair value less costs to sell and its value in use. In determining value in use, management estimates the expected future cash flows from each cash-generating unit and determines the suitable interest rate in order to calculate the present value of those cash flows. Discount factors are determined individually for each cash-generating unit and reflect management's assessment of respective risk profiles, such as market and asset-specific risk factors.

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

2.26 Foreign Currency Transactions and Translations

(a) Foreign Currency Transactions

The financial statements of the FCDUs of BDO Unibank Group are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

Foreign exchange gains and losses resulting from the settlement of foreign currency denominated 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.

(b) Foreign Currency Translation

The accounting records of BDO Unibank Group are maintained in Philippine pesos except for the FCDUs and foreign branch and subsidiaries which are maintained in US dollars or European Union Euro (Euro). BDO Remittance, an overseas branch, and Express Padala HK are maintained in Hong Kong dollars.

The operating results and financial position of foreign subsidiaries and an overseas branch, which are measured using the US dollars or Euro and Hong Kong dollars, respectively, are translated to Philippine pesos, BDO Unibank Group's functional currency, as follows:

i. Resources and liabilities for each statement of financial position presented are translated at the closing rate at the end of the reporting period;

ii. Income and expenses for each statement of income are translated at the monthly average exchange rates (unless this average is not 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 of other comprehensive income.

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On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries and an overseas branch is recognized in other comprehensive income as part of Accumulated Translation Adjustment (see Note 2.20). When a foreign operation is sold, the cumulative amount of exchange differences are recognized in profit or loss.

The translation of the financial statements into Philippine peso should not be construed as a representation that the US dollar, Euro or Hong Kong dollar amounts could be converted into Philippine peso amounts at the translation rates or at any other rates of exchange.

2.27 Compensation and Benefits Expense

Post-employment benefits are provided to employees through a defined benefit plan, as well as a defined contribution plan.

(a) Post-employment Defined Benefit

A defined benefit plan is a post-employment plan that defines an amount of post-employment benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and expected rate of salary increases. The legal obligation for any benefits from this kind of post-employment plan remains with BDO Unibank Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. BDO Unibank Group's defined benefit post-employment plan covers all regular full-time employees. The post-employment plan is tax-qualified, noncontributory and administered by a trustee.

The asset recognized in the statement of financial position for defined benefit post-employment plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using a discount rate derived from the weighted average yields of government bonds as published by Philippine Dealing Exchange Corporation, that are denominated in the currency in which the benefits will be paid and that have terms to maturity approximating to the terms of the related post-employment liability.

Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past service costs are recognized immediately in profit or loss, unless the changes to the post-employment 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.

(b) Defined Contribution Plan

A defined contribution plan is a post-employment plan under which BDO Unibank Group pays fixed contributions into an independent entity, such as the Social Security System (SSS). BDO Unibank Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred.

(c) Termination Benefits

Termination benefits are payable when employment is terminated by BDO Unibank Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. BDO Unibank Group recognizes termination benefits when it is demonstrably committed to either: *(i)* terminating the employment of current employees according to a detailed formal plan without possibility of withdrawal; or, *(ii)* providing termination benefits as a result of an offer made to encourage voluntary redundancy. Benefits falling due more than 12 months after the end of reporting period are discounted to present value.

(d) Bonus Plans

BDO Unibank Group recognizes a liability and an expense for bonuses based on the Group's bonus policy. A provision is recognized by BDO Unibank Group where it is contractually obliged to pay the benefits.

(e) Executive Stock Option Plan

BDO Unibank Group grants stock option plan to its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on BDO Unibank Group's performance in the preceding year and amortized over five years starting from the date of the approval of the BOD. The number of officers qualified at the grant date is regularly evaluated during the vesting period (at least annually) and the amount of stock option is decreased in case there are changes in the number of qualified employees arising from resignation or disqualification. The annual amortization of stock option is included as part of Compensation and benefits expense in profit or loss.

(f) Compensated Absences

Compensated absences are recognized for the number of paid leave days (including holiday entitlement) remaining at the end of reporting period. These are included in Other Liabilities account at the undiscounted amount that BDO Unibank Group expects to pay as a result of the unused entitlement.

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2.28 Income Taxes

Tax expense recognized in profit or loss comprise the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity, if any.

Current tax assets or liabilities comprise those claims from, or obligations to, fiscal authorities relating to the current or prior reporting period, that are uncollected or unpaid at the end of the reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is accounted for, using the liability method on temporary differences at the end of the reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes. Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized. Unrecognized deferred tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will be available to allow such deferred tax assets to be recovered.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized or the liability is settled provided such tax rates and tax laws have been enacted or substantively enacted at the end of each reporting period.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statement of income. Only changes in deferred tax assets or liabilities that relate to a change in value of resources or liabilities relate to items recognized in other comprehensive income or directly in equity are recognized in other comprehensive income or directly in equity, respectively.

Deferred tax assets and deferred tax liabilities are offset if BDO Unibank Group has a legally enforceable right to set off current tax assets against current tax liabilities and the deferred taxes relate to the same entity and the same taxation authority.

2.29 Earnings Per Share

Basic earnings per share is determined by dividing net profit by the weighted average number of common shares issued and outstanding during the period, after retroactive adjustment for any stock dividend declared in the current period.

The diluted earnings per share is also computed by dividing net profit by the weighted average number of common shares issued and outstanding during the period. However, net profit attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible preferred shares and stock option plan granted by BDO Unibank Group to the qualified officers. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. The stock option plan is deemed to have been converted into common stock in the year the stock option is granted.

2.30 Trust Activities

BDO Unibank Group commonly acts as trustee and in other fiduciary capacities that result in the holding or placing of assets on behalf of individuals, trusts, retirement benefit plans and other institutions. Resources and income arising thereon are excluded from these financial statements, as these are neither resources nor income of BDO Unibank Group.

2.31 Events After the End of the Reporting Period

Any post-year-end event that provides additional information about BDO Unibank Group's financial position at the end of reporting period (adjusting event) is reflected in the financial statements. Post-year-end events that are not adjusting events, if any, are disclosed when material to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

BDO Unibank Group's financial statements prepared in accordance with FRSP for banks require management to make judgments and estimates that affect the amounts reported in the financial statements and related notes. Judgments and estimates are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results may ultimately differ from these estimates and the differences could be significant.

3.1 Critical Management Judgments in Applying Accounting Policies

In the process of applying BDO Unibank Group's accounting policies, management has made the following judgments, apart from those involving estimation, which have the most significant effect on the amounts recognized in the financial statements:

(a) Classifying Financial Assets as HTM Investments

BDO Unibank Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, BDO Unibank Group considers its intention and ability to hold such investments to maturity. Management has confirmed its intention and determined its ability to hold the investments up to maturity.

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If BDO Unibank Group fails to keep these investments at maturity (other than for the allowed specific circumstances, e.g., selling more than an insignificant amount close to maturity), it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost.

However, the tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group.

(b) Impairment of AFS Securities

BDO Unibank Group follows the guidance of PAS 39 in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank 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 of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy or financial distress, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

(c) Distinction between Investment Properties and Owner-occupied Properties

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generates cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to the property but also to the other resources used in the production or supply process.

Some properties comprise a portion that is held to earn rental or for capital appreciation and another portion that is held for use in the production and supply of goods and services or for administrative purposes. If these portions can be sold separately (or leased out separately under finance lease), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(d) Distinction between Operating and Finance Leases

BDO Unibank Group has entered into various lease agreements either as a lessor or lessee. Critical judgment was exercised by management to distinguish each lease agreement as either an operating or finance lease by looking at the transfer or retention of significant risks and rewards of ownership of the properties covered by the agreements. Failure to make the right judgment will result in either overstatement or understatement of resources and liabilities.

(e) Classification of Acquired Properties and Fair Value Determination for Non-current Assets Held for Sale, Investment Properties and Other Properties

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, as Non-current Assets Held for Sale if expected to be recovered through sale rather than use, as Investment Properties if intended to be held for capital appreciation, as Financial Assets if qualified as such in accordance with PAS 39 or as Other properties if held for sale but the depreciable properties are not yet disposed within three years. At initial recognition, BDO Unibank Group determines the fair value of the acquired properties through internally or externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the properties.

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provisions and contingencies are discussed in Note 2.22 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that have a significant risk of causing a material adjustment to the carrying amounts of resources and liabilities within the next financial year:

(a) Impairment Losses on Financial Assets (AFS Securities, HTM Investments and Loans and Other Receivables)

BDO Unibank Group reviews its AFS securities, HTM investments and loans and receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in profit or loss, BDO Unibank 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 the financial asset or a portfolio of similar financial assets. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers 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 assets 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.

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BDO Unibank Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement are determined using verifiable objective evidence such as foreign exchange rates, interest rates and volatility rates. However, the amount of changes in fair value would differ if BDO Unibank Group had utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit or loss and other comprehensive income.

The total impairment losses on financial assets recognized in profit or loss is presented in Note 14.

(b) Fair Value of Financial Assets and Liabilities

As at December 31, the following table summarizes the comparison of the carrying amounts and fair values of financial resources and liabilities not presented in the statements of financial position at their fair value.

	BDO Unibank Group		Parent Bank	
	Carrying Value	Fair Value	Carrying Value	Fair Value
December 31, 2012				
Financial Assets:				
Cash and other cash items	**P 21,539**	**P 21,539**	**P 21,512**	**P 21,512**
Due from other banks and BSP	**169,236**	**169,236**	**162,791**	**162,792**
AFS securities – unquoted – net	**783**	*	**270**	*
HTM investments	**96,963**	**114,165**	**89,606**	**106,357**
Loans and other receivables	**760,500**	**768,445**	**746,299**	**757,513**
Other resources – net	**2,126**	**2,126**	**2,114**	**2,114**
Financial Liabilities:				
Deposit liabilities	**931,641**	**932,370**	**919,794**	**920,522**
Bills payable	**72,179**	**72,997**	**65,177**	**66,043**
Subordinated notes payable	**28,180**	**31,359**	**28,180**	**31,359**
Other liabilities	**52,305**	**52,305**	**46,553**	**46,553**
December 31, 2011				
Financial Assets:				
Cash and other cash items	P 33,129	P 33,129	P 33,102	P 33,102
Due from other banks and BSP	149,613	149,655	138,769	138,811
AFS securities – unquoted – net	570	*	310	*
HTM investments	93,670	106,032	85,742	97,761
Loans and other receivables	673,927	680,546	653,857	663,057
Other resources – net	2,427	2,427	2,318	2,318
Financial Liabilities:				
Deposit liabilities	858,569	861,289	838,748	841,447
Bills payable	59,474	59,495	51,378	51,460
Subordinated notes payable	38,255	41,549	38,255	41,549
Other liabilities	41,494	41,494	34,930	34,930

* *Data not available*

(i) Due from Other Banks and BSP

Due from BSP pertains to deposits made by BDO Unibank Group to the BSP for clearing and reserve requirements. Due from other banks includes interbank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is 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, which for short-term deposits approximate the nominal value.

(ii) AFS Securities

The fair value of AFS securities is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, unquoted AFS securities are carried at cost because the fair value cannot be reliably determined either by reference to similar financial instruments or through valuation technique.

Currently, there is no available market to sell the unquoted equity AFS securities. BDO Unibank will hold into the investments until management decides to sell them when there will be offers to buy out such investments on the appearance of an available market where the investments can be sold.

(iii) HTM Investments

The fair value for HTM investments is based on market prices. Where this information is not available, the fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics or through valuation techniques using discounted cash flow analysis.

(iv) Loans and Other Receivables

Loans and other receivables are net of provisions for impairment. The estimated fair value of loans and receivables 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.

(v) Deposits and Borrowings

The estimated fair value of demand deposits with no stated maturity, which includes non-interest-bearing deposits, is the amount repayable on demand. The estimated fair value of long-term fixed interest-bearing deposits and other borrowings without quoted market price is based on discounted cash flows using interest rates for new debts with similar remaining maturity.

(vi) Other Resources and Liabilities

Due to their short duration, the carrying amounts of other resources and liabilities in the statement of financial position are considered to be reasonable approximation of their fair values.

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(c) Fair Value of Derivatives

The fair value of derivative financial instruments that are not quoted in an active market is determined through valuation techniques using the net present value computation.

Valuation techniques are used to determine fair values which are validated and periodically reviewed. To the extent practicable, models use observable data, however, areas such as counterparty credit risk, volatilities and correlations require management to make estimates. Changes in assumptions could affect the reported fair value of financial instruments. BDO Unibank Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d) Financial Instruments Measured at Fair Value

Financial assets and liabilities measured at fair value are categorized in accordance with the fair value hierarchy. This hierarchy groups financial assets and liabilities into three levels based on the significance of inputs used in measuring the fair value of the financial assets and liabilities. The fair value hierarchy has the following levels:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2: inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and,
- Level 3: inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement. The financial assets and liabilities measured at fair value in the statements of financial position as of December 31, 2012 and 2011 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted equity securities classified as AFS amounting to P783 and P570 in 2012 and 2011, respectively, in BDO Unibank Group financial statements and P270 and P310 in 2012 and 2011, respectively, in the Parent Bank financial statements are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore are not included. Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	Level 1	Level 2	Total
December 31, 2012				
Resources				
Financial assets at FVTPL	9.1			
Derivative financial assets		**P 12**	**P 4,792**	**P 4,804**
Government bonds		**2,239**	**-**	**2,239**
Other debt securities		**1,986**	**-**	**1,986**
Equity securities – quoted		**148**	**-**	**148**
		4,385	**4,792**	**9,177**
AFS securities	9.2			
Government debt securities		**78,186**	**25**	**78,211**
Other debt securities – quoted		**43,396**	**-**	**43,396**
Equity securities		**8,291**	**473**	**8,764**
		129,873	**498**	**130,371**
		P 134,258	**P 5,290**	**P 139,548**
Liabilities				
Derivatives with negative fair values	18	**P 109**	**P 4,136**	**P 4,245**
December 31, 2011				
Resources				
Financial assets at FVTPL	9.1			
Derivative financial assets		P 40	P 3,699	P 3,739
Government bonds		949	-	949
Other debt securities		58	-	58
Equity securities – quoted		77	-	77
		1,124	3,699	4,823
AFS securities	9.2			
Government debt securities		55,065	56	55,121
Other debt securities-quoted		28,279	-	28,279
Equity securities		5,516	439	5,955
		88,860	495	89,355
		P 89,984	P 4,194	P 94,178
Liabilities				
Derivatives with negative fair values	18	P 59	P 3,261	P 3,320

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Parent Bank

	Notes	Level 1	Level 2	Total
December 31, 2012				
Resources				
Financial assets at FVTPL	9.1			
Derivative financial assets		P 12	P 2,877	P 2,889
Government bonds		2,194	-	2,194
		2,206	2,877	5,083
AFS securities	9.2			
Government debt securities		76,014	25	76,039
Other debt securities – quoted		41,981	-	41,981
Equity securities		4,870	473	5,343
		122,865	498	123,363
		P 125,071	P 3,375	P 128,446
Liabilities				
Derivatives with negative fair values	18	P 108	P 2,547	P 2,655
December 31, 2011				
Resources				
Financial assets at FVTPL	9.1			
Derivative financial assets		P 40	P 1,850	P 1,890
Government bonds		518	-	518
		558	1,850	2,408
AFS securities	9.2			
Government debt securities		52,527	56	52,583
Other debt securities – quoted		27,722	-	27,722
Equity securities		1,877	439	2,316
		82,126	495	82,621
		P 82,684	P 2,345	P 85,029
Liabilities				
Derivatives with negative fair values	18	P 59	P 1,818	P 1,877

BDO Unibank Group and Parent Bank have no financial instrument as of December 31, 2012 and 2011 whose fair value was measured under Level 3. The methods and valuation techniques used for the purpose of measuring fair values are unchanged compared to the previous reporting periods.

There have been no significant transfers among Levels 1 and 2 in the reporting periods.

(e) *Estimating Useful Lives of Premises, Furniture, Fixtures and Equipment, Investment Properties and Other Properties*

BDO Unibank Group estimates the useful lives of premises, furniture, fixtures and equipment, investment properties and other properties based on the period over which the assets are expected to be available for use. The estimated useful lives of premises, furniture, fixtures and equipment and investment properties are reviewed periodically and are updated if expectations differ from previous estimates due to physical wear and tear, technical or commercial obsolescence and legal or other limits on the use of the assets. The carrying amounts of premises, furniture, fixtures and equipment are analyzed in Note 11, investment properties are analyzed in Note 12, and other properties are analyzed in Note 13. Based on management's assessment as at December 31, 2012 and 2011, there is no change in estimated useful lives of premises, furniture, fixtures and equipment, investment properties and certain other resources during those years. Actual results, however, may vary due to changes in estimates brought about by changes in factors mentioned above.

(f) *Principal Assumptions for Management's Estimation of Fair Value*

Investment Properties are measured using the cost model. The fair value disclosed in Note 12 to the financial statements as determined by BDO Unibank Group and the Parent Bank using the discounted cash flows valuation technique which are mainly based on existing market conditions and actual transactions at each reporting period, such as: selling price under installment sales; expected timing of sale; and appropriate discount rates. The expected selling price is determined on the basis of current appraised values of the properties or similar properties in the same location and condition.

For financial assets and liabilities, fair value determination is discussed in Note 3.2 (b).

(g) *Determining Realizable Amount of Deferred Tax Assets*

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax assets to be utilized. The carrying value of deferred tax assets, which management assessed to be utilized within the next two to three years, as of December 31, 2012 and 2011 is disclosed in Note 27.1.

(h) *Impairment of Non-financial Assets*

Except for intangible assets with indefinite useful lives, PFRS requires that an impairment review be performed when certain impairment indicators are present. BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.25. Though management believes that the assumptions used in the estimation of fair values reflected in the financial statements are appropriate and reasonable, significant changes in these assumptions may materially affect the assessment of recoverable values and any resulting impairment loss could have a material adverse effect on the results of operations.

Impairment losses recognized in profit or loss are disclosed in Note 14.

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(i) Valuation of Post-employment Defined Benefit

The determination of BDO Unibank Group's obligation and cost of post-employment and other retirement benefits is dependent on the selection of certain assumptions used by actuaries in calculating such amounts. Those assumptions are described in Note 23 and include, among others, discount rates, expected rate of return on plan assets and salary increase rates. In accordance with PFRS, actual results that differ from the assumptions are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded obligation in such future periods.

The retirement benefit asset and net unrecognized actuarial losses of BDO Unibank Group amounted to P4,430 and P4,116, respectively, in 2012 and P1,492 and P4,518, respectively, in 2011. On the other hand, the retirement benefit asset and net unrecognized actuarial losses of the Parent Bank amounted to P4,170 and P3,874, respectively, in 2012 and P1,519 and P4,252, respectively, in 2011 (see Note 23.2).

(j) Recognition of Reward Points

BDO Unibank Group provides rewards points to its banking clients and customers each time they avail of the pre-identified products and services of the Parent Bank and the companies which the Parent Bank has identified as partners in the rewards program. Reward points are redeemable in a wide selection of reward categories, including travel, merchandise of third parties, reward credits and gift certificates. Certain loyalty points for credit card have no expiration date unless the credit card is cancelled but for other rewards program, unredeemed points may expire at some future date.

BDO Unibank Group establishes reserves to cover the cost of future reward redemptions for points earned to date. The provision for the cost of rewards is based upon points earned by the clients and the current cost per point of redemption. The estimated points to be redeemed are measured and adjusted based on many factors including but not limited to past redemption behavior of the clients, product type on which the points are earned and their ultimate redemption rate on the points earned to date but not yet redeemed.

BDO Unibank Group continually evaluates its reserve methodology for rewards based on developments in redemption patterns, cost per point redeemed and other factors. The reserve for unredeemed points is impacted over time by enrollment levels, amount of points earned and redeemed, weighted-average cost per point, redemption choices made by the clients and other membership rewards program changes. The calculation is most sensitive to changes in the estimated ultimate redemption rate. This rate is based on the expectation that a large majority of all points earned will eventually be redeemed and the rewards will be redeemed through goods or services supplied by a third party based on BDO Unibank Group's past experience.

The carrying value of the rewards points accrued by BDO Unibank Group and the Parent Bank is presented as part of Accrued expenses under Other Liabilities in the statements of financial position as disclosed in Note 18.

4. RISK MANAGEMENT

By their nature, BDO Unibank Group's activities are principally related to the use of financial instruments including derivatives. BDO Unibank Group accepts deposits from customers at fixed and floating rates for various periods, and seeks to earn above average interest margins by investing these funds in high-quality assets. BDO Unibank Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. BDO Unibank Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices.

To manage the risk for holding financial resources and liabilities, BDO Unibank Group operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, market (foreign exchange, interest rate, price and credit risks) and operational risks. BDO Unibank Group's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of BDO Unibank Group's statements of financial position to optimize the risk-reward balance and maximize return on BDO Unibank Group's capital. BDO Unibank Group's Risk Management Committee (RMC) has overall responsibility for BDO Unibank Group's risk management systems and sets risk management policies across the full range of risks to which BDO Unibank Group is exposed. Specifically, BDO Unibank Group's RMC places trading limits on the level of exposure that can be taken in relation to both overnight and intra-day market positions. With the exception of specific hedging arrangements, foreign exchange and interest rate exposures associated with these derivatives are normally offset by entering into counterbalancing positions, thereby controlling the variability in the net cash amounts required to liquidate market positions.

Within BDO Unibank Group's overall risk management system is the Assets and Liabilities Committee (ALCO) which is responsible for managing BDO Unibank Group's statement of financial position, including BDO Unibank Group's liquidity, interest rate and foreign exchange related risks. In addition, ALCO formulates investment and financial policies by determining the asset allocation and funding mix strategies that are likely to yield the targeted financial results.

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the over-all risk profile of the BDO Unibank Group's activities across the different risk areas (i.e., credit, market, liquidity, and operational) to optimize the risk-reward balance and maximize return on capital.

RMG has responsibility for the setting of risk policies across the full range of risks to which BDO Unibank Group is exposed to.

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In the performance of its function, RMG observes the following framework:

- It is responsible for policy formulation in coordination with the relevant businesses/functions and ensures that proper approval for the manuals/policies is obtained from the appropriate body.

- It disseminates the approved policies to the relevant businesses/functions after which, pertinent authorities are delegated down to the businesses/functions to guide them in the conduct of their businesses/functions. RMG then performs compliance monitoring and review to ensure approved policies are adhered to.

- It is responsible for clarifying interpretations of risk policies/guidelines raised by the Business Heads/Units.

- When adverse trends are observed in the account/portfolio, RMG is responsible for flagging these trends and ensuring relevant policies for problem accounts/portfolio management are properly applied.

- RMG is responsible for the direct management of accounts in BDO Unibank Group's Non-Performing Loan (NPL)/property-related items in litigations portfolio and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.

- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

4.1 Liquidity Risk

Liquidity risk is the risk that there could be insufficient funds available to adequately meet the credit demands of BDO Unibank Group's customers and repay deposits on maturity. BDO Unibank Group manages liquidity risk by holding sufficient liquid assets of appropriate quality to ensure short-term funding requirements are met and by maintaining a balanced loan portfolio which is repriced on a regular basis. In addition, BDO Unibank Group seeks to maintain sufficient liquidity to take advantage of interest rate and exchange rate opportunities when they arise.

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2012 and 2011 in accordance with account classification of the BSP, are presented subsequently. The amounts disclosed in the maturity analysis are the contractual cash flows using the primary contractual maturities or behavioral assumptions on core levels (e.g., core deposit liabilities and core deposit substitutes with maturities within one year have been classified in the more than three years category), if the latter is more relevant for purposes of profiling the liquidity gap.

BDO Unibank Group

	2012				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 21,539	P -	P -	P -	P 21,539
Due from BSP/ other banks	169,236	-	-	-	169,236
Loans and other receivables	218,869	94,877	119,906	326,848	760,500
Trading and investment securities	16,757	8,357	22,849	189,331	237,294
Other resources	-	5,189	1,396	49,254	55,839
Total Resources	426,401	108,423	144,151	565,433	1,244,408
Liabilities and Equity:					
Deposit liabilities	189,462	7,630	6,459	728,090	931,641
Bills and subordinated notes payable	37,481	12,632	6,592	43,654	100,359
Other liabilities	7,257	39,769	3,723	4,407	55,156
Total Liabilities	234,200	60,031	16,774	776,151	1,087,156
Equity	-	-	-	157,252	157,252
Total Liabilities and Equity	234,200	60,031	16,774	933,403	1,244,408
On-book gap	192,201	48,392	127,377	(367,970)	-
Cumulative on-book gap	192,201	240,593	367,970	-	-
Contingent assets	193,002	47,662	8,779	13,335	262,778
Contingent liabilities	216,485	47,814	8,666	13,260	286,225
Off-book gap	(23,483)	(152)	113	75	(23,447)
Net Periodic Gap	168,718	48,240	127,490	(367,895)	-
Cumulative Total Gap	**P 168,718**	**P 216,958**	**P 344,448**	**(P 23,447)**	**P -**

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	2011				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 33,129	P -	P -	P -	P 33,129
Due from BSP/ other banks	149,613	-	-	-	149,613
Loans and other receivables	196,509	79,198	110,138	288,082	673,927
Trading and investment securities	6,248	9,576	25,382	147,212	188,418
Other resources	-	6,772	-	45,490	52,262
Total Resources	385,499	95,546	135,520	480,784	1,097,349
Liabilities and Equity:					
Deposit liabilities	247,847	7,954	5,957	596,811	858,569
Bills and subordinated notes payable	31,613	16,983	20,309	28,824	97,729
Other liabilities	6,793	29,158	2,951	5,187	44,089
Total Liabilities	286,253	54,095	29,217	630,822	1,000,387
Equity	-	-	-	96,962	96,962
Total Liabilities and Equity	286,253	54,095	29,217	727,784	1,097,349
On-book gap	99,246	41,451	106,303	(247,000)	-
Cumulative on-book gap	99,246	140,697	247,000	-	-
Contingent assets	236,326	38,544	23,717	15,321	313,908
Contingent liabilities	251,414	38,495	23,627	15,232	328,768
Off-book gap	(15,088)	49	90	89	(14,860)
Net Periodic Gap	84,158	41,500	106,393	(246,911)	(14,860)
Cumulative Total Gap	**P 84,158**	**P 125,658**	**P 232,051**	**(P 14,860)**	**P -**

Parent Bank

	2012				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 21,512	P -	P -	P -	P 21,512
Due from BSP/ other banks	` 162,791	-	-	-	162,791
Loans and other receivables	215,829	90,804	112,294	327,372	746,299
Trading and investment securities	12,983	7,810	21,652	175,877	218,322
Other resources	-	5,189	1,396	55,175	61,760
Total Resources	413,115	103,803	135,342	558,424	1,210,684
Liabilities and Equity:					
Deposit liabilities	186,446	6,209	4,577	722,562	919,794
Bills and subordinated notes payable	35,315	11,321	3,067	43,654	93,357
Other liabilities	6,625	39,727	2,188	580	49,120
Total Liabilities	228,386	57,257	9,832	766,796	1,062,271
Equity	-	-	-	148,413	148,413
Total Liabilities and Equity	228,386	57,257	9,832	915,209	1,210,684
On-book gap	184,729	46,546	125,510	(356,785)	-
Cumulative on-book gap	184,729	231,275	356,785	-	-
Contingent assets	188,824	40,110	872	4,806	234,612
Contingent liabilities	212,380	40,341	872	4,800	258,393
Off-book gap	(23,556)	(231)	-	6	(23,781)
Net Periodic Gap	161,173	46,315	125,510	(356,779)	-
Cumulative Total Gap	**P 161,173**	**P 207,488**	**P 332,998**	**(P 23,781)**	**P -**

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Parent Bank

	2011				
	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Resources:					
Cash and other cash items	P 33,102	P -	P -	P -	P 33,102
Due from BSP/ other banks	138,769	-	-	-	138,769
Loans and other receivables	186,687	78,505	106,294	282,371	653,857
Trading and investment securities	4,079	5,984	18,766	142,252	171,081
Other resources	8	6,832	368	51,241	58,449
Total Resources	362,645	91,321	125,428	475,864	1,055,258
Liabilities and Equity:					
Deposit liabilities	239,038	6,518	3,970	589,222	838,748
Bills and subordinated notes payable	31,274	16,200	13,335	28,824	89,633
Other liabilities	6,470	29,505	1,153	166	37,294
Total Liabilities	276,782	52,223	18,458	618,212	965,675
Equity	-	-	-	89,583	89,583
Total Liabilities and Equity	276,782	52,223	18,458	707,795	1,055,258
On-book gap	85,863	39,098	106,970	(231,931)	-
Cumulative on-book gap	85,863	124,961	231,931	-	-
Contingent assets	231,635	37,542	7,562	5,248	281,987
Contingent liabilities	246,799	37,561	7,672	5,242	297,274
Off-book gap	(15,164)	(19)	(110)	6	(15,287)
Net Periodic Gap	70,699	39,079	106,860	(231,925)	(15,287)
Cumulative Total Gap	**P 70,699**	**P 109,778**	**P 216,638**	**(P 15,287)**	**P -**

4.2 Market Risk

BDO Unibank Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities, equity securities and derivatives. BDO Unibank Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. Market Risk Management recommends market risk limits based on relevant activity indicators for approval by BDO Unibank Group's RMC and BOD.

4.2.1 Foreign Exchange Risk

BDO Unibank Group manages its exposure to effects of fluctuations in the foreign currency exchange rates by maintaining foreign currency exposure within the existing regulatory guidelines and at a level that it believes to be relatively conservative for a financial institution engaged in that type of business.

BDO Unibank Group's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 20% of unimpaired capital or US$50 million, whichever is lower, on the group excess foreign exchange holding of banks in the Philippines. BDO Unibank Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in BDO Unibank Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. BDO Unibank Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

BDO Unibank Group's foreign exchange exposure during the day is guided by the limits set forth in BDO Unibank Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, BDO Unibank Group reports to the BSP on its compliance with the mandated foreign currency exposure limits. In addition, it also reports to the BSP on the respective foreign currency positions of its subsidiaries.

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The breakdown of the financial assets and liabilities as to foreign and peso-denominated balances as of December 31, 2012 and 2011 follows:

BDO Unibank Group

	2012			2011		
	Foreign Currencies	**Philippine Peso**	**Total**	Foreign Currencies	Philippine Peso	Total
Resources:						
Cash and other cash items and due from BSP	**P 7**	**P 178,123**	**P 178,130**	P 24	P 157,999	P 158,023
Due from other banks	**12,562**	**83**	**12,645**	24,137	582	24,719
Trading and investment securities:						
At FVTPL	**3,095**	**6,082**	**9,177**	2,071	2,752	4,823
AFS securities	**92,648**	**38,506**	**131,154**	66,152	23,773	89,925
HTM investments	**84,536**	**12,427**	**96,963**	77,940	15,730	93,670
Loans and other receivables	**107,125**	**653,375**	**760,500**	124,178	549,749	673,927
Other resources	**1,907**	**219**	**2,126**	2,002	425	2,427
	P 301,880	**P 888,815**	**P 1,190,695**	P 296,504	P 751,010	P 1,047,514
Liabilities:						
Deposit liabilities	**P 212,340**	**P 719,301**	**P 931,641**	P 206,618	P 651,951	P 858,569
Bills payable	**64,728**	**7,451**	**72,179**	44,565	14,909	59,474
Subordinated notes payable	**-**	**28,180**	**28,180**	-	38,255	38,255
Other liabilities	**2,615**	**49,690**	**52,305**	2,455	39,039	41,494
	P 279,683	**P 804,622**	**P 1,084,305**	P 253,638	P 744,154	P 997,792

Parent Bank

	2012			2011		
	Foreign Currency	**Philippine Peso**	**Total**	Foreign Currency	Philippine Peso	Total
Resources:						
Cash and other cash items and due from BSP	**P -**	**P 172,815**	**P 172,815**	P -	P 149,094	P 149,094
Due from other banks	**11,429**	**59**	**11,488**	22,741	36	22,777
Trading and investment securities:						
At FVTPL	**3,047**	**2,036**	**5,083**	1,864	544	2,408
AFS securities	**89,459**	**34,174**	**123,633**	63,023	19,908	82,931
HTM investments	**80,067**	**9,539**	**89,606**	73,092	12,650	85,742
Loans and other receivables	**106,294**	**640,005**	**746,299**	123,685	530,172	653,857
Other resources	**1,907**	**207**	**2,114**	2,002	316	2,318
	P 292,203	**P 858,835**	**P 1,151,038**	P 286,407	P 712,720	P 999,127
Liabilities:						
Deposit liabilities	**P 205,603**	**P 714,191**	**P 919,794**	P 200,000	P 638,748	P 838,748
Bills payable	**63,700**	**1,477**	**65,177**	44,565	6,813	51,378
Subordinated notes payable	**-**	**28,180**	**28,180**	-	38,255	38,255
Other liabilities	**2,223**	**44,330**	**46,553**	2,017	32,913	34,930
	P 271,526	**P 788,178**	**P 1,059,704**	P 246,582	P 716,729	P 963,311

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities if fixed or anticipated repricing dates if floating, or based on behavioral assumptions if more applicable. In the interest rate gap presented, loans and investments are profiled based on next repricing if floating or contracted maturity if fixed rate while non-maturity deposit liabilities are considered non-rate sensitive. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2012 and 2011 based on the expected interest realization or recognition are presented below.

BDO Unibank Group

	2012					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 21,539	P 21,539
Due from BSP/ other banks	27,905	-	-	-	141,331	169,236
Loans and other receivables	483,332	66,027	140,350	70,791	-	760,500
Trading and investment securities	14,490	6,718	67,888	139,021	9,177	237,294
Other resources	-	-	-	-	55,839	55,839
Total Resources	525,727	72,745	208,238	209,812	227,886	1,244,408
Liabilities and Equity:						
Deposit liabilities	260,582	42,981	55,817	5,000	567,261	931,641
Bills and subordinated notes payable	39,368	13,942	6,893	40,156	-	100,359
Other liabilities	594	535	2,089	-	51,938	55,156
Total Liabilities	300,544	57,458	64,799	45,156	619,199	1,087,156
Equity	-	-	-	-	157,252	157,252
Total Liabilities and Equity	300,544	57,458	64,799	45,416	776,451	1,244,408
On-book gap	225,183	15,287	143,439	164,656	(548,565)	-
Cumulative on-book gap	225,183	240,470	383,909	548,565	-	-
Contingent assets	9,984	10,077	5,679	-	-	25,740
Contingent liabilities	10,572	9,855	5,673	-	-	26,100
Off-book gap	(588)	222	6	-	-	(360)
Net Periodic Gap	224,595	15,509	143,445	164,656	(548,565)	-
Cumulative Total Gap	**P 224,595**	**P 240,104**	**P 383,549**	**P 548,205**	**(P 360)**	**P -**

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	2011					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 33,129	P 33,129
Due from BSP/ other banks	33,313	-	-	-	116,300	149,613
Loans and other receivables	422,094	55,037	66,314	130,482	-	673,927
Trading and investment securities	3,979	6,947	21,593	151,071	4,828	188,418
Other resources	3	1	9	38	52,211	52,262
Total Resources	459,389	61,985	87,916	281,591	206,468	1,097,349
Liabilities and Equity:						
Deposit liabilities	276,466	25,253	22,025	34,437	500,388	858,569
Bills and subordinated notes payable	37,822	16,996	14,086	28,825	-	97,729
Other liabilities	674	1,347	701	99	41,268	44,089
Total Liabilities	314,962	43,596	36,812	63,361	541,656	1,000,387
Equity	-	-	-	-	96,962	96,962
Total Liabilities and Equity	314,962	43,596	36,812	63,361	638,618	1,097,349
On-book gap	144,427	18,389	51,104	218,230	(432,150)	-
Cumulative on-book gap	144,427	162,816	213,920	432,150	-	-
Contingent assets	36,142	1,843	23,273	15,322	-	76,580
Contingent liabilities	4,791	1,094	15,955	12,601	-	34,441
Off-book gap	31,351	749	7,318	2,720	-	42,139
Net Periodic Gap	175,778	19,138	58,422	220,951	(432,150)	42,139
Cumulative Total Gap	P 175,778	P 194,916	P 253,338	P 474,289	P 42,139	P -

Parent Bank

	2012					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 21,512	P 21,512
Due from BSP/ other banks	22,900	-	-	-	139,891	162,791
Loans and other receivables	480,078	61,790	129,267	75,164	-	746,299
Trading and investment securities	10,806	6,172	62,946	133,315	5,083	218,322
Other resources	-	-	-	-	61,760	61,760
Total Resources	513,784	67,962	192,213	208,479	228,246	1,210,684
Liabilities and Equity:						
Deposit liabilities	253,501	42,189	5 3,938	5,000	565,166	919,794
Bills and subordinated notes payable	35,315	11,321	6,564	40,157	-	93,357
Other liabilities	-	-	-	-	49,120	49,120
Total Liabilities	288,816	53,510	60,502	45,157	614,286	1,062,271
Equity	-	-	-	-	148,413	148,413
Total Liabilities and Equity	288,816	53,510	60,502	45,157	762,699	1,210,684
On-book gap	224,968	14,452	131,711	163,322	(534,453)	-
Cumulative on-book gap	224,968	239,420	371,131	534,453	-	-
Contingent assets	8,641	10,077	5,679	-	-	24,397
Contingent liabilities	9,233	9,855	5,673	-	-	24,761
Off-book gap	(592)	222	6	-	-	(364)
Net Periodic Gap	224,376	14,674	131,717	163,322	(534,453)	(364)
Cumulative Total Gap	**P 224,376**	**P 239,050**	**P 370,767**	**P 534,089**	**(P 364)**	**P -**

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	2011					
	One to three months	More than three months to one year	More than one year to five years	More than five years	Non-rate sensitive	Total
Resources:						
Cash and other cash items	P -	P -	P -	P -	P 33,102	P 33,102
Due from BSP/ other banks	25,431	-	-	-	113,338	138,769
Loans and other receivables	418,656	51,715	58,681	124,805	-	653,857
Trading and investment securities	3,565	5,984	18,766	140,452	2,314	171,081
Other resources	-	-	-	-	58,449	58,449
Total Resources	447,652	57,699	77,447	265,257	207,203	1,055,258
Liabilities and Equity:						
Deposit liabilities	267,086	21,648	19,321	34,437	496,256	838,748
Bills and subordinated notes payable	31,625	15,849	13,335	28,824	-	89,633
Other liabilities	351	685	-	-	36,258	37,294
Total Liabilities	299,062	38,182	32,656	63,261	532,514	965,675
Equity	-	-	-	-	89,583	89,583
Total Liabilities and Equity	299,062	38,182	32,656	63,261	622,097	1,055,258
On-book gap	148,590	19,517	44,791	201,996	(414,894)	-
Cumulative on-book gap	148,590	168,107	212,898	414,894	-	-
Contingent assets	31,451	841	7,119	5,248	-	44,659
Contingent liabilities	175	160	-	2,612	-	2,947
Off-book gap	31,276	681	7,119	2,636	-	41,712
Net Periodic Gap	179,866	20,198	51,910	204,632	(414,894)	41,712
Cumulative Total Gap	P 179,866	P 200,064	P 251,974	P 456,606	P 41,712	P -

BDO Unibank Group's market risk management limits are generally categorized as limits on:

- Value-at-risk (VaR) – The RMG computes the VaR benchmarked at a level which is a percentage of projected earnings. BDO Unibank Group uses the VaR model to estimate the daily potential loss that BDO Unibank Group can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over dealing limits should only arise in very exceptional circumstances.

- Stop loss – The RMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.

- Nominal position – The RMG sets the nominal amount to prevent over-trading, excessive concentration, and to limit financial loss supplementing other established limits.

- Trading volume – The RMG sets the volume of transactions that any employee may execute at various levels based on the rank of the personnel making the risk-bearing decision.

- Earnings-at-risk – The RMG computes the earnings-at-risk based on a percentage of projected annual net interest income.

VaR is one of the key measures in BDO Unibank Group's management of market risk. VaR is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval. BDO Unibank Group uses a 99% confidence level and a 260-day observation period in VaR calculation. BDO Unibank Group's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in BDO Unibank Group's portfolios exceed tolerable levels. Because the VaR measure is tied to market volatility, it therefore allows management to react quickly and adjust its portfolio strategies in different market conditions in accordance with its risk philosophy and appetite. The VaR model is validated through back-testing.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based do give rise to some limitations, including the following:

- A one-day holding period assumes that it is possible to hedge or dispose of positions within that period. This is considered to be a realistic assumption in almost all cases but may not be the case in situations in which there is severe market illiquidity for a prolonged period;

- A 99% confidence level does not reflect losses that may occur beyond this level. Even within the model used, there is a one percent probability that losses could exceed the VaR;

- VaR is calculated on an end-of-day basis and does not reflect exposures that may arise on positions during the trading day;

- The use of historical data as a basis for determining the possible range of future outcomes may not always cover all possible scenarios, especially those of an exceptional nature; and,

- The VaR measure is dependent upon BDO Unibank Group's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice-versa.

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The limitations of the VaR methodology are recognized by supplementing VaR limits with other position and sensitivity limit structures, including limits to address potential concentration risks within each trading portfolio. In addition, the Parent Bank uses a wide range of stress tests to model the financial impact of a variety of exceptional market scenarios on individual trading portfolios and the Parent Bank's overall position. Stress VaR is also performed on all portfolios as a complementary measure of risk. While VaR deals with risk during times of normality, stress testing is used to measure the potential effect of a crisis or low probability event.

A summary of the VaR position of the trading portfolios at December 31 follows:

BDO Unibank Group

	2012		2011	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 6)**	**(P 66)**	(P 8)	(P 80)
Interest rate risk – Peso	**(26)**	**(454)**	(17)	(73)
Interest rate risk – USD	**(4)**	**(88)**	(6)	(132)
	(P 36)	**(P 608)**	(P 31)	(P 285)

Parent Bank

	2012		2011	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 6)**	**(P 63)**	(P 8)	(P 80)
Interest rate risk – Peso	**(24)**	**(413)**	(8)	(17)
Interest rate risk – USD	**(4)**	**(81)**	(2)	(34)
	(P 34)	**(P 557)**	(P 18)	(P 131)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2012 and 2011 is shown below.

BDO Unibank Group

	2012			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 1,978)**	**P 1,978**	**(P 989)**	**P 989**
As a percentage of the BDO Unibank Group's net interest income for 2012	**(5.5%)**	**5.5%**	**(2.7%)**	**2.7%**
Earnings-at-risk	**P 872**			

	2011			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 1,515)	P 1,515	(P 758)	P 758
As a percentage of the BDO Unibank Group's net interest income for 2011	(4.5%)	4.5%	(2.2%)	2.2%
Earnings-at-risk	P 1,918			

Parent Bank

	2012			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 2,065)**	**P 2,065**	**(P 1,033)**	**P 1,033**
As a percentage of the Parent Bank's net interest income for 2012	**(6.0%)**	**6.0%**	**(3.0%)**	**3.0%**
Earnings-at-risk	**P 897**			

	2011			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 1,633)	P 1,633	(P 816)	P 816
As a percentage of the Parent Bank's net interest income for 2011	(5.1%)	5.1%	(2.6%)	2.6%
Earnings-at-risk	P 1,918			

4.2.3 Price Risk

BDO Unibank Group is exposed to equity securities price risk because of investments held by BDO Unibank Group and classified on the statement of financial position either as AFS or at FVTPL. BDO Unibank Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, BDO Unibank Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by BDO Unibank Group.

The table in the next page summarizes the impact of increases of the financial assets at FVTPL and AFS securities on BDO Unibank Group's net profit after tax and equity as of December 31. The results are based on the volatility assumption of the benchmark equity index which was 2.74% in 2012 and 3.04% in 2011 for securities classified as FVTPL and AFS securities, with all other variables held constant and all BDO Unibank Group's equity instruments moved according to the historical correlation with the index.

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	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2012	2011	**2012**	2011
Financial assets at FVTPL	**P 3**	P 2	**P -**	P -
AFS securities	**-**	-	**132**	115
	P 3	P 2	**P 132**	P 115

Parent Bank

	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2012	2011	**2012**	2011
AFS securities	**P -**	P -	**P 96**	P 38

4.2.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. It manages its credit risk and loan portfolio through the RMG, which undertakes several functions with respect to credit risk management.

The RMG undertakes credit analysis and review to ensure consistency in BDO Unibank Group's risk assessment process. The RMG performs risk ratings for corporate accounts and handles the development and monitoring of credit rating and scoring models for both corporate and consumer loans. It also ensures that BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business. The RMG is also responsible for developing procedures to streamline and expedite the processing of credit applications.

The RMG also undertakes portfolio management by reviewing BDO Unibank Group's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for BDO Unibank Group to achieve its desired portfolio mix and risk profile.

BDO Unibank 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 industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review.

Exposure to credit risk is managed through regular analysis of the ability of borrowers and potential borrowers to meet interest and capital repayment obligations and by changing these lending limits when appropriate. Exposure to credit risk is also managed in part by obtaining collateral and corporate and personal guarantees.

4.2.4.1 Exposure to Credit Risk

Loan classification and credit risk rating are an integral part of BDO Unibank Group's management of credit risk. On an annual basis, loans are reviewed, classified and rated based on internal and external factors that affect its performance. On a quarterly basis, loan classifications of impaired accounts are assessed and the results are used as basis for the review of loan loss provisions.

BDO Unibank Group's definition of its loan classification and corresponding credit risk ratings are as follows:

- Current/Unclassified : Grades AAA to B
- Watchlisted : Grade B
- Loans Especially Mentioned : Grade C
- Substandard : Grade D
- Doubtful : Grade E
- Loss : Grade F

Once an account is Watchlisted or Adversely Classified, the resulting risk rating grade is aligned based on the above classification.

(i) Unclassified

These are individual credits that do not have a greater-than-normal risk and do not possess the characteristics of adversely classified loans as to be defined below. These are credits that have the apparent ability to satisfy their obligations in full and therefore, no loss in ultimate collection is anticipated. These are adequately secured by readily marketable collateral or other forms of support security or are supported by sufficient credit and financial information of favorable nature to assure repayment as agreed.

(ii) Watchlisted

Since early identification of troublesome or potential accounts is vital in portfolio management, a "Watchlisted" classification of credit accounts is maintained. These accounts are not adversely classified but they require more than normal attention to prevent these accounts from deteriorating to said category.

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Past due or individually impaired financial assets comprise accounts under the following risk ratings:

(iii) Adversely Classified

a. *Loans Especially Mentioned (LEM)*

Accounts classified as LEM are individual credits that have potential weaknesses particularly on documentation or credit administration that deserve management's close attention. These potential weaknesses, if left uncorrected, may affect the repayment prospects of the loan and thus heighten the credit risk to BDO Unibank Group.

A credit may also be classified as "Loans Especially Mentioned" if there is evidence of weakness in the borrower's financial condition or credit worthiness, or the credit is subject to an unrealistic repayment program or inadequate source of funds.

b. *Substandard*

Accounts classified as "Substandard" are individual credits or portions thereof, which appear to involve a substantial and unreasonable degree of risk to BDO Unibank Group because of unfavorable record or unsatisfactory characteristics. There exists in such accounts the possibility of future loss to BDO Unibank Group unless given closer supervision. Those classified as "Substandard" must have a well-defined weakness or weaknesses that jeopardize their liquidation. Such well-defined weaknesses may include adverse trends or development of financial, managerial, economic or political nature, or a significant weakness in collateral.

c. *Doubtful*

Accounts classified as "Doubtful" are individual credits or portions thereof which have the weaknesses inherent in those classified as "Substandard", with the added characteristics that existing facts, conditions and values make collection or liquidation in full highly improbable and in which substantial loss is probable. Positive and vigorous action is required to avert or minimize losses.

d. *Loss*

Accounts classified as "Loss" are individual credits or portions thereof which are considered uncollectible or worthless and of such little value that their continuance as bankable assets is not warranted although the loans may have some recovery or salvage value. The amount of loss is difficult to measure and it is not practical or desirable to defer writing off these basically worthless assets even though partial recovery may be obtained in the future.

In addition to the above, credit portfolio review is another integral part of BDO Unibank Group's management of credit risk. This exercise involves the conduct of periodic post approval review of individual credits whose main objective is to help monitor and maintain sound and healthy risk asset portfolio. Parameters of the credit portfolio review are structured so as to reflect both sides of the risk management equation such as credit quality and process. This function actuates the philosophy that credit quality is derived from sound risk management process. The credit quality of financial assets is managed by BDO Unibank Group using internal credit ratings.

The following table shows the exposure to credit risk as of December 31, 2012 and 2011 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

	2012		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	**P 760,500**	**P 12,645**	**P 227,999**
Individually Impaired			
Grade C: LEM	P 5,640	P -	P -
Grade D: Substandard	1,803	-	-
Grade E: Doubtful	5,567	-	942
Grade F: Loss	6,790	-	702
Gross amount	19,800		1,644
Allowance for impairment	(12,698)	-	(1,644)
Carrying amount	7,102	-	-
Collectively Impaired			
Unclassified	116	-	10,481
Grade C: LEM	3,168	-	-
Grade D: Substandard	2,645	-	-
Grade E: Doubtful	526	-	-
Grade F: Loss	6,072	-	-
Gross amount	12,527	-	10,481
Allowance for impairment	(7,236)	-	(111)
Carrying amount	5,291	-	10,370
Past Due But Not Impaired			
Unclassified	7,311	-	-
Neither Past Due Nor Impaired			
Unclassified	740,796	12,645	217,629
Accounts with Negotiated Terms	-	-	-
Total Carrying Amount	**P 760,500**	**P 12,645**	**P 227,999**

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	2011		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	P 673,927	P 24,719	P 181,815
Individually Impaired			
Grade C: LEM	P 10,715	P -	P -
Grade D: Substandard	3,538	-	-
Grade E: Doubtful	5,168	-	1,006
Grade F: Loss	6,390	-	888
Gross amount	25,811		1,894
Allowance for impairment	(12,385)	-	(1,894)
Carrying amount	13,426	-	-
Collectively Impaired			
Unclassified	28	-	11,104
Grade C: LEM	3,622	-	-
Grade D: Substandard	2,333	-	-
Grade E: Doubtful	535	-	-
Grade F: Loss	6,174	-	-
Gross amount	12,692	-	11,104
Allowance for impairment	(7,268)	-	(147)
Carrying amount	5,424	-	10,957
Past Due But Not Impaired			
Unclassified	6,187	-	-
Neither Past Due Nor Impaired			
Unclassified	648,890	24,719	170,858
Accounts with Negotiated Terms	-	-	-
Total Carrying Amount	P 673,927	P 24,719	P 181,815

An aging of past due but not impaired accounts of BDO Unibank Group follows:

	Loans and Other Receivables	
	2012	2011
Below 30 days	**P 6,548**	P 6,107
30 to 60 days	**325**	17
61 to 90 days	**418**	3
91 to 180 days	**12**	29
More than 180 days	**8**	31
	P 7,311	P 6,187

Parent Bank

	2012		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	**P 746,299**	**P 11,488**	**P 212,709**
Individually Impaired			
Grade C: LEM	P 5,624	P -	P -
Grade D: Substandard	1,466	-	-
Grade E: Doubtful	5,393	-	942
Grade F: Loss	6,674	-	702
Gross amount	19,157	-	1,644
Allowance for impairment	(12,355)	-	(1,644)
Carrying amount	6,802	-	-
Collectively Impaired			
Grade C: LEM	3,168	-	-
Grade D: Substandard	2,645	-	-
Grade E: Doubtful	526	-	-
Grade F: Loss	6,072	-	-
Gross amount	12,411	-	-
Allowance for impairment	(7,235)	-	-
Carrying amount	5,176	-	-
Past Due But Not Impaired			
Unclassified	7,310	-	-
Neither Past Due Nor Impaired			
Unclassified	727,011	11,488	212,709
Total Carrying Amount	**P 746,299**	**P 11,488**	**P 212,709**

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Parent Bank

	2011		
	Loans and Other Receivables	Due from Other Banks	Trading and Investment Securities
Carrying Amount	P 653,857	P 22,777	P 168,455
Individually Impaired			
Grade C: LEM	P 10,676	P -	P -
Grade D: Substandard	3,433	-	-
Grade E: Doubtful	4,936	-	1,006
Grade F: Loss	6,330	-	888
Gross amount	25,375	-	1,894
Allowance for impairment	(12,079)	-	(1,894)
Carrying amount	13,296	-	-
Collectively Impaired			
Grade C: LEM	3,622	-	-
Grade D: Substandard	2,333	-	-
Grade E: Doubtful	535	-	-
Grade F: Loss	6,174	-	-
Gross amount	12,664	-	-
Allowance for impairment	(7,264)	-	-
Carrying amount	5,400	-	-
Past Due But Not Impaired			
Unclassified	6,176	-	-
Neither Past Due Nor Impaired			
Unclassified	628,985	22,777	168,455
Total Carrying Amount	P 653,857	P 22,777	P 168,455

An aging of past due but not impaired accounts of the Parent Bank follows:

	Loans and Other Receivables	
	2012	2011
Below 30 days	**P 6,548**	P 6,107
30 to 60 days	**325**	17
61 to 90 days	**418**	3
91 to 180 days	**12**	18
More than 180 days	**7**	31
	P 7,310	P 6,176

Exposure to credit risk also includes unused commercial letters of credits and committed credit lines amounting to P28,528 and P101,209, respectively, for 2012 and P33,391 and P111,469, respectively, for 2011 in BDO Unibank Group financial statements and P28,528 and P101,209, respectively, for 2012 and P33,391 and P110,148, respectively, for 2011 in the Parent Bank financial statements (see Note 31.3).

4.2.4.2 Collateral Held as Security and Other Credit Enhancements

BDO Unibank Group holds collateral against loans and receivables from customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and are updated periodically, e.g., annually for real estate properties, as provided in the Parent Bank's Credit Policy Manual. Collateral generally is not held over due from other banks, interbank loans and investment securities, except when securities are held as part of reverse repurchase and securities borrowing activity. BDO Unibank Group holds collateral against loans and other receivables in the form of property, debt securities, equities and others.

Estimate of the fair value of collateral and other security enhancements held against the following loans and other receivables risk groupings as of December 31 follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Individually impaired				
Property	**P 15,461**	P 16,358	**P 15,461**	P 16,290
Equity	**2,610**	709	**2,610**	398
Others	**7,892**	19,968	**7,892**	19,894
	25,963	37,035	**25,963**	36,582
Collectively impaired				
Property	**6,751**	5,069	**6,468**	5,069
Others	**1,355**	1,262	**1,355**	1,262
	8,106	6,331	**7,823**	6,331
Past due but not impaired				
Property	**19,865**	5,300	**7,016**	5,299
Debt Security	**111**	-	**-**	-
Equity	**467**	1	**-**	-
Others	**2,878**	2,755	**2,811**	2,746
	23,321	8,056	**9,827**	8,045
Neither past due nor impaired				
Property	**272,496**	264,652	**272,496**	264,161
Debt security	**1,653**	1,314	**1,653**	1,203
Equity	**95,373**	96,380	**95,373**	87,458
Others	**408,880**	397,615	**408,880**	391,625
	778,402	759,961	**778,402**	744,447
	P 835,792	P 811,383	**P 822,015**	P 795,405

As of December 31, 2012 and 2011, no collateral is held for due from other banks and trading and investment securities.

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BDO Unibank Group's manner of disposing the collateral for impaired loans and receivables is normally through sale of these assets after foreclosure proceedings have taken place.

4.2.4.3 Concentrations of Credit Risk

BDO Unibank Group monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk (gross of allowance) at the reporting date is shown below.

BDO Unibank Group

	2012			2011		
	Cash and Cash Equivalents	**Receivables from Customers**	**Investment Securities**	Cash and Cash Equivalents	Receivables from Customers	Investment Securities
Concentration by sector:						
Financial intermediaries	**P 190,775**	**P 107,723**	**P 154,651**	P 182,742	P 84,668	P 124,158
Wholesale and retail trade	**-**	**119,494**	**475**	-	105,905	1
Manufacturing	**-**	**103,068**	**19,513**	-	101,468	15,753
Real estate, renting and other related activities	**-**	**110,477**	**7,373**	-	77,624	5,388
Other community, social and personal activities	**-**	**70,051**	**51**	-	58,315	-
Transportation and communication	**-**	**56,592**	**6,706**	-	51,378	7,671
Agriculture, fishing and forestry	**-**	**8,434**	**-**	-	8,037	
Others	**-**	**193,117**	**40,985**	-	182,751	30,885
	P 190,775	**P 768,956**	**P 229,754**	P 182,742	P 670,146	P 183,856
Concentration by location:						
Philippines	**P 178,680**	**P 757,900**	**P 185,759**	P 159,982	P 650,516	P 150,939
Others	**12,095**	**11,056**	**43,995**	22,760	19,630	32,917
	P 190,775	**P 768,956**	**P 229,754**	P 182,742	P 670,146	P 183,856

Parent Bank

	2012			2011		
	Cash and Cash Equivalents	**Receivables from Customers**	**Investment Securities**	Cash and Cash Equivalents	Receivables from Customers	Investment Securities
Concentration by sector:						
Financial intermediaries	**P 184,303**	**P 112,694**	**P 144,166**	P 171,871	P 86,169	P 110,700
Wholesale and retail trade	**-**	**116,839**	**475**	-	104,115	1
Manufacturing	**-**	**99,293**	**18,771**	-	97,730	15,746
Real estate, renting and other related activities	**-**	**105,616**	**5,562**	-	75,364	5,370
Other community, social and personal activities	**-**	**69,769**	**51**	-	55,560	-
Transportation and communication	**-**	**54,155**	**6,706**	-	48,203	7,671
Agriculture, fishing and forestry	**-**	**8,168**	**-**	-	7,536	-
Others	**-**	**189,404**	**38,622**	-	181,690	30,861
	P 184,303	**P 755,938**	**P 214,353**	P 171,871	P 656,367	P 170,349
Concentration by location:						
Philippines	**P 173,348**	**P 745,666**	**P 172,033**	P 150,543	P 636,737	P 138,891
Others	**10,955**	**10,272**	**42,320**	21,328	19,630	31,458
	P 184,303	**P 755,938**	**P 214,353**	P 171,871	P 656,367	P 170,349

4.3 Operational Risk

Operational risk is the risk of loss due to BDO Unibank Group's:

- failure to comply with defined operational procedures;
- inability to address fraud committed internally or externally;
- inability to handle system failures; and,
- inability to cope with the impact of external events.

BDO Unibank Group manages its operational risks by instituting policies to minimize its expected losses, allocating capital for the unexpected losses, and having insurance and/or a business continuity plan to prepare for catastrophic losses.

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the BOD has the ultimate responsibility for providing leadership in the management of risk in BDO Unibank Group. In 2012, the Group continued mapping of operational risks for its critical/key business processes—an exercise that started in the latter part of 2011 when the process-driven ORM approach was adopted. The business process owners, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses/operations. The RMG provides the common risk language and management tools across BDO Unibank Group as well as monitors the implementation of the ORM framework and policies.

Alongside the shift to the process-driven ORM approach, the Group also adopted the periodic Risk and Control Self-Assessment (RCSA) process so that business process owners could document both their operational risks and control mechanisms they have put in place to manage those risks. This ORM tool allows the Group to identify risks the business/operation faces, assess the severity of those risks, evaluate the adequacy of key controls associated to the identified risks, and take proactive action to address any deficiencies identified. RCSAs completed in 2011 were subjected to an annual review in 2012.

BDO Unibank Group also continues to use Key Risk Indicators (KRI) as alerts for operational risk vulnerabilities. Reporting of Top KRIs to the BOD through the Risk Management Committee is done quarterly.

BDO Unibank Group continues to expand its operational loss database to cover more loss event categories as defined by Basel II.

Operational risks arising from health, safety and environmental issues are appropriately managed through policies and measures that are integrated into BDO Unibank Group's day-to-day operations. These include Environmental Consciousness, Occupational Health and Safety, and Community Health and Safety.

BDO Unibank Group continues to review its preparedness for major disaster scenarios and implements required changes in its Business Continuity Plan.

Beginning 2013, operational risks arising from IT security concerns will be captured and analyzed using the following tools: User-Managed Data Inventory where business process owners are responsible for identifying if sensitive data stored in the user personal computers are protected; and IT Asset Risk Profiling where risks on IT assets supporting critical/key business processes are identified and assessed.

5. SEGMENT REPORTING

BDO Unibank Group's main operating businesses are organized and managed separately according to the nature of services provided and the different markets served, with each segment representing a strategic business unit. These are also the basis of BDO Unibank Group in reporting to its chief operating decision-maker for its strategic decision-making activities.

Management currently identifies BDO Unibank Group's three service lines as primary operating segments. In addition, minor operating segments, for which quantitative thresholds have not been met, as described in PFRS 8 are combined below as Others.

(a) ***Commercial banking*** – handles the entire lending (corporate and consumer), trade financing and cash management services for corporate and retail customers;

(b) ***Investment banking*** – provides services to corporate clients outside the traditional loan and deposit products. These services include loan syndications, underwriting and placing of debt and equity securities, and financial advisory services;

(c) ***Private banking*** – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts; and,

(d) ***Others*** – includes asset management, insurance brokerage, realty management, leasing, financing, remittance, accounting service, credit card service and computer service, none of which individually constitutes a separate reportable segment.

These segments are the basis on which BDO Unibank Group reports its segment information. Transactions between the segments are on normal commercial terms and conditions. Inter-segment transactions are eliminated in consolidation.

Funds are ordinarily allocated between segments, resulting in funding cost transfers disclosed in operating income. Interest charged for these funds is based on BDO Unibank Group's cost of capital. There are no other material items of income or expense between the segments.

Segment assets and liabilities comprise operating assets and liabilities including items such as taxation and borrowings.

Segment revenues and expenses that are directly attributable to primary operating segment and the relevant portions of BDO Unibank Group's revenues and expenses that can be allocated to that operating segment are accordingly reflected as revenues and expenses of that operating segment. Revenue sharing agreements are used to allocate external customer revenues to a segment on a reasonable basis.

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Segment information (by service lines) as of and for the years ended December 31, 2012 and 2011 follows:

	Commercial Banking	Investment Banking	Private Banking	Others	Eliminations	Group
December 31, 2012						
Statements of Income						
Interest income						
External	P 51,576	P 88	P 1,046	P 1,304	P -	P 54,014
Inter-segment	142	6	2	14	(164)	-
	51,718	94	1,048	1,318	(164)	54,014
Interest expense						
External	17,155	3	299	359	-	17,816
Inter-segment	20	43	1	99	(163)	-
	17,175	46	300	458	(163)	17,816
Net interest income	34,543	48	748	860	(1)	36,198
Other operating income						
Investment banking fees	-	700	-	-	-	700
Others	21,703	195	545	2,260	(976)	23,727
	21,703	895	545	2,260	(976)	24,427
Other operating expenses						
Depreciation and amortization	2,800	5	39	216	-	3,060
Impairment losses	4,850	1	(27)	117	-	4,941
Others	34,652	306	719	1,244	(124)	36,797
	42,302	312	731	1,577	(124)	44,798
Profit before tax	13,944	631	562	1,543	(853)	15,827
Tax expense	1,047	153	82	203	-	1,485
Net profit	P 12,897	P 478	P 480	P 1,340	(P 853)	P 14,342
Statements of Financial Position						
Total resources						
Segment assets	P 1,206,195	P 3,341	P 21,263	P 28,950	(P 21,349)	P 1,238,400
Intangible assets	879	10	3	1	-	893
Deferred tax assets (liabilities)	5,176	(52)	43	(52)	-	5,115
	P 1,212,250	P 3,299	P 21,309	P 28,899	(P 21,349)	P 1,244,408
Total liabilities	P 1,062,274	P 1,167	P 16,073	P 17,170	(P 9,528)	P 1,087,156
Other segment information						
Capital expenditures	P 2,890	P 4	P 47	P 388	P -	P 3,329
Investment in associates under equity method	4,985	22	-	-	-	5,007
Share in the profit of associates	448	22	-	-	-	470

	Commercial Banking	Investment Banking	Private Banking	Others	Eliminations	Group
December 31, 2011						
Statements of Income						
Interest income						
External	P 47,972	P 56	P 1,006	P 1,433	P -	P 50,467
Inter-segment	115	9	51	18	(193)	-
	48,087	65	1,057	1,451	(193)	50,467
Interest expense						
External	16,013	-	385	290	-	16,688
Inter-segment	26	29	1	87	(143)	-
	16,039	29	386	377	(143)	16,688
Net interest income	32,048	36	671	1,074	(50)	33,779
Other operating income						
Investment banking fees	-	730	-	-	-	730
Others	17,976	172	650	2,034	(663)	20,169
	17,976	902	650	2,034	(663)	20,899
Other operating expenses						
Depreciation and amortization	2,502	4	22	322	-	2,850
Impairment losses	5,945	-	30	169	-	6,144
Others	31,375	320	650	1,197	(76)	33,466
	39,822	324	702	1,688	(76)	42,460
Profit before tax	10,202	614	619	1,420	(637)	12,218
Tax expense	1,212	176	73	169	-	1,630
Net profit	P 8,990	P 438	P 546	P 1,251	(P 637)	P 10,588
Statements of Financial Position						
Total resources						
Segment assets	P 1,050,750	P 4,091	P 28,160	P 25,377	(P 16,958)	P 1,091,420
Intangible assets	433	10	-	1	-	444
Deferred tax assets (liabilities)	5,586	(30)	37	(108)	-	5,485
	P 1,056,769	P 4,071	P 28,197	P 25,270	(P 16,958)	P 1,097,349
Total liabilities	P 965,678	P 2,462	P 23,153	P 14,440	(P 5,346)	P 1,000,387
Other segment information						
Capital expenditures	P 2,915	P 1	P 53	P 409	P -	P 3,378
Investment in associates under equity method	4,678	68	-	-	-	4,746
Share in the profit of associates	681	-	-	-	-	681

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	Commercial Banking	Investment Banking	Private Banking	Others	Eliminations	Group
December 31, 2010						
Statements of Income						
Interest income						
External	P 46,764	P 22	P 1,267	P 1,877	P -	P 49,930
Inter-segment	1	13	-	20	(34)	-
	46,765	35	1,267	1,897	(34)	49,930
Interest expense						
External	14,998	-	480	294	-	15,772
Inter-segment	32	1	1	-	(34)	-
	15,030	1	481	294	(34)	15,772
Net interest income	31,735	34	786	1,603	-	34,158
Other operating income						
Investment banking fees	-	392	-	-	-	392
Others	16,429	188	681	1,130	(979)	17,449
	16,429	580	681	1,130	(979)	17,841
Other operating expenses						
Depreciation and amortization	2,004	4	24	848	-	2,880
Impairment losses	6,376	-	58	316	(52)	6,698
Others	30,036	237	653	1,066	(83)	31,909
	38,416	241	735	2,230	(135)	41,487
Profit before tax	9,748	373	732	503	(844)	10,512
Tax expense	1,310	82	84	162	(7)	1,631
Net profit	P 8,438	P 291	P 648	P 341	(P 837)	P 8,881
Statements of Financial Position						
Total resources						
Segment assets	P 954,185	P 2,148	P 30,590	P 22,701	(P 15,155)	P 994,469
Intangible assets	805	10	1	-	-	816
Deferred tax assets (liabilities)	5,687	(32)	29	(100)	-	5,584
	P 960,677	P 2,126	P 30,620	P 22,601	(P 15,155)	P 1,000,869
Total liabilities	P 876,657	P 934	P 26,149	P 15,973	(P 7,576)	P 912,137
Other segment information						
Capital expenditures	P 2,493	P 2	P 8	P 285	P -	P 2,788
Investment in associates under equity method	3,858	68	-	-	-	3,926
Share in the profit of associates	16	-	-	-	-	16

6. FINANCIAL ASSETS AND LIABILITIES

These consist of the following:

BDO Unibank Group

	2012							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial Assets:								
Cash and other cash items	P	-	P	21,539	P	21,539	P	21,539
Due from BSP		156,591		-		156,591		156,591
Due from other banks		12,645		-		12,645		12,645
Financial assets at FVTPL		-		9,177		9,177		9,177
AFS securities		-		131,154		131,154		131,154
HTM investments		96,963		-		96,963		114,165
Loans and other receivables		760,500		-		760,500		768,445
Other resources		2,126		-		2,126		2,126
	P	**1,028,825**	**P**	**161,870**	**P**	**1,190,695**	**P**	**1,215,842**
			At Amortized Cost		Carrying Amount		Fair Value	
Financial Liabilities:								
Deposit liabilities			P	931,641	P	931,641	P	932,370
Bills payable				72,179		72,179		72,997
Subordinated notes payable				28,180		28,180		31,359
Other liabilities				52,305		52,305		52,305
			P	**1,084,305**	**P**	**1,084,305**	**P**	**1,089,031**

	2011							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial Assets:								
Cash and other cash items	P	-	P	33,129	P	33,129	P	33,129
Due from BSP		124,894		-		124,894		124,936
Due from other banks		24,719		-		24,719		24,719
Financial assets at FVTPL		-		4,823		4,823		4,823
AFS securities		-		89,925		89,925		89,925
HTM investments		93,670		-		93,670		106,032
Loans and other receivables		673,927		-		673,927		680,546
Other resources		2,427		-		2,427		2,427
	P	919,637	P	127,877	P	1,047,514	P	1,066,537
			At Amortized Cost		Carrying Amount		Fair Value	
Financial Liabilities:								
Deposit liabilities			P	858,569	P	858,569	P	861,289
Bills payable				59,474		59,474		59,495
Subordinated notes payable				38,255		38,255		41,549
Other liabilities				41,494		41,494		41,494
			P	997,792	P	997,792	P	1,003,827

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Parent Bank

	2012			
	Classes			
	At Amortized Cost	**At Fair Value**	**Carrying Amount**	**Fair Value**
Financial Assets:				
Cash and other cash items	P -	P 21,512	P 21,512	P 21,512
Due from BSP	151,303	-	151,303	151,304
Due from other banks	11,488	-	11,488	11,488
Financial assets at FVTPL	-	5,083	5,083	5,083
AFS securities	-	123,633	123,633	123,633
HTM investments	89,606	-	89,606	106,357
Loans and other receivables	746,299	-	746,299	757,513
Other resources	2,114	-	2,114	2,114
	P 1,000,810	**P 150,228**	**P 1,151,038**	**P 1,179,004**

	At Amortized Cost	**Carrying Amount**	**Fair Value**
Financial Liabilities:			
Deposit liabilities	P 919,794	P 919,794	P 920,522
Bills payable	65,177	65,177	66,043
Subordinated notes payable	28,180	28,180	31,359
Other liabilities	46,553	46,553	46,553
	P 1,059,704	**P 1,059,704**	**P 1,064,477**

	2011			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Assets:				
Cash and other cash items	P -	P 33,102	P 33,102	P 33,102
Due from BSP	115,992	-	115,992	116,034
Due from other banks	22,777	-	22,777	22,777
Financial assets at FVTPL	-	2,408	2,408	2,408
AFS securities	-	82,931	82,931	82,931
HTM investments	85,742	-	85,742	97,761
Loans and other receivables	653,857	-	653,857	663,057
Other resources	2,318	-	2,318	2,318
	P 880,686	P 118,441	P 999,127	P 1,020,388

	At Amortized Cost	Carrying Amount	Fair Value
Financial Liabilities:			
Deposit liabilities	P 838,748	P 838,748	P 841,447
Bills payable	51,378	51,378	51,460
Subordinated notes payable	38,255	38,255	41,549
Other liabilities	34,930	34,930	34,930
	P 963,311	P 963,311	P 969,386

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Cash and other cash items	**P 21,539**	P 33,129	**P 21,512**	P 33,102
Due from BSP:				
Mandatory reserves	**124,542**	30,566	**123,300**	28,006
Other than mandatory reserves	**32,049**	94,328	**28,003**	87,986
	156,591	124,894	**151,303**	115,992
	P 178,130	P 158,023	**P 172,815**	P 149,094

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Due from BSP bears annual interest rates of 0.0% to 4.1% in 2012 and 0.1% to 4.8% in 2011, except for the amounts within the required reserve as determined by the BSP. Total interest income earned amounted to P567, P2,025 and P2,714 in 2012, 2011 and 2010, respectively, in BDO Unibank Group's financial statements and P432, P1,866 and P2,631 in 2012, 2011 and 2010, respectively, in the Parent Bank's financial statements (see Note 20).

Cash and other cash items and balances with the BSP are included in cash and cash equivalents for statements of cash flows purposes.

8. DUE FROM OTHER BANKS

The balance of this account represents deposits with the following:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Foreign banks	**P 12,078**	P 22,601	**P 10,945**	P 21,311
Local banks	**567**	2,118	**543**	1,466
	P 12,645	P 24,719	**P 11,488**	P 22,777

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
U.S. Dollar	**P 9,437**	P 20,875	**P 8,571**	P 19,775
Other currencies	**3,125**	3,262	**2,858**	2,966
Philippine Peso	**83**	582	**59**	36
	P 12,645	P 24,719	**P 11,488**	P 22,777

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Annual interest rates on these deposits range from 0% to 3.3% in 2012, 0% to 4.6% in 2011, and 0% to 4.1% in 2010 in BDO Unibank Group's financial statements and 0% to 0.5% in 2012, 0% to 2.6% in 2011, and 0% to 2.6% in 2010 in the Parent Bank's financial statements.

Due from other banks are included in cash and cash equivalents for statements of cash flows purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Financial assets at FVTPL	**P 9,177**	P 4,823	**P 5,083**	P 2,408
AFS securities	**131,154**	89,925	**123,633**	82,931
HTM investments	**96,963**	93,670	**89,606**	85,742
	P 237,294	P 188,418	**P 218,322**	P 171,081

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Derivative financial assets	**P 4,804**	P 3,739	**P 2,889**	P 1,890
Government bonds	**2,239**	949	**2,194**	518
Other debt securities	**1,986**	58	**-**	-
	9,029	4,746	**5,083**	2,408
Equity securities – quoted	**148**	77	**-**	-
	P 9,177	P 4,823	**P 5,083**	P 2,408

All financial assets at FVTPL are held for trading. For government bonds and other debt securities, the amounts presented have been determined directly by reference to published prices quoted in an active market. On the other hand, the fair value of certain derivative financial assets is determined through valuation technique using net present value of future cash flows method. BDO Unibank Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to P178, (P587) and (P131) in 2012, 2011 and 2010, respectively, in BDO Unibank Group's financial statements and P269, (P392) and (P270) in 2012, 2011 and 2010, respectively, in the Parent Bank's financial statements. These are included as part of Trading gain – net under Other Operating Income in the statements of income (see Note 22).

Foreign currency-denominated securities amounted to P3,095 and P2,071 as of December 31, 2012 and 2011, respectively, in BDO Unibank Group's financial statements and P3,047 and P1,864 as of December 31, 2012 and 2011, respectively, in the Parent Bank's financial statements.

Derivative instruments used by BDO Unibank Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or contractual obligations to receive or pay a new amount based on changes in currency rates or interest rates on a future date at a specified price. Foreign currency and interest rate swaps are commitments to exchange one set of cash flows for another. The credit default swaps represent commitment of the counterparty to swap the note and deposit with high yielding securities upon the occurrence of the reference event by the reference entity.

The aggregate contractual or notional amount of derivative financial instruments and the total fair values of derivative financial assets and liabilities are shown below.

BDO Unibank Group

	2012			2011		
	Notional Amount	Fair Values		Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities
Currency forwards/futures	P 225,933	P 1,425	P 1,510	P 262,018	P 1,617	P 1,765
Cross currency swaps	73,051	3,176	2,415	78,474	1,899	1,320
Interest rate swaps	16,788	191	211	17,414	183	229
ROP warrants	15,021	-	32	-	-	-
Bond linked notes	3,044	12	-	-	-	-
Options	2,545	-	77	-	-	-
Credit default swaps	-	-	-	2,195	14	5
Others	-	-	-	-	26	1
	P 336,382	P 4,804	P 4,245	P 360,101	P 3,739	P 3,320

Parent Bank

	2012			2011		
	Notional Amount	Fair Values		Notional Amount	Fair Values	
		Assets	Liabilities		Assets	Liabilities
Currency forwards/futures	P 225,603	P 1,424	P 1,499	P 261,585	P 1,020	P 1,165
Cross currency swaps	19,586	1,262	845	26,417	649	496
Interest rate swaps	16,388	191	202	16,088	181	210
ROP warrants	15,021	-	32	-	-	-
Bond linked notes	3,044	12	-	-	-	-
Options	2,545	-	77	-	-	-
Credit default swaps	-	-	-	2,195	14	5
Others	-	-	-	-	26	1
	P 282,187	P 2,889	P 2,655	P 306,285	P 1,890	P 1,877

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In 2008, BDO Unibank Group reclassified certain equity securities from FVTPL to AFS, and debt securities and embedded derivatives of CLNs from FVTPL to HTM and Loans and Other Receivables, respectively. Derivatives (credit default swaps) embedded in CLNs and credit-linked deposits (CLDs) amounting to P183 and P70 in BDO Unibank Group and Parent Bank financial statements, respectively, as of reclassification date, were reclassified to Loans and Other Receivables together with their related host contracts (see Note 9.4).

A CLN is an instrument under which the issuer issues a note to the investor whereby both parties agree that upon the occurrence of a credit event in relation to the reference entity, the CLN accelerates and the investor is delivered the defaulted asset of the reference entity, or paid a net settlement amount equal to the market price of the defaulted asset or reference obligation adjusted for any transaction unwind costs.

9.2 AFS Securities

AFS securities consist of the following:

		BDO Unibank Group		Parent Bank	
	Note	**2012**	2011	**2012**	2011
Government debt securities		**P 78,219**	P 55,267	**P 76,039**	P 52,583
Other debt securities:					
Quoted		**44,628**	29,508	**43,132**	28,951
Not quoted		**653**	253	**253**	253
Equity securities:					
Quoted		**8,298**	5,555	**4,838**	1,877
Not quoted		**2,269**	2,292	**1,048**	925
		134,067	92,875	**125,310**	84,589
Allowance for impairment	14	**(2,913)**	(2,950)	**(1,677)**	(1,658)
		P 131,154	P 89,925	**P 123,633**	P 82,931

As to currency, this account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Foreign currencies	**P 92,648**	P 66,152	**P 89,459**	P 63,023
Philippine peso	**38,506**	23,773	**34,174**	19,908
	P 131,154	P 89,925	**P 123,633**	P 82,931

Government debt securities issued by the ROP and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rates ranging from 0.0% to 13.0% both in 2012 and 2011 and 0.0% to 12.0% in 2010 for both BDO Unibank Group and Parent Bank financial statements.

As of December 31, 2012 and 2011, other debt securities also include investments in foreign financial institutions under bankruptcy amounting to P1,150 and P1,229, respectively, in the Parent Bank financial statements (see Note 10 for the related interbank loan receivables from these financial institutions). These investments are fully provided with allowance as of December 31, 2012 and 2011. In 2011, the Parent Bank disposed fully impaired debt securities issued by a foreign financial institution under bankruptcy amounting to P2,295. The sale resulted in a gain of P640 and is presented as part of 2011 Trading gain – net under Other Operating Income (see Note 22). Also, in 2011, collateralized debt obligations amounting to P477, with full allowance for impairment losses, in the Parent Bank's financial statements were redeemed at zero.

Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

The fair values of government debt and quoted AFS securities (other debt securities and equity shares) have been determined directly by reference to published prices generated in an active market. For unquoted AFS securities, the fair value is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows. Accordingly, unquoted AFS securities are carried at cost.

Changes in AFS securities are presented below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Balance at beginning of year	**P 89,925**	P 85,674	**P 82,931**	P 77,725
Additions	**428,794**	400,320	**424,254**	397,304
Disposals	**(385,127)**	(399,954)	**(381,181)**	(396,247)
Foreign currency revaluation	**(5,288)**	178	**(5,126)**	185
Unrealized fair value gains	**2,813**	846	**2,774**	1,096
Impairment recovery (loss) - net	**37**	2,861	**(19)**	2,868
Balance at end of year	**P 131,154**	P 89,925	**P 123,633**	P 82,931

9.3 HTM Investments

The balance of this account is composed of the following:

		BDO Unibank Group		Parent Bank	
	Note	**2012**	2011	**2012**	2011
Government debt securities		**P 87,563**	P 83,240	**P 80,185**	P 75,312
Other debt securities:					
Listed		**9,372**	9,625	**9,371**	9,625
Not quoted		**290**	1,217	**290**	1,217
		97,225	94,082	**89,846**	86,154
Allowance for impairment	14	**(262)**	(412)	**(240)**	(412)
		P 96,963	P 93,670	**P 89,606**	P 85,742

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On October 6, 2010, BDO Unibank Group participated in the Global Bond Exchange offered by the ROP wherein certain U.S. dollar denominated government bonds due between 2011 to 2016 were exchanged by the Parent Bank for newly issued U.S. dollar denominated global bonds due in 2021. BDO Unibank Group and Parent Bank exchanged ROP bonds with face value of US$111.5 million and US$75.4 million, respectively. The fair value of the Benchmark bonds received by BDO Unibank Group and Parent Bank amounted to US$134.6 million and US$94.1 million, respectively, resulting in a gain of US$18.8 million or P824 and US$16.6 million or P728, respectively, to be deferred and amortized over the remaining life of the Benchmark bonds. The total amount of gain amortized by BDO Unibank Group and Parent Bank amounted to US$1.7 million or P77 and US$1.5 million or P63 in 2012, respectively, and US$1.73 million or P73 and US$1.47 million or P64 in 2011, respectively, shown as part of Trading gain – net presented under Other Operating Income in the statements of income (see Note 22).

Unamortized deferred gain from the transaction, which is included as part of Unearned Income under Other Liabilities account, amounted to P615 and P733 as of December 31, 2012 and 2011, respectively, in BDO Unibank Group financial statements and P545 and P648 as of December 31, 2012 and 2011, respectively, in the Parent Bank statements of financial position (see Note 18). As of December 31, 2012 and 2011, outstanding balance of the Benchmark bonds of BDO Unibank Group amounted to P5,494 and P5,863, respectively, and of the Parent Bank amounted to P3,868 and P4,128, respectively.

Government securities with an aggregate amount of P12,100 and P17,336 as of December 31, 2012 and 2011 were pledged as collaterals for bills payable under repurchase agreements (see Notes 16 and 29).

As mentioned in Note 25, certain government debt securities are deposited with the BSP.

As to currency, HTM investments consist of the following:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Foreign currencies	**P 84,536**	P 77,940	**P 80,067**	P 73,092
Philippine peso	**12,427**	15,730	**9,539**	12,650
	P 96,963	P 93,670	**P 89,606**	P 85,742

The maturity profile of HTM investments is presented below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Less than one year	**P 11,850**	P 10,946	**P 9,342**	P 9,809
One to five years	**31,069**	32,080	**27,889**	27,075
Beyond five years	**54,044**	50,644	**52,375**	48,858
	P 96,963	P 93,670	**P 89,606**	P 85,742

Changes in the HTM account are summarized below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Balance at beginning of year	**P 93,670**	P 104,241	**P 85,742**	P 95,569
Additions	**24,411**	12,205	**24,410**	10,589
Maturities	**(16,009)**	(22,746)	**(15,655)**	(20,344)
Foreign currency revaluation	**(5,259)**	(72)	**(5,063)**	(72)
Impairment recovery – net	**150**	42	**172**	-
Balance at end of year	**P 96,963**	P 93,670	**P 89,606**	P 85,742

The fair values of the HTM investments follow:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Government debt securities	**P 103,745**	P 94,799	**P 95,938**	P 86,528
Other debt securities	**10,420**	11,233	**10,419**	11,233
	P 114,165	P 106,032	**P 106,357**	P 97,761

The fair values are determined through valuation techniques by determining the net present value of estimated future cash flows. Annual interest rates on these investments range from 0% to 11% in 2012, 0% to 14% in 2011 and 0% to 14% in 2010 both in BDO Unibank Group and the Parent Bank financial statements.

9.4 Reclassification of Investment Securities

BDO Unibank Group recognized the deterioration of the world's financial markets that occurred in the third quarter of 2008. The enormity and extent of the global credit crisis was crystallized by the substantial government programs instituted by major economies in response to the crisis, including temporary liquidity facilities, outright purchase of commercial papers and mortgaged-backed securities, guarantee of new unsecured debt issued by banks and purchase of equity stakes in financial institutions.

In 2008, BDO Unibank Group chose to avail of the regulatory relief on specific financial assets granted by the BSP under the governing provisions of Circular No. 628, which permitted the reclassification of certain financial assets to help banks cope with the adverse impact of the global financial crisis.

Presented in the next page are the details of the reclassifications made by BDO Unibank Group in 2008 and the related details at the end of 2012 and 2011.

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BDO Unibank Group

	At Reclassification Date	
	Carrying Value	Fair Value
Reclassification from FVTPL to HTM	P 6,297	P 6,297
Reclassification of debt securities from AFS to HTM	25,540	25,540
Reclassification of embedded derivatives of CLNs from FVTPL to Loans and Other Receivables	(183)	(183)
Reclassification of CLNs from AFS to Loans and Other Receivables	18,520	18,520

	Balances at			
	December 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Reclassification from FVTPL to HTM	**P 1,444**	**P 2,000**	P 1,547	P 1,960
Reclassification of debt securities from AFS to HTM	**15,489**	**20,241**	17,960	20,768
Reclassification of CLNs from AFS to Loans and Other Receivables	**1,750**	**1,804**	7,287	7,959

Parent Bank

	At Reclassification Date	
	Carrying Value	Fair Value
Reclassification from FVTPL to HTM	P 6,297	P 6,297
Reclassification of debt securities from AFS to HTM	22,474	22,474
Reclassification of embedded derivatives of CLNs from FVTPL to Loans and Other Receivables	(70)	(70)
Reclassification of CLNs from AFS to Loans and Other Receivables	14,096	14,096

	Balances at			
	December 31, 2012		December 31, 2011	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Reclassification from FVTPL to HTM	**P 1,444**	**P 2,000**	P 1,547	P 1,960
Reclassification of debt securities from AFS to HTM	**13,740**	**18,351**	16,107	18,743
Reclassification of CLNs from AFS to Loans and Other Receivables	**1,750**	**1,804**	7,287	7,959

Estimated cash flows on instruments reclassified from FVTPL to HTM at the date of reclassification amounted to P9,174 both for BDO Unibank Group and Parent Bank. On the other hand, estimated cash flows on CLNs reclassified from AFS to Loans and Other Receivables at the date of reclassification amounted to P22,591 and P18,728 for BDO Unibank Group and Parent Bank, respectively.

9.4.1 Reclassification from FVTPL to HTM

Total trading losses on FVTPL reclassified to HTM both in BDO Unibank Group and Parent Bank financial statements which were recognized in profit or loss in 2008 amounted to P199. On the other hand, the net trading gain (loss) that would have been recognized in the period following the reclassification during 2012, 2011 and 2010 if the reclassifications had not been made would have amounted to P173, P151 and P84, respectively, for both BDO Unibank Group and Parent Bank. Effective interest rates of FVTPL reclassified to HTM range from 7.0% to 8.6% in 2012, 2011 and 2010 in BDO Unibank Group and Parent Bank financial statements. Amortization of premium due to change in effective interest rates recognized as part of interest income in profit or loss on reclassified securities amounted to (P4) in both BDO Unibank Group and Parent Bank financial statements in 2012 and 2011. No impairment recovery or loss was booked on reclassified instruments in both BDO Unibank Group and Parent Bank financial statements in 2012 and 2011.

9.4.2 Reclassification of Debt Securities from AFS to HTM

Unrealized fair value losses in equity of debt securities reclassified from AFS to HTM at reclassification dates amounted to P102 and P46 in BDO Unibank Group and Parent Bank financial statements, respectively, in 2008. The net trading gain (loss) that would have been recognized in other comprehensive income during the period following the reclassification if the reclassifications had not been made would have amounted to P1,271, P635, and P1,395 in 2012, 2011 and 2010, respectively, in BDO Unibank Group financial statements and P1,131, P463 and P1,175 in 2012, 2011 and 2010, respectively, in the Parent Bank financial statements. Trading gain (loss) booked on the redemption or disposal of the reclassified securities both in BDO Unibank Group and Parent Bank financial statements are P203 in 2012 and (P5) in 2011. On the other hand, amortization of fair value loss previously recognized in other comprehensive income to profit or loss due to reclassification amounted to (P19) and P71 in BDO Unibank Group financial statement and (P28) and P62 in the Parent Bank financial statements in 2012 and 2011, respectively.

9.4.3 Reclassification of CLNs from AFS to Loans and Other Receivables

Unrealized fair value losses in equity of CLNs linked to ROP bonds reclassified from AFS to Loans and Other Receivables at reclassification dates amounted to P627 and P624 in BDO Unibank Group and Parent Bank financial statements, respectively, in 2008. The effective interest rates on reclassified investments range from 5.27% to 9.63%, 5.44% to 12.54% and 1.64% to 12.55% in BDO Unibank Group financial statements, in 2012, 2011 and 2010, respectively, and 5.27% to 9.63% in 2012, 5.44% to 12.54% in 2011 and 2.78% to 12.55% in 2010 in the Parent Bank financial statements, respectively. Interest income recognized in profit or loss on reclassified securities amounted to P161 and P178 in 2012 and 2011, respectively, in BDO Unibank Group financial statements and P161 and P167 in 2012 and 2011, respectively, in the Parent Bank financial statements.

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Additional unrealized fair value gain (losses) recognized in other comprehensive income in the period following the reclassification had the CLNs not been reclassified to Loans and Other Receivables would have amounted to (P482), (P371) and P444 in 2012, 2011 and 2010, respectively, in BDO Unibank Group financial statements and (P482), (P371) and P469 in 2012, 2011 and 2010, respectively, in the Parent Bank financial statements. Additional trading gain (loss) to be recognized in profit or loss had the embedded derivatives not been reclassified totaled to (P59), (P208) and P152 in 2012, 2011 and 2010, respectively, in BDO Unibank Group financial statements and (P59), (P202) and P148 in 2012, 2011 and 2010, respectively, in the Parent Bank financial statements.

In 2012, BDO Unibank Group and Parent Bank unwound the outstanding CLNs with certain financial institutions amounting to P3,782. BDO Unibank Group and Parent Bank both recognized gain amounting to P464 in the unwinding of CLNs and is presented as part of the Trading gain – net under Other Operating Income in the 2012 statement of income (see Note 22). Also, the unwinding of CLN by the Parent Bank resulted in the reversal of net unrealized loss amounting to P133 and is presented as part of Trading gain – net under Other Operating Income in the 2012 statement of income.

In 2011, BDO Unibank Group unwound the outstanding CLDs and CLNs with certain financial institutions amounting to P437 and P5,454, respectively. On the other hand, the Parent Bank unwound the outstanding CLNs with certain financial institutions amounting to P5,009. BDO Unibank Group and Parent Bank recognized loss amounting to P13 and P7, respectively, in the unwinding of CLNs and is presented as part of the Trading gain – net under Other Operating Income in the 2011 statement of income. Also, the unwinding of CLN by the Parent Bank resulted in the reversal of net unrealized loss amounting to P25 and is presented as part of Trading gain – net under Other Operating Income in the 2011 statement of income. After the reclassification, amortization of unrealized fair value gain (loss) on outstanding CLNs previously recognized directly in the statements of comprehensive income amounted to (P152) and P157 in 2012 and 2011, respectively, both for BDO Unibank Group and the Parent Bank.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group 2012	BDO Unibank Group 2011	Parent Bank 2012	Parent Bank 2011
Receivables from customers:					
Loans and discounts	24	**P 687,212**	P 591,323	**P 674,194**	P 577,544
Customers' liabilities under letters of credit and trust receipts		**31,720**	38,085	**31,720**	38,085
Bills purchased		**16,151**	10,697	**16,151**	10,697
Others		**33,873**	30,041	**33,873**	30,041
		768,956	670,146	**755,938**	656,367
Allowance for impairment	14	**(26,729)**	(24,358)	**(26,420)**	(24,077)
		742,227	645,788	**729,518**	632,290
Other receivables:					
Accounts receivable	13, 24, 31	**7,233**	7,628	**7,084**	6,171
UDSCL	9.4	**5,734**	8,452	**5,734**	8,452
Interbank loans receivables		**3,969**	7,325	**3,969**	7,325
Sales contract receivables		**2,715**	2,347	**2,372**	2,259
SPURRA		**941**	4,989	**-**	-
Others		**94**	67	**-**	-
		20,686	30,808	**19,159**	24,207
Allowance for impairment	14	**(2,413)**	(2,669)	**(2,378)**	(2,640)
		18,273	28,139	**16,781**	21,567
		P 760,500	P 673,927	**P 746,299**	P 653,857

Included in the total loan portfolio are non-performing loans, net of accounts in the loss category and fully provided with allowance (excluded under BSP Circular 351), as follows:

	BDO Unibank Group 2012	BDO Unibank Group 2011	Parent Bank 2012	Parent Bank 2011
Non-performing loans	**P 21,272**	P 25,332	**P 20,976**	P 24,909
Loss category loans, fully provided with allowance*	**(8,846)**	(11,919)	**(8,768)**	(11,839)
	P 12,426	P 13,413	**P 12,208**	P 13,070

* *Loans classified as loss and fully provided with allowance as per latest applicable BSP Results on Examination as of December 31, 2012 and 2011. These loans classified as loss are inclusive of the Receivable from SPV presented under Other Resources in the statements of financial position.*

Per MORB, non-performing loans shall, as a general rule, refer to loan accounts whose principal and/or interest is unpaid for 30 days or more after due date or after they have become past due in accordance with existing rules and regulations. This shall apply to loans payable in lump sum and loans payable in quarterly, semi-annual or annual installments, in which case, the total outstanding balance thereof shall be considered non-performing. In the case of loans payable in monthly installments, the total outstanding balance thereof shall be considered nonperforming when three or more installments are in arrears. In the case of loans payable in daily, weekly or semi-monthly installments, the entire outstanding balance of the loan/receivable shall be considered as past due when the total amount of arrearages reaches 10% of the total loan/receivable balance. Restructured loans shall be considered non-performing except when as of restructuring date, it has an updated principal and interest payments and it is fully secured by real estate with loan value of up to 60% of the appraised value of real estate security and the insured improvements and such other first class collaterals.

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In 2011, the Parent Bank disposed of interbank loans receivables to a foreign financial institution under bankruptcy amounting to P19 with related allowance for impairment of P19 at a gain of P0.2 and is presented as part of Trading gain – net under Other Operating Income in the 2011 statement of income (see Note 9.2 for the investment in other debt securities in that foreign financial institution).

The concentration credit of the total loan portfolio as to industry follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Wholesale and retail trade	**P 119,494**	P 105,905	**P 116,839**	P 104,115
Real estate, renting and other related activities	**110,477**	77,624	**105,616**	75,364
Financial intermediaries	**107,723**	84,668	**112,694**	86,169
Manufacturing (various industries)	**103,068**	101,468	**99,293**	97,730
Other community, social and personal activities	**70,051**	58,315	**69,769**	55,560
Transportation and communication	**56,592**	51,378	**54,156**	48,203
Agriculture, fishing and forestry	**8,434**	8,037	**8,168**	7,536
Others	**193,117**	182,751	**189,403**	181,690
	P 768,956	P 670,146	**P 755,938**	P 656,367

The breakdown of total loan portfolio as to secured and unsecured follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Secured:				
Real estate mortgage	**P 136,399**	P 115,833	**P 135,035**	P 115,296
Chattel mortgage	**64,440**	61,452	**53,866**	53,100
Other securities	**151,824**	137,259	**147,953**	131,166
	352,663	314,544	**336,854**	299,562
Unsecured	**416,293**	355,602	**419,084**	356,805
	P 768,956	P 670,146	**P 755,938**	P 656,367

The breakdown of total loans as to type of interest rate follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Variable interest rates	**P 576,857**	P 483,438	**P 565,717**	P 469,209
Fixed interest rates	**192,099**	186,708	**190,221**	187,158
	P 768,956	P 670,146	**P 755,938**	P 656,367

Loans and other receivables bear interest rates ranging from 0.0% (e.g., non-performing loans and zero percent credit card installment program) to 3.6% per month in 2012, 2011 and 2010 in both BDO Unibank Group and Parent Bank financial statements.

BDO Unibank Group's receivables from customers amounting to P1,246 and P960 as of December 31, 2012 and 2011, respectively, are pledged as collaterals with the BSP to secure borrowings under rediscounting privileges (see Note 16).

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of premises, furniture, fixtures and equipment at the beginning and end of 2012 and 2011 are shown below.

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group					
December 31, 2012					
Cost	P 5,132	P 8,906	P 3,060	P 13,844	P 30,942
Accumulated depreciation and amortization	-	(2,819)	(1,960)	(9,773)	(14,552)
Net carrying amount	**P 5,132**	**P 6,087**	**P 1,100**	**P 4,071**	**P 16,390**
December 31, 2011					
Cost	P 5,130	P 7,701	P 2,858	P 12,750	P 28,439
Accumulated depreciation and amortization	-	(2,498)	(1,635)	(8,616)	(12,749)
Net carrying amount	P 5,130	P 5,203	P 1,223	P 4,134	P 15,690
January 1, 2011					
Cost	P 5,079	P 6,620	P 2,673	P 15,185	P 29,557
Accumulated depreciation and amortization	-	(2,167)	(1,268)	(11,065)	(14,500)
Net carrying amount	P 5,079	P 4,453	P 1,405	P 4,120	P 15,057
Parent Bank					
December 31, 2012					
Cost	P 5,132	P 8,848	P 2,898	P 12,492	P 29,370
Accumulated depreciation and amortization	-	(2,778)	(1,860)	(9,116)	(13,754)
Net carrying amount	**P 5,132**	**P 6,070**	**P 1,038**	**P 3,376**	**P 15,616**
December 31, 2011					
Cost	P 5,130	P 7,642	P 2,715	P 11,713	P 27,200
Accumulated depreciation and amortization	-	(2,459)	(1,558)	(8,109)	(12,126)
Net carrying amount	P 5,130	P 5,183	P 1,157	P 3,604	P 15,074
January 1, 2011					
Cost	P 5,079	P 6,561	P 2,611	P 12,170	P 26,421
Accumulated depreciation and amortization	-	(2,131)	(1,255)	(8,920)	(12,306)
Net carrying amount	P 5,079	P 4,430	P 1,356	P 3,250	P 14,115

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A reconciliation of the carrying amounts, at the beginning and end of 2012 and 2011, of premises, furniture, fixtures and equipment is shown below.

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group					
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 5,130	P 5,203	P 1,223	P 4,134	P 15,690
Additions	51	1,215	299	1,410	2,975
Disposals	(4)	-	(9)	(19)	(32)
Reclassifications	(45)	(9)	(16)	(1)	(71)
Depreciation and amortization charges for the year	-	(322)	(397)	(1,453)	(2,172)
Balance at December 31, 2012, net of accumulated depreciation and amortization	**P 5,132**	**P 6,087**	**P 1,100**	**P 4,071**	**P 16,390**
Balance at January 1, 2011, net of accumulated depreciation and amortization	P 5,079	P 4,453	P 1,405	P 4,120	P 15,057
Additions	76	994	247	1,772	3,089
Disposals	(79)	(3)	-	(449)	(531)
Reclassifications	54	67	(1)	-	120
Depreciation and amortization charges for the year	-	(308)	(428)	(1,309)	(2,045)
Balance at December 31, 2011, net of accumulated depreciation and amortization	P 5,130	P 5,203	P 1,223	P 4,134	P 15,690
Parent Bank					
Balance at January 1, 2012, net of accumulated depreciation and amortization	P 5,130	P 5,183	P 1,157	P 3,604	P 15,074
Additions	51	1,215	274	1,031	2,571
Disposals	(4)	-	(9)	(9)	(22)
Reclassifications	(45)	(9)	(16)	(1)	(71)
Depreciation and amortization charges for the year	-	(319)	(368)	(1,249)	(1,936)
Balance at December 31, 2012, net of accumulated depreciation and amortization	**P 5,132**	**P 6,070**	**P 1,038**	**P 3,376**	**P 15,616**

	Land		Buildings		Leasehold Rights and Improvements		Furniture, Fixtures and Equipment		Total
Parent Bank									
Balance at January 1, 2011, net of accumulated depreciation and amortization	P	5,079	P	4,430	P	1,356	P	3,250	P 14,115
Additions		76		994		205		1,474	2,749
Disposals	(	79)	(	3)		-	(	69)	(151)
Reclassifications		54		67	(	1)		-	120
Depreciation and amortization charges for the year		-	(	305)	(	403)	(	1,051)	(1,759)
Balance at December 31, 2011, net of accumulated depreciation and amortization	P	5,130	P	5,183	P	1,157	P	3,604	P 15,074

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2012 and 2011, BDO Unibank Group has complied with this requirement.

Certain fully depreciated premises, furniture, fixtures and equipment as of December 31, 2012 and 2011 of BDO Unibank Group and the Parent Bank are still being used in operations.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental arrangements amounted to P73 and P67 in 2012 and P65 and P62 in 2011 and are presented as part of Income from assets sold or exchanged under Other Operating Income in BDO Unibank Group and Parent Bank financial statements, respectively (see Note 22). Direct expenses incurred from these properties amounted to P6 and P5 in 2012 and P19 and P17 in 2011 in BDO Unibank Group and Parent Bank financial statements, respectively.

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The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2012 and 2011 are shown below.

	Land	Buildings	Total
BDO Unibank Group			
December 31, 2012			
Cost	P 9,694	P 4,040	P 13,734
Accumulated depreciation	-	(2,017)	(2,017)
Allowance for impairment (see Note 14)	(2,542)	(86)	(2,628)
Net carrying amount	**P 7,152**	**P 1,937**	**P 9,089**
December 31, 2011			
Cost	P 10,231	P 3,839	P 14,070
Accumulated depreciation	-	(1,658)	(1,658)
Allowance for impairment (see Note 14)	(2,206)	(69)	(2,275)
Net carrying amount	P 8,025	P 2,112	P 10,137
January 1, 2011			
Cost	P 11,342	P 4,077	P 15,419
Accumulated depreciation	-	(1,500)	(1,500)
Allowance for impairment (see Note 14)	(1,765)	(175)	(1,940)
Net carrying amount	P 9,577	P 2,402	P 11,979
Parent Bank			
December 31, 2012			
Cost	P 9,229	P 3,817	P 13,046
Accumulated depreciation	-	(1,914)	(1,914)
Allowance for impairment (see Note 14)	(2,498)	(25)	(2,523)
Net carrying amount	**P 6,731**	**P 1,878**	**P 8,609**

	Land		Buildings		Total	
Parent Bank						
December 31, 2011						
Cost	P	9,694	P	3,611	P	13,305
Accumulated depreciation		-	(	1,566)	(	1,566)
Allowance for impairment (see Note 14)	(	2,143)	(	25)	(	2,168)
Net carrying amount	P	7,551	P	2,020	P	9,571
January 1, 2011						
Cost	P	10,566	P	3,840	P	14,406
Accumulated depreciation		-	(	1,417)	(	1,417)
Allowance for impairment (see Note 14)	(	1,719)	(	118)	(	1,837)
Net carrying amount	P	8,847	P	2,305	P	11,152

A reconciliation of the carrying amounts, at the beginning and end of 2012 and 2011, of investment properties is shown below.

	Land		Buildings		Total	
BDO Unibank Group						
Balance at January 1, 2012, net of accumulated depreciation and impairment	P	8,025	P	2,112	P	10,137
Additions		295		59		354
Disposals	(	1,345)	(	197)	(	1,542)
Reclassifications		207		453		660
Depreciation for the year		-	(	490)	(	490)
Impairment	(	30)		-	(	30)
Balance at December 31, 2012, net of accumulated depreciation and impairment	**P**	**7,152**	**P**	**1,937**	**P**	**9,089**
Balance at January 1, 2011, net of accumulated depreciation and impairment	P	9,577	P	2,402	P	11,979
Additions		209		80		289
Disposals	(	1,531)	(	256)	(	1,787)
Reclassifications	(	73)		320		247
Depreciation for the year		-	(	397)	(	397)
Impairment	(	157)	(	37)	(	194)
Balance at December 31, 2011, net of accumulated depreciation and impairment	P	8,025	P	2,112	P	10,137

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	Land	Buildings	Total
Parent Bank			
Balance at January 1, 2012, net of accumulated depreciation and impairment	P 7,551	P 2,020	P 9,571
Additions	266	53	319
Disposals	(1,276)	(173)	(1,449)
Reclassification	220	452	672
Impairment	(30)	-	(30)
Depreciation for the year	-	(474)	(474)
Balance at December 31, 2012, net of accumulated depreciation and impairment	**P 6,731**	**P 1,878**	**P 8,609**
Balance at January 1, 2011, net of accumulated depreciation and impairment	P 8,847	P 2,305	P 11,152
Additions	104	62	166
Disposals	(1,208)	(224)	(1,432)
Reclassification	(35)	250	215
Impairment	(157)	-	(157)
Depreciation for the year	-	(373)	(373)
Balance at December 31, 2011, net of accumulated depreciation and impairment	P 7,551	P 2,020	P 9,571

The fair value of investment properties as of December 31, 2012 and 2011, determined based on the present value of the estimated future cash flows discounted at the current market rate, amounted to P16,290 and P16,414, respectively, for BDO Unibank Group accounts and P14,160 and P15,494, respectively, for the Parent Bank accounts.

BDO Unibank Group has no contractual obligations to purchase, construct or develop investment properties, or to repair, maintain or enhance the same nor are there any restrictions on the future use or realizability of the investment properties.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are significantly accounted for as either: investment properties, non-current assets held for sale, or AFS securities. As of December 31, 2012 and 2011, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Investment properties	**P 11,085**	P 11,421	**P 10,657**	P 10,918
Non-current assets held for sale	**2,064**	2,612	**1,913**	2,612
AFS securities	**1,668**	1,584	**1,552**	1,468
Other resources – others	**77**	122	**20**	-
	P 14,894	P 15,739	**P 14,142**	P 14,998

13. OTHER RESOURCES

The components of this account are shown below.

	Notes	BDO Unibank Group		Parent Bank	
		2012	2011	**2012**	2011
Deferred tax assets – net	27.1	**P 5,115**	P 5,485	**P 5,176**	P 5,586
Equity investments	13.1	**5,007**	4,746	**19,277**	19,277
Retirement asset	23.2	**4,430**	1,492	**4,170**	1,519
Receivables from special purpose vehicles (SPVs)	13.2	**3,440**	3,440	**3,440**	3,440
Deposits under escrow	13.3	**2,931**	2,931	**2,931**	2,931
Real properties for development and sale		**2,748**	3,384	**-**	-
Non-current assets held for sale	13.4	**2,064**	2,612	**1,913**	2,612
Foreign currency notes and coins on hand		**1,907**	1,989	**1,907**	1,989
Interoffice float items – net		**1,559**	1,617	**1,558**	1,517
Goodwill	13.5, 26	**1,391**	1,247	**1,391**	1,247
Branch licenses	13.5	**481**	-	**481**	
Prepaid documentary stamps		**268**	314	**247**	295
Dividend receivable		**219**	168	**207**	316
Computer software – net	13.6	**100**	144	**97**	144
Returned checks and other cash items		**20**	348	**20**	348
Others	13.6	**6,756**	5,489	**6,063**	4,502
		38,436	35,406	**48,878**	45,723
Allowance for impairment	14	**(8,076)**	(8,971)	**(11,343)**	(11,919)
		P 30,360	P 26,435	**P 37,535**	P 33,804

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13.1 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group 2012	BDO Unibank Group 2011	Parent Bank 2012	Parent Bank 2011
Philippine Subsidiaries					
BDO Private Bank, Inc. (BDO Private)	100%	**P -**	P -	**P 2,579**	P 2,579
BDO Strategic Holdings, Inc. (BDOSHI)	100%	**-**	-	**8,184**	8,184
BDO Leasing	87%	**-**	-	**1,878**	1,878
BDO Elite (formerly GE Money Bank, Inc. or GEMB)	99%	**-**	-	**1,500**	1,500
BDO Capital & Investment Corporation (BDO Capital)	100%	**-**	-	**300**	300
Equimark	60%	**-**	-	**45**	45
PCIB Securities, Inc.	100%	**-**	-	**39**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDO Insurance Brokers, Inc. (BDOI)	100%	**-**	-	**11**	11
PCI Insurance Brokers, Inc. (PCI Insurance)	100%	**-**	-	**8**	8
MDB Land	100%	**-**	-	**-**	-
		-	-	**14,578**	14,578
Foreign Subsidiaries					
Express Padala HK Ltd.	100%	**-**	-	**28**	28
BDO Remittance (USA), Inc.	100%	**-**	-	**26**	26
PCIB Europe S.P.A.	100%	**-**	-	**1**	1
Express Padala Frankfurt GmbH	100%	**-**	-	**1**	1
BDORO Europe Ltd.	100%	**-**	-	**-**	-
		-	-	**56**	56
Associates					
SM Keppel Land, Inc. (SM Keppel)	50%	**1,658**	1,658	**1,658**	1,658
Manila North Tollways Corporation (MNTC)	12%	**1,405**	1,405	**1,405**	1,405
Generali Pilipinas Holdings, Inc. (Generali)	40%	**1,235**	1,235	**1,168**	1,168
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land	33%	**170**	170	**170**	170
Others	*	**10**	10	**10**	10
		4,710	4,710	**4,643**	4,643
Accumulated equity in net profit (losses):					
Balance at beginning of year		**36**	(420)	**-**	-
Equity in net profit during the year		**470**	681	**-**	-
Dividends		**(209)**	(225)	**-**	-
Balance at end of year		**297**	36	**-**	-
Net investments in associates		**5,007**	4,746	**4,643**	4,643
		5,007	4,746	**19,277**	19,277
Allowance for impairment		**(559)**	(559)	**(4,375)**	(4,375)
		P 4,448	P 4,187	**P 14,902**	P 14,902

* *This consists of various insignificant investments in associates, thus, percentage held is no longer disclosed.*

BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank, except for Generali which is at 40% in both 2012 and 2011 at BDO Unibank Group and 38.5% and 37.5% in 2012 and 2011, respectively, at the Parent Bank.

The fair value of BDO Leasing amounts to P3,680 and P2,963 in 2012 and 2011, respectively, which have been determined directly by reference to published prices quoted in an active market. The fair value of the remaining equity investments is not reliably determinable either by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

BDO Unibank Group's subsidiaries and associates are all incorporated in the Philippines, except for the following:

Subsidiaries	Country of Incorporation
Express Padala HK Ltd.	Hong Kong
BDO Remittance (USA), Inc.	United States of America
Express Padala Frankfurt GmbH	Germany
PCIB Europe S.P.A	Italy
BDORO Europe Ltd.	United Kingdom

On May 30, 2012, BDORO Europe Ltd. (BDORO) was registered with the Registrar of Companies for England and Wales UK as a private limited company with registered office at the 5th floor, 6 St. Andrew Street, London. BDORO will provide commercial banking services in United Kingdom (UK) and Europe, and subject to certain conditions, was approved by the BSP on October 13, 2011. As of December 31, 2012, BDORO is in the process of completing the documents to support its application for a banking license in the UK.

As of December 31, 2012, the Parent Bank has an outstanding investment in BDORO amounting to P133 (absolute amount) representing the minimal capitalization of 2 Sterling Pounds (GBP) as an initial contribution to incorporate BDORO.

The following table presents the aggregated unaudited financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2012, 2011 and 2010:

	2012	2011	2010
Assets	**P 36,718**	P 23,932	P 22,819
Liabilities	**23,585**	12,313	11,890
Equity	**13,133**	11,619	10,929
Revenues	**8,294**	7,138	8,101
Net Profit	**2,587**	2,329	1,750

13.1.1 Dividend Declarations

In 2012 and 2011, the Parent Bank's share in the cash dividends declared by BDO Unibank Group's subsidiaries amounted to P646 and P411, respectively. These are presented as part of Dividend under Other Operating Income in the Parent Bank statements of income (see Note 22). Out of the total dividends declared, the Parent Bank received P536 and P95 in 2012 and 2011, respectively.

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13.1.2 Acquisitions

In 2011, to execute the deed of assignment made on January 13, 2008, the Parent Bank agreed to transfer, cede and convey absolutely to SM Keppel the outstanding advances totaling P364 recognized as part of Others under Loans and Other Receivables (2010 statement of financial position) in exchange for 36,401,500 preferred shares of SM Keppel for a subscription price of P364. As a result, the investment in SM Keppel as of December 31, 2011 increased to P1,658.

On February 11, 2010, BSP approved the acquisition by BDO of the 12.4% equity interest in MNTC equivalent to 2,197,800 common shares held by Global Fund Holdings, Inc. (Global Fund) in MNTC for a purchase price of P1,405. The purchase of 12.4% was previously approved by the BOD on July 25, 2009. The Parent Bank is properly represented in the BOD of MNTC.

In response to the capital infusion call of Generali to cover its 2007 and 2008 capital deficiency, BDO Unibank Group's BOD separately approved on January 9, 2010 and July 31, 2010 additional investments of P114 and P156, respectively. The approval of the BSP was granted on March 5, 2010 and September 21, 2010, respectively.

Investment in Generali by BDO Unibank Group and the Parent Bank has a carrying value of P1,235 and P1,168, respectively, for both December 31, 2012 and 2011. Allowance for impairment loss on this investment amounted to P520 for both years.

13.1.3 Dissolution of Subsidiaries

On September 30, 2011, the Parent Bank approved the dissolution of PCI Express Padala (Hong Kong) Limited effective September 20, 2011. Capital amounting to P248 was fully returned to the Parent Bank on December 5, 2011.

On April 30, 2010, by virtue of a proxy letter, the Parent Bank approved the liquidation of PCIB Europe S.P.A with cut-off financial statement date of December 31, 2009. PCIB Europe S.P.A made partial returns of capital amounting to P23 and P1 on July 16, 2010 and October 6, 2010, respectively. As of December 31, 2012, total equity of PCIB Europe S.P.A. amounted to P0.5.

13.2 Receivables from SPVs

Receivables from SPVs represent the amount due from sale of certain non-performing assets to SPVs. In 2005, the former EPCIB (now part of BDO Unibank Group) sold certain non-performing assets with book value of P15,069 to Philippine Investment One, Philippine Investment Two and Cameron Granville Asset Management, Inc. (CGAM) for a consideration of P4,134. Cash received from the SPVs amounted to P798 in 2005 and the balance of P3,336, through issuance of SPV Notes, shall be paid based on a cash flow waterfall arrangement and interest rate of 20% and 50% per annum amounting to P2,776 and P560, respectively. Also, in 2005, the former Equitable Savings Bank, Inc. (ESB) entered into sale and purchase agreements with CGAM and LNC (SPV-AMC) Corporation (LNC) for the sale of the former ESB's loans to CGAM for P621 and for the sale of its investment properties to LNC for P98. The former ESB received SPV Notes amounting to P60 for loans from CGAM and P39 for investment properties from LNC, in addition to cash received amounting to P23 from CGAM and P4 from LNC.

Full allowance for impairment on the receivables from SPVs amounted to P3,440 as of December 31, 2012 and 2011.

13.3 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by BDO Unibank Group in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by BDO Unibank Group with certain terms and conditions, particularly the transfer of titles, as stipulated in the Memorandum of Agreement (MOA). Deposits under escrow earn an annual effective interest of 3.0% and 5.8% in 2012 and 2011, respectively.

13.4 Non-current Assets Held for Sale

Non-current assets held for sale consist of real and other properties acquired through repossession or foreclosure that BDO Unibank Group intends to sell within one year from the date of classification as held for sale. Impairment loss recognized amounted to P155, P131 and P128 in 2012, 2011 and 2010 in BDO Unibank Group, respectively, and P130, P131 and P128 in 2012, 2011 and 2010 in the Parent Bank, respectively (see Note 14).

13.5 Goodwill and Branch Licenses

Goodwill represents the excess of the cost of acquisition of the Parent Bank over the fair value of the net assets acquired at the date of acquisition and branch licenses and relates mainly to business synergy for economics of scale and scope. This is significantly from the acquisition of BDO Card Corporation, United Overseas Bank Philippines (UOBP), American Express Bank, Ltd., GE Money Bank and Rural Bank of San Juan, Inc. (RBSJI) (see Note 26), which were acquired in 2005, 2006, 2007, 2009 and 2012, respectively.

On July 24, 2012, the Parent Bank and RBSJI executed a Deed of Assignment to transfer the latter's assets and liabilities amounting to P695 and P1,320, respectively. The acquisition resulted in the recognition of branch licenses and goodwill of P481 and P144, respectively.

BDO Unibank Group and the Parent Bank recognized impairment loss of P131, P150 and P271 in 2012, 2011 and 2010, respectively (see Note 14).

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13.6 Others

Amortization expense on computer software licenses amounted to P376, P373 and P170 in 2012, 2011 and 2010, respectively, in BDO Unibank Group financial statements and P368, P371 and P173 in 2012, 2011 and 2010, respectively, in the Parent Bank financial statements. These are reported as Amortization of computer software under Other Operating Expenses account in the statements of income (see Note 22).

Depreciation expense on certain assets amounting to P21, P35 and P11 in 2012, 2011 and 2010, respectively, in BDO Unibank Group financial statements and P20 in 2012 (nil in 2011 and 2010), in the Parent Bank financial statements, and are presented as part of Occupancy under Other Operating Expenses account in the statements of income (see Note 22).

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized below.

		BDO Unibank Group		Parent Bank	
	Notes	**2012**	2011	**2012**	2011
Balance at beginning of year:					
AFS securities	9.2	**P 2,950**	P 5,811	**P 1,658**	P 4,526
HTM investments	9.3	**412**	453	**412**	412
Loans and other receivables	10	**27,027**	26,144	**26,717**	25,806
Investment properties	12	**2,275**	1,940	**2,168**	1,837
Other resources	13	**8,971**	8,540	**11,919**	11,512
		41,635	42,888	**42,874**	44,093
Impairment losses - net		**4,941**	6,144	**4,850**	5,945
Reversals and write-off		**(3,303)**	(7,400)	**(2,899)**	(7,148)
Foreign currency revaluation		**(252)**	3	**(244)**	(16)
Balance at end of year:					
AFS securities	9.2	**2,913**	2,950	**1,677**	1,658
HTM investments	9.3	**262**	412	**240**	412
Loans and other receivables	10	**29,142**	27,027	**28,798**	26,717
Investment properties	12	**2,628**	2,275	**2,523**	2,168
Other resources	13	**8,076**	8,971	**11,343**	11,919
		P 43,021	P 41,635	**P 44,581**	P 42,874

Total impairment losses on financial assets amounted to P4,619, P5,372 and P6,141 in 2012, 2011 and 2010, respectively, in BDO Unibank Group's financial statements and P4,557, P5,225 and P5,777 in 2012, 2011 and 2010, respectively, in the Parent Bank financial statements.

Total impairment losses on non-financial assets amounted to P322, P772 and P557 in 2012, 2011 and 2010, respectively, in BDO Unibank Group's financial statements and P293, P720 and P597 in 2012, 2011 and 2010, respectively, in the Parent Bank financial statements.

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Demand	**P 48,936**	P 48,499	**P 41,591**	P 36,059
Savings	**543,366**	482,517	**544,248**	483,147
Time	**339,339**	327,553	**333,955**	319,542
	P 931,641	P 858,569	**P 919,794**	P 838,748

This account is composed of the following (by counterparties):

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Due to other banks				
Demand	**P 876**	P 841	**P 875**	P 788
Savings	**1,908**	1,959	**1,908**	1,959
Time	**195**	1,796	**195**	1,796
	2,979	4,596	**2,978**	4,543
Due to customers				
Demand	**48,060**	47,658	**40,716**	35,271
Savings	**541,458**	480,558	**542,340**	481,188
Time	**339,144**	325,757	**333,760**	317,746
	928,662	853,973	**916,816**	834,205
	P 931,641	P 858,569	**P 919,794**	P 838,748

The breakdown of deposit liabilities as to currency is as follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Foreign currencies	**P 212,340**	P 206,618	**P 205,603**	P 200,000
Philippine pesos	**719,301**	651,951	**714,191**	638,748
	P 931,641	P 858,569	**P 919,794**	P 838,748

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The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Less than one year	**P 848,813**	P 792,225	**P 839,195**	P 774,462
One to five years	**73,912**	55,100	**72,033**	53,042
Beyond five years	**8,916**	11,244	**8,566**	11,244
	P 931,641	P 858,569	**P 919,794**	P 838,748

BDO Unibank Group's and Parent Bank's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates of 0.0% to 6.5% in 2012 and 0.0% to 8.3% in 2011. Demand and savings deposits usually have both fixed and variable interest rates while time deposits have fixed interest rates except for one tranche of the peso-denominated long-term negotiable certificates of deposits (LTNCDs) which are repriced every quarter.

On April 26, 2007, the Monetary Board (MB) of the BSP authorized BDO Private to issue up to P5,000 worth of fixed rate or zero coupon LTNCDs in one or more tranches. The first tranche, consisting of P2,191 in zero coupon LTNCDs, was issued on June 18, 2007 and matured on December 18, 2012. These LTNCDs are presented, net of discount and included P17 in capitalized transaction costs, as part of the Time Deposit Liabilities account in the 2011 statement of financial position.

On May 3, 2012, the BSP approved the Parent Bank's issuance of an initial tranche of P5,000 LTNCDs. The LTNCDs, which will mature on October 15, 2019, were issued on October 15, 2012 at an effective rate of 5.25% per annum, and will be payable quarterly in arrears every January 15, April 15, July 15 and October 15. The net proceeds from the issuance are intended to support the Parent Bank's business expansion plans.

Effective April 6, 2012, Peso deposit liabilities of BDO Unibank Group are subject to a reserve requirement of 18%, in compliance with the BSP Circular No. 753 – *Unification of the Statutory/ Legal and Liquidity Reserve Requirement, Non-Remuneration of the Unified Reserve Requirement, Exclusion of Vault Cash and Demand Deposits as Eligible Forms of Reserve Requirement Compliance, and Reduction in the Unified Reserve Requirement Ratios.*

Previously, BSP's reserve requirement is composed of statutory reserve equivalent to 8.0% to 10.0% and 8.0% in 2011 and 2010, respectively, and liquidity reserve requirement equivalent to 11.0% both in 2011 and 2010.

16. BILLS PAYABLE

This account is composed of the following:

	Note	BDO Unibank Group		Parent Bank	
		2012	2011	**2012**	2011
Senior notes	16.1	**P 24,843**	P 13,210	**P 24,843**	P 13,210
Foreign banks		**22,070**	13,694	**21,043**	13,694
Deposit substitutes		**13,925**	17,152	**13,925**	17,149
Local banks		**3,657**	132	**-**	132
BSP		**1,245**	968	**1,245**	968
PDIC	16.2	**-**	4,472	**-**	4,472
Others		**6,439**	9,846	**4,121**	1,753
		P 72,179	P 59,474	**P 65,177**	P 51,378

The breakdown of this account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Foreign currencies	**P 64,728**	P 44,565	**P 63,700**	P 44,565
Philippine pesos	**7,451**	14,909	**1,477**	6,813
	P 72,179	P 59,474	**P 65,177**	P 51,378

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The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Less than one year	**P 42,651**	P 42,767	**P 35,987**	P 35,430
One to five years	**13,980**	15,718	**13,642**	14,959
Beyond five years	**15,548**	989	**15,548**	989
	P 72,179	P 59,474	**P 65,177**	P 51,378

Bills payable bear annual interest rates of 0.2% to 12.0% in 2012 and 2011. Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers and investment securities (see Notes 9 and 10).

The following comprise the interest expense included as part of Interest Expense on bills payable and other liabilities in the statements of income (see Note 21):

	BDO Unibank Group		
	2012	2011	2010
Senior notes	**P 1,008**	P 511	P 98
PDIC	**169**	175	175
Deposit substitutes	**153**	277	312
Foreign banks	**142**	182	69
Local banks	**39**	29	1
BSP	**25**	27	121
Others	**473**	322	575
	P 2,009	P 1,523	P 1,351

	Parent Bank		
	2012	2011	2010
Senior notes	**P 1,008**	P 511	P 98
PDIC	**169**	175	175
Deposit substitutes	**149**	172	285
Foreign banks	**142**	182	69
BSP	**25**	27	121
Others	**150**	158	243
	P 1,643	P 1,225	P 991

16.1 Senior Notes

On February 16, 2012, the Parent Bank issued unsecured Senior Notes with a face value of US$300 million at a price of 99.448 or a total price of US$298 million. The Senior Notes, which will mature on February 16, 2017, bear a coupon rate of 4.5% per annum, with effective yield of 4.625% per annum, and will be payable semi-annually every February 16 and August 16 starting on August 16, 2012. The net proceeds from the issuance of Senior Notes are intended for general funding and relending purposes. As at December 31, 2012, the related Senior Notes has a carrying amount of P12,465.

On October 22, 2010, the Parent Bank issued unsecured Senior Notes with a face value of US$300 million at a price of 99.632 or a total price of US$299 million. The Senior Notes, which will mature on April 22, 2016, bear a fixed interest rate of 3.875% per annum, with an effective rate of 3.95% per annum, and will be payable semi-annually every April 22 and October 22 starting in 2011. The net proceeds from the issuance are intended to support business expansion plans, and general banking and relending activities. As of December 31, 2012 and 2011, the Senior Notes have a carrying amount of P12,378 and P13,210, respectively. Interest on Senior Notes incurred amounted to P1,008 in 2012 and P511 in 2011 recognized in profit or loss and included as part of Interest expense on bills payable and other liabilities under Interest Expense account is on an amortized cost basis using the effective interest method (see Note 21).

16.2 PDIC

This represents the financial assistance to United Overseas Bank Philippines (UOBP) from PDIC amounting to P4,420 which was transferred by UOBP to the Parent Bank. The transfer was covered by the MOA relative to the Parent Bank's acquisition of UOBP branches in 2005. The financial assistance, which is recorded as part of Bills Payable in the statements of financial position matured on December 19, 2012 and bear annual interest rate of 3.90%. The proceeds of the financial assistance from PDIC are invested in government securities as provided for in the MOA. As of December 31, 2012, there are no outstanding financial assistance from PDIC.

17. SUBORDINATED NOTES PAYABLE

On November 21, 2007, the Parent Bank issued P10,000 unsecured subordinated notes eligible as Lower Tier 2 Capital due on November 21, 2017 bearing an interest of 7.0% per annum, callable with step-up in 2012 (the Series 1 Notes) pursuant to the authority granted by the BSP to the Parent Bank on October 8, 2007 and BSP Circular No. 280 Series of 2001, as amended. The issuance was approved by the BOD, in its special meeting held on June 1, 2007. On November 21, 2012, the Parent Bank exercised its option to redeem the P10,000 Series 1 Notes. The said redemption was approved by the BSP on September 27, 2012 and was paid on November 21, 2012.

On May 30, 2008, the Parent Bank issued the second tranche of P10,000 unsecured subordinated notes eligible as Lower Tier 2 Capital due on May 30, 2018 bearing an interest of 8.5% per annum, callable with step-up in 2013 (the Series 2 Notes) pursuant to the authority granted by the BSP to the Parent Bank on April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the BOD, in its regular meeting held on February 23, 2008.

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On March 20, 2009, the Parent Bank issued the third tranche of unsecured subordinated debt qualifying as Lower Tier 2 Capital of the Parent Bank with face of P3,000 due March 20, 2019 with coupon interest of 7.5% per annum callable with step-up in 2014 (the Series 3 Notes). This issuance was approved by the BOD on January 31, 2009.

On June 27, 2011, the Parent Bank issued P8,500 unsecured subordinated notes eligible as Lower Tier 2 Capital due on September 27, 2021, callable on 2016 (the Series 4 Notes) bearing an interest rate of 6.50% per annum, pursuant to the authority granted by the BSP to BDO Unibank on April 7, 2011 and BSP Circular No. 280 Series of 2001, as amended, and BSP Circular No. 709 Series of 2011. The issuance was approved by the BOD on August 28, 2010.

On October 7, 2011, the Parent Bank issued another P6,500 unsecured subordinated notes eligible as Lower Tier 2 Capital due on January 7, 2022, callable on 2016 (the Series 5 Notes) bearing an interest rate of 6.375% per annum, pursuant to the authority granted by the BSP to BDO Unibank on April 7, 2011 and BSP Circular No. 280 Series of 2001, as amended, and BSP Circular No. 709 Series of 2011. The issuance was approved by the BOD on August 28, 2010.

The Notes represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Parent Bank, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Parent Bank, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Parent Bank or any party related to the Parent Bank, such as its subsidiaries and affiliates, or the PDIC, or any other person. The Notes shall not be used as collateral for any loan made by the Parent Bank or any of its subsidiaries or affiliates. The Notes carry interest rates based on prevailing market rates, with a step-up provision if not called on the fifth year from issue date. The Parent Bank has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes were used further to expand the Parent Bank's consumer loan portfolio and to refinance an existing issue of Lower Tier 2 debt. The Notes also increased and strengthened the Parent Bank's capital base, in anticipation of continued growth in the coming years. The total outstanding balance of the Notes amounted to P28,180 and P38,255 as of December 31, 2012 and 2011, respectively.

Total interest expense on subordinated notes payable included as part of Interest expense on bills payable and other liabilities under the Interest Expense account in the statements of income amounted to P2,667, P2,154 and P1,775 in 2012, 2011 and 2010, respectively, both in BDO Unibank Group and Parent Bank statements of income (see Note 21).

18. OTHER LIABILITIES

Other liabilities consist of the following:

	Note	BDO Unibank Group 2012	BDO Unibank Group 2011	Parent Bank 2012	Parent Bank 2011
Bills purchased-contra		**P 15,953**	P 10,287	**P 15,953**	P 10,287
Accounts payable		**7,994**	7,436	**7,641**	5,504
Accrued expenses		**6,870**	5,088	**6,519**	4,790
Manager's checks		**6,664**	6,558	**6,626**	6,473
Derivatives with negative fair values	9.1	**4,245**	3,320	**2,655**	1,877
Lease deposits		**3,222**	2,477	**48**	48
Outstanding acceptances payable		**1,834**	1,569	**1,834**	1,569
Withholding taxes payable		**990**	899	**942**	859
Capitalized interest and other charges		**865**	602	**854**	602
Unearned income	9.3	**836**	989	**757**	893
Payment order payable		**277**	252	**277**	252
Due to principal		**221**	230	**-**	-
Due to BSP and Treasurer of the Philippines		**80**	166	**78**	163
Others		**5,105**	4,216	**4,936**	3,977
		P 55,156	P 44,089	**P 49,120**	P 37,294

The liability for unredeemed reward points amounting to P1,918 and P1,394 as of December 31, 2012 and 2011, respectively, presented as part of Accrued expenses above represents the fair value of points earned which are redeemable significantly for goods or services provided by third parties identified by the Parent Bank as partners in the rewards program (see Note 2.21).

Others include margin deposits, cash letters of credit and other miscellaneous liabilities.

19. EQUITY

19.1 Capital Management and Regulatory Capital

On January 15, 2009, the BSP issued Circular No. 639 articulating the need for banks to adopt and document an Internal Capital Adequacy Assessment Process (ICAAP). All universal and commercial banks are expected to perform a thorough assessment of all their material risks and maintain adequate capital to support these risks. This is intended to complement the current regulatory capital requirement of at least 10% of risk assets, which covered only credit, market and operational risks. On December 29, 2009, BSP issued Circular No. 677 effectively extending the implemention of ICAAP from January 2010 to January 2011.

In October 2009, BDO Unibank Group presented its ICAAP and submitted the initial draft of its ICAAP document to the BSP. Based on comments from the BSP, BDO Unibank Group subsequently revised its ICAAP document and secured approval from its BOD on January 8, 2011. Annually as required, BDO Unibank Group submits its updated ICAAP to the BSP.

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The ICAAP document articulates BDO Unibank Group's capital planning strategy and discusses governance, risk assessment, capital assessment and planning, capital adequacy monitoring and reporting, as well as internal control reviews.

The lead regulator of the banking industry, the BSP, sets and monitors capital requirements for BDO Unibank Group. In implementing current capital requirements, the BSP requires BDO Unibank Group to maintain a prescribed ratio of qualifying capital to risk-weighted assets.

Under current banking regulations, the combined capital accounts of a bank should not be less than an amount equal to 10% of its risk assets. The qualifying capital of BDO Unibank Group for purposes of determining the capital-to-risk assets ratio is total equity excluding:

(a) unbooked valuation reserves and other capital adjustments as may be required by the BSP;
(b) total outstanding unsecured credit accommodations to directors, officers, stockholders and related interests (DOSRI);
(c) deferred tax asset or liability;
(d) goodwill;
(e) sinking fund for redemption of redeemable preferred shares; and,
(f) other regulatory deductions.

Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the MB of the BSP.

The amount of surplus funds available for dividend declaration is determined also on the basis of regulatory net worth after considering certain adjustments.

BDO Unibank Group's policy is to maintain a strong capital base to promote investor, creditor and market confidence and to sustain future development of the business. The impact of the level of capital on shareholder's return is also recognized and BDO Unibank Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

The regulatory capital is analyzed into two tiers, which are Tier 1 Capital plus Tier 2 Capital less deductions from the total of Tier 1 and Tier 2 capital for the following:

(a) investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
(b) investments in debt capital instruments of unconsolidated subsidiary banks;
(c) investments in equity of subsidiary insurance companies and non-financial allied undertakings;
(d) reciprocal investments in equity of other banks/enterprises; and,

(e) reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of: *(i)* an aggregate ceiling of 5% of total Tier 1 capital of BDO Unibank Group excluding Hybrid Tier 1; or, *(ii)* 10% of the total outstanding unsecured subordinated term debt issuance of the other bank/quasi-banks.

Provided that any asset deducted from the qualifying capital in computing the numerator of the risk-based capital ratio shall not be included in the risk-weighted assets in computing the denominator of the ratio.

At the end of each reporting period, BDO Unibank Group has complied with the prescribed ratio of qualifying capital to risk-weighted assets.

Under an existing BSP circular, expanded commercial banks are required to comply with the minimum capital requirement of P4,950. As of December 31, 2012 and 2011, the Parent Bank has complied with the above capitalization requirement.

There have been no material changes in BDO Unibank Group's management of capital during the period.

BDO Unibank Group's and Parent Bank's regulatory capital position (computed using balances prepared under FRSP for banks) as of December 31, 2012 and 2011 follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Tier 1 Capital	**P 147,472**	P 90,612	**P 139,895**	P 84,303
Tier 2 Capital	**37,272**	46,004	**36,885**	43,929
Total Regulatory Capital	**184,744**	136,616	**176,780**	128,232
Deductions	**(7,405)**	(10,405)	**(25,701)**	(25,238)
Total Qualifying Capital	**P 177,339**	P 126,211	**P 151,079**	P 102,994
Total Risk Weighted Assets	**P 921,497**	P 798,936	**P 875,221**	P 756,567
Capital ratios				
Total regulatory capital expressed as percentage of total risk weighted assets	**19.2%**	15.8%	**17.3%**	13.6%
Total Tier 1 expressed as percentage of total risk weighted assets	**15.3%**	10.2%	**13.8%**	8.7%
Tier 1 Capital	**P 147,472**	P 90,612	**P 139,895**	P 84,303
Tier 1 Capital Deductions	**(6,411)**	(9,411)	**(19,162)**	(18,615)
Net Tier 1 Capital	**P 141,061**	P 81,201	**P 120,733**	P 65,688

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19.2 Capital Allocation

The allocation of capital between specific operations and activities is, to a large extent, driven by optimization of the return achieved on the capital allocated. The amount of capital allocated to each operation or activity is based primarily upon the regulatory capital, but in some cases the regulatory requirements do not reflect fully the varying degree of risk associated with different activities. In such cases the capital requirements may be flexed to reflect differing risk profiles subject to the overall level of capital to support a particular operation or activity not falling below the minimum required for regulatory purposes. The process of allocating capital to specific operations and activities is undertaken independently of those responsible of the operation and is subject to review by the ALCO.

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within BDO Unibank Group to particular operations or activities, it is not the sole basis used for decision making. Synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the longer term strategic objectives are also considered in the capital allocation process. The policies in respect of capital management and allocation are reviewed regularly by the BOD.

19.3 Capital Stock

Capital stock consists of the following:

	Number of Shares	
	2012	2011
Common shares – P10 par value		
Authorized – 4,500,000,000 shares		
Issued, fully paid and outstanding		
Balance at beginning of year	**2,607,437,907**	2,607,437,907
Issued during the year	**973,437,421**	-
Balance at end of year	**3,580,875,328**	2,607,437,907
Preferred shares – P10 par value		
Authorized – 2,000,000,000 shares		
Balance at beginning of year	**500,000,000**	500,000,000
Issued during the year	**15,000,000**	-
Balance at end of year	**515,000,000**	500,000,000

	Amount	
	2012	2011
Common shares		
Balance at beginning of year	**P 26,074**	P 26,074
Issued during the year	**9,734**	-
Balance at end of year	**P 35,808**	P 26,074
Preferred shares		
Balance at beginning of year	**P 5,000**	P 5,000
Issued during the year	**150**	-
Balance at end of year	**P 5,150**	P 5,000

The Parent Bank's application for listing of its common stock was approved by the PSE on April 24, 2002. The application is for the initial listing of up to 952,708,650 common shares, with par value of P10 per share, at an offer price range of P17.80 to P23.80 per share. The proceeds from the sale of BDO Unibank's listed shares amounted to about P2,200.

The history of shares issuances from the initial public offering (IPO) and subsequently, private placements exempt from registration pursuant to Section 10.1 of the Securities Regulation Code, is as follows:

Transaction	Subscriber	Issue Date	Number of Shares Issued
IPO	Various	May 21, 2002	908,189,550
Private placement	International Finance Corporation (IFC)	June 21, 2005	31,403,592
Private placement	UOBP	February 8, 2006	22,429,906
BDO-EPCIB Merger	BDO-EPCIB Merger	May 31, 2007	1,308,606,021
Private placement	IFC	August 23, 2007	31,403,592
Private placement	GE Capital International Holdings Corporation (GE Capital)	August 20, 2009	37,735,849
Private placement	Multi Realty Development Corporation	April 23, 2010	107,320,482
Private placement	IFC	April 26, 2010	24,033,253
Private placement	IFC Capitalization (Equity) Fund, L.P. (IFC Equity Fund)	April 26, 2010	136,315,662
Stock dividends	Various	June 8, 2012	78,218,589
Stock rights	Various	July 4, 2012	895,218,832
			3,580,875,328

As of December 31, 2012, there are 13,224 holders of the listed shares equivalent to 100% of the Parent Bank's total outstanding shares. Such listed shares closed at P72.80 per share as of December 28, 2012 (the last trading day in 2012).

On August 30, 2008, the BOD approved the issuance of up to 500,000,000 perpetual, voting, non-cumulative, convertible, non-participating, peso-denominated Series A preferred shares qualifying as Tier 1 capital of BDO Unibank Group. The conversion right is at the option of the holder after three years from the issue date or at the option of BDO Unibank Group at any time after issue date upon the occurrence of certain trigger events such as: *(i)* a change in tax status of the preferred shares; or, *(ii)* the preferred shares do not qualify as Tier 1 capital of BDO Unibank Group as determined by the BSP or other applicable laws and regulations. Dividend rate is at 6.5% per annum of the par value. Subsequently, on September 30, 2008, the Parent Bank issued 500,000,000 preferred shares at P10 per share or a total value of P5,000.

In 2009, the Parent Bank issued to GE Capital 37,735,849 common shares worth P377 in line with the latter's strategic investment in the Parent Bank (see Note 26.2).

On March 19, 2010, the BOD approved a capital raising program that would allow the Parent Bank to raise between US$250 million to US$300 million worth of common shares, with the IFC and the IFC Equity Fund as anchor investors. Subsequently, on April 26, 2010, the Parent Bank issued 24,033,253 shares to the IFC and 136,315,662 shares to the IFC Equity Fund at P41.50 per share for a total subscription price of P997 and P5,657, respectively. Foreign institutional investors participated in this capital raising through a top-up offering, resulting in the issuance of an additional 107,320,482 common shares at the same offer price. The Parent Bank was able to raise a total of P10,994 from this capital raising exercise.

On March 31, 2012, the BOD authorized to offer the Parent Bank's common shares to its registered stockholders at an entitlement ratio of one common share for every three common shares held as of June 14, 2012. The stock rights offering was approved by the BSP on May 15, 2012 and the application for additional listing of up to 896,000,000 common shares, with a par value of P10 per share was approved by the PSE on May 23, 2012. The stock rights offer commenced on June 18, 2012 until June 27, 2012 wherein 895,218,832 common shares were subscribed and fully paid at an offer price of P48.60. The rights offering resulted in the recognition of additional paid in capital (APIC) of P34,147, net of issue cost. The listing of the additional common shares to the PSE was made on July 4, 2012.

19.4 Issuance of Global Depositary Receipts by Primebridge

On various dates in 2006, Primebridge Holdings, Inc. (Primebridge), a stockholder owning 22.1% of the Parent Bank's total outstanding shares as of December 31, 2005, offered and sold in aggregate 9,399,700 global depositary receipts (GDRs) with each GDR representing 20 shares of the Parent Bank's common shares.

The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the US Securities Act of 1993 (the Securities Act) and an offering outside the United States in reliance on Regulation under the Securities Act. The offer price for each GDR was US$12.70 on January 25, 2006 and February 14, 2006; and US$14.55 on May 15, 2006. The GDRs are listed and are traded at the London Stock Exchange.

As part of the offering, Primebridge, while remaining as the registered holder of the Parent Bank's shares underlying the GDRs, transferred all rights and interests in the Parent Bank's shares underlying the GDRs to the depository on behalf of the holders of the GDRs and the latter are entitled to receive dividends paid on the shares. However, GDR holders have no voting rights or other direct rights of a shareholder with respect to the Parent Bank's shares.

As of December 31, 2006, 4,724,214 GDRs issued, covering shares originally held by Primebridge, were converted into 94,484,280 shares of the Parent Bank. As of December 31, 2012 and 2011, 9,600 GDRs equivalent to 192,000 shares of the Parent Bank remained unconverted.

19.5 Surplus Free

On December 12, 2012, the BOD of Equimark, a subsidiary of the Parent Bank, approved the declaration of cash dividends at P80.00 per share on the 750,000 shares outstanding at the date of declaration or for P60. The dividends were declared to stockholders on record as of September 30, 2012 and paid on December 26, 2012. Total dividends paid to stockholders not within BDO Unibank Group amounted to P24.

On April 18, 2012, the BOD of BDO Leasing, a subsidiary of the Parent Bank, approved the declaration of cash dividends at P0.05 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P108. The dividends were declared to stockholders on record as of May 31, 2012 and payable on June 27, 2012, of which, total dividends paid to non-controlling interest amounted to P14.

On March 22, 2012, the BOD approved the declaration of 3% stock dividend on outstanding common and preferred shares, equivalent to 78,218,589 common shares at P68.70 per share and 15,000,000 preferred shares at par. The declaration resulted in the recognition of APIC of P4,586, net of issue costs. The stock dividend was approved by the BSP on May 8, 2012 and distributed to the stockholders on June 8, 2012.

On January 28, 2012, the Parent Bank's BOD approved the declaration of annual cash dividends on peso denominated preferred shares at the rate of 6.5% per annum for a total dividend of P330 which was approved by BSP on February 20, 2012 and was paid on March 9, 2012.

On December 7, 2011, the BOD of Equimark, approved the declaration of cash dividends at P160.00 per share on the 750,000 shares outstanding at the date of declaration or for P120. The dividends were declared to stockholders on record as of December 29, 2011 and payable on January 2, 2012. Total dividends paid to stockholders not within BDO Unibank Group amounted to P48.

On December 7, 2011, the BOD of BDO Leasing, approved the declaration of cash dividends at P0.10 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P216. The dividends were declared to stockholders on record as of December 26, 2011 and payable on January 18, 2012, of which, total dividends paid to non-controlling interests amounted to P26.

On May 30, 2011, the BOD of BDO Leasing approved the declaration of cash dividends at P0.05 per share on the 2,162,475,312 shares outstanding at the date of declaration or for a total of P108. The dividends were declared to stockholders on record as of July 14, 2011 and payable on July 29, 2011. Total dividends paid to non-controlling interests amounted to P14.

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On May 27, 2011, the BOD of the Parent Bank approved the declaration of annual cash dividends amounting to P1.00 per common share or a total of P2,607 payable to stockholders of record as of August 16, 2011. The cash dividends were approved by the BSP on June 23, 2011 and were paid to the stockholders on August 26, 2011.

On January 29, 2011, the BOD of the Parent Bank approved the declaration of annual dividends on peso denominated preferred shares at the rate of 6.5% per annum for a total dividend of P330. The declaration was approved by BSP on March 3, 2011 and was paid on March 15, 2011.

On December 8, 2010, the BOD of BDO Leasing, approved the declaration of cash dividends at P0.10 per share on the 2,162,475,312 shares outstanding at the date of declaration or for P216. The dividends were declared to stockholders on record as of December 22, 2010 and payable on January 18, 2011. Total dividends paid to non-controlling interests amounted to P27.

On May 31, 2010, the BOD of BDO Leasing approved the declaration of cash dividends at P0.05 per share on the 2,162,475,312 shares outstanding at the date of declaration or for a total of P108. The dividends were declared to stockholders on record as of June 30, 2010 and payable on July 26, 2010. Total dividends paid to non-controlling interests amounted to P13.

On May 28, 2010, the BOD of the Parent Bank approved the declaration of annual of cash dividends amounting to P0.80 per common share or a total of P2,085 payable to stockholders on record as of August 17, 2010. The cash dividends were approved by BSP on July 1, 2010 and were paid to the stockholders on August 27, 2010.

On January 9, 2010, the BOD of the Parent Bank approved the declaration of annual cash dividends on peso denominated preferred shares at the rate of 6.5% per annum amounting to P330. The declaration was approved by BSP on February 19, 2010 and was paid on March 19, 2010.

19.6 Surplus Reserves

On April 4, 2012, the BOD of BDO Capital, a subsidiary of the Parent Bank, approved the appropriation of its surplus free amounting to P250 as additional working capital for its underwriting activities and investments.

On March 30, 2012, the BOD of BDO Securities Corporation, a wholly owned subsidiary of BDO Capital, approved the appropriations of its surplus free amounting to P80 and P70 as an additional working capital and additional funds for its proprietary equity trading, respectively.

Also, included in the 2012 surplus reserve are the appropriations made by BDO Securities Corporation, PCIB Securities, Inc. and Armstrong Securities, Inc. (a subsidiary of BDOSHI), totaling P15 as part of the reserve fund requirement of SEC Memorandum Circular No. 16, *Adoption of the Risk Based Capital Adequacy Requirement/Ratio for Broker Dealers.*

20. INTEREST INCOME

Interest income consists of the following:

		BDO Unibank Group		
	Notes	2012	2011	2010
Loans and other receivables	10	P 42,288	P 37,456	P 36,012
Trading and investment securities	9	10,819	10,486	10,114
Due from other banks	7, 8	597	2,049	2,739
Others		310	476	1,065
		P 54,014	P 50,467	P 49,930

		Parent Bank		
	Notes	2012	2011	2010
Loans and other receivables	10	P 40,830	P 36,128	P 34,389
Trading and investment securities	9	10,233	9,848	9,379
Due from other banks	7, 8	448	1,884	2,646
Others		146	164	130
		P 51,657	P 48,024	P 46,544

21. INTEREST EXPENSE

Interest expense is composed of the following:

		BDO Unibank Group		
	Notes	2012	2011	2010
Deposit liabilities	15	P 13,122	P 13,006	P 12,645
Bills payable and other liabilities	16, 17, 18	4,694	3,682	3,127
		P 17,816	P 16,688	P 15,772

		Parent Bank		
	Notes	2012	2011	2010
Deposit liabilities	15	P 12,852	P 12,659	P 12,224
Bills payable and other liabilities	16, 17, 18	4,323	3,380	2,766
		P 17,175	P 16,039	P 14,990

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22. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

		BDO Unibank Group		
	Notes	**2012**	2011	2010
Service charges, fees and commissions	24	**P 11,446**	P 10,528	P 8,930
Trading gain – net	9	**8,445**	3,907	5,585
Trust fees	25	**1,986**	1,727	1,474
Income from assets sold or exchanged	12	**671**	947	140
Dividends income	13.1.1	**422**	256	239
Foreign exchange gains (loss)		**(212)**	1,714	261
Miscellaneous – net		**1,669**	1,820	1,212
		P 24,427	P 20,899	P 17,841

		Parent Bank		
	Notes	**2012**	2011	2010
Service charges, fees and commissions	24	**P 9,945**	P 9,063	P 7,952
Trading gain – net	9	**8,082**	3,400	5,185
Trust fees	25	**1,696**	1,489	1,273
Dividends income	13.1.1	**994**	653	820
Income from assets sold or exchanged	12	**389**	879	118
Foreign exchange gains (loss)		**(333)**	1,572	31
Miscellaneous – net		**930**	920	1,025
		P 21,703	P 17,976	P 16,404

Other operating expenses consist of the following:

		BDO Unibank Group		
	Notes	**2012**	2011	2010
Compensation and benefits	23	**P 16,087**	P 14,002	P 13,619
Occupancy	31	**4,707**	4,365	4,467
Taxes and licenses		**4,042**	3,662	3,510
Advertising		**2,361**	2,172	2,022
Security, clerical, messengerial and janitorial		**2,120**	1,952	1,894
Insurance		**1,864**	1,694	1,515
Fees and commissions		**1,649**	1,537	1,335
Representation and entertainment		**953**	872	859
Power, light and water		**895**	803	740
Litigation/assets acquired		**719**	754	607
Travelling		**687**	602	537
Repairs and maintenance		**654**	737	671
Supplies		**389**	442	413
Amortization of computer software	13.6	**376**	373	170
Information technology		**247**	460	621
Miscellaneous		**2,107**	1,889	1,809
		P 39,857	P 36,316	P 34,789

		Parent Bank		
	Notes	**2012**	2011	2010
Compensation and benefits	23	**P 15,145**	P 13,107	P 12,776
Occupancy	31	**4,405**	3,944	3,473
Taxes and licenses		**3,750**	3,399	3,243
Advertising		**2,246**	2,082	1,954
Security, clerical, messengerial and janitorial		**2,071**	1,909	1,845
Insurance		**1,821**	1,647	1,467
Fees and commissions		**1,514**	1,321	1,172
Power, light and water		**853**	766	702
Representation and entertainment		**840**	763	755
Litigation/assets acquired		**671**	729	577
Repairs and maintenance		**643**	721	644
Travelling		**618**	545	492
Amortization of computer software	13.6	**368**	371	173
Supplies		**366**	414	38
Information technology		**234**	439	610
Miscellaneous		**1,898**	1,706	1,586
		P 37,443	P 33,863	P 31,854

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23. COMPENSATION AND BENEFITS

23.1 Compensation and Benefits Expense

Expenses recognized for compensation and benefits are presented below.

	BDO Unibank Group		
	2012	2011	2010
Salaries and wages	**P 8,906**	P 8,154	P 7,415
Bonuses	**2,895**	2,734	2,367
Retirement – defined benefit plan	**1,296**	1,319	1,336
Social security costs	**364**	357	325
Other benefits	**2,626**	1,438	2,176
	P 16,087	P 14,002	P 13,619

	Parent Bank		
	2012	2011	2010
Salaries and wages	**P 8,326**	P 7,616	P 6,895
Bonuses	**2,704**	2,557	2,201
Retirement – defined benefit plan	**1,203**	1,237	1,264
Social security costs	**346**	340	307
Other benefits	**2,566**	1,357	2,109
	P 15,145	P 13,107	P 12,776

23.2 Post-employment Benefits

BDO Unibank Group maintains a partially funded, tax-qualified noncontributory retirement plan that is being administered by the Parent Bank's trust and investment group covering all regular full-time employees. Actuarial valuations are made annually to update the post-employment benefit costs and the amount of contributions.

The amounts of retirement benefit asset recognized as part of Retirement asset under Other Resources (see Note 13) are determined as follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Present value of the DBO	**(P 13,729)**	(P 12,070)	**(P 12,976)**	(P 11,422)
Fair value of plan assets	**14,060**	9,044	**13,289**	8,689
Excess (deficiency) of plan assets	**331**	(3,026)	**313**	(2,733)
Unrecognized actuarial losses	**4,116**	4,518	**3,874**	4,252
Effect of asset ceiling	**(17)**	-	**(17)**	-
	P 4,430	P 1,492	**P 4,170**	P 1,519

The movements in the present value of the DBO are as follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Balance at beginning of year	**P 12,070**	P 10,130	**P 11,422**	P 9,658
Current service and interest costs	**1,697**	1,609	**1,587**	1,524
Actuarial losses	**572**	959	**567**	838
Transfer to plan assets	**-**	5	**-**	5
Benefits paid by the plan	**(610)**	(633)	**(600)**	(603)
Balance at end of year	**P 13,729**	P 12,070	**P 12,976**	P 11,422

The movements in the fair value of plan assets are presented below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Balance at beginning of year	**P 9,044**	P 7,381	**P 8,689**	P 7,106
Contributions paid into the plan	**4,234**	1,815	**3,854**	1,730
Actuarial gains	**849**	78	**830**	67
Benefits paid by the plan	**(610)**	(633)	**(600)**	(603)
Expected return on plan assets	**543**	398	**516**	384
Transfer to plan assets	**-**	5	**-**	5
Balance at end of year	**P 14,060**	P 9,044	**P 13,289**	P 8,689

As at December 31, the composition (in percentages) of plan assets is presented below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Placements in debt instruments	**44.9%**	64.1%	**45.3%**	64.3%
Deposits in other banks	**31.9%**	5.8%	**31.2%**	5.6%
Unit investment trust funds	**15.1%**	16.4%	**15.3%**	16.4%
Loans and other receivables	**5.6%**	7.6%	**5.7%**	7.6%
Other properties	**2.5%**	6.1%	**2.5%**	6.1%
	100.0%	100.0%	**100.0%**	100.0%

Actual returns on plan assets were P1,392 and P1,346 in 2012 and P477 and P451 in 2011 in BDO Unibank Group and the Parent Bank financial statements, respectively.

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The amounts of retirement benefits recognized in profit or loss are as follows:

	BDO Unibank Group		
	2012	2011	2010
Current service costs	**P 934**	P 774	P 725
Interest costs	**763**	835	771
Expected return on plan assets	**(543)**	(399)	(264)
Net actuarial losses recognized	**124**	109	112
Effect of asset limit	**18**	-	-
Net transition asset recognized	**-**	-	(8)
	P 1,296	P 1,319	P 1,336

	Parent Bank		
	2012	2011	2010
Current service costs	**P 864**	P 727	P 679
Interest costs	**723**	797	734
Expected return on plan assets	**(516)**	(384)	(254)
Net actuarial losses recognized	**115**	97	105
Effect of asset limit	**17**	-	-
	P 1,203	P 1,237	P 1,264

The movements in the retirement benefit asset recognized in the books follows:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Balance at beginning of year	**P 1,492**	P 996	**P 1,519**	P 1,026
Expense recognized	**(1,296)**	(1,319)	**(1,203)**	(1,237)
Contributions paid	**4,234**	1,815	**3,854**	1,730
Balance at end of year	**P 4,430**	P 1,492	**P 4,170**	P 1,519

Presented in the next page are the historical information related to the present value of the retirement benefit obligation, fair value of plan assets and deficit (excess) in the plan as well as experienced adjustments arising on plan assets and liabilities.

BDO Unibank Group

	2012	2011	2010	2009	2008
Present value of the obligation	P 13,729	P 12,070	P 10,130	P 8,459	P 7,086
Fair value of the plan assets	14,060	9,044	7,390	4,357	3,460
Deficit (excess) in the plan	(P 331)	P 3,026	P 3,026	P 2,740	P 3,626
Experience adjustments arising on plan liabilities	P 466	P 417	P 316	P 985	P 967
Experience adjustments arising on plan assets	P 849	P 78	P 845	P 148	(P 179)

Parent Bank

	2012	2011	2010	2009	2008
Present value of the obligation	P 12,976	P 11,422	P 9,658	P 7,913	P 6,684
Fair value of the plan assets	13,289	8,689	7,106	4,114	3,277
Deficit (excess) in the plan	(P 313)	P 2,733	P 2,552	P 3,799	P 3,407
Experience adjustments arising on plan liabilities	P 467	P 337	P 351	P 930	P 919
Experience adjustments arising on plan assets	P 830	P 67	P 813	P 137	(P 170)

BDO Unibank Group expects to pay P84 as contributions to retirement benefit plans in 2013.

In determining the amounts of retirement benefits, the following actuarial assumptions were used:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Discount rates	**5.62%**	6.33%	5.62%	6.33%
Expected rate of return on plan assets	**9.00%**	5.00%	9.00%	5.00%
Expected rate of salary increases	**9.45%**	10.00%	9.45%	10.00%

Assumptions regarding future mortality experience are based on published statistics and mortality tables. The average remaining working lives of an individual retiring at the age of 60 is 27.

The overall expected long-term rate of return on assets is 9%. The expected long-term rate of return is based on the portfolio as a whole and not on the sum of the returns on individual asset categories. The return is based exclusively on historical returns, without adjustments.

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24. RELATED PARTY TRANSACTIONS

The summary of BDO Unibank Group's significant transactions with its related parties as of and for the years ended December 31, 2012 and 2011 are as follows:

		2012		2011	
Related Party Category	**Notes**	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
DOSRI Loans	24 (a)				
Stockholders		**16,580**	**18,401**	23,267	31,723
Related Parties Under Common Ownership		**31,441**	**31,696**	10,556	11,091
Officers and Employees		**2**	**2**	-	-
Deposit Liabilities	24 (b)				
Stockholders		**443,046**	**656**	389,384	2,942
Related Parties Under Common Ownership		**430,093**	**652**	415,744	5,034
Other Transactions with:					
Subsidiaries	24 (d)				
Loans and Advances		**27,924**	**8,019**	21,752	3,436
Derivative Assets		**287**	**1**	438	2
Derivative Liabilities		**129**	**11**	306	2
Dividend Income		**646**	**110**	411	316
Interest Income		**142**	**19**	115	10
Rent Income		**51**	**-**	33	-
Service Fees		**26**	**-**	16	-
Interest Expense		**21**	**1**	26	1
Rent Expense		**6**	**-**	-	-
Associates	24 (d)				
Loans and Advances		**6**	**1,260**	1,310	1,310
Dividend Income		**209**	**-**	225	-
Interest Income		**92**	**4**	64	4
Service Fees		**28**	**8**	24	-
Related Parties Under Common Ownership					
Rent Expense	24 (d)	**452**	**-**	393	-

In the ordinary course of business, BDO Unibank Group and the Parent Bank have loans, deposits and other transactions with its related parties and with certain DOSRI as described below.

(a) Loans to Related Parties

Under existing policies of BDO Unibank Group and the Parent Bank, these loans are made on substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the unencumbered deposit and book value of the investment in BDO Unibank Group and the Parent Bank. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group and the Parent Bank, whichever is lower. As of December 31, 2012 and 2011, BDO Unibank Group and the Parent Bank is in compliance with these regulatory requirements.

The following additional information relates to the DOSRI loans:

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Total DOSRI loans	**P 50,099**	P 42,814	**P 50,054**	P 42,814
Unsecured DOSRI loans	**23**	2,601	**-**	2,601
% of DOSRI loans to total loan portfolio	**6.6%**	6.4%	**6.6%**	6.5%
% of unsecured DOSRI loans to total DOSRI loans	**0.1%**	6.0%	**0.0%**	6.1%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%
% of non-performing DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%

DOSRI loans bear annual interest rates of 0% (Standby Letters of Credits or LCs) to 15.5% in 2012, 0% (Standby LCs) to 9.1% in 2011 and 0% (Standby LCs) to 11.0% in 2010 for BDO Unibank Group and 0% (Standby LCs) to 9.1% both in 2012 and 2011 and 0% (Standby LCs) to 11.0% in 2010 for the Parent Bank financial statements. These loans are secured by publicly-listed shares and through deposit hold-out, and are payable within one month to 7 years.

Total loan releases and collections in 2012 amounted to P48,023 and P40,740 for BDO Unibank Group and P47,977 and P40,737 for the Parent Bank, respectively. Total loan releases and collections in 2011, on the other hand, amounted to P33,823 and P26,462 for BDO Unibank Group and P33,823 and P26,422 for the Parent Bank, respectively.

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(b) Deposits from Related Parties

Total deposits made by the related parties to the Parent Bank amounted to P873,139 and P805,128 in 2012 and 2011, respectively. The related interest expense from deposits amounted to P155 and P42 in 2012 and 2011, respectively.

(c) Transactions with Retirement Plan

BDO Unibank Group's retirement fund has transactions directly and indirectly with BDO Unibank Group and Parent Bank as of December 31, 2012 as follows:

	BDO Unibank Group		Parent Bank	
Transactions	**Amount of Transaction**	**Outstanding Balance**	Amount of Transaction	Outstanding Balance
Loans to Employees				
BDO Unibank, Inc.	212	103	212	103
BDO Leasing	7	4	-	4
BDO Private	1	1	-	1
BDO Capital	1	1	-	1
PCIB Securities	1	-	-	-
Investment in shares of -				
BDO Unibank, Inc.	46	9	46	9
BDO Leasing	-	1	-	-
Trading Gain				
BDO Unibank, Inc.	46	3	46	3

Total deposits (including LTNCD) of the retirement fund to BDO Unibank Group and Parent Bank amounted to P4,019 as of December 31, 2012. The related interest expense recognized by both BDO Unibank Group and Parent Bank from these deposits amounted to P1 in 2012.

Details of the contributions of BDO Unibank Group and Parent Bank, and benefits paid out by the plan to the employees are presented in Note 23.

(d) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates and other related parties is shown below.

(i) Transactions with and between subsidiaries have been eliminated in the consolidated financial statements. Significant transactions with subsidiaries are as follows:

(1) Loans and Advances to Subsidiaries

The Parent Bank grants noninterest-bearing advances to subsidiaries for working capital requirements, which are unsecured and without fixed repayment terms. Outstanding advances to subsidiaries recognized as part of Accounts receivable under Loans and Other Receivables amounted to P250 and P198 as of December 31, 2012 and 2011, respectively.

The Parent Bank also grants interest-bearing loans to subsidiaries with outstanding balance of P7,769 and P3,238 as of December 31, 2012 and 2011, respectively, and are presented as part of Loans and discounts under Loans and Other Receivables account in the Parent Bank's statements of financial position. These loans are payable between one month to 2 years. Interest income recognized on these loans amounted to P142 in 2012, P115 in 2011 and P1 in 2010 and is presented as part of Interest Income in the Parent Bank's statements of income. Interest rate on these loans ranges from 3.0% to 5.5% per annum in 2012 and 3.5% to 5.5% per annum in 2011.

(2) Income to the Parent Bank

BDO subsidiaries engaged the Parent Bank, under service agreements to provide various support such as maintenance, administration of properties/assets management, supplies procurement, facilities management, accounting functions, loan documentation, safekeeping/custodianship of securities and collateral documents, credit card services, human resources management, information technology needs, internal audit, credit card services, corporate secretarial services, remittance transactions support, legal assistance on all loan and/or property/asset-related litigation, credit investigation services, security services and investigation requirements, and assistance on all tax-related issues. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 30 calendar days prior to the date intended for termination. The fees payable shall be exclusive of actual costs and expenditures of the Parent Bank in relation to the provision of the services, which shall be reimbursed by BDO subsidiaries to the Parent Bank. In 2012, 2011 and 2010, total service fees amounted to P26, P16 and P15, respectively, and is presented as part of Service charges, fees and commissions under Other Operating Income in the Parent Bank's statements of income (see Note 22). There are no outstanding balance arising from these transactions as of December 31, 2012 and 2011.

The subsidiaries lease office space from the Parent Bank. For the years ended December 31, 2012, 2011 and 2010, total rent collected from the subsidiaries amounted to P51, P33 and P20, respectively, and is included as part of Miscellaneous – net under Other Operating Income in the Parent Bank's statements of income (see Note 22). The term of the lease is five years.

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BDO Capital, BDO Securities Corporation and BDOI, have reimbursed the Parent Bank on the actual costs and expenditures in relation to its services. Outstanding balances arising from these transactions as of December 31, 2012 and 2011 amounted to P7 and P6, respectively.

(3) Expenses of the Parent Bank

The Parent Bank leases space from subsidiaries for its branch operations. Total rent paid for the year ended December 31, 2012 amounted to P6 (nil in 2011 and 2010), and is included as part of Occupancy account under Other Operating Expenses (see Note 22). The lease term is between two to five years.

(ii) Other transactions of the Parent Bank with associates are shown below:

(1) Loans and Advances to Associates

As of December 31, 2012 and 2011, outstanding loans and advances to associates amounted to P1,260 and P1,310, respectively, in BDO Unibank Group financial statements and P6 and P44, respectively, in the Parent Bank financial statements, presented as part of Loans and discounts and Accounts receivable under Loans and Other Receivables account in the statements of financial position (see Note 10). These loans are payable between five to seven years. BDO Unibank Group recognized P92 and P64 interest income on these loans in 2012 and 2011, respectively (nil in 2010). Annual interest rate on these loans ranges from 6.9% to 7.7% in both 2012 and 2011.

(2) Income to the Parent Bank

Generali, an associate of BDO Unibank Group, has an existing Investment Management Agreement with the Parent Bank. For services rendered, Generali pays the Parent Bank management fees equivalent to 0.25% per annum of the managed funds and directed investments based on the average month end market value of the fund and are deducted quarterly from the fund. For the years ended December 31, 2012, 2011 and 2010, total services fees amounted to P28, P24 and P22, respectively.

Outstanding balances arising from this transaction amounted to P8 as of December 31, 2012 (nil as of December 31, 2011) and is included as part of Accounts receivable under Loans and Other Receivables.

(iii) Transaction of the Parent Bank with related parties under common ownership:

The Parent Bank leases space from related parties for its branch operations. For the years ended December 31, 2012, 2011 and 2010, total rent paid to related parties amounted to P452, P393 and P329, respectively, and is included as part of Occupancy account under Other Operating Expenses (see Note 22). The terms of the lease are from two to five years.

(iv) Key Management Personnel Compensation

The salaries and other compensation given to BDO Unibank Group and Parent Bank's key management are as follows:

	BDO Unibank Group		
	2012	2011	2010
Salaries and wages	**P 619**	P 533	P 513
Bonuses	**305**	262	255
Social security costs and other benefits	**32**	28	33
	P 956	P 823	P 801

	Parent Bank		
	2012	2011	2010
Salaries and wages	**P 438**	P 376	P 349
Bonuses	**219**	189	178
Social security costs and other benefits	**24**	20	25
	P 681	P 585	P 552

25. TRUST OPERATIONS

The following securities and other properties held by BDO Unibank Group in fiduciary or agency capacity (for a fee) for its customers are not included in BDO Unibank Group statements of financial position since these are not properties of the BDO Unibank Group (see Note 31.3).

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Investments	**P 811,366**	P 692,480	**P 661,798**	P 584,740
Others	**5,598**	18,931	**4,047**	17,609
	P 816,964	P 711,411	**P 665,846**	P 602,349

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In compliance with the requirements of the General Banking Act relative to the BDO Unibank Group's trust functions:

(a) Investment in government securities (shown as part of HTM Investments) with a total face value of P8,008 and P7,043 as of December 31, 2012 and 2011, respectively, in BDO Unibank Group and P6,557 and P5,939 as of December 31, 2012 and 2011, respectively, in the Parent Bank are deposited with the BSP as security for BDO Unibank Group's faithful compliance with its fiduciary obligations; and,

(b) A certain percentage of the trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of BDO Unibank Group's authorized capital stock. As of December 31, 2012 and 2011, the additional reserve for trust functions amounted to P143 and P146 for BDO Unibank Group, respectively, and P119 and P106 for Parent Bank, respectively, and is included as part of Surplus reserves in BDO Unibank Group equity.

Income from trust operations, shown as Trust fees under Other Operating Income, amounted to P1,986, P1,727, and P1,474, for the years ended December 31, 2012, 2011 and 2010, respectively, in BDO Unibank Group statements of income and P1,696, P1,489 and P1,273 for the years ended December 31, 2012, 2011 and 2010, respectively, in the Parent Bank statements of income (see Note 22).

26. MERGERS AND ACQUISITIONS

26.1 Mergers Among Subsidiaries

On April 30, 2011, the Parent Bank's BOD approved the five-way merger (the Merger) of wholly-owned subsidiaries: BDOSHI, Equitable Card Network, Inc. (ECNI), EBC Strategic Holdings Corporation (ESHC), BDO Technology Center, Inc. (BDOTCI) and Strategic Property Holdings, Inc. (SPHI), with BDOSHI as the surviving corporation. The Merger has been undertaken as part of the streamlining of BDO Unibank Group's organizational structure. The Merger was approved by the BSP and the SEC on November 29, 2011 and December 29, 2011, respectively. The Parent Bank's investment in its subsidiaries did not increase as a result of this exercise except for the following: (a) dacion en pago of 3,621,159 preferred shares and 2,000,001 common shares of BDOSHI held by ESHC for the P557 advances from the Parent Bank (presented as part of Advances to subsidiaries under Other Resources in the 2010 statement of financial position), (b) subscription of additional 40,231,915 preferred shares of BDOSHI through conversion of advances to BDOSHI and ESHC totaling P2,626 (recognized as part of Advances to subsidiaries under Other Resources in the 2010 statement of financial position) and advances to SPHI amounting to P1,397 (recognized as part of Accounts receivable under Loans and Other Receivables account in the 2010 statement of financial position) (see Note 10) and (c) all the issued and outstanding shares of stock of ECNI, ESHC, SPHI and BDOTCI (absorbed companies) as of the effective date of the Merger were cancelled. The Merger was accounted for using the pooling-of-interests method since the merging entities are under the common control of BDO Unibank Group.

26.2 Acquisition of GE Money Bank

In May 2009, the Parent Bank and GE Capital, a financial services unit of the General Electric Company, announced the signing of a definitive agreement to transfer GEMB in the Philippines into the Parent Bank. As part of the agreement, GE Capital will also make an investment in the Parent Bank by acquiring a stake of approximately 1.5%. The transaction consolidated GEMB's business into the Parent Bank, including 30,000 customers, 350 employees, a network of 31 branch licenses and 38 ATMs nationwide. On August 24, 2009, the Parent Bank completed the purchase of 98.81% of the issued and outstanding common stock and 100% of the preferred stock of GEMB for a consideration of P2,000.

The agreed price for the net assets of GEMB at the closing date amounted to P1,500. Hence, the Parent Bank recognized goodwill of P500 representing the excess of purchase price over the fair value of GEMB's net assets. The goodwill is included in the Other Resources account in the statements of financial position. The acquisition was approved by the BOD and by the BSP on May 27, 2009 and July 30, 2009, respectively. On August 12, 2010, GEMB amended its Articles of Incorporation and adopted the name BDO Elite Savings Bank, Inc.

27. TAXES

27.1 Current and Deferred Taxes

The components of tax expense for the years ended December 31 follow:

	BDO Unibank Group		
	2012	2011	2010
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT) at 30%	**P 1,371**	P 337	P 203
Minimum corporate income tax (MCIT) at 2%	**3**	417	384
Final taxes at 20%, 15%, 10% and 7.5%	**663**	759	965
	2,037	1,513	1,552
Deferred tax expense relating to origination and reversal of temporary differences	**401**	117	7
	2,438	1,630	1,631
Application of previously unrecognized MCIT	**(953)**	-	-
Tax expense reported in the statements of income	**P 1,485**	P 1,630	P 1,631
Reported in other comprehensive income			
Movements in fair value of AFS securities	**(P 32)**	P 2	P 29
Movements in revaluation increment	**-**	(20)	(6)
	(P 32)	(P 18)	(P 23)

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	Parent Bank		
	2012	2011	2010
Reported in profit or loss			
Current tax expense:			
RCIT at 30%	**P 992**	P 57	P -
MCIT at 2%	**-**	369	359
Final taxes at 20%, 15%, 10% and 7.5%	**550**	652	879
	1,542	1,078	1,238
Deferred tax expense relating to origination and reversal of temporary differences	**430**	121	59
	1,972	1,199	1,297
Application of previously unrecognized MCIT	**(936)**	-	-
Tax expense reported in the statements of income	**P 1,036**	P 1,199	P 1,297
Reported in other comprehensive income			
Movements in revaluation increment	**P -**	(P 20)	(P 6)
Movements in fair value of AFS securities	**-**	-	-
	P -	(P 20)	(P 6)

The reconciliation of the tax on pretax profit computed at the statutory tax rates to tax expense is shown below.

	BDO Unibank Group		
	2012	2011	2010
Tax on pretax profit at 30%	**P 4,748**	P 3,665	P 3,154
Adjustment for income subjected to lower income tax rates	**(24)**	(191)	(444)
Tax effects of:			
Income exempt from tax	**(3,349)**	(3,253)	(3,037)
Non-deductible expenses	**1,924**	2,208	2,439
Application of previously unrecognized MCIT	**(953)**	-	-
Deductible temporary differences not recognized	**(810)**	(1,043)	489
Net operating loss carryover (NOLCO) not recognized	**-**	(114)	(1,374)
Others	**(51)**	358	404
Tax expense reported in profit or loss	**P 1,485**	P 1,630	P 1,631

	Parent Bank		
	2012	2011	2010
Tax on pretax profit at 30%	**P 4,168**	P 3,046	P 2,919
Adjustment for income subjected to lower income tax rates	**(42)**	(133)	(404)
Tax effects of:			
Income exempt from tax	**(3,268)**	(2,966)	(2,960)
Non-deductible expenses	**1,844**	1,993	2,266
Application of previously unrecognized MCIT	**(936)**	-	-
Deductible temporary differences not recognized	**(730)**	(995)	477
Utilization of previously unrecognized NOLCO	**-**	(115)	(1,360)
Others	**-**	369	359
Tax expense reported in profit or loss	**P 1,036**	P 1,199	P 1,297

The components of the net deferred tax assets (see Note 13) as of December 31 follow:

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Deferred tax assets:				
Allowance for impairment	**P 5,697**	P 6,024	**P 5,568**	P 5,916
Unamortized past service cost	**1,360**	577	**1,304**	576
Lease income differential – PAS 17	**85**	82	**85**	82
NOLCO	**7**	43	**-**	-
Others	**54**	13	**-**	-
	7,203	6,739	**6,957**	6,574
Deferred tax liabilities:				
Revaluation increment	**478**	478	**477**	477
Lease income differential	**149**	189	**-**	-
Changes in fair values of AFS	**91**	59	**-**	-
Capitalized interest	**53**	56	**53**	56
Others	**1,317**	472	**1,251**	455
	2,088	1,254	**1,781**	988
Net Deferred Tax Assets	**P 5,115**	P 5,485	**P 5,176**	P 5,586

Deferred tax asset on allowance for impairment includes P20 from the Parent Bank's acquisition of RBSJI's assets.

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Movements in net deferred tax assets for the year ended December 31 follow:

	Statements of Income		
	2012	2011	2010
BDO Unibank Group			
Lease income differential	**(P 43)**	P 1	P 31
Allowance for impairment	**347**	(12)	(24)
Capitalized interest	**(3)**	(2)	(2)
Unamortized past service costs	**(783)**	(13)	(240)
NOLCO	**36**	(34)	-
Others	**847**	177	314
Deferred Tax Expense	**P 401**	P 117	P 79

	Statements of Income		
	2012	2011	2010
Parent Bank			
Lease income differential	**(P 2)**	P -	P -
Unamortized past service costs	**(728)**	(16)	(241)
Allowance for impairment	**368**	-	1
Capitalized interest	**(3)**	(2)	(2)
Others	**795**	139	301
Deferred Tax Expense	**P 430**	P 121	P 59

	Statements of Comprehensive Income			
	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Movements in fair value of AFS securities	**(P 32)**	P 2	**P -**	P -
Movements in revaluation increment	**-**	(20)	**-**	(20)
Deferred Tax Expense (Income)	**(P 32)**	(P 18)	**P -**	(P 20)

BDO Unibank Group is subject to MCIT, which is computed at 2% of gross income, as defined under tax regulations or RCIT, whichever is higher.

The breakdown of NOLCO with the corresponding validity periods follows:

Year	BDO Unibank Group	Parent Bank	Valid Until
2012	P 116	P -	2015
2011	37	-	2014
2010	6	-	2013
	P 159	P -	

In 2011, NOLCO amounting to P383 was applied by the Parent Bank (nil in 2012).
The breakdown of MCIT with the corresponding validity periods follows:

Year	BDO Unibank Group	Parent Bank	Valid Until
2012	P 1	P -	2015
2011	66	65	2014
2010	-	-	2013
	P 67	P 65	

In 2012, BDO Unibank Group and the Parent Bank applied MCIT amounting to P953 and P936, respectively.

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2012 and 2011 are as follows:

	BDO Unibank Group			
	2012		2011	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 27,587**	**P 8,276**	P 25,160	P 7,548
NOLCO	**133**	**40**	203	61
MCIT	**67**	**67**	1,019	1,019
Others	**957**	**287**	3,782	1,134
	P 28,744	**P 8,670**	P 30,164	P 9,762

	Parent Bank			
	2012		2011	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 25,913**	**P 7,774**	P 23,153	P 6,946
MCIT	**65**	**65**	1,001	1,001
Others	**957**	**287**	3,781	1,134
	P 26,935	**P 8,126**	P 27,935	P 9,081

BDO Unibank Group continues claiming itemized deduction for tax purposes.

27.2 Gross Receipts Tax

On January 29, 2004, RA No. 9238 reverted the imposition of gross receipts tax (GRT) on banks and financial institutions.

On May 24, 2005, the amendments on RA No. 9337 was approved amending, among others, the gross GRT on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

27.3 Documentary Stamp Tax

Documentary stamp taxes (DST) (at varying rates) are imposed on the following:

(a) Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

(b) Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

(c) Acceptance of bills of exchange and letters of credit; and,

(d) Bills of lading or receipt.

On February 7, 2004, RA No. 9243 was passed amending the rates of DST, the significant provisions of which are summarized below.

(a) On every issue of debt instruments, there shall be collected a DST of one peso on each two hundred pesos or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

(b) On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of 75 centavos on each two hundred pesos, or fractional part thereof, of the par value of such stock.

(c) On all bills of exchange or drafts, there shall be collected a DST of 30 centavos on each two hundred pesos, or fractional part thereof, of the face value of any such bill of exchange or draft.

(d) The following instruments, documents and papers shall be exempt from DST:

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA No. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and,
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

27.4 Supplementary Information Required by the Bureau of Internal Revenue

On December 9, 2011, the Bureau of Internal Revenue (BIR) issued RR 19-2011 which prescribes the new form that will be used for income tax filing covering and starting with periods ending December 31, 2011 and onwards. This recent RR requires schedules of taxable revenues and other non-operating income, costs of sales and services, and itemized deductions, to be disclosed in the notes to financial statements.

On November 25, 2010, the BIR issued RR No. 15-2010, which requires certain information on taxes, duties and license fees paid or accrued during the taxable year to be disclosed as part of the notes to financial statements.

The Parent Bank, however, presented these tax information required by the BIR as a supplementary schedule filed separately from the basic financial statements.

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28. EARNINGS PER SHARE

Basic earnings per share attributable to equity holders of the Parent Bank were computed as follows:

	BDO Unibank Group		
	2012	2011 (As restated)	2010 (As restated)
Net profit attributable to shareholders of the Parent Bank	**P 14,283**	P 10,531	P 8,825
Dividends on preferred shares	**(330)**	(330)	(330)
Net profit available to common shares	**13,953**	10,201	8,495
Divided by the weighted average number of outstanding common shares (in millions)	**3,129**	2,686	2,602
Basic earnings per share	**P 4.46**	P 3.80	P 3.26

Diluted earnings per share attributable to equity holders of the Parent Bank were computed as follows:

	BDO Unibank Group		
	2012	2011 (As restated)	2010 (As restated)
Net profit attributable to shareholders of the Parent Bank	**P 13,953***	P 10,201*	P 8,495*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**3,129**	2,686	2,602
Potential common shares from assumed conversion of preferred shares	*	*	*
Potential common shares from assumed conversion of stock option plan	**	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**3,129**	2,686	2,602
Diluted earnings per share	**P 4.46**	P 3.80	P 3.26

* *Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2012, 2011 and 2010.*

** *Potential common shares from assumed conversion of stock option plan are purchased in the secondary market and no additional issuance is expected to be made.*

Basic earnings per share were computed as follows:

	Parent Bank		
	2012	2011 (As restated)	2010 (As restated)
Net profit	P 12,856	P 8,954	P 8,433
Dividends on preferred shares	(330)	(330)	(330)
Net profit available to common shares	12,526	8,624	8,103
Divided by the weighted average number of outstanding common shares (in millions)	3,129	2,686	2,602
Basic earnings per share	P 4.00	P 3.21	P 3.11

Diluted earnings per share were computed as follows:

	Parent Bank		
	2012	2011 (As restated)	2010 (As restated)
Net profit	P 12,526*	P 8,624*	P 8,103*
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	3,129	2,686	2,602
Potential common shares from assumed conversion of convertible preferred shares	*	*	*
Potential common shares from assumed conversion of stock option plan	**	**	**
Total weighted average number of common shares after assumed conversion of convertible preferred shares	3,129	2,686	2,602
Diluted earnings per share	P 4.00	P 3.21	P 3.11

** Net profit attributable to shareholders of the Parent Bank is reduced by dividends on preferred shares as these were not assumed to be converted. Potential common shares from assumed conversion of these preferred shares are anti-dilutive in 2012 and 2011.*

*** Potential common shares from assumed conversion of stock option plan are purchased in market and no additional issuance is expected to be made.*

The 2011 and 2010 earnings per share of BDO Unibank Group and Parent Bank were restated to account for the stock dividends declared in 2012 which is considered as a bonus issue under PAS 33, *Earnings per Share,* which requires stock dividends issued to be recognized as if it occurred at the beginning of 2010, the earliest period presented for earnings per share computation.

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29. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of BDO Unibank Group and Parent Bank's financial performance:

	2012	2011	2010
BDO Unibank Group			
Return on average equity:			
Net profit / Average total capital accounts	**11.3%**	11.4%	11.3%
Return on average resources:			
Net profit / Average total resources	**1.2%**	1.0%	1.0%
Net interest margin:			
Net interest income / Average interest earning resources	**3.4%**	3.5%	4.1%
Return on common equity:			
Net profit / Average common equity	**11.5%**	11.7%	11.7%
Liquidity ratio:			
Total liquid resources / Total resources	**35.3%**	35.7%	42.6%
Debt to equity:			
Total liabilities / Total equity	**691.3%**	1,031.7%	1,028.0%
Resources to equity:			
Total resources / Total equity	**791.3%**	1,131.7%	1,128.0%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**188.8%**	173.2%	166.7%
Profit margin:			
Net profit / Revenues	**18.3%**	14.8%	13.1%

	2012	2011	2010
BDO Unibank Group			
Capital to risk resources ratio*:			
Combined credit, market and operational risks	**19.2%**	15.8%	13.8%

* *Computed using balances prepared under FRSP for banks*

	2012	2011	2010
Parent Bank			
Return on average equity:			
Net profit / Average total capital accounts	**10.8%**	10.4%	11.6%
Return on average resources:			
Net profit / Average total resources	**1.1%**	0.9%	1.0%
Net interest margin:			
Net interest income / Average interest earning resources	**3.3%**	3.5%	4.0%
Return on common equity:			
Net profit / Average common equity	**11.0%**	10.6%	12.0%
Liquidity ratio:			
Total liquid resources / Total resources	**34.1%**	34.0%	39.3%
Debt to equity:			
Total liabilities / Total equity	**715.8%**	1,078.0%	1,062.0%
Resources to equity:			
Total resources / Total equity	**815.8%**	1,178.0%	1,212.5%
Interest rate coverage:			
Earnings before interest and taxes / Interest expense	**180.9%**	163.3%	164.9%

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	2012	2011	2010
Parent Bank			
Profit margin:			
Net profit / Revenues	**17.5%**	18.6%	18.1%
Capital to risk resources ratio*:			
Combined credit, market and operational risk	**17.3%**	13.6%	12.1%

* *Computed using balances prepared under FRSP for banks*

(b) Secured liabilities and resources pledged as security are shown below.

	BDO Unibank Group		Parent Bank	
	2012	2011	**2012**	2011
Aggregate amount of secured liabilities	**P 13,236**	P 17,451	**P 12,906**	P 17,451
Aggregate amount of resources pledged as security	**P 14,682**	P 20,046	**P 14,320**	P 20,046

30. EVENT AFTER THE END OF THE REPORTING PERIOD

On January 26, 2013, the Parent Bank's BOD approved the declaration of annual cash dividends on peso denominated Series A preferred shares at the rate of 6.5% per annum for a total dividend of P340, subject to approval by the BSP.

31. COMMITMENTS AND CONTINGENCIES

31.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operations. As of December 31, 2012, management believes that no such legal proceedings are expected to have material adverse effect on BDO Unibank Group's financial position.

The Parent Bank is a respondent in two arbitration proceedings under the International Chamber of Commerce (ICC) arising from isolated transactions, i.e., the sale of its equity investments.

31.1.1 Sale of Bankard

BDO (as successor in interest of EPCIB), as respondent, and RCBC Capital Corporation ("RCBC Capital"), as claimant, were involved in international arbitration proceedings.

The arbitration proceedings arose from the Sale and Purchase Agreement ("SPA") executed between RCBC Capital and EPCIB in May 2000, whereby EPCIB sold to RCBC Capital its 67% stake in the outstanding capital stock of Bankard, Inc. ("Bankard"). RCBC Capital claims an alleged breach of BDO Unibank's warranty on Bankard's financial statements and asked for rescission of its purchase and restitution of all amounts paid to EPCIB with damages or, if rescission cannot be granted, damages of at least P586. EPCIB was of the position that RCBC Capital's claim is one for overpayment or price reduction that is time-barred since the SPA requires that demand for price reduction be presented in writing on or before December 31, 2000. Despite actual due diligence, no such demand had been submitted.

With one of the three arbitrators dissenting, the Arbitral Tribunal issued two partial awards (dated September 27, 2007 and May 28, 2008) and a Final Award dated June 16, 2010 awarding to RCBC P349 and reimbursement of arbitration costs.

In December 2010, the Court of Appeals (CA) reversed and set aside the confirmation of the Second Partial Award, which ordered BDO Unibank to reimburse the costs advanced by RCBC Capital and deemed BDO Unibank's counterclaim waived due to alleged non-payment of costs. RCBC Capital has appealed this reversal to the Supreme Court where the matter remains pending as of December 31, 2012.

On July 1, 2010, BDO Unibank filed a petition to vacate the Final Award in accordance with law and the rules of court applicable to arbitration. The Final Award was vacated or set aside by the Regional Trial Court of Makati (RTC Makati) in February 2011. RCBC Capital has appealed this to the Court of Appeals where the case remains pending.

RCBC Capital sought to confirm the same Final Award in a separate proceeding in RTC Makati on July 28, 2010. Despite questions on jurisdiction, RTC Makati (Branch 148) confirmed the final award last November 10, 2010. It also denied BDO Unibank's motion for reconsideration in August 2011 and added interest charges not awarded by the Arbitration Tribunal. Execution pending appeal was also swiftly awarded and implemented last September 2011 in highly questionable and irregular procedure. BDO Unibank appealed the confirmation and questioned the execution of the Final Award before the CA. In order to stop the implementation of the said writ of execution, BDO Unibank opted to tender on September 13, 2011 the amount of P638, presented as part of Accounts receivable under Loans and Other Receivables (see Note 10), without prejudice to the outcome of the pending appeals and cases.

Management believes that RCBC Capital's claim is baseless and without merit and that BDO Unibank's position will be sustained in the final resolution of the cases pending with the CA and the SC. In any case, the resulting liability, if any, from such a claim, will not have a material adverse effect on the financial position and performance of BDO Unibank.

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31.1.2 Sale of Maxicare

BDO Unibank was a defendant/respondent in legal proceedings arising from the sale of its 60% stake in Maxicare in 2007. Arbitration proceedings were initiated in 2008 against BDO Unibank and in 2011 against BDO Unibank and several parties including the buyer of its 120,000 shares in Maxicare.

Last December 2012, the parties settled these cases amicably and joint motions to dismiss have been filed in the relevant proceedings. BDO Unibank is awaiting the termination of all cases.

31.1.3 PEACe bonds

On October 18, 2001, the Bureau of Treasury (BTr), through an auction, offered ten-year zero coupon treasury bonds, called the PEACe Bonds, to Government Securities Eligible Dealers.

Rizal Commercial Banking Corporation (RCBC) won the bid in the same year and was awarded approximately P35,000 worth of government bonds. The PEACe Bonds were subsequently purchased by investors, including BDO Unibank, who relied in good faith on representations that the same are not subject to 20% Final Withholding Tax (20% FWT).

On July 16, 2004, the Commissioner of Internal Revenue (the Commissioner) ruled that the mere issuance of government debt instruments and securities is deemed as falling within the coverage of deposit substitute irrespective of the number of lenders at the time of origination. Accordingly, government debt instruments and securities are not exempt from taxes.

On October 7, 2011, or nearly ten years after the auction, the Commissioner upon the request of the Secretary of Finance, issued a ruling stating that the PEACe Bonds are not exempt from the 20% FWT.

October 16, 2011, eight banks that purchased the PEACe Bonds filed a case in the Supreme Court to enjoin the BTr and BIR from withholding or collecting the 20% FWT, upon payment at maturity, as well as from enforcing the 2011 ruling.

On October 17, 2011, the BIR issued a second ruling stating that the 20% FWT should be imposed upon all subsequent holders of the PEACe Bonds.

On October 18, 2011, the Supreme Court unanimously resolved, and issued a TRO which enjoined the government from implementing 2011 rulings that the PEACe Bonds were subject to 20% FWT. The Supreme Court instructed that the disputed amount should be placed in escrow by the petitioning banks.

On October 27, 2011, RCBC and RCBC Capital, and the Caucus of Development NGO Networks (Code NGO) as the original purchasers of the PEACe Bonds filed a Motion for Leave of Court to Intervene, which was granted by the Supreme Court on November 15, 2011.

On November 15, 2011, the Supreme Court required the Government to show cause why they failed to comply with the October 18, 2011 TRO and, required them to comply with said TRO within 10 days from notice, which would cause the return of the funds to the petitioning banks, for the latter to place in escrow.

While the Motion for Leave of Court to Intervene was granted by the Supreme Court as early as November 22, 2011, the Government filed its Comment on the Petitions-in-Intervention only on February 14, 2012, while the Petitioners-in-Intervention filed their respective Replies only on May 16, 2012 and June 6, 2012. The Supreme Court then issued a resolution dated June 19, 2012 noting the filing of pleadings and granting the Petitioners-in-Intervention's motions for extension.

Management believes that the petitioning banks have a strong case, and that the probability of recovery is high.

31.1.4 Others

BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2012, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be recognized if and when a final resolution by the courts is made on each claim.

31.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from one to 15 years from the date of the contracts; terms are renewable upon the mutual agreement of the parties. Rent expense, reported as part of Occupancy under Other Operating Expenses account in the statements of income, amounted to P2,024 in 2012, P1,889 in 2011 and P1,759 in 2010 in BDO Unibank Group's financial statements and P1,972 in 2012, P1,812 in 2011 and P1,659 in 2010 in the Parent Bank's financial statements (see Note 22).

The estimated minimum future annual rentals for the next five years follow:

Year	BDO Unibank Group	Parent Bank
2013	P 1,748	P 1,663
2014	1,992	1,905
2015	2,275	2,186
2016	2,607	2,515
2017	2,966	2,871
	P 11,588	P 11,140

NOTES TO FINANCIAL STATEMENTS

DECEMBER 31, 2012, 2011 AND 2010
(Amounts in Millions of Philippine Pesos, Except Per Share Data or As Indicated)

31.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in BDO Unibank Group financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2012 and 2011, no additional material losses or liabilities are required to be recognized in the financial statements of BDO Unibank Group as a result of the above commitments and contingencies.

Following is a summary of BDO Unibank Group's commitments and contingent accounts:

		BDO Unibank Group		Parent Bank	
	Note	**2012**	2011	**2012**	2011
Trust department accounts	25	**P 816,964**	P 711,411	**P 665,846**	P 602,349
Forward exchange sold		**154,859**	188,610	**127,962**	162,359
Forward exchange bought		**144,125**	151,892	**117,227**	125,643
Committed credit lines		**101,322**	111,469	**101,209**	110,148
Unused commercial letters of credit		**28,528**	33,391	**28,528**	33,391
ROP warrants		**15,021**	15,021	**15,021**	15,021
Interest rate swap receivable		**8,394**	8,832	**8,194**	8,044
Interest rate swap payable		**8,394**	8,582	**8,194**	8,044
Bills for collection		**5,378**	6,029	**5,378**	6,029
Spot exchange sold		**4,618**	4,457	**4,598**	4,418
Spot exchange bought		**3,514**	7,828	**3,494**	7,828
Late deposits/payments received		**2,451**	2,208	**2,451**	2,208
Outstanding guarantees issued		**670**	1,220	**670**	1,220
Export letters of credit confirmed		**121**	97	**121**	97
Credit default swap		**-**	2,195	**-**	2,195
Other contingent accounts		**1,135**	5,775	**1,135**	5,773

SUPPLEMENTARY MANAGEMENT DISCUSSION

The capital-to-risk assets ratio of BDO Unibank Group as presented in the Audited Financial Statements as of December 31, 2012 and 2011 are shown in the table below.

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	**2012**	2011
	(in Millions)			
Tier 1 capital	**147,472**	90,612	**139,895**	84,303
Tier 2 capital	**37,272**	46,004	**36,885**	43,929
Gross qualifying capital	**184,744**	136,616	**176,780**	128,232
Less: Required deductions	**7,405**	10,405	**25,701**	25,238
Total qualifying capital	**177,339**	126,211	**151,079**	102,994
Credit risk-weighted assets	**823,901**	712,817	**785,132**	675,883
Market risk-weighted assets	**7,887**	6,539	**7,290**	5,682
Operational risk-weighted assets	**89,709**	79,580	**82,799**	75,002
Risk weighted assets	**921,497**	798,936	**875,221**	756,567
Total capital ratio	**19.2%**	15.8%	**17.3%**	13.6%
Tier 1 capital ratio	**15.3%**	10.2%	**13.8%**	8.7%

The regulatory qualifying capital of the BDO Unibank Group consists of Tier 1 (core) capital which comprises paid-up common, surplus including current year profit, surplus reserves, and minority interest less deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt, appraisal increment reserve, net unrealized gains on available for-sale-equity securities and general loan loss provision.

The components of Tier 1 capital and deductions follow:

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	**2012**	2011
	(in Millions)			
Tier 1 capital				
Paid-up common stock	**35,809**	26,074	**35,809**	26,074
Paid-up perpetual and non-cumulative preferred stock	**5,150**	5,000	**5,150**	5,000
Additional paid-in capital	**63,907**	25,175	**63,888**	25,156
Retained earnings	**42,416**	34,151	**35,397**	28,389
Cumulative foreign currency translation	**(429)**	(366)	**(349)**	(316)
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned	**619**	578		
Sub-total	**147,472**	90,612	**139,895**	84,303
Less deductions:				
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) referred to in Circular No. 560		2,645	**7,145**	6,116
Deferred income tax (net of allowance for impairment, if any)	**5,115**	5,483	**5,176**	5,586
Goodwill (net of allowance for impairment, if any)	**302**	289	**302**	289
Total deductions from Tier 1 capital	**5,417**	8,417	**12,623**	11,991
Total Tier 1 capital	**142,055**	82,195	**127,272**	72,312

SUPPLEMENTARY MANAGEMENT DISCUSSION

Tier 2 capital, as reported to BSP as of December 31, 2012 and 2011 consist of the following:

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	**2012**	2011
	(in Millions)			
Tier 2 capital				
Net unrealized gains on available for sale equity securities (subject to a 55% discount)	**106**	88	**105**	88
Appraisal increment reserve – bank premises, as authorized by the Monetary Board	**923**	925	**923**	925
General loan loss provision	**8,243**	6,991	**7,857**	6,760
Unsecured subordinated debts	**28,000**	38,000	**28,000**	36,156
Total Tier 2 capital	**37,272**	46,004	**36,885**	43,929

Deductions from Tier 1 and Tier 2 capital include the following:

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	**2012**	2011
	(in Millions)			
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers, and insurance companies), after deducting related goodwill			**11,050**	11,219
Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill	**1,988**	1,988	**2,028**	2,028
Total deductions	**1,988**	1,988	**13,078**	13,247

Risk weighted assets by type of exposure as of December 31, 2012 and 2011 consist of the following:

	Credit Risk		Market Risk		Operational Risk	
	December 31, 2012					
	Group	Parent	Group	Parent	Group	Parent
	(in Millions)					
On-Balance Sheet*	804,652	767,380				
Off-Balance Sheet	12,430	12,408				
Counterparty (Banking/Trading Book)	4,681	3,411				
Credit-Linked Notes in the Banking Book	2,499	2,499				
Securitization Exposures	-	-				
Deductions**	(361)	(566)				
Interest Rate Exposures			4,180	3,444		
Foreign Exposures			3,694	3,833		
Options			13	13		
Basic Indicator					89,709	82,799
Total	823,901	785,132	7,887	7,290	89,709	82,799
Capital Requirements	82,390	78,513	789	729	8,971	8,280

* *Total On-Balance Sheet assets covered by CRM amounts to about P114Bn largely at 0% risk weight with only P2Bn at 100% risk weight.*

** *General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2).*

	Credit Risk		Market Risk		Operational Risk	
	December 31, 2011					
	Group	Parent	Group	Parent	Group	Parent
	(in Millions)					
On-Balance Sheet*	684,679	649,534				
Off-Balance Sheet	12,012	12,012				
Counterparty (Banking/Trading Book)	5,909	4,207				
Credit-Linked Notes in the Banking Book	10,217	10,217				
Securitization Exposures	-	-				
Deductions**	-	(87)				
Interest Rate Exposures			5,898	4,923		
Foreign Exposures			641	759		
Options			-	-		
Basic Indicator					79,580	75,002
Total	712,817	675,883	6,539	5,682	79,580	75,002
Capital Requirements	71,282	67,588	654	568	7,958	7,500

* *Total On-Balance Sheet assets covered by CRM amounts to about P114Bn largely at 0% risk weight with only P2Bn at 100% risk weight.*

** *General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2).*

Risk-weighted on-balance sheet assets covered by credit risk mitigants were based on collateralized transactions, as well as guarantees by the Philippine National Government

Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, LGUs, Government Corporations, and Corporates.

COMPANY HEADQUARTERS

BDO Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue,
Makati City 0726, Philippines

STOCKHOLDER INQUIRIES

BDO Unibank, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "BDO".

Inquiries regarding the dividend payments, account status, address changes, stock certificates, and other pertinent matters should be addressed to the company's transfer agent:

Stock Transfer Service, Inc.
34th Floor, Unit D, Rufino Pacific Tower
6784 Ayala Ave., Makati City, 1200 Philippines
Tel. (+632) 403-2410 to 12
Fax (+632) 403-2414

INVESTOR INQUIRIES

BDO Unibank, Inc. welcomes inquiries from analysts, investors and the financial community.

Please visit **www.bdo.com.ph** or contact
BDO Investor Relations & Corporate Planning
4th Floor, South Tower, BDO Corporate Center
7899 Makati Avenue, Makati City 0726, Philippines
Tel. (+632) 840-7000 local 6069 or 4809
Email: **irandcorplan@bdo.com.ph**