ATTUNED TO THE TIMES, WE ARE ALWAYS ON THE LOOKOUT FOR WHAT'S NEXT. THINKING AHEAD TO GET YOU AHEAD, WE SEE BEYOND EXISTING PRACTICES AND SURPASS IT WITH BANKING INNOVATION AND FINANCIAL SAVVY.

2008 Annual Report
Financial Supplements

2008 Annual Report
Financial Supplements

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 Philippine banking, BDO today represents a firm consolidation of distinct strengths built over the years by the entities behind its history. More importantly, BDO goes beyond honoring its past; it continues to improve on its present, and moves with innovation and dynamism toward an even brighter future.

By thinking ahead to help its clients get ahead, by sharpening its strategic focus on its principal markets, and by providing increased value in its product and service offerings, BDO evolves from strength to greater strength.

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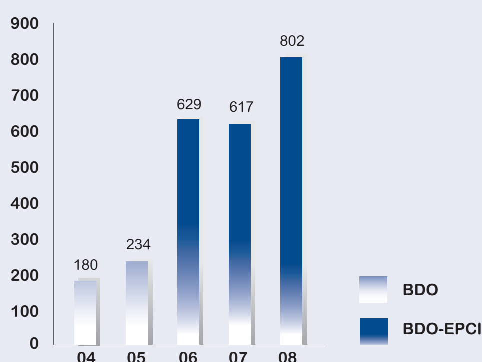
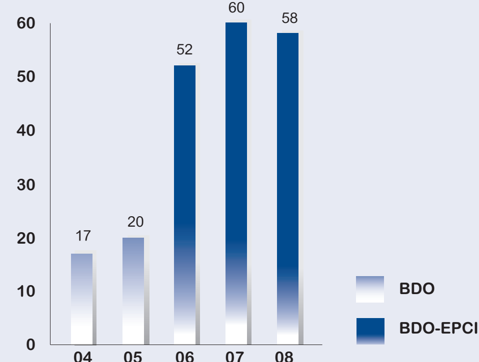
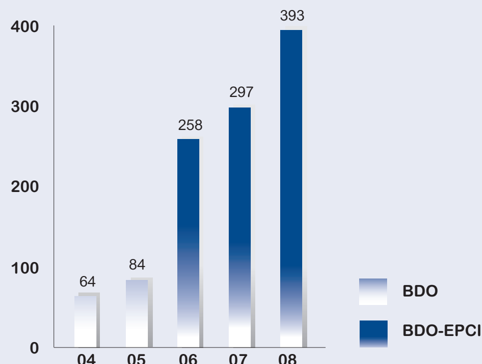
07 Cash Flow Statements • 08 Notes to Financial Statements

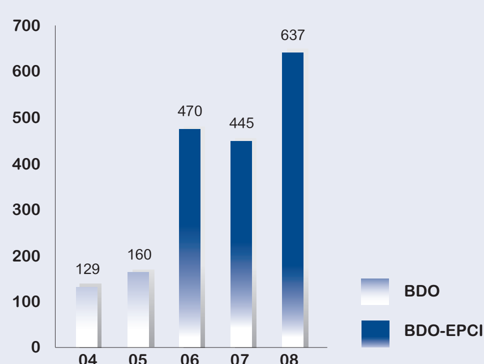
Financial Highlights

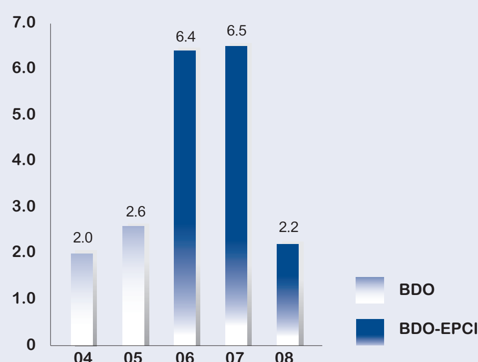
In Billion Pesos	2007	2008	% Change
Resources	617.2	802.0	30%
Gross Customer Loans	297.0	392.8	32%
Deposit Liabilities	445.4	636.8	43%
Capital Funds	60.3	57.8	-4%
Net Income	6.5	2.2	-67%











Statement of Management's Responsibility for Financial Statements

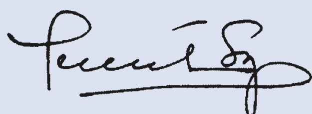
The management of Banco De Oro Unibank, Inc. and Subsidiaries is responsible for all information and representations contained in the financial statements for the years ended December 31, 2008 and 2007. The financial statements have been prepared in conformity with financial reporting standards in the Philippines for banks and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

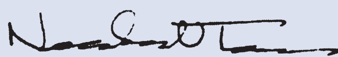
The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Bank.

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 has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

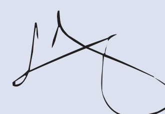
Signed under oath by the following:



TERESITA T. SY-COSON
Chairperson of the Board



NESTOR V. TAN
President



LUCY C. DY
Executive Vice President / Comptroller

Report of Independent Auditors

To the Board of Directors and the Stockholders
Banco De Oro Unibank, Inc.
Benguet Center, 12 ADB Avenue
Ortigas Center, Mandaluyong City

We have audited the accompanying financial statements of Banco De Oro Unibank, Inc. and subsidiaries (together hereinafter referred to as the Group) and Banco De Oro Unibank, Inc. (the Parent Bank), which comprise the statements of condition as at December 31, 2008 and 2007, and the income statements, statements of changes in equity and cash flow statements for each of the three years in the period ended December 31, 2008, and notes to financial statements comprising of a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

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 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 referred to above present fairly, in all material respects, the financial position of the Group and of the Parent Bank as of December 31, 2008 and 2007, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2008, in accordance with the financial reporting standards in the Philippines for banks as described in Note 2 to the financial statements.

PUNONGBAYAN & ARAULLO

By: Benjamin P. Valdez
Partner
CPA Reg. No. 0028485
TIN 136-619-880
PTR No. 1566055, January 5, 2009, Makati City
SEC Accreditation No. 0009-AR-2
BIR AN 08-002511-11-2008 (Nov. 25, 2008 to 2011)

March 2, 2009

Statements of Condition

DECEMBER 31, 2008 AND 2007
(Amounts in Millions of Philippine Pesos)

	Notes	GROUP 2008	GROUP 2007	PARENT BANK 2008	PARENT BANK 2007
RESOURCES					
CASH AND OTHER CASH ITEMS	7	P 21,770	P 18,388	P 21,763	P 18,437
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	62,669	49,461	59,940	48,320
DUE FROM OTHER BANKS	8	17,102	20,690	14,881	16,102
TRADING AND INVESTMENT SECURITIES	9	156,151	164,500	142,092	148,882
LOANS AND OTHER RECEIVABLES - Net	10	491,986	311,675	467,590	297,631
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	14,676	11,406	12,886	10,937
INVESTMENT PROPERTIES - Net	12	15,234	17,963	14,314	17,007
OTHER RESOURCES - Net	13	22,444	23,126	28,160	29,173
TOTAL RESOURCES		P 802,032	P 617,209	P 761,626	P 586,489
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	P 636,754	P 445,397	P 612,967	P 434,295
BILLS PAYABLE	16	51,436	52,483	43,242	41,192
SUBORDINATED NOTES PAYABLE	17	20,146	18,631	20,146	18,631
OTHER LIABILITIES	18	35,922	40,370	32,011	36,922
Total Liabilities		744,258	556,881	708,366	531,040
EQUITY					
Attributable to Shareholders of the Parent Bank		57,056	59,666	53,260	55,449
Minority Interest		718	662	-	-
Total Equity	19	57,774	60,328	53,260	55,449
TOTAL LIABILITIES AND EQUITY		P 802,032	P 617,209	P 761,626	P 586,489

See Notes to Financial Statements.

Income Statements

For the Years Ended December 31, 2008, 2007 and 2006

(Amounts In Millions of Philippine Pesos Except Per Share Data)

	Notes	GROUP			PARENT BANK		
		2008	2007	2006 (Note 26)	**2008**	2007 (Note 26)	2006 (Note 26)
INTEREST INCOME	20	**P 42,359**	P 37,603	P 24,209	**P 39,733**	P 35,235	P 22,342
INTEREST EXPENSE	21	**19,323**	16,167	13,134	**18,043**	14,978	12,129
NET INTEREST INCOME		**23,036**	21,437	11,075	**21,690**	20,257	10,213
IMPAIRMENT LOSSES - Net	14	**5,232**	4,118	2,013	**5,171**	3,802	1,991
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**17,804**	17,319	9,062	**16,519**	16,455	8,222
OTHER OPERATING INCOME	22	**13,731**	16,858	8,278	**11,810**	16,758	6,821
OTHER OPERATING EXPENSES	22	**27,852**	24,760	12,080	**25,892**	22,908	10,765
INCOME BEFORE TAX		**3,683**	9,417	5,260	**2,437**	10,305	4,278
TAX EXPENSE	27	**1,445**	2,847	1,270	**958**	2,634	1,034
NET INCOME		**P 2,238**	P 6,570	P 3,990	**P 1,479**	P 7,671	P 3,244
Attributable To:							
Shareholders of the Parent Bank		**P 2,182**	P 6,518	P 3,970			
Minority Interest		**56**	52	20			
		P 2,238	P 6,570	P 3,990			
Earnings Per Share:	28						
Basic		**P 0.91**	P 2.86	P 3.08	**P 0.61**	P 3.36	P 2.52
Diluted		**P 0.90**	P 2.85	P 3.03	**P 0.61**	P 3.36	P 2.48

See Notes to Financial Statements.

Statements of Changes in Equity

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in Millions of Philippine Pesos)

	Notes	Group 2008	Group 2007	Group 2006 (Note 26)	Parent Bank 2008	Parent Bank 2007 (Note 26)	Parent Bank 2006 (Note 26)
ATTRIBUTABLE TO SHAREHOLDERS OF THE PARENT BANK							
Capital Stock							
Balance at Beginning of Year		**P 23,020**	P 22,706	P 9,396	**P 23,020**	P 22,706	P 9,396
Issuance of Additional Shares During the Year		**5,000**	314	13,310	**5,000**	314	13,310
Balance at End of Year	19	**28,020**	23,020	22,706	**28,020**	23,020	22,706
Common Stock Options							
Balance at Beginning of Year		**76**	29	14	**76**	29	14
Recognition of Common Stock Option		**-**	47	15	**-**	47	15
Balance at End of Year		**76**	76	29	**76**	76	29
Treasury Shares - At Cost							
Balance at Beginning of Year		**-**	(1,428)	(32)	**-**	(1,400)	-
Net Disposal (Acquisition) During the Year		**-**	1,428	(1,396)	**-**	1,400	(1,400)
Balance at End of Year		**-**	-	(1,428)	**-**	-	(1,400)
Additional Paid-in Capital							
Balance at Beginning of Year		**15,937**	15,696	2,064	**15,918**	15,695	2,064
Issuance of Additional Shares During the Year		**-**	241	13,256	**-**	223	13,255
Common Stock Subscription During the Year		**-**	-	376	**-**	-	376
Balance at End of Year		**15,937**	15,937	15,696	**15,918**	15,918	15,695
Surplus Reserves							
Balance at Beginning of Year		**1,051**	830	141	**927**	825	136
Merger with EPCIB	1, 26	**-**	-	606	**-**	-	606
Transfer from Surplus Free		**278**	221	83	**98**	102	83
Balance at End of Year		**1,329**	1,051	830	**1,025**	927	825
Surplus Free							
Balance at Beginning of Year		**15,600**	9,303	7,081	**11,596**	4,027	6,071
Reversal of Revaluation Increment		**72**	-	-	**71**	-	-
Net Income		**2,182**	6,518	3,970	**1,479**	7,671	3,244
Cash Dividends	13, 19	**(3,683)**	-	(770)	**(3,683)**	-	(770)
Merger with EPCIB	1, 26	**-**	-	(895)	**-**	-	(3,598)
Merger with BDO Elite, ESB and PCI Capital	26	**-**	-	-	**75**	-	(837)
Transfer to Surplus Reserves		**(278)**	(221)	(83)	**(98)**	(102)	(83)
Balance at End of Year		**13,893**	15,600	9,303	**9,440**	11,596	4,027
Fair Value Gain (Loss) on Available-for-sale Securities							
Balance at Beginning of Year		**2,627**	3,311	1,467	**2,560**	2,784	1,088
Merger with EPCIB	1, 26	**-**	-	664	**-**	-	585
Merger with BDO Elite, ESB and PCI Capital	26	**-**	-	-	**-**	-	59
Recovery (Decline) in Value of Securities	9	**(6,132)**	(684)	1,180	**(5,081)**	(224)	1,052
Balance at End of Year		**(3,505)**	2,627	3,311	**(2,520)**	2,560	2,784
Revaluation Increment							
Balance at Beginning of Year		**1,361**	1,361	-	**1,352**	1,352	-
Merger with EPCIB	1, 26	**-**	-	1,361	**-**	-	1,350
Merger with BDO Elite, ESB and PCI Capital	26	**-**	-	-	**-**	-	2
Sale of Land		**(50)**	-	-	**(50)**	-	-
Balance at End of Year		**1,311**	1,361	1,361	**1,302**	1,352	1,352
Accumulated Translation Adjustment							
Balance at Beginning of Year		**(6)**	(209)	-	**-**	-	-
Merger with EPCIB	1, 26	**-**	-	(186)	**-**	-	-
Translation Adjustment During the Year		**1**	203	(23)	**-**	-	-
Balance at End of Year		**(5)**	(6)	(209)	**-**	-	-
Total Equity Attributable to Shareholders of the Parent Bank		**57,056**	59,666	51,599	**53,260**	55,449	46,018
MINORITY INTEREST							
Balance at Beginning of Year		**662**	610	(72)	**-**	-	-
Merger with EPCIB	1	**-**	-	628	**-**	-	-
Reversal During the Year		**-**	-	33	**-**	-	-
Share in Net Income During the Year	1, 19	**56**	52	20	**-**	-	-
Balance at End of Year		**718**	662	610	**-**	-	-
TOTAL EQUITY		**P 57,774**	P 60,328	P 52,208	**P 53,260**	P 55,449	P 46,018
Net Gains (Losses) Directly Recognized in Equity		**(P 6,132)**	(P 684)	P 1,180	**(P 5,081)**	(P 224)	P 1,052

See Notes to Financial Statements.

Cash Flow Statements

FOR THE YEARS ENDED DECEMBER 31, 2008, 2007 AND 2006

(Amounts in Millions of Philippine Pesos Except as Stated)

	Notes	Group			Parent Bank		
		2008	2007	2006 (Note 26)	**2008**	2007 (Note 26)	2006 (Note 26)
CASH FLOWS FROM OPERATING ACTIVITIES							
Income before tax		**P 3,683**	P 9,417	P 5,260	**P 2,437**	P 10,305	P 4,279
Adjustments for:							
Interest income	20	**(42,359)**	(37,603)	(24,209)	**(39,733)**	(35,235)	(22,342)
Interest expense	21	**19,323**	16,167	13,134	**18,043**	14,978	12,129
Interest received		**35,301**	38,292	21,818	**37,877**	35,823	20,143
Interest paid		**(19,465)**	(16,824)	(11,995)	**(18,088)**	(14,867)	(10,782)
Impairment losses	14	**5,232**	4,118	2,013	**5,171**	3,802	1,991
Depreciation and amortization	11, 12	**2,004**	2,749	2,142	**1,787**	1,597	2,162
Fair value loss (gain)		**2,335**	792	(157)	**2,227**	749	(323)
Amortization of deferred charges	13	**115**	94	37	**115**	93	37
Operating income before changes in operating resources and liabilities		**6,169**	17,202	8,043	**9,836**	17,245	7,294
Decrease (increase) in financial assets at fair value through profit or loss		**12,329**	10,326	(21,785)	**10,890**	11,873	(21,523)
Increase in loans and other receivables		**(194,237)**	(36,959)	(195,162)	**(182,443)**	(45,368)	(173,018)
Decrease (increase) in investment properties		**2,533**	(463)	(17,167)	**2,526**	(502)	(16,207)
Decrease (increase) in other resources		**3,395**	15,517	3,274	**3,399**	13,587	(9,569)
Increase (decrease) in deposit liabilities		**195,825**	(20,230)	311,972	**182,459**	(26,525)	308,319
Increase (decrease) in other liabilities		**(4,071)**	5,836	44,025	**(4,653)**	5,862	35,659
Cash generated from (Used in) operations		**21,943**	(8,771)	133,200	**22,014**	(23,828)	130,955
Cash paid for income tax		**(1,834)**	(4,618)	(1,350)	**(1,147)**	(2,757)	(959)
Net Cash From (Used In) Operating Activities		**20,109**	(13,389)	131,850	**20,867**	(26,585)	129,996
CASH FLOWS FROM INVESTING ACTIVITIES							
Net decrease (increase) in held-to-maturity investments		**(40,935)**	21,595	(47,717)	**(37,886)**	22,355	(47,626)
Net decrease (increase) in available-for-sale investments		**36,809**	(7,205)	(7,932)	**33,464**	(7,553)	(6,979)
Net acquisitions of premises, furniture, fixtures and equipment		**(5,079)**	(1,948)	(11,560)	**(3,569)**	(1,614)	(9,690)
Additions to equity investments	13	**-**	-	-	**-**	(747)	(98)
Disposals of equity investments	13	**-**	-	3	**-**	1,670	-
Net Cash From (Used in) Investing Activities		**(9,205)**	12,442	(67,206)	**(7,991)**	14,111	(64,393)
CASH FLOWS FROM FINANCING ACTIVITIES							
Proceeds from issuance of preferred shares	19	**5,000**	-	-	**5,000**	-	-
Net proceeds from (payments of) bills payable		**(3,859)**	(1,370)	20,122	**(178)**	6,445	14,180
Dividends paid	19	**(3,683)**	(770)	-	**(3,683)**	(770)	-
Sale (acquisition) of treasury stock		**-**	1,428	(1,396)	**-**	1,400	(1,400)
Proceeds from issuance of common shares	19	**-**	314	-	**-**	314	-
Net Cash From (Used in) Financing Activities		**(2,544)**	(398)	18,726	**1,139**	7,389	12,780
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**8,362**	(1,345)	83,370	**14,015**	(5,084)	78,383
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR							
Cash and other cash items	7	**18,388**	17,905	6,621	**18,437**	18,055	6,620
Due from Bangko Sentral ng Pilipinas	7	**49,461**	42,236	4,277	**48,320**	40,275	3,665
Due from other banks	8	**20,690**	12,835	5,136	**16,102**	7,777	3,866
Interbank loans receivable		**9,520**	26,428	-	**4,591**	26,427	-
		98,059	99,404	16,034	**87,450**	92,534	14,151
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**21,770**	18,388	17,905	**21,763**	18,437	18,055
Due from Bangko Sentral ng Pilipinas	7	**62,669**	49,461	42,236	**59,940**	48,320	40,275
Due from other banks	8	**17,102**	20,690	12,835	**14,881**	16,102	7,777
Interbank loans receivable		**4,880**	9,520	26,428	**4,880**	4,591	26,427
		P 106,421	P 98,059	P 99,404	**P 101,464**	P 87,450	P 92,534

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions in 2008, 2007 and 2006:

a. The carrying values of the resources and liabilities of ESB, BDO Elite and PCI Capital that were absorbed by BDO on October 30, 2008 were P14,790 and P9,249, respectively (see Note 26).

b. In 2008, the Group made the following reclassifications of investment securities (see Note 9):
   - FVTPL with a total carrying value of P6,297 was reclassified to HTM both in the Group financial statements and Parent Bank financial statements.
   - CLNs with a total carrying value of P18,590 and P14,166 were reclassified from AFS to Loans in the Group financial statements and Parent Bank financial statements, respectively.
   - Embedded derivatives of CLNs with a total carrying value of (P183) and (P70) were reclassified from FVTPL to Loans and Other Receivables in the Group financial statements and Parent Bank financial statements, respectively.
   - AFS with a total carrying value of P25,540 and P22,474 were reclassified from AFS to HTM in the Group financial statements and Parent Bank financial statements, respectively.
   - FVTPL with carrying value of P102 was reclassified to AFS in the Group financial statements.

c. In 2008, land reclassified from investment properties to bank premises amounted to P181 and P127 in the Group financial statements and Parent Bank financial statements, respectively (see Note 12).

d. In 2008, building reclassified from investment properties to bank premises amounted to P359 both in the Group financial statements and Parent Bank financial statements (see Note 12).

e. The carrying values of the resources and liabilities of EPCIB that were absorbed by BDO on May 31, 2007 were P305,779 and P274,557, respectively, in exchange for the 1,308,606,021 BDO common shares (see Notes 1 and 26).

f. On April 18, 2007, the Bank received notice of exercise from International Finance Corporation (IFC) to convert the remaining U.S.$10 million of its convertible loan to BDO common shares, which conversion the Bangko Sentral ng Pilipinas (BSP) approved in a letter to the Bank dated July 17, 2007. Thereafter, on August 23, 2007, the Bank issued to IFC 31,403, 592 common shares (see Note 17).

g. On May 6, 2006, the Bank's Board of Directors (BOD) approved the declaration of cash dividends amounting to P0.80 per share or a total of P770, which was approved by the BSP on December 28, 2006. The cash dividends were paid on February 8, 2007 (see Note 19).

See Notes to Financial Statements.

Notes to Financial Statements

DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Millions, Except Per Share Data)

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Banco De Oro Unibank, Inc. (the Bank, 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 September 18, 1987 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Bank to operate as an expanded commercial bank on August 5, 1996. The Bank commenced operations as such in September of the same year. The Bank and its subsidiaries (collectively referred to as 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.

As a banking institution, the Bank's operations are regulated and supervised by the BSP. In this regard, the Bank 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. The Bank is subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791).

BDO Unibank recently completed a merger, effective May 31, 2007, with Equitable PCI Bank, Inc. (EPCIB), with BDO Unibank as the surviving entity (see Note 26.1).

The Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2008, the Bank has 664 branches, and 749 on-site and 504 off-site automated teller machines, all located nationwide. The Bank's registered address is at Benguet Center, 12 ADB Avenue, Ortigas Center, Mandaluyong City.

The 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 2008 and 2007, these foreign operations accounted for 0.8% and 0.7% of the Group's total revenues, and 0.1% and 0.2% of the Group's total resources, respectively. The Bank's subsidiaries and associates are shown in Note 13.5.

1.2 Merger of BDO Unibank with EPCIB

As discussed more fully in Note 26.1, on March 29, 2007 and May 25, 2007, the BSP and the Philippine Securities and Exchange Commission (SEC), respectively, approved the merger of BDO Unibank and EPCIB which became effective on May 31, 2007. The merger was accounted for under the pooling-of-interests method of accounting as approved by the SEC since BDO Unibank and EPCIB were both under common control by SM Investments Corporation (SMIC) at the time of the merger.

Under the merger, the entire assets and liabilities of EPCIB were transferred to and absorbed by BDO Unibank. In applying the pooling-of-interests method, the financial statement items of BDO Unibank and EPCIB were combined at the beginning of the year in which the merger occurred, that is, January 1, 2007. The comparative financial data presented for 2006 have been restated to include the accounts of EPCIB into BDO Unibank's accounts from October 2, 2006, the date the two merging entities became under common control by the same controlling stockholder, SMIC.

The total carrying values of the resources and liabilities of EPCIB that were absorbed by BDO Unibank on May 31, 2007 were:

Total resources absorbed	P	305,779
Total liabilities assumed		274,557

BDO Unibank issued to EPCIB shareholders 1,308,606,021 BDO Unibank common shares with par value of P10 a share in exchange for the net assets of EPCIB based on an exchange ratio of 1.8 BDO Unibank's shares for every EPCIB share. BDO Unibank shares were quoted at P67 a share at the PSE on May 31, 2007.

1.3 Approval of Financial Statements

The financial statements of the Group for the year ended December 31, 2008 (with comparatives for the years ended December 31, 2007 and 2006) were authorized for issue by the Bank's Board of Directors on February 28, 2009.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

2.1 Basis of Preparation of Financial Statements

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

The financial statements of the Group and the financial statements of the Parent Bank have been prepared in accordance with the financial reporting standards in the Philippines (FRSP) for banks. The Group prepared its financial statements in accordance with Philippine Financial Reporting Standards (PFRS), except for the reclassification of the embedded derivatives in credit-linked notes (CLNs) that are linked to Republic of the Philippines (ROP) bonds from fair value through profit or loss (FVTPL) to unquoted debt securities classified as loans (UDSCL), that are outstanding as of the effective date of reclassification, which is permitted by the BSP for prudential regulation, and by the SEC for financial reporting purposes.

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

These financial statements have been prepared using the measurement bases specified by FRSP for each type of resource, liability, income and expense. These financial statements have been prepared on the historical basis, except for the revaluation of certain financial assets. The measurement bases are more fully described in the accounting policies in the succeeding pages.

The following reconciliations and explanatory notes thereto describe the difference on the statement of condition under FRSP and PFRS. In 2007 and prior years, there is no difference between the FRSP and PFRS since the reclassification of embedded derivatives in CLNs and other similar instruments that are linked to ROP bonds out of FVTPL is effective only in 2008.

(i) The reconciliations of the equity reported under FRSP to equity under PFRS as of December 31, 2008 follow.

	Group	Parent Bank
Equity under FRSP	P 57,774	P 53,260
Amortization of premium/discount due to change in effective interest rates	(7)	1
Mark-to-market loss on embedded derivatives on CLNs reclassified to loans and other receivables	(1,134)	(909)
	(1,141)	(908)
Equity under PFRS	P 56,633	P 52,352

(ii) Differences in the measurement of statement of condition items as of December 31, 2008 are summarized below:

Group

	FRSP	Difference	PFRS
Changes in resources:			
Trading and investment securities	P 156,151	P -	P 156,151
Loans and other receivables	491,986	194	492,180
	648,137	194	648,331
Changes in other liabilities	35,922	1,336	37,258
	P 612,215		P 611,073
Total adjustments to equity		(P 1,142)	

Parent Bank

	FRSP	Difference	PFRS
Changes in resources:			
Trading and investment securities	P 142,092	P -	P 142,092
Loans and other receivables	467,590	78	467,668
	609,682	78	609,760
Changes in other liabilities	32,011	986	32,997
	P 577,671		P 576,763
Total adjustments to equity		P 908	

(iii) The reconciliations of the net income reported under FRSP to net income under PFRS for the year ended December 31, 2008 follow.

	Group	Parent Bank
Net income under FRSP	P 2,238	P 1,479
Amortization of premium/discount due to change in effective interest rates	(7)	1
Mark-to-market loss on embedded derivatives on CLNs reclassified to loans and other receivables	(1,135)	(909)
	(1,142)	(908)
Net income under PFRS	P 1,096	P 571

(b) Functional and Presentation Currency

These financial statements are presented in Philippines pesos, the Group's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated (see also Note 2.22).

2.2 Impact of New Standards, Amendments and Interpretations to Existing Standards

(a) Effective in 2008 that are Relevant to the Group

In 2008, the Group adopted for the first time the following new interpretations and amended standards which are mandatory in 2008:

Philippine Interpretation IFRIC 14, PAS 19	:	The Limit on a Defined Benefit Assets, Minimum Funding Requirements and their Interaction
Philippine Accounting Standard (PAS) 39 and PFRS 7 (Amendment)	:	PAS 39, Financial Instruments : Recognition and Measurements and PFRS 7, Financial Instruments : Disclosures
Philippine Interpretation IFRIC 11	:	Group and Treasury Share Transactions

Discussed below are the effects in the financial statements of the new accounting interpretations and amended standards.

(i) On October 29, 2008, the FRSC approved the immediate adoption of amendments to IAS 39, *Financial Instruments: Recognition and Measurement, and IFRS 7, Financial Instruments: Disclosures: Reclassification of Financial Assets*, issued by the IASB as amendments to PAS 39 and PFRS 7. Adoption of the amendments enables Philippine entities applying PFRSs to avail of the allowed international accounting treatments. The amendments to PAS 39 permit an entity to, among others:

- reclassify non-derivative financial assets, other than those designated at FVTPL upon initial recognition, out of the FVTPL category:

  a. 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); or,

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

- transfer from available-for-sale (AFS) category to the loans and receivables category a non-derivative financial asset that would have met the definition of loans and receivables if the entity has the intention and ability to hold that financial asset for the foreseeable future or until maturity.

Related to this, the Monetary Board of the BSP approved the prudential reporting guidelines for banks governing the reclassification of investments in debt and equity securities between categories in accordance with the provisions of the October 2008 amendments to the PAS 39 and PFRS 7, and provided additional guidelines (under BSP Circular No. 628) which include; among others, the reclassification of CLNs and other similar instruments that are linked to ROP bonds:

- out of the HFT into AFS/held-to-maturity (HTM)/ UDSCL; or,

- from AFS to UDSCL or HTM, without bifurcating the embedded derivatives from the host instruments;

Provided that these shall only apply for CLNs that are outstanding as of the effective date of reclassification, which shall not be on or later than November 15, 2008.

On February 2, 2009, the SEC approved the adoption of BSP Circular 628 as being compliant with generally accepted accounting principles for banks.

Pursuant to these amendments and guidelines, the Group reclassified certain financial assets out of FVTPL and AFS categories to HTM and loans and receivables categories (see Note 9).

(ii) In 2008, the Group adopted for the first time the Philippine Interpretation, International Financial Reporting Interpretation Committee (IFRIC) 14, PAS 19 – *The Limit on a Defined Benefit Asset, Minimum Funding Requirements and their Interaction* (effective from January 1, 2008). This Philippine Interpretation provides general guidance on how to assess the limit in PAS 19, Employee Benefits, on the amount of the surplus that can be recognized as an asset. It also explains how the pension asset or liability may be affected by statutory or contractual minimum funding requirement. The Group's adoption of this interpretation does not have any impact on the Group's financial statements, as its retirement benefit plan is still partially unfunded.

(iii) In 2008, the Group adopted for the first time the Philippine Interpretation International Financial Reporting Interpretation Committee (IFRIC) 11, *Group and Treasury Shares Transactions* (effective from March 1, 2007). This standard addresses the issue relating to an entity's obligation to provide its employees, as well as other third parties, with its own equity instrument (i.e., treasury shares) or the equity instrument of its shareholder (SMIC). The Parent Bank is obligated to provide the Group's employees with its equity shares

and such transaction is accounted for as equity settled in the Group financial statements. Under this Philippine Interpretation, the Group is required to measure the services received from the employees in accordance with the requirements applicable to equity-settled share-based payment transactions, with a corresponding increase recognized in the Group's equity as a contribution from the shareholders.

The first-time application of these amended standards, and interpretations has not resulted in any prior period adjustments of cash flows, net income or statement of condition line items.

(b) Effective in 2008 but not Relevant to the Group

Philippine Interpretation IFRIC 12	:	Service Concession Arrangements

(c) Effective Subsequent to 2008 that is Relevant to the Group

There are new and amended standards and Philippine Interpretation that are effective for periods subsequent to 2008. The following new standards are relevant to the Group which the Group will apply in accordance with their transitional provisions.

PAS 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PAS 32 and PAS 1 (Amendment)	:	Financial Instruments: Presentation and Presentation of Financial Statements - Puttable Financial Instruments and Obligations Arising on Liquidation
Various Standards	:	2008 Annual Improvements to PFRS

Below is a discussion of the possible impact of these accounting standards:

(i) PAS 1 (Revised 2007), *Presentation of Financial Statements* (effective from January 1, 2009). The amendment requires an entity to present all items of income and expense recognized in the period in a single statement of comprehensive income or in two statements: a separate income statement and a statement of comprehensive income. The income statement shall disclose income and expense recognized in profit and loss in the same way as the current version of PAS 1. The statement of comprehensive income shall disclose profit or loss for the period, plus each component of income and expense recognized outside of profit and loss classified by nature (e.g., gains or losses on available-for-sale assets or translation differences related to foreign operations). Changes in equity arising from transactions with owners are excluded from the statement of comprehensive income (e.g., dividends and capital increase). An entity would also be required to include in its set of financial statements a statement showing its financial position (statement of condition) at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The Group will apply PAS 1 (Revised 2007) in its 2009 financial statements.

(ii) PAS 23 (Revised 2007), *Borrowing Costs* (effective from January 1, 2009). Under the revised PAS 23, all borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset shall be capitalized as part of the cost of that asset. The option of immediately expensing borrowing costs that qualify for asset recognition has been removed. The Group has initially determined that adoption of this new standard will not have significant effects on the financial statements for 2009, as well as for prior and future periods, as the Group's current accounting policy is to capitalize all interest directly related to qualifying assets.

(iii) PAS 32 (Amendment), *Financial Instruments: Presentation* and PAS 1 (Amendment), *Presentation of Financial Statements – Puttable Financial Instruments and Obligations Arising on Liquidation* (effective from January 1, 2009). The amendments require certain financial instruments that represent a residual interest in the net assets of an entity, which would otherwise be classified as financial liabilities, to be classified as equity, if both the financial instrument and the capital structure of the issuing entity meet certain conditions. The Group does not expect any impact on its financial statements when it applies the amendments in 2009.

(iv) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to International Financial Reporting Standards 2008*. These amendments become effective in the Philippines in annual periods beginning on or after January 1, 2009. The Group expects the amendments to the following standards to be relevant to the Group's accounting policies:

- PAS 23 (Amendment), *Borrowing Costs*. The amendment clarifies the definition of borrowing costs to include interest expense determined using the effective interest method under PAS 39. This amendment will be applied by the Group in 2009; however, management expects its effect to be insignificant.

- PAS 1 (Amendment), *Presentation of Financial Statements*. The amendment clarifies that financial instruments classified as held for trading in accordance with PAS 39 are not necessarily required to be presented as current assets or current liabilities. Instead, normal classification principles under PAS 1 should be applied. The Group determines that this amendment will have no impact in the Group's 2009 financial statements.

- PAS 19 (Amendment), *Employee Benefits*. The amendment includes the following:

  - Clarification that a curtailment is considered to have occurred to the extent that benefit promises are affected by future salary increases and a reduction in the present value of the defined benefit obligation results in negative past service cost.

- Change in the definition of return of plan assets to require the deduction of plan administration costs in the calculation of plan assets return only to the extent that such costs have been excluded from measurement of the defined benefit obligation.

- Distinction between short-term and long-term employee benefits will be based on whether benefits are due to be settled within or after 12 months of employee service being rendered.

- Removal of the reference to recognition in relation to contingent liabilities in order to be consistent with PAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, which requires contingent liabilities to be disclosed and not recognized.

The Group will apply this amendment to PAS 19 on its 2009 financial statements.

- PAS 38 (Amendment), *Intangible Assets*. The amendment clarifies when to recognize a prepayment asset, including advertising or promotional expenditures. In the case of supply of goods, the entity recognizes such expenditure as an expense when it has a right to access the goods. For services, an expense is recognized on receiving the service. Also, prepayment may only be recognized in the event that payment has been made in advance of obtaining right of access to goods or receipt of services. The Group initially determined that adoption of this amendment will not have a material effect on its 2009 financial statements.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement*. The definition of financial asset or financial liability at fair value through profit or loss as it relates to items that are held for trading was changed. A financial asset or liability that is part of a portfolio of financial instruments managed together with evidence of an actual recent pattern of short-term profit taking is included in such a portfolio on initial recognition. The Group initially determined that adoption of this amendment will not have a material effect on its 2009 financial statements.

- PAS 40 (Amendment), *Investment Property*. PAS 40 is amended to include property under construction or development for future use as investment property in its definition of investment property. This results in such property being within the scope of PAS 40; previously, it was within the scope of PAS 16. Also, if an entity's policy is to measure investment property at fair value, but during construction or development of an investment property the entity is unable to reliably measure its fair value, then the entity would be permitted to measure the investment property at cost until construction or development is complete. At such time, the entity would be able to measure the investment property at fair value.

Minor amendments are made to several other standards; however, those amendments are not expected to have a material impact on the Group's financial statements.

2.3 Basis of Consolidation

The Group obtains and exercises control through voting rights. The Group's financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13, 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 the Group financial statements.

Business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls the 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 comparatives are restated. The resources and liabilities acquired are recognized at the carrying amounts recognized previously in the Group's controlling shareholder's financial statements. The components of equity of the acquired entities are added to the same components within the Group equity.

The Group accounts for its investments in subsidiaries and minority interest as follows:

(a) Investments in Subsidiaries

Subsidiaries are all entities over which the Group has the power to control the former's financial and operating policies. The Group obtains and exercises control through voting rights.

Subsidiaries are consolidated from the date the Group obtains control until such time that such control ceases.

Except as otherwise indicated, the acquisition of subsidiaries are accounted for using the purchase method of accounting (see Note 2.11). Purchase method involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the Group statement of condition at their revalued amounts, which are also used as bases for subsequent measurement in accordance with the Group accounting policies.

Goodwill (positive) represents the excess of acquisition cost over the Group's share in the fair value of the identifiable net assets of the acquired subsidiary at acquisition date. Negative goodwill represents the excess of Group's share in the fair value of identifiable net assets of the subsidiary at acquisition date over acquisition cost (see Note 2.12).

(b) Minority Interests

Minority interests represent the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the Group income statement and within equity in the Group statements of condition and changes in equity.

The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals of equity investments to minority interests result in gains and losses for the Group that are recorded in the Group income statement. Purchases of equity shares from minority interests result in goodwill, being the difference between any consideration paid and the relevant share acquired in the carrying value of the net assets of the subsidiary.

In the Group financial statements, the minority interest component is shown in the Group statement of changes in equity and in the Group income statement.

2.4 Segment Reporting

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

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

2.5 Financial Assets

Financial assets include cash and other financial instruments. Financial assets, other than hedging instruments, are classified into the following categories: at FVTPL, loans and receivables, HTM and AFS. 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 every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Cash and cash equivalents comprise 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 Securities Purchased Under Reverse Repurchase Agreement (SPURRA) with original maturities of three months or less from placement date.

Regular purchase 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 transaction costs. Financial assets carried at FVTPL are initially recognized at fair value and transaction costs are expensed in the income statement.

The foregoing categories of financial instruments are more fully described below.

(a) Financial Assets at Fair Value Through Profit or Loss (FVTPL)

This category includes derivative financial instruments and financial assets that are either classified as held for trading or are designated by the 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 in the near term or if so designated by management. Derivatives are also categorized as "held for trading" unless they are designated as hedges.

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 assets originally designated as financial assets at FVTPL) may be subsequently reclassified out of FVTPL category effective July 1, 2008:

(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 BSP for prudential regulation and by the SEC for financial reporting purposes.

(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 the Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are those arising from direct loans to customers, interbank loans and 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. Any change in the value of loans and receivables is recognized in profit or loss.

SPURRA wherein the 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 effective interest method.

Impairment losses is the estimated amount of losses in the 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 2.20). Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment losses when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

(c) Held-to-maturity Investments (HTM)

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if the Group has the positive intention and ability to hold them until 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 the Group were to sell other than an insignificant amount of HTM assets, the entire category of HTM securities would be tainted and would be 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 the financial asset's fair value; (ii) occur after the 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 the Group, is nonrecurring and could not have been reasonably anticipated by the Group.

HTM investments are subsequently measured at amortized cost using the effective interest method. If there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows. Any changes to the carrying amount of the investment due to impairment are recognized in profit or loss.

(d) Available-for-sale Financial Assets (AFS)

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 may be reclassified to loans and receivables category that would have met the definition of loans and receivables (effective July 1, 2008) 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 equity, net of any effects arising from income taxes. Gains and losses arising from securities classified as AFS are recognized in the income statement when these are sold or when the investment are impaired.

In the case of impairment, any loss previously recognized in equity is transferred to the income statement. Losses recognized in the income statement on equity instruments are not reversed through the income statement. Losses recognized in prior period income statement resulting from the impairment of debt instruments are reversed through the income statement, when there is recovery in the amount of previously recognized impairment losses.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the 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 fair value through profit or loss category are reported as part of Trading Gain under Other Operating Income account in income statement in the period in which these arise. Gains and losses arising from changes in the fair value of AFS securities are recognized directly in equity until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the income statement. Dividends on AFS equity instruments are recognized in the income statement when the Group's right to receive payment is established.

Non-compounding interest 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.

Derecognition of financial assets occurs when the right to receive cash flows from the financial instruments expire or are transferred and substantially all of the risks and rewards of ownership have been transferred.

2.6 Derivative Financial Instruments and Hedge Accounting

The Group is a party to various foreign-currency forward and swap contracts 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 the 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 the Group reclassified to loans). 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, the Group recognizes profit or loss at initial recognition.

For more complex instruments, the 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.

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 on the statement of condition.

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 the income statement (except for the embedded derivatives in CLNs linked to ROP bonds which were not bifurcated from the host contracts as permitted for prudential reporting and were reclassified to loans).

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 the Group.

2.7 Non-current Assets Held-for-Sale

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

Assets classified as held for sale are measured at the lower of their carrying amounts immediately prior to their classification as 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 held-for-sale assets is included as part of Income from Assets Acquired under Other Operating Income account in the income statement.

2.8 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable cost incurred. This also includes land and building acquired by the 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.

Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment losses.

The Group adopted the cost model in measuring its investment property, hence, is 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.

Investment property is derecognized upon disposal or when permanently withdrawn from use and no future economic benefit is expected from its disposal. Any gain or loss on the retirement or disposal of an investment property is recognized in the income statement in the year of retirement or disposal.

2.9 Equity Investments

In the Group financial statements, investments in associates are accounted for under the equity method of accounting and are initially recognized at cost, less any impairment losses (see Note 2.21).

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

Unrealized gains on transactions between the Group and its associates are eliminated to the extent of the 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 the Group.

Subsidiaries are all entities over which the Group has the power to govern the financial and operating policies generally accompanying a shareholding of more than one-half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered when assessing whether the Group controls another entity. Subsidiaries are fully consolidated from the date on which the Group obtains control. They are de-consolidated from the date that control ceases.

Associates are all entities over which the Group has significant influence but not control, generally accompanying a shareholding of between 20% and 50% of the voting rights.

In the Parent Bank financial statements, the investments in subsidiaries and associates are carried at cost, less impairment in value.

2.10 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 EPCIB stated at appraised values were included in the Group balances at their deemed costs at date of transition to PFRS on January 1, 2005. The revaluation increment is credited to Revaluation Increment account in the Equity section, net of applicable deferred income 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. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

Buildings	10 to 50 years
Furniture, fixtures and equipment	3 to 5 years

Leasehold rights and improvements are amortized over the terms of the leases or the estimated useful lives of the improvements, whichever is shorter.

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 2.21).

The residual values and estimated useful lives of premises, furniture, fixtures and equipment are reviewed, and adjusted if appropriate, at each statement of condition date.

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

2.11 Business Combination

Except as indicated otherwise, business acquisitions are accounted for using the purchase 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 the Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. Following 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 2.21).

Negative goodwill, if any, which is the excess of the Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost is recognized directly to income.

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

2.12 Intangible Assets

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 2.21). 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.

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 lives of five years. Costs associated with maintaining computer software are expensed as incurred.

2.13 Financial Liabilities

Financial liabilities of the Group include deposit liabilities, bills payable, derivative liabilities, subordinated notes payable and other liabilities.

Financial liabilities are recognized when the Group becomes a party to the contractual agreements 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, which is 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 the income statement over the period of the borrowings using the effective interest method.

Preferred shares, which carry a mandatory coupon or are redeemable on a specific date or at the option of the shareholder are classified as financial liabilities and are presented as part of Bills Payable in the statement of condition. The dividends on these preferred shares are recognized in the income statement as interest expense on an amortized cost basis using the effective interest method.

The fair value of the liability portion of a convertible bond is determined using a market interest rate for an equivalent non-convertible bond. This amount is recorded as a liability on an amortized cost basis until extinguished on conversion or maturity of the bond. The remainder of the proceeds is allocated to the conversion option. This is recognized and included in equity, net of income tax effects.

Derivative liabilities are recognized initially and subsequently measured at fair value with changes in fair value recognized in the income statement.

Dividend distributions to shareholders are recognized as financial liabilities when the dividends are approved by the BSP.

Financial assistance from Philippine Deposit Insurance Corporation (PDIC) is accounted for under PAS 20, *Accounting for Government Grants*, whereby the loan received is initially recorded at the amount borrowed with no re-measurement to fair value or imputation of market interest.

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

2.14 Offsetting Financial Instruments

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

2.15 Terminal Value of Leased Assets and Deposits on Finance Lease

The residual 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.

2.16 Equity

Capital stock is determined using the nominal value of shares that have been issued.

Common stock option pertains to the value of the segregated equity component of the convertible loan as required under PAS 32, *Financial Instruments: Disclosures and Presentation* and the cumulative amount of stock option arising from the stock option plan granted by the Group to its qualified officers.

Treasury shares include the cost of the Group's shares of stock which were acquired by a subsidiary.

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.

Surplus reserves pertain to a portion of the Group's income from trust operations set-up on a yearly basis in compliance with BSP regulations. Surplus reserves also consist of reserve for contingencies and self-insurance.

Surplus free includes all current and prior period results as disclosed in the income statement and which are available and not restricted for use by the Group.

Fair value gain (loss) on available-for-sale securities pertain to cumulative mark-to-market valuation of AFS financial assets.

Revaluation increment consists of gains arising from the revaluation of land.

Accumulated translation adjustment pertains to exchange differences arising on translation of the assets and liabilities of foreign subsidiaries and overseas branch that are taken directly to equity.

Minority interests represent the portion of the net assets and profit or loss not attributable to the Group and are presented separately in the Group income statement and within equity in the Group statements of condition and changes in equity.

2.17 Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to the Group and the revenue can be reliably measured. The following specific recognition criteria of income and expenses must also be met before revenue is recognized:

(a) *Interest* – Interest income and expenses are recognized in the income statement for all instruments measured at amortized cost using the effective interest method.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the 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. Loan syndication fees are recognized as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. 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 on the completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period 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.

(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.

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

(e) *Dividend income* – Dividend income is recognized when the Group's right to receive payment is established.

(f) *Rental income* – Rental income arising from leased properties is accounted for on a straight-line basis over the lease terms on ongoing leases and is recorded in the income statement as part of Other Operating Income.

(g) *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.

(h) *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 finance leases 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 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.

Cost and expenses are recognized in the income statement upon utilization of the assets or services or at the date these are incurred.

2.18 Provisions

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, for example, 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 statement of condition date, including the risks and uncertainties associated with the present obligation. 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. 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, where time value of money is material.

Provisions are reviewed at each statement of condition date 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.

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.

2.19 Leases

The Group accounts for its leases as follows:

(a) Group as Lessor

Leases wherein the 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 the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the 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 the income statement on a straight-line basis over the lease term.

(b) Group as Lessee

Leases, which do not transfer to the 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 the income statement on a straight-line basis over the lease term.

The 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.

2.20 Impairment of Financial Assets

The Group assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred 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 the 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*. The 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 the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 objective evidence that an impairment loss on loans and receivable 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 the income statement. If a loan 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, the 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 foreclosure less costs for obtaining and selling the collateral, whether or not 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 the Group's or BSP's grading process that considers asset type, industry, collateral type, past-due status and other relevant factors. Those characteristics are relevant to the estimation of future cash flows for groups of such assets by being indicative of the debtors' ability to pay all amounts due according to the contractual terms of the assets being evaluated.

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets 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 the Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off, subject to BSP guidelines, against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the Board of Directors, 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 the income statement.

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

(b) *Assets carried at fair value with changes recognized in equity.* In the case of investments classified as AFS financial assets, 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 financial assets, 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 profit or loss – is removed from equity and recognized in the income statement. Impairment losses recognized in the income statement on equity instruments are not reversed through the income statement. 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 the income statement.

(c) *Assets carried at cost.* The Group assesses at each statement of condition date 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.

Where possible, the 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 as part of Impairment Losses account in the income statement.

2.21 Impairment of Non-financial Assets

The Group's equity investments, intangible assets (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).

An impairment loss is recognized for the amount by which the asset or cash-generating unit's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of fair value, reflecting market conditions less costs to sell and value in use, based on an internal discounted cash flow evaluation. Impairment loss is charged pro-rata to the other assets in the cash generating unit.

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.

2.22 Functional Currency and Foreign Currency Transactions

(a) *Functional and Presentation Currency*

Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the functional currency). The financial statements are presented in Philippine peso, which is also the Group's functional and presentation currency. The financial statements of the foreign currency deposit units (FCDUs) of the Group and foreign subsidiaries are translated at the prevailing current exchange rates (for statement of condition accounts) and average exchange rate during the period (for income statement accounts) for consolidation purposes.

(b) *Transactions and Balances*

The accounting records of the Group are maintained in Philippine pesos except for the FCDUs and foreign subsidiaries which are maintained in US dollars or Euro. BDO Remittance, an overseas branch, and Express Padala HK are maintained in Hong Kong dollars. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at period-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the income statement.

(c) *Translation of Financial Statements of Foreign Subsidiaries and an Overseas Branch*

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

(i) Assets and liabilities are translated at the closing rate at the date of the statement of condition;

(ii) Income and expenses 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), except for FCDU which uses the book rate or the previous month-end Philippine Dealing System closing rate in translating income and expenses; and,

(iii) All resulting exchange differences are recognized as a separate component of equity.

On consolidation, exchange differences arising from the translation of the net investment in foreign subsidiaries and an overseas branch is taken to equity as part of Accumulated Translation Adjustment. When a foreign operation is sold, such exchange differences are recognized in the income statements as part of the gain or loss on sale.

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.

2.23 Employee Benefits

(a) Retirement Benefit Obligations

Pension benefits are provided to employees through a defined benefit plan, as well as defined contribution plan.

A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and expected rate of salary increases. The legal obligation for any benefits from this kind of pension plan remains with the 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. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

The asset recognized in the statement of condition for defined benefit pension plans is the fair value of plan assets at the statement of condition date 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 interest rates of high quality corporate bonds 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 pension 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 the income statement, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity, such as the Social Security System (SSS). The 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.

(b) Termination Benefits

Termination benefits are payable when employment is terminated by the Group before the normal retirement date, or whenever an employee accepts voluntary redundancy in exchange for these benefits. The 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 statement of condition date are discounted to present value.

(c) Bonus Plans

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

(d) Executive Stock Option Plan

The Group grants stock option plan to its senior officers (from vice-president up) for their contribution to the 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 the Group's performance in the preceding year and amortized over five years starting from the date of the approval of the Board of Directors. 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 adjusted in case there are changes in the number of qualified employees arising from resignation or disqualification. The annual amortization of stock option is shown as part of Employee Benefits in the income statement and the cumulative balance is shown as Common Stock Option in the statement of changes in equity.

(e) Compensated Absences

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

2.24 Income Taxes

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 statement of condition date. 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 the income statement.

Deferred tax is provided, using the balance sheet liability method, on temporary differences at the statement of condition date between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the balance sheet 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.

The carrying amount of deferred tax assets is reviewed at each statement of condition date 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 to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of condition date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the income statement. Only changes in deferred tax assets or liabilities that relate to a change in value of resources or liabilities that is charged directly to equity are charged or credited directly to equity.

2.25 Earnings Per Share (EPS)

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

Diluted earnings per common share is also computed by dividing net income by the weighted average number of common shares subscribed and issued during the period. However, net income 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, convertible loan and stock option plan granted by the Group to the qualified officers. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. Convertible loan is deemed to have been converted into common shares at the start of the conversion period. The stock option plan is deemed to have been converted into common stock in the year the stock option plan is granted.

2.26 Trust Activities

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

2.27 Subsequent Events

Any post-year-end event that provides additional information about the Group's position at the statement of condition date (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

The Group's financial statements prepared in accordance with FRSP for banks require management to make judgments and estimates that affect 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 circumstances. Actual results may likely differ from these estimates and the differences could be significant.

3.1 Critical Judgments in Applying Accounting Policies

In the process of applying the 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) HTM Investments

The Group follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement*, 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, the Group considers its intention and ability to hold such investments to maturity.

If the 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 the 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 the Group, is nonrecurring and could not have been reasonably anticipated by the Group.

If the entire class of held-to-maturity investments is tainted, the unrealized fair value would decrease by P4,264 in the Group financial statements and decrease by P4,181 in the Parent Bank financial statement, with a corresponding entry in the Fair Value Loss on Available-for-sale Securities account in the statement of changes in equity.

(b) Impairment of Available-for-Sale Financial Assets

The Group follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement*, in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the 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, the 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.

In 2008, the Group recognized a total of P4,440 provision for impairment losses on available-for-sale securities in the income statement (nil in 2007) (see Note 9.2).

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

The Group determines whether a property qualifies as investment property. In making its judgment, the Group considers whether the property generated cash flows largely independently of the other assets held by the Group. Owner-occupied properties generate cash flows that are attributable not only to other assets 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), the 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. The Group considers each property separately in making its judgment.

(d) Operating and Finance Leases

The 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.

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

The Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, as Non-current Assets Held-for-sale if the Group expects that the properties will be recovered through sale rather than use, as Investment Property if the Group intends to hold the properties for capital appreciation or as Financial Assets in accordance with PAS 39. At initial recognition, the Group determines the fair value of acquired properties through internally and externally generated appraisal. The appraised value is determined based on the current economic and market conditions as well as the physical condition of the property.

(f) Provisions and Contingencies

Judgment is exercised by management to distinguish between provisions and contingencies. Policies on recognition and disclosure of provision are discussed in Note 2.18 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 statement of condition date, 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 receivables)

The Group reviews its AFS, HTM and loans and receivables portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the income statement, the 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 portfolio before the decrease can be identified with an individual item in that portfolio. 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.

The Group carries certain financial assets at fair value, which requires the extensive use of accounting estimates and judgment. Significant components of fair value measurement were 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 the Group utilized different valuation methods and assumptions. Any change in fair value of these financial assets and liabilities would affect profit and loss and equity.

Total provisions for impairment losses on financial assets (reported as part of Impairment Losses in the income statements) amounted to P4,737 in 2008, P3,292 in 2007 and P1,259 in 2006 in the Group financial statements and P4,575 in 2008, P3,117 in 2007 and P1,083 in 2006 in the Parent Bank financial statements (see Note 14).

(b) Fair Value of Financial Assets and Liabilities

At December 31, 2008, the following table summarizes the carrying amounts and fair values of those financial resources and liabilities not presented in the statement of condition at their fair value.

	Group		Parent Bank	
	Cost	Fair Value	Cost	Fair Value
December 31, 2008:				
Financial Resources:				
Due from other banks and BSP	P 79,771	P 79,771	P 74,821	P 75,198
Available-for-sale securities – unquoted	3,442	*	1,918	*
Held-to-maturity investments	114,128	109,780	105,276	101,095
Loans and other receivables	491,986	496,494	467,590	470,677
Financial Liabilities:				
Deposit liabilities	636,754	621,402	612,967	597,615
Bills payable	51,436	51,171	43,242	43,088
Subordinated notes payable	20,146	20,891	20,146	20,891
December 31, 2007:				
Financial Resources:				
Due from other banks and BSP	P 70,151	P 70,151	P 64,422	P 64,422
Available-for-sale securities – unquoted	5,780	*	2,175	*
Held-to-maturity investments	67,944	69,444	62,571	63,741
Loans and other receivables	311,675	308,427	297,631	301,530
Financial Liabilities:				
Deposit liabilities	445,397	435,145	434,295	423,958
Bills payable	52,483	53,053	41,192	40,885
Subordinated notes payable	18,631	19,037	18,631	19,037

** not available*

(i) Due from other Banks and BSP

Due from BSP pertains to deposits made by the Group to 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 approximates the nominal value.

(ii) Available-for-sale securities

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

(iii) Held-to-maturity investments

Fair value for held-to-maturity assets is based on market prices. Where this information is not available, 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.

(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 credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions could affect reported fair value of financial instruments. The Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of condition date.

(d) Useful Lives of Premises, Furniture, Fixtures and Equipment and Investment Properties

The Group estimates the useful lives of premises, furniture, fixtures and equipment and investment 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. In addition, estimation of the useful lives of premises, furniture, fixtures and equipment and investment properties is based on collective assessment of industry practice, internal technical evaluation and experience with similar assets.

It is possible, however, that future results of operations could be materially affected by changes in estimates brought about by changes in factors mentioned above. The amounts and timing of recorded expenses for any period would be affected by changes in these factors and circumstances. A reduction in the estimated useful lives of premises, furniture, fixtures and equipment and investment properties would increase recorded operating expenses and decrease premises, furniture, fixtures and equipment and investment properties.

(e) Realizable Amount of Deferred Tax Assets

The Group reviews its deferred tax assets at each statement of condition date 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 asset to be utilized.

(f) 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. The Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.21. 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.

Provisions for impairment losses (reported as part of Impairment Losses in the income statements) amounted to P495 in 2008, P826 in 2007, and P754 in 2006 in the Group financial statements and P596 in 2008, P685 in 2007 and P909 in 2006 in the Parent Bank financial statements (see Note 14).

(g) Retirement Benefits

The determination of the Group's obligation and cost of pension 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 return on plan assets and salary increase rate. 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 amounted to P14 and P3,778 respectively, in 2008 and P55 and P3,627, respectively, in 2007 in the Group financial statements. In the Parent Bank financial statements, the retirement benefit asset and net unrecognized actuarial losses amounted to P58 and P3,603, respectively, in 2008 and P69 and P3,553 respectively, in 2007 (see Note 23).

4. RISK MANAGEMENT

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The 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. The 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. The 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 financial risk for holding financial assets and liabilities, the Group operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, interest rate, credit and market risks. The Group's risk management objective is to adequately and consistently evaluate, manage, control, and monitor the risk profile of the Group's statement of condition to optimize the

risk-reward balance and maximize return on the Group's capital. The Group's Risk Management Committee (RMC) has overall responsibility for the Group's risk management systems and sets risks management policies across the full range of risks to which the Group is exposed. Specifically, the 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 the Group's overall risk management system, the Assets and Liabilities Committee (ALCO) is responsible for managing the Group's statement of condition, including the 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 overall risk profile of the Bank'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 the Group is exposed to.

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 then disseminates down 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 the Group's Non-Performing Loan (NPL)/property-related items in litigations portfolio and ensure 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 their 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 the Group's customers and repay deposits on maturity. The 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, the 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-statement of condition items as of December 31, 2008 and 2007 in accordance with account classification of the BSP, are presented below. The amounts disclosed in the maturity analysis are the contractual undiscounted cash flows. Such undiscounted cash flows differ from the amounts included in the statement of condition because the statement of condition amounts are based on discounted cash flows.

Group

	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
December 31, 2008:					
Resources:					
Cash	P 21,770	P -	P -	P -	P 21,770
Loans	230,490	50,656	44,846	165,994	491,986
Investments	6,129	8,000	39,274	102,748	156,151
Placements	79,722	48	-	-	79,770
Other resources	-	10,642	(177)	41,890	52,355
Total Resources	338,111	69,346	83,943	310,632	802,032
Liabilities and Equity:					
Deposit liabilities	126,270	4,598	14,960	490,926	636,754
Bills payable	29,909	13,423	697	27,552	71,581
Other liabilities	P 3,689	P 29,645	P 2,724	(P 135)	P 35,923
Total Liabilities *(Carried Forward)*	P 159,868	P 47,666	P 18,381	P 518,343	P 744,258

Group

	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
December 31, 2008:					
Total Liabilities *(Brought Forward)*	P 159,868	P 47,666	P 18,381	P 518,343	P 744,258
Equity	-	-	-	57,774	57,774
Total Liabilities and Equity	159,868	47,666	18,381	576,117	802,032
On-book gap	178,243	21,680	65,562	(265,485)	-
Cumulative on-book gap	178,243	199,923	265,485	-	-
Contingent assets	63,992	6,939	11,434	5,360	87,725
Contingent liabilities	55,060	12,598	10,178	708	78,544
Off-book gap	8,932	(5,659)	1,256	4,652	9,181
Net Periodic Gap	187,175	16,021	66,818	(260,833)	9,181
Cumulative Total Gap	P 187,175	P 203,196	P 270,014	P 9,181	P -

	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
December 31, 2007:					
Resources:					
Cash	P 18,388	P -	P -	P -	P 18,388
Loans	134,360	40,120	38,656	98,539	311,675
Investments	13,995	6,411	28,759	115,335	164,500
Placements	70,151	-	-	-	70,151
Other resources	13	48	-	52,434	52,495
Total Resources	236,907	46,579	67,415	266,308	617,209
Liabilities and Equity:					
Deposit liabilities	83,468	21,189	12,253	328,487	445,397
Bills payable	34,955	14,261	5,070	16,829	71,115
Other liabilities	6,931	18,622	1,808	13,008	40,369
Total Liabilities	125,354	54,072	19,131	358,324	556,881
Equity	-	1,702	-	58,626	60,328
Total Liabilities and Equity	125,354	55,774	19,131	416,950	617,209
On-book gap	111,553	(9,195)	48,284	(150,642)	-
Cumulative on-book gap	111,553	102,358	150,642	-	-
Contingent assets	65,251	18,906	2,796	162	87,115
Contingent liabilities	40,425	16,261	1,027	691	58,404
Off-book gap	24,826	2,645	1,769	(529)	28,711
Net Periodic Gap	136,379	(6,550)	50,053	(151,171)	28,711
Cumulative Total Gap	P 136,379	P 129,829	P 179,882	P 28,711	P -

Notes to Financial Statements

DECEMBER 31, 2008, 2007 AND 2006
(Amounts in Millions Except Per Share Data)

Parent Bank

	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
December 31, 2008:					
Resources					
Cash	P 21,763	P -	P -	P -	P 21,763
Loans	215,609	48,717	40,779	162,485	467,590
Investments	4,900	5,851	32,420	98,921	142,092
Placements	74,821	-	-	-	74,821
Other resources	-	10,574	-	44,786	55,360
Total Resources	317,093	65,142	73,199	306,192	761,626
Liabilities and Equity					
Deposit liabilities	111,010	1,870	13,139	486,948	612,967
Bills payable	22,329	12,859	647	27,553	63,388
Other liabilities	3,367	27,645	1,534	(537)	32,011
Total Liabilities	136,708	42,374	15,320	513,964	708,366
Equity	-	-	-	53,260	53,260
Total Liabilities and Equity	136,708	42,374	15,320	567,224	761,626
On-book gap	180,385	22,768	57,879	(261,032)	-
Cumulative on-book gap	180,385	203,153	261,032	-	-
Contingent assets	57,411	6,423	7,228	5,347	76,409
Contingent liabilities	54,688	11,565	5,674	685	72,612
Off-book gap	2,723	(5,142)	1,554	4,662	3,797
Net Periodic Gap	183,108	17,626	59,432	(256,369)	3,797
Cumulative Total Gap	P 183,108	P 200,734	P 260,166	P 3,797	P -
December 31, 2007:					
Resources:					
Cash	P 18,437	P -	P -	P -	P 18,437
Loans	141,909	37,137	35,087	83,498	297,631
Investments	11,376	5,665	25,962	105,879	148,882
Placements	64,422	-	-	-	64,422
Other resources	-	-	-	57,117	57,117
Total Resources	236,144	42,802	61,049	246,494	586,489
Liabilities and Equity:					
Deposit liabilities	89,098	20,236	4,172	320,789	434,295
Bills payable	26,039	13,232	3,736	16,817	59,824
Other liabilities	6,142	18,549	1,808	10,422	36,921
Total Liabilities	121,279	52,017	9,716	348,028	531,040
Equity	-	1,702	-	53,747	55,449
Total Liabilities and Equity (*Carried Forward*)	P 121,279	P 53,719	P 9,716	P 401,775	P 586,489

Parent Bank

	One to three months	More than three months to one year	More than one year to three years	More than three years	Total
Total Liabilities and Equity (*Brought Forward*)	P 121,279	P 53,719	P 9,716	P 401,775	P 586,489
On-book gap	114,865	(10,917)	51,333	(155,281)	-
Cumulative on-book gap	114,865	103,948	155,281	-	-
Contingent assets	62,574	16,480	2,388	113	81,555
Contingent liabilities	39,737	14,053	448	111	54,349
Off-book gap	22,837	2,427	1,940	2	27,206
Net Periodic Gap	137,702	(8,490)	53,273	(155,279)	27,206
Cumulative Total Gap	P 137,702	P 129,212	P 182,485	P 27,206	P -

4.2 Market Risk

The 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 and derivatives. The 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 the Group's RMC and Board of Directors.

4.2.1 Foreign Exchange Risk

The 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.

The 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. The Group's foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. The Group, being a major market participant in the Philippine Dealing System, may engage in proprietary trading to take advantage of foreign exchange fluctuations.

The Group's foreign exchange exposure during the day is guided by the limits set forth in the Group's Risk Management Manual. These limits are within the prescribed ceilings mandated by the BSP. At the end of each day, the 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.

The breakdown of the financial resources and liabilities as to foreign and peso-denominated balances as of December 31, 2008 and 2007 follows:

Group

	2008			2007		
	Foreign Currency	Peso	Total	Foreign Currency	Peso	Total
Resources:						
Cash and other cash items and Due from BSP	P -	P 84,439	P 84,439	P 9,970	P 57,878	P 67,848
Due from other banks	16,973	128	17,101	19,869	821	20,690
Trading and Investment securities:						
At FVTPL	3,562	3,287	6,849	8,300	12,652	20,952
AFS Securities	13,808	21,365	35,173	49,289	26,315	75,604
HTM	84,269	29,860	114,129	48,369	19,575	67,944
Loans and other receivables	68,815	423,171	491,986	41,785	269,890	311,675
Other resources	1,138	13,829	14,967	1,825	13,865	15,690
	P 188,565	P 576,079	P 764,644	P 179,407	P 400,996	P 580,403

Group

	2008			2007		
	Foreign Currency	Peso	Total	Foreign Currency	Peso	Total
Liabilities:						
Deposit liabilities	P 172,667	P 464,087	P 636,754	P 116,933	P 328,464	P 445,397
Bills payable	16,879	34,557	51,436	27,579	24,904	52,483
Subordinated notes	-	20,146	20,146	18,631	-	18,631
Other liabilities	10,934	24,988	35,922	31,668	8,702	40,370
	P 200,480	P 543,778	P 744,258	P 194,811	P 362,070	P 556,881

Parent Bank

	2008			2007		
	Foreign Currency	Peso	Total	Foreign Currency	Peso	Total
Resources:						
Cash and other cash items and Due from BSP	P -	P 81,703	P 81,703	P 9,357	P 57,400	P 66,757
Due from other banks	14,573	308	14,881	15,648	454	16,102
Trading and Investment securities:						
At FVTPL	3,448	1,712	5,160	8,236	9,512	17,748
AFS Securities	11,888	19,768	31,656	44,166	24,397	68,563
HTM	80,325	24,951	105,276	45,901	16,670	62,571
Loans and other receivables	68,281	399,309	467,590	41,158	256,473	297,631
Other resources	1,448	13,383	14,831	1,841	13,717	15,558
	P 179,963	P 541,134	P 721,097	P 166,307	P 378,623	P 544,930
Liabilities:						
Deposit liabilities	P 163,338	P 449,629	P 612,967	P 105,360	P 328,935	P 434,295
Bills payable	16,879	26,363	43,242	25,909	15,283	41,192
Subordinated notes	-	20,146	20,146	8,557	10,074	18,631
Other liabilities	10,766	21,245	32,011	4,896	32,026	36,922
	P 190,983	P 517,383	P 708,366	P 144,722	P 386,318	P 531,040

4.2.2 Interest Rate Risk

The Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-statement of condition positions 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 or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the 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-statement of condition items as of December 31, 2008 and 2007 based on the expected interest realization or recognition are presented below:

Group

	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
December 31, 2008:						
Resources:						
Cash	P 21,770	P -	P -	P -	P -	P 21,770
Loans	387,549	42,667	36,036	21,904	3,830	491,986
Investments	20,701	8,472	54,934	72,044	-	156,151
Placements	79,722	48	-	-	-	79,770
Other Resources	-	-	-	-	52,355	52,355
Total Resources (*Carried Forward*)	P 509,742	P 51,187	P 90,970	P 93,948	P 56,185	P 802,032

Group

	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
Total Resources (*Brought Forward*)	P 509,742	P 51,187	P 90,970	P 93,948	P 56,185	P 802,032
Liabilities and Equity:						
Deposit liabilities	293,705	23,150	53,563	69	266,267	636,754
Bills payable	29,908	13,423	27,119	1,131	-	71,581
Other liabilities	227	430	1,380	-	33,886	35,923
Total Liabilities	323,840	37,003	82,062	1,200	300,153	744,258
Equity	-	-	-	-	57,774	57,774
Total Liabilities and Equity	323,840	37,003	82,062	1,200	357,927	802,032
On-book gap	185,902	14,184	8,908	92,748	(301,742)	-
Cumulative on-book gap	185,902	200,086	208,994	301,742	-	-
Contingent assets	18,628	3,042	15,648	-	-	37,318
Contingent liabilities	15,266	2,123	16,869	-	-	34,258
Off-book gap	3,361	920	(1,221)	-	-	3,060
Net Periodic Gap	189,263	15,104	7,687	92,748	(301,742)	3,060
Cumulative Total Gap	P 189,263	P 204,367	P 212,054	P 304,802	P 3,060	P -

December 31, 2007:

	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	P 18,388	P -	P -	P -	P -	P 18,388
Loans	240,390	33,865	30,638	6,782	-	311,675
Investments	39,678	11,841	45,127	67,854	-	164,500
Placements	61,539	249	107	8,256	-	70,151
Other Resources	13	48	10	55	52,369	52,495
Total Resources	360,008	46,003	75,882	82,947	52,369	617,209
Liabilities and Equity:						
Deposit liabilities	167,991	24,706	28,228	1,551	222,921	445,397
Bills payable	36,088	13,735	5,777	15,515	-	71,115
Other liabilities	151	73	-	134	40,011	40,369
Total Liabilities	204,230	38,514	34,005	17,200	262,932	556,881
Equity	-	-	-	-	60,328	60,328
Total Liabilities and Equity	204,230	38,514	34,005	17,200	323,260	617,209
On-book gap	155,778	7,489	41,877	65,747	(270,891)	-
Cumulative on-book gap	155,778	163,267	205,144	270,891	-	-
Contingent assets	34,933	4,553	3,666	-	-	43,152
Contingent liabilities	33,318	4,597	3,538	-	-	41,453
Off-book gap	1,615	(44)	128	-	-	1,699
Net Periodic Gap	157,393	7,445	42,005	65,747	(270,891)	1,699
Cumulative Total Gap	P 157,393	P 164,838	P 206,843	P 272,590	P 1,699	P -

Notes to Financial Statements

DECEMBER 31, 2008, 2007 AND 2006

(Amounts in Millions Except Per Share Data)

Parent Bank

	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
December 31, 2008:						
Resources:						
Cash	P 21,763	P -	P -	P -	P -	P 21,763
Loans	371,408	36,227	35,381	21,195	3,379	467,590
Investments	15,374	8,401	49,148	69,169	-	142,092
Placements	74,821	-	-	-	-	74,821
Other Resources	-	-	-	-	55,360	55,360
Total Resources	483,366	44,628	84,529	90,364	58,739	761,626
Liabilities and Equity:						
Deposit liabilities	279,790	19,201	48,160	-	265,816	612,967
Bills payable	22,329	12,859	27,069	1,131	-	63,388
Other liabilities	-	-	-	-	32,011	32,011
Total Liabilities	302,119	32,060	75,229	1,131	297,827	708,366
Equity	-	-	-	-	53,260	53,260
Total Liabilities and Equity	302,119	32,060	75,229	1,131	351,087	761,626
On-book gap	181,247	12,568	9,299	89,233	(292,348)	-
Cumulative on-book gap	181,247	193,814	203,113	292,347	-	-
Contingent assets	11,739	1,547	6,864	-	-	20,151
Contingent liabilities	8,448	713	8,093	-	-	17,254
Off-book gap	3,291	835	(1,228)	-	-	2,897
Net Periodic Gap	184,538	13,402	8,071	89,234	(292,348)	2,897
Cumulative Total Gap	P 184,538	P 197,939	P 206,011	P 295,245	P 2,897	P -
December 31, 2007:						
Resources:						
Cash	P 18,437	P -	P -	P -	P -	P 18,437
Loans	239,489	26,390	26,516	5,236		297,631
Investments	37,801	11,072	39,327	60,682	-	148,882
Placements	56,059		107	8,256		64,422
Other Resources	-	-	-	-	57,117	57,117
Total Resources	351,786	37,462	65,950	74,174	57,117	586,489
Liabilities and Equity:						
Deposit liabilities	170,811	21,920	21,881	-	219,683	434,295
Bills payable	26,039	13,232	5,037	15,516	-	59,824
Other liabilities	-	-	-	-	36,921	36,921
Total Liabilities *(Carried Forward)*	P 196,850	P 35,152	P 26,918	P 15,516	P 256,604	P 531,040

Parent Bank

	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
Total Liabilities *(Brought Forward)*	P 196,850	P 35,152	P 26,918	P 15,516	P 256,604	P 531,040
Equity	-	-	-	-	55,449	55,449
Total Liabilities and Equity	196,850	35,152	26,918	15,516	312,053	586,489
On-book gap	154,936	2,310	39,032	58,658	(254,937)	-
Cumulative on-book gap	154,936	157,246	196,278	254,936	-	-
Contingent assets	30,328	377	2,426	-	-	33,131
Contingent liabilities	29,380	330	2,234	-	-	31,945
Off-book gap	948	47	192	-	-	1,186
Net Periodic Gap	155,884	2,357	39,224	58,659	(254,936)	1,186
Cumulative Total Gap	P 155,884	P 158,241	P 197,465	P 256,124	(P 1,188)	P -

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

- Value-at-risk – The RMG computes the value-at-risk benchmarked at a level which is a percentage of projected earnings. The Group uses the value at risk (VaR) model to estimate the daily potential loss that the 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 of US dollar denominated instruments at the BSP-mandated US dollar overbought position limit.
- 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.

The Group uses the VaR model to estimate the daily potential loss that the Group can incur from its trading book. VaR is one of the key measures in the 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. The Group uses a 99% confidence level and a 260-day observation period in VaR calculation. The Group's VaR limit is established as a percentage of projected earnings and is used to alert senior management whenever the potential losses in the 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 1-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.
- The VaR measure is dependent upon the Bank's position and the volatility of market prices. The VaR of an unchanged position reduces if the market price volatility declines and vice versa.

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 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 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, 2008 and 2007 follows:

Group

	2008		2007	
	VaR	Stress VaR	VaR	Stress VaR
Foreign currency risk	(P 25)	(P 294)	(P 3)	(P 22)
Interest rate risk – Peso	(29)	(171)	(48)	(629)
Interest rate risk – USD	(6)	(29)	(21)	(294)
Total	(P 60)	(P 494)	(P 72)	(P 945)

Parent Bank

	2008		2007	
	VaR	Stress VaR	VaR	Stress VaR
Foreign currency risk	(P 21)	(P 254)	(P 3)	(P 20)
Interest rate risk – Peso	(28)	(165)	(37)	(592)
Interest rate risk - USD	(3)	(19)	(21)	(294)
Total	(P 52)	(P 438)	(P 61)	(P 906)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2008 and 2007 is shown below:

Group

	2008			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 906)	P 906	(P 453)	P 453
As a percentage of the Group's net income for 2008	(3.9%)	3.9%	(2.0%)	2.0%
Earnings-at-risk	P 831			

	2007			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 870)	P 870	(P 435)	P 435
As a percentage of the Bank's net income for 2007	(4.1%)	4.1%	(2.0%)	2.0%
Earnings-at-risk	P 1,141			

Parent Bank

	2008			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 940)	P 940	(P 470)	P 470
As a percentage of the Bank's net income for 2008	(4.3%)	4.3%	(2.2%)	2.2%
Earnings-at-risk	P 821			

	2007			
	Change in interest rates (in basis points)			
	-100	+100	-50	+50
Change on annualized net interest income	(P 958)	P 958	(P 479)	P 479
As a percentage of the Bank's net income for 2007	(4.7%)	4.7%	(2.4%)	2.4%
Earnings-at-risk	P 1,200			

4.2.3 Price Risk

The Group is exposed to equity securities price risk because of investments held by the Group and classified on the statement of condition either as available for sale or at fair value through profit or loss. The Group is not exposed to commodity price risk. To manage its price risk arising from investments in equity securities, the Group diversifies its portfolio. Diversification of the portfolio is done in accordance with the limits set by the Group.

The table below summarizes the impact of increases of the financial assets at FVTPL and available-for-sale securities on the Group's 2008 and 2007 net income after tax for the year and on equity. The analysis is based on the assumption that the correlated equity indices had decreased by 46.4% in 2008 and increased by 19.2% in 2007 for securities under fair value through profit or loss and available-for-sale securities with all other variables held constant and all the Group's equity instruments moved according to the historical correlation with the index:

Group

	Impact on net income after tax		Impact on other components of equity	
	2008	2007	**2008**	2007
Fair value through profit or loss	**(P 28)**	P 18	**P -**	P -
Available-for-sale	**-**	-	**(189)**	51
Total	**(P 28)**	P 18	**(P 189)**	P 51

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 Group. The Group 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 the Group's risk assessment process. The RMG performs risk ratings for corporate accounts and assists the design and development of scorecards for consumer accounts. It also ensures that the 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 the Group's loan portfolio, including the portfolio risks associated with particular industry sectors, loan size and maturity, and development of a strategy for the Group to achieve its desired portfolio mix and risk profile.

The 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. Limits on the level of credit risk by product and industry sector are approved quarterly by the RMC.

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.

The RMG reviews the Group's loan portfolio in line with the Group's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its net worth.

4.2.4.1 Exposure to Credit Risk

The following table shows the exposure to credit risk as of December 31, 2008 and 2007 for each internal risk grade and the related allowance for impairment losses:

Group

	2008		
	Loans and Receivables	**Due from Other Banks**	**Investment Securities**
Carrying Amount	**P 491,986**	**P 17,102**	**P 153,698**
Individually Impaired			
Grade: Unclassified	P 12	P 161	P 15
Grade C: Impaired	4,224	-	-
Grade D: Impaired	10,304	-	5,249
Grade E: Impaired	4,375	-	121
Grade F: Impaired	5,193	-	655
Gross Amount	24,108	161	6,040
Allowance for impairment	(16,382)	-	(5,129)
Carrying amount	7,726	161	911
Collectively Impaired			
Grade: Unclassified	3,230	-	-
Grade C: Impaired	8	-	-
Grade D: Impaired	305	-	-
Grade E: Impaired	112	-	-
Grade F: Impaired	-	-	-
Gross Amount	3,655	-	-
Allowance for impairment	(2,718)	-	-
Carrying amount	937	-	-
Sub total *(Carried Forward)*	P 8,663	P 161	P 911

Group

	2008		
	Loans and Receivables	**Due from Other Banks**	**Investment Securities**
Sub total *(Brought Forward)*	P 8,663	P 161	P 911
Past Due But Not Impaired			
Grade: Unclassified	4,498	-	-
Grade C: Impaired	-	-	-
Carrying amount	4,498	-	-
Neither Past Due Nor Impaired			
Grade: Unclassified	478,826	16,941	152,787
Total Carrying Amount	**P 491,986**	**P 17,102**	**P 153,698**

The aging of past due but not impaired is presented below.

	2008	
	Loans and Receivables	**Investment Securities**
Below 30 days	P 507	P -
30 to 60 days	293	-
61 to 90 days	375	-
91 to 180 days	604	
More than 180 days	2,719	-
	P 4,498	P -

	2007		
	Loans and Receivables	Due from Other Banks	Investment Securities
Carrying Amount	P 311,675	P 20,690	P 164,500
Individually Impaired			
Grade: Unclassified	P -	P -	P 6
Grade C: Impaired	11,160	-	-
Grade D: Impaired	14,930	-	206
Grade E: Impaired	4,604	-	1,139
Grade F: Impaired	6,122	-	841
Gross Amount	36,816	-	2,192
Allowance for impairment	(15,067)	-	(1,852)
Carrying amount	21,749	-	340
Collectively Impaired			
Grade: Unclassified	11,385	-	8
Grade C: Impaired	2	-	-
Grade D: Impaired	-	-	3
Grade E: Impaired	2,103	-	-
Grade F: Impaired	115	-	-
Gross Amount	13,605	-	11
Allowance for impairment	(1,650)	-	(1)
Carrying amount	11,955	-	10
Past Due But Not Impaired			
Grade: Unclassified	4,232	-	-
Grade F: Impaired	-	-	-
Carrying Amount	4,232	-	-
Neither Past Due Nor Impaired			
Grade: Unclassified	272,118	20,690	164,150
Accounts with Negotiated Terms	1,621	-	-
Total Carrying Amount	P 311,675	P 20,690	P 164,500

The aging of past due but not impaired is presented below.

	2007	
	Loans and Receivables	Investment Securities
30 to 60 days	P 2,818	P -
61 to 90 days	557	-
91 to 180 days	738	-
More than 180 days	119	-
	P 4,232	P -

Parent Bank

	2008		
	Loans and Receivables	**Due from Other Banks**	**Investment Securities**
Carrying Amount	**P 467,590**	**P 14,881**	**P 140,558**
Individually Impaired			
Grade: Unclassified	P -	P -	P 15
Grade C: Impaired	4,223	-	-
Grade D: Impaired	10,273	-	5,249
Grade E: Impaired	4,376	-	120
Grade F: Impaired	5,193	-	655
Gross Amount	24,065	-	6,039
Allowance for impairment	(16,383)	-	(5,128)
Carrying amount	7,682	-	911
Collectively Impaired			
Grade: Unclassified	3,230	-	-
Allowance for impairment	(2,575)	-	-
Carrying amount	655	-	-
Past Due But Not Impaired			
Grade: Unclassified	3,863	-	-
Grade C: Impaired	-	-	-
Carrying amount	3,863	-	-
Neither Past Due Nor Impaired			
Grade: Unclassified	455,390	14,881	139,647
Total Carrying Amount	**P 467,590**	**P 14,881**	**P 140,558**

The aging of past due but not impaired is presented below.

	2008	
	Loans and Receivables	**Investment Securities**
Below 30 days	P 507	P -
30 to 60 days	212	-
61 to 90 days	350	-
91 to 180 days	546	-
More than 180 days	2,248	-
	P 3,863	P -

Parent Bank

	2007		
	Loans and Receivables	Due from Other Banks	Investment Securities
Carrying Amount	P 297,631	P 16,102	P 148,882
Individually Impaired			
Grade C: Impaired	P 11,259	P -	P 972
Grade D: Impaired	14,635	-	171
Grade E: Impaired	4,349	-	105
Grade F: Impaired	6,022	-	726
Gross Amount	36,265	-	1,974
Allowance for impairment	(15,727)	-	(1,000)
Carrying amount	20,538	-	974
Collectively Impaired			
Grade E: Impaired	2,101	-	-
Allowance for impairment	(1,068)	-	-
Carrying amount	1,033	-	-
Past Due But Not Impaired			
Grade: Unclassified	4,056	-	1
Neither Past Due Nor Impaired			
Grade: Unclassified	270,383	16,102	147,907
Accounts with Negotiated Terms	1,621	-	-
Total Carrying Amount	P 297,631	P 16,102	P 148,882

The aging of past due but not impaired is presented below.

	2007	
	Loans and Receivables	Investment Securities
61 to 90 days	P 2,816	P -
91 to 180 days	549	-
More than 180 days	691	1
	P 4,056	P 1

Exposure to credit risk also includes unused commercial letters of credit amounting to P17,998 and P25,254 for 2008 and 2007, respectively, in the Group financial statements and P17,998 and P25,252 for 2008 and 2007, respectively, in the Parent Bank financial statements (see Note 31.3).

4.2.4.2 Collateral Held as Security and Other Credit Enhancements

The 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 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.

The Group holds collateral against loans and other receivables in the form of property, debt securities, equities and others. An estimate of the fair value of collateral and other security enhancements held against loans and other receivables as of December 31, 2008 and 2007 is shown below:

	Group		**Parent Bank**	
	2008	2007	**2008**	2007
Against individually impaired				
Property	**P 49,964**	P 67,450	**P 49,964**	P 67,450
Debt Security	**2**	2	**2**	2
Equity	**248**	4,396	**248**	4,396
Other	**24,200**	11,636	**24,200**	11,636
Sub total *(Carried Forward)*	**P 74,414**	P 83,484	**P 74,414**	P 83,484

	Group		Parent Bank	
	2008	2007	**2008**	2007
Against individually impaired *(Brought Forward)*	**P 74,414**	P 83,484	**P 74,414**	P 83,484
Against past due but not impaired				
Property	**5,710**	7,488	**5,561**	6,641
Debt Security	**5**	5	**5**	5
Equity	**23**	1	**23**	3
Other	**2,167**	693	**1,894**	104
	7,905	8,187	**7,483**	6,753
Against neither past due nor impaired				
Property	**236,723**	332,245	**141,546**	321,470
Debt Security	**475**	987	**8**	874
Equity	**58,610**	78,128	**58,185**	78,031
Other	**70,242**	32,340	**83,606**	23,535
	366,050	443,700	**283,345**	423,910
Total	**P 448,369**	P 535,371	**P 365,242**	P 514,147

4.2.4.3 Concentrations of Credit Risk

The Bank monitors concentrations of credit risk by sector and by geographic location. An analysis of concentrations of credit risk at the reporting date is shown below:

Group

	2008			2007		
	Cash and Cash Equivalents	**Loans Receivables**	**Investment Securities**	Cash and Cash Equivalents	Loans Receivables	Investment Securities
Concentration by sector:						
Financial intermediaries	**P 101,540**	**P 65,452**	**P 81,037**	P 88,360	P 36,326	P 53,105
Manufacturing	**-**	**82,783**	**15,471**	-	67,763	625
Real estate, renting and business activities	**-**	**30,608**	**797**	-	23,893	2,998
Other community, social and personal activities	**-**	**213,951**	**65,164**	179	169,048	109,224
	P 101,540	**P 392,794**	**P 162,469**	P 88,539	P 297,030	P 165,952
Concentration by location:						
Philippines	**P 84,580**	**P 390,188**	**P 127,165**	P 69,284	P 293,179	P 119,533
Others	**16,960**	**2,606**	**35,304**	19,255	3,851	46,419
	P 101,540	**P 392,794**	**P 162,469**	P 88,539	P 297,030	P 165,952

Parent Bank

	2008			2007		
	Cash and Cash Equivalents	**Loans Receivables**	**Investment Securities**	Cash and Cash Equivalents	Loans Receivables	Investment Securities
Concentration by sector:						
Financial intermediaries	**P 96,584**	**P 66,400**	**P 67,906**	P 82,859	P 35,661	P 47,310
Manufacturing	**-**	**79,994**	**14,967**	-	66,433	638
Real estate, renting and business activities	**-**	**30,331**	**43**	-	19,610	2,406
Other community, social and personal activities	**-**	**207,059**	**64,562**	-	164,611	99,629
	P 96,584	**P 383,784**	**P 147,479**	P 82,859	P 286,315	P 149,984
Concentration by location:						
Philippines	**P 82,111**	**P 381,211**	**P 112,255**	P 67,511	P 283,139	P 106,614
Others	**14,473**	**2,573**	**35,224**	15,348	3,176	43,370
	P 96,584	**P 383,784**	**P 147,479**	P 82,859	P 286,315	P 149,984

4.3 Operational Risk

Operational risk is the risk of loss due to the 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.

The Group manages its operational risks by having 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, the Group considers operational risk management as a critical element in the conduct of its business. Under the Group's Operational Risk Management (ORM) framework, the Board of Directors is ultimately responsible for providing leadership in the management of risk in the Group. The business and service unit heads, as risk owners, are responsible for identifying, assessing and limiting the impact of risk in their businesses. The RMG provides the common risk language and management tools across the Group as well as monitors the implementation of the ORM framework and policies.

Since 2006, RMG has been conducting workshops with management and their operational risk coordinators to promote risk consciousness, and to instill the discipline of risk self-assessment.

In 2007, the ORM Policy Manual, which defines the Group's minimum requirements that must be strictly adhered to by all units within the Group, was officially released to the merged Bank's business and service units and subsidiaries. Alignment of their respective policies to this Manual has been on-going.

In 2008, RMG continued to focus on business continuity, information security, legal and regulatory compliance, outsourcing guidelines and complaints management, where substantial mitigating measures have been reinforced.

Operational risks are monitored to assess, measure and, eventually, manage/mitigate risks using appropriate management tools (e.g. identification of key risk indicators and key controls; key controls self-assessment; building of the loss database, etc.).

5. BUSINESS SEGMENTS

For management purposes, the Group is organized into four major business segments, namely commercial banking, investment banking, private banking and others. These are also the basis of the Group in reporting its primary segment information.

(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.

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

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

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

Internal charges and transfer pricing adjustments have been reflected in the performance of each business. Revenue sharing agreements are used to allocate external customer revenues to a business segment on a reasonable basis.

Primary segment information (by business segment) as of and for the years ended December 31, 2008 and 2007 follows:

	Commercial Banking	Investment Banking	Private Banking	Others	Eliminations	Group
December 31, 2008						
Interest Income						
External	P 39,720	P 28	P 1,562	P 1,049	P -	P 42,359
Inter-segment	13	19	-	41	(73)	-
Total interest income	39,733	47	1,562	1,090	(73)	42,359
Interest Expense						
External	17,984	-	1,118	221	-	19,323
Inter-segment	59	2	1	11	(73)	-
Total interest expense	18,043	2	1,119	232	(73)	19,323
Net Interest Income	**P 21,690**	**P 45**	**P 443**	**P 858**	**P -**	**P 23,036**
Investment Banking Fees	**P -**	**P 462**	**P -**	**P -**	**P -**	**P 462**
Profit for the Period Before Tax	**P 2,437**	**P 189**	**P 174**	**P 849**	**P 33**	**P 3,683**
Statement of Condition						
Total resources	**P 761,524**	**P 1,931**	**P 36,628**	**P 17,365**	**(P 15,416)**	**P 802,032**
Total liabilities	**P 708,366**	**P 249**	**P 33,315**	**P 11,130**	**(P 8,802)**	**P 744,258**
December 31, 2007						
Interest Income						
External	P 34,537	P 256	P 1,392	P 1,418	P -	P 37,603
Inter-segment	714	8	2	58	(782)	-
Total interest income	35,251	264	1,394	1,476	(782)	37,603
Interest Expense						
External	14,911	-	949	307	-	16,167
Inter-segment	70	2	1	22	(95)	-
Total interest expense	14,981	2	950	329	(95)	16,167
Net Interest Income	P 20,270	P 262	P 444	P 1,147	P -	P 21,437
Investment Banking Fees	P -	P 351	P -	P -	P -	P 351
Profit for the Period Before Tax	P 10,305	P 483	P 459	P 686	(P 2,516)	P 9,417
Statement of Condition						
Total resources	P 587,852	P 1,982	P 24,564	P 18,428	(P 15,617)	P 617,209
Total liabilities	P 531,721	P 305	P 20,991	P 11,748	(P 7,884)	P 556,881

6. FINANCIAL ASSETS AND LIABILITIES

These consist of the following:

Group

	2008							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial Assets:								
Cash and other cash items	P	-	P	21,770	P	21,770	P	21,770
Due from BSP		-		62,669		62,669		62,669
Due from other banks		-		17,102		17,102		17,102
Financial assets at FVTPL		-		6,849		6,849		6,849
AFS securities		-		35,173		35,173		35,173
HTM investments		114,129		-		114,129		109,780
Loans and other receivables		491,986		-		491,986		496,494
	P	**606,115**	**P**	**143,563**	**P**	**749,678**	**P**	**749,837**

	At Amortized Cost		Carrying Amount		Fair Value	
Financial Liabilities:						
Deposit liabilities	P	636,754	P	636,754	P	621,402
Bills payable		51,436		51,436		51,171
Subordinated notes		20,146		20,146		20,891
Other liabilities		35,922		35,922		35,922
	P	**744,258**	**P**	**744,258**	**P**	**729,386**

	2007							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial Assets:								
Cash and other cash items	P	-	P	18,388	P	18,388	P	18,388
Due from BSP		-		49,461		49,461		49,461
Due from other banks		-		20,690		20,690		20,690
Financial assets at FVTPL		-		20,951		20,951		20,951
AFS securities		-		75,605		75,605		75,605
HTM investments		67,944		-		67,944		69,444
Loans and other receivables		311,675		-		311,675		308,427
	P	**379,619**	**P**	**185,095**	**P**	**564,714**	**P**	**562,966**

	At Amortized Cost		Carrying Amount		Fair Value	
Financial Liabilities:						
Deposit liabilities	P	445,397	P	445,397	P	435,145
Bills payable		52,483		52,483		53,053
Subordinated notes		18,631		18,631		19,037
Other liabilities		40,370		40,370		40,370
	P	556,881	P	556,881	P	547,605

Parent Bank

	2008							
	Classes							
	At Amortized Cost		At Fair Value		Carrying Amount		Fair Value	
Financial Assets:								
Cash and other cash items	P	-	P	21,763	P	21,763	P	21,763
Due from BSP		-		59,940		59,940		59,940
Due from other banks		-		14,881		14,881		14,881
Financial assets at FVTPL		-		5,160		5,160		5,160
AFS securities		-		31,656		31,656		31,656
HTM investments		105,276		-		105,276		101,095
Loans and other receivables		467,590		-		467,590		470,677
	P	**572,866**	**P**	**133,400**	**P**	**706,266**	**P**	**705,172**

		At Amortized Cost		Carrying Amount		Fair Value
Financial Liabilities:						
Deposit liabilities	P	612,967	P	612,967	P	597,615
Bills payable		43,242		43,242		43,088
Subordinated notes		20,146		20,146		20,891
Other liabilities		32,011		32,011		32,011
	P	**708,366**	**P**	**708,366**	**P**	**693,605**

	2007							
	Classes							
		At Amortized Cost		At Fair Value		Carrying Amount		Fair Value
Financial Assets:								
Cash and cash equivalents	P	-	P	18,437	P	18,437	P	18,437
Due from BSP		-		48,320		48,320		48,320
Due from other banks		-		16,102		16,102		16,102
Financial assets at FVTPL		-		17,748		17,748		17,748
AFS securities		-		68,563		68,563		68,563
HTM investments		62,571		-		62,571		63,741
Loans and other receivables		297,631		-		297,631		301,530
	P	360,202	P	169,170	P	529,372	P	534,441

		At Amortized Cost		Carrying Amount		Fair Value
Financial Liabilities:						
Deposit liabilities	P	434,295	P	434,295	P	423,958
Bills payable		41,192		41,192		40,885
Subordinated notes		18,631		18,631		19,037
Other liabilities		36,922		36,922		36,921
	P	531,040	P	531,040	P	520,801

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	Group				Parent Bank			
		2008		2007		**2008**		2007
Cash and other cash items	**P**	**21,770**	P	18,388	**P**	**21,763**	P	18,437
Due from BSP:								
Mandatory reserves		**14,978**		41,825		**13,505**		40,940
Other than mandatory reserves		**47,691**		7,636		**46,435**		7,380
		62,669		49,461		**59,940**		48,320
	P	**84,439**	P	67,849	**P**	**81,703**	P	66,757

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 ranging from 4.0% to 5.7% in 2008 and 3.0% to 5.7% in 2007 and 2006, except for the amounts within the required reserve as determined by BSP. Total interest income earned amounted to P1,811, P1,334, and P544 in 2008, 2007 and 2006, respectively, in the Group financial statements and P1,789, P1,011, and P250, in 2008, 2007 and 2006, respectively, in the Parent Bank financial statements (see Note 20).

Cash and balances with the BSP are included in cash and cash equivalents for cash flow statement purposes.

Under Section 254 of the Manual of Regulations for Banks (MORB), a bank is required to maintain at least 25 percent of its reserve requirements in the form of deposits with the BSP as among the allowable instruments for reserve cover. Section 254.1 of the MORB further provides that such deposit account with the BSP is not considered as a regular current account as BSP checks for drawings against such deposits shall be limited to: (i) settlement of obligations with the BSP, and (ii) withdrawals to meet cash requirements.

8. DUE FROM OTHER BANKS

The balance of this account represents regular deposits with the following:

	Group				Parent Bank			
		2008		2007		**2008**		2007
Foreign banks	**P**	**16,736**	P	18,838	**P**	**14,466**	P	14,708
Local banks		**366**		1,852		**415**		1,394
	P	**17,102**	P	20,690	**P**	**14,881**	P	16,102

The breakdown of the account as to currency follows:

	Group				Parent Bank			
		2008		2007		**2008**		2007
US dollar	**P**	**13,817**	P	17,967	**P**	**12,038**	P	14,393
Other currencies		**3,157**		1,902		**2,535**		1,255
Peso		**128**		821		**308**		454
	P	**17,102**	P	20,690	P	**14,881**	P	16,102

Annual interest rates on these deposits range from 0% to 5.9% in 2008, 0% to 4.8% in 2007 and 0% to 5.9% in 2006 in the Group financial statements and 0% to 4.5% in 2008, 0% to 4.8% in 2007 and 0% to 5% in 2006 in the Parent Bank financial statements.

Due from other banks are included in cash and cash equivalents for cash flow statement purposes.

9. TRADING AND INVESTMENT SECURITIES

The components of this account are shown below:

	Group				Parent Bank			
		2008		2007		**2008**		2007
Financial assets at FVTPL	**P**	**6,850**	P	20,952	**P**	**5,160**	P	17,748
AFS securities		**35,173**		75,604		**31,656**		68,563
HTM investments		**114,128**		67,944		**105,276**		62,571
	P	**156,151**	P	164,500	**P**	**142,092**	P	148,882

9.1 Financial Assets at FVTPL

This account is composed of the following:

	Group				Parent Bank			
		2008		2007		**2008**		2007
Derivative financial assets	**P**	**4,256**	P	4,564	**P**	**2,911**	P	3,915
Government bonds		**1,505**		12,903		**1,194**		10,674
Other debt securities		**997**		3,031		**982**		3,159
		6,758		20,498		**5,087**		17,748
Equity securities - listed		**92**		454		**73**		-
	P	**6,850**	P	20,952	P	**5,160**	P	17,748

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 derivative financial assets is determined through valuation technique using net present value of future cash flows method. The Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to (P1,356), P104 and P1,452 in 2008, 2007 and 2006, respectively, in the Group financial statements and (P1,452), (P83) and P1,405 in 2008, 2007 and 2006, respectively, in the Parent Bank financial statements which were included as part of Other Operating Income in the income statements.

Foreign currency-denominated securities amounted to P3,562 and P8,300 as of December 31, 2008 and 2007, respectively, in the Group financial statements and P3,448 and P8,236 as of December 31, 2008 and 2007, respectively, in the Parent Bank financial statements.

Derivative instruments used by the Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps. Also in 2007, derivatives included embedded credit default swaps bifurcated from CLNs or credit-linked deposits (CLDs) (which were reclassified to loans together with their host contracts in 2008). Foreign currency and interest rate forwards/futures represent commitments to purchase/sell or are 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:

Group

	2008			2007		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	P 122,636	P 2,105	P 1,343	P 132,579	P 3,350	P 2,923
CLNs (see Note 10)	-	-	-	12,496	124	229
Interest rate swaps	14,637	809	1,031	4,004	436	492
Currency swaps	26,281	1,271	1,154	1,572	646	130
Credit default swap	818	-	-	4,158	8	69
Others	8,553	71	46	-	-	-
	P 172,925	P 4,256	P 3,574	P 154,808	P 4,564	P 3,844

Parent Bank

	2008			2007		
	Notional Amount	Fair Values Assets	Fair Values Liabilities	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	P 108,132	P 1,483	P 1,072	P 132,468	P 3,041	P 2,534
Credit-linked notes (see Note 10)	-	-	-	12,496	124	229
Interest rate swaps	9,842	493	588	2,539	263	347
Currency swaps	21,249	863	988	1,117	487	98
Credit default swap	-	-	-	1,068	-	3
Others	8,553	72	47	-	-	-
	P 147,776	P 2,911	P 2,695	P 149,688	P 3,915	P 3,211

The 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 (see Note 9.4).

Derivatives embedded in CLNs and CLDs amounting to (P183) and (P70) in the Group and Parent Bank financial statements, respectively, as of reclassification date, were reclassified to Loans together with their related host contracts (see Note 9.4).

9.2 Available-for-Sale Securities

The Group's available-for-sale securities consist of the following:

	Note	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Government debt securities		P 25,102	P 47,877	P 23,302	P 45,168
Other debt securities:					
Quoted		11,650	22,027	11,001	21,196
Not quoted		634	3,292	348	-
Equity securities:					
Quoted		625	528	149	282
Not quoted		2,807	2,488	1,570	2,175
		40,818	76,212	36,370	68,821
Allowance for impairment	14	(5,645)	(608)	(4,714)	(258)
Net		P 35,173	P 75,604	P 31,656	P 68,563

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

	Group		Parent Bank	
	2008	2007	**2008**	2007
Foreign currency	**P 13,808**	P 49,289	**P 11,887**	P 44,166
Peso	**21,365**	26,315	**19,769**	24,397
	P 35,173	P 75,604	**P 31,656**	P 68,563

Government debt securities issued by the Republic of the Philippines and foreign sovereigns and other debt securities issued by resident and non-resident corporations earn interest at annual rate ranging from 0% to 13% in 2008, 4.2% to 18% in 2007 and 4.2% to 22.9% in 2006 in the Group financial statements and 0% to 13% in 2008, 5.2% to 18% in 2007 and 4.2% to 22.9% in 2006 in the Parent Bank financial statements.

Other debt securities also include investments in a foreign financial institution under bankruptcy amounting to P5,053 both in the Group and Parent Bank Financial statements. As of December 31, 2008, allowance for impairment losses on such investments amounted to P4,440 in the Group and Parent Bank financial statements.

In 2008, all CLNs linked to ROP bonds were reclassified to loans and other receivables together with the embedded derivative (see Note 9.4). As of December 31, 2007, other debt securities include the host contract of CLNs with carrying value of P7,637 while the embedded derivatives were bifurcated and presented separately from the CLN as FVTPL (see Note 9.1).

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.

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

The fair values of government debt and quoted available-for-sale securities (other debt securities and equity shares) have been determined directly by reference to published prices generated in an active market. For unquoted available-for-sale 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 available-for-sale securities are carried at cost.

Total unrealized fair value gain (loss) on the balance of available-for-sale securities amounted to (P6,132), (P684) and P1,180 as of December 31, 2008, 2007 and 2006, respectively, in the Group financial statements and (P5,081), (P224) and P1,052 as of December 31, 2008, 2007 and 2006, respectively, in the Parent Bank financial statements.

Changes in available-for-sale securities are presented below:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Balance at beginning of year	**P 75,604**	P 56,428	**P 68,563**	P 49,679
Additions	**385,018**	136,952	**380,230**	134,367
Disposals	**(378,020)**	(114,589)	**(378,643)**	(113,931)
Reclassification to HTM (Note 9.4)	**(25,540)**	-	**(22,474)**	-
Reclassification to loans and other receivables (Note 9.4)	**(18,590)**	-	**(14,166)**	-
Reclassification from FVTPL (Note 9.4)	**102**	-	-	-
Reclassification from loans and other receivables (Note 10)	**438**	-	**438**	-
Unrealized fair value losses in equity	**(6,132)**	(684)	**(5,081)**	(224)
Foreign currency revaluation	**7,330**	(1,682)	**7,245**	(1,155)
Allowance for impairment loss	**(5,037)**	(821)	**(4,456)**	(173)
	P 35,173	P 75,604	**P 31,656**	P 68,563

In 2008, the Group and Parent Bank reclassified private and sovereign debt securities with total carrying value of P25,540 and P22,474, respectively, to held-to-maturity investments (see Note 9.4). In addition, the Group and the Parent Bank reclassified all CLNs that are linked to ROP bonds, with carrying value of P18,590 and P14,166, respectively, to loans and other receivables (see Note 9.4).

In 2008, the Group recognized a total of P4,440 provision for impairment losses on available-for-sale securities in the income statements (nil in 2007).

9.3 Held-to-Maturity Investments

The balance of this account is composed of the following:

	Note	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Government debt securities		P 92,220	P 43,864	P 83,752	P 38,827
Other debt securities:					
Listed		13,388	6,877	13,388	6,540
Nonlisted		9,193	18,047	8,809	18,048
		114,801	68,788	105,949	63,415
Allowance for impairment	14	(673)	(844)	(673)	(844)
Net		P 114,128	P 67,944	P 105,276	P 62,571

Government debt securities issued by the Republic of the Philippines and foreign sovereigns include securities deposited with BSP as security for the Group's faithful compliance of its fiduciary obligations in connection with the Group's trust operations (see Notes 25 and 31.3).

Other debt securities include investments in a sinking fund set up by the Group as required by BSP in connection with the Group's redemption of the preferred shares it issued to SM Prime Holdings, Inc. (SMPHI) at the original issue price five years from the date of issue (see Note 16). The carrying balance of the sinking fund as of December 31, 2008 and 2007 amounted to P2,110 and P1,357, respectively, in the Group and Parent Bank financial statements.

As to currency, held-to-maturity investments comprise of the following:

	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Foreign currency	P 84,268	P 48,369	P 80,325	P 45,901
Peso	29,860	19,575	24,951	16,670
	P 114,128	P 67,944	P 105,276	P 62,571

The maturity profile of this account is presented below:

	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Less than one year	P 11,678	P 6,527	P 11,026	P 5,703
One to five years	49,079	37,841	44,671	35,721
Beyond five years	53,371	23,576	49,579	21,147
	P 114,128	P 67,944	P 105,276	P 62,571

Changes in the held-to-maturity account are summarized below:

	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Balance at beginning of year	P 67,944	P 84,730	P 62,571	P 80,610
Additions	82,650	76,518	79,210	73,518
Maturities	(76,479)	(81,265)	(72,882)	(79,725)
Reclassification from FVPTL (Note 9.4)	6,297	-	6,297	-
Reclassification from AFS (Note 9.4)	25,540	-	22,474	-
Foreign currency revaluation	8,670	(12,039)	8,100	(11,832)
Impairment during the year	(494)	-	(494)	-
	P 114,129	P 67,944	P 105,276	P 62,571

The fair values of the held-to-maturity investments are as follows:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Government debt securities	**P 77,295**	P 45,994	**P 68,959**	P 40,646
Other debt securities	**32,485**	23,450	**32,136**	23,095
	P 109,780	P 69,444	**P 101,095**	P 63,741

The fair value is 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 16.5% in 2008, 0.9% to 18% in 2007 and 4% to 18% in 2006 for both the Group and the Parent Bank accounts.

9.4 Reclassification of Investment Securities

The 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-baked securities, guarantee of new unsecured debt issued by banks and purchase of equity stakes in financial institutions.

Related to above in 2008, the 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 below are the reclassifications made by the Group and the Parent Bank in 2008:

Group

	At Reclassification Date			At December 31, 2008	
	Carrying Value	Fair Value	Estimated Cash Flows	Carrying Amount	Fair Value
Reclassification from FVTPL to HTM	P 6,297	P 6,297	P 9,174	P 6,400	P 6,219
Reclassification of CLNs from AFS to Loans	18,590	18,590	22,591	19,973	19,232
Reclassification of embedded derivatives of CLNs from FVTPL to Loans	(183)	(183)	-	-	-
Reclassification of debt securities from AFS to HTM	25,540	25,540	*	27,223	25,093
Reclassification from FVTPL to AFS	102	102	*	36	36

Parent Bank

	At Reclassification Date			At December 31, 2008	
	Carrying Value	Fair Value	Estimated Cash Flows	Carrying Amount	Fair Value
Reclassification from FVTPL to HTM	P 6,297	P 6,297	P 9,174	P 6,400	P 6,219
Reclassification of CLNs from AFS to Loans	14,166	14,166	18,728	15,211	14,845
Reclassification of embedded derivatives of CLNs from FVTPL to Loans	(70)	(70)	-	-	-
Reclassification debt securities from AFS to HTM	22,474	22,474	*	24,182	22,173

* Not required to be disclosed

Trading losses of FVTPL transferred to AFS amounted to P39. The net trading loss that would have been recognized in the period following the reclassification during 2008 if the reclassification had not been made would have amounted to P66.

Total trading losses of FVTPL reclassified to HTM both in the Group and Parent Bank financial statements which were recognized in profit or loss amounted to P199. On the other hand, the net trading loss that would have been recognized in the period following the reclassification during 2008 if the reclassifications had not been made would have amounted to P125. Effective interest rates of FVTPL reclassified to HTM range from 7% to 8.8% in the Group and Parent Bank financial statements.

Unrealized fair value losses in equity of debt securities reclassified from AFS to HTM at reclassification dates amounted to P102 and P46 in the Group and Parent Bank financial statements, respectively. The net trading loss that would have been recognized in equity during the period following the reclassification in 2008 if the reclassifications had not been made amounted to P2,132.

Unrealized fair value losses in equity of CLNs linked to ROP bonds reclassified from AFS to Loans at reclassification dates amounted to P627 and P624 in the Group and Parent Bank financial statements, respectively. Effective interest rates at reclassification date range from 4.7% to 11.4% and 7.3% to 9.6% in the Group and Parent Bank financial statements. Additional unrealized fair value losses from the reclassification dates to December 31, 2008 that would have been recognized in equity had the CLNs not been reclassified to loans and other receivables would have amounted to P495 and P555 in the Group and Parent Bank financial statements, respectively. Additional trading losses to be recognized in profit or loss had the embedded derivatives not been reclassified totaled to P1,135 and P909 in the Group and Parent Bank financial statements, respectively.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Note	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Receivables from customers:					
Loans and discounts		P 322,729	P 239,233	P 313,728	P 229,192
Customers' liabilities under letters of credit and trust receipts		40,722	28,861	40,722	28,861
Bills purchased		13,408	16,892	13,408	16,892
Others		15,935	12,044	15,926	11,370
		392,794	297,030	383,784	286,315
Allowance for impairment	14	(15,721)	(16,606)	(15,485)	(16,269)
Net		377,073	280,424	368,299	270,046
Other receivables:					
SPURRA		60,770	8,952	48,648	4,503
Interbank loans receivables		29,194	15,514	29,194	15,096
UDSCL (see Note 9)		20,388	413	15,626	413
Accounts receivable		5,948	6,186	7,305	7,484
Sales contract receivables		1,982	1,960	1,891	1,921
Others		41	164	-	64
		118,323	33,189	102,664	29,481
Allowance for impairment	14	(3,410)	(1,938)	(3,373)	(1,896)
Net		114,913	31,251	99,291	27,585
		P 491,986	P 311,675	P 467,590	P 297,631

Included in loans and other receivables are nonaccruing loans amounting to P23,110 and P24,551 as of December 31, 2008 and 2007, respectively, in the Group financial statements and P22,609 and P22,516 as of December 31, 2008 and 2007, respectively, in the Parent Bank financial statements.

As of December 31, 2008, interbank loans receivables include loans to a foreign financial institution under bankruptcy amounting to P1,467 with related allowance for impairment of P1,308.

The Group's concentration of credit as to industry follows:

	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Manufacturing (various industries)	P 82,783	P 67,763	P 79,994	P 66,433
Financial intermediaries	65,452	36,326	66,401	35,661
Wholesale and retail trade	54,794	44,785	53,398	43,405
Other community, social and personal activities	31,712	36,455	31,202	38,449
Real estate, renting and other related activities	30,609	23,893	30,331	19,610
Transportation and communication	31,187	15,322	29,362	13,668
Agriculture, fishing and forestry	5,229	3,728	5,182	3,671
Others	91,028	68,758	87,914	65,418
	P 392,794	P 297,030	P 383,784	P 286,315

The breakdown of total loans as to secured and unsecured follows:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Secured:				
Real estate mortgage	**P 74,475**	P 61,779	**P 73,502**	P 60,809
Chattel mortgage	**30,851**	19,696	**24,458**	13,474
Other securities	**64,892**	40,182	**64,822**	40,102
	170,218	121,657	**162,782**	114,385
Unsecured	**222,576**	175,373	**221,002**	171,930
	P 392,794	P 297,030	**P 383,784**	P 286,315

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

	Group		Parent Bank	
	2008	2007	**2008**	2007
Variable interest rates	**P 292,115**	P 197,730	**P 285,009**	P 196,860
Fixed interest rates	**100,679**	99,300	**98,775**	89,455
	P 392,794	P 297,030	**P 383,784**	P 286,315

Loans and other receivables bear annual interest rates of 0.0% to 51.1% per annum in 2008, 1.1% to 41.7% in 2007 and 1.5% to 58.6% in 2006 in the Group and Parent Bank financial statements.

The Bank's receivables from customers amounting to P6,807 and P257 as of December 31, 2008 and 2007, respectively, were pledged as collaterals with the BSP to secure borrowings under rediscounting privileges. In addition, receivables from customers amounting P55 and P172 as of December 31, 2008 and 2007, respectively, have been rediscounted under the Development Bank of the Philippines, Land Bank of the Philippines and SSS rediscounting facilities.

On May 30, 2008, the Bank reclassified CLDs included under other receivables with carrying amount of P438 to AFS (see Note 9.2).

In 2008, the Group reclassified to loans and receivables CLNs linked to ROPs (classified as AFS) and the embedded derivatives (classified as FVTPL) with total fair value, as of the date of reclassification, of P18,590 and (P183), respectively (see Note 9.4). The related accrued interest receivables of CLNs amounting to P1,812 was also transferred to loans and receivables.

11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization at the beginning and end of 2008 and 2007 are shown below:

<u>Group</u>

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
<u>December 31, 2008</u>					
Cost	P 4,956	P 5,357	P 1,768	P 14,625	P 26,706
Accumulated depreciation and amortization	-	(1,500)	(339)	(10,191)	(12,030)
Net carrying amount	**P 4,956**	**P 3,857**	**P 1,429**	**P 4,434**	**P 14,676**
<u>December 31, 2007</u>					
Cost	P 4,876	P 4,482	P 1,445	P 12,507	P 23,310
Accumulated depreciation and amortization	-	(1,619)	(578)	(9,707)	(11,904)
Net carrying amount	P 4,876	P 2,863	P 867	P 2,800	P 11,406

Parent Bank

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
December 31, 2008					
Cost	P 4,956	P 5,238	P 1,644	P 12,629	P 24,467
Accumulated depreciation and amortization	-	(1,438)	(270)	(9,873)	(11,581)
Net carrying amount	**P 4,956**	**P 3,800**	**P 1,374**	**P 2,756**	**P 12,886**
December 31, 2007					
Cost	P 4,876	P 4,199	P 1,265	P 10,071	P 20,411
Accumulated depreciation and amortization	-	(1,400)	(453)	(7,621)	(9,474)
Net carrying amount	P 4,876	P 2,799	P 812	P 2,450	P 10,937

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007, of premises, furniture, fixtures and equipment is shown below:

Group

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 4,876	P 2,863	P 867	P 2,800	P 11,406
Additions	190	1,207	874	2,985	5,256
Disposals	(110)	(5)	(8)	(55)	(178)
Depreciation and amortization charges for the year	-	(209)	(304)	(1,295)	(1,808)
Balance at December 31, 2008, net of accumulated depreciation and amortization	**P 4,956**	**P 3,856**	**P 1,429**	**P 4,435**	**P 14,676**
Balance at January 1, 2007, net of accumulated depreciation and amortization	P 4,889	P 2,796	P 702	P 2,986	P 11,373
Additions	1	362	471	2,140	2,974
Disposals	(14)	(24)	(51)	(940)	(1,029)
Depreciation and amortization charges for the year	-	(271)	(255)	(1,386)	(1,912)
Balance at December 31, 2007, net of accumulated depreciation and amortization	P 4,876	P 2,863	P 867	P 2,800	P 11,406

Parent Bank

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2008, net of accumulated depreciation and amortization	P 4,876	P 2,799	P 812	P 2,450	P 10,937
Additions	190	1,208	839	1,504	3,741
Disposals	(110)	(5)	(7)	(50)	(172)
Depreciation and amortization charges for the year	-	(202)	(270)	(1,148)	(1,620)
Balance at December 31, 2008, net of accumulated depreciation and amortization	**P 4,956**	**P 3,800**	**P 1,374**	**P 2,756**	**P 12,886**
Balance at January 1, 2007, net of accumulated depreciation and amortization	P 4,889	P 2,699	P 661	P 2,461	P 10,710
Additions	-	351	459	1,707	2,517
Disposals	(13)	(124)	(120)	(645)	(902)
Depreciation and amortization charges for the year	-	(127)	(188)	(1,073)	(1,388)
Balance at December 31, 2007, net of accumulated depreciation and amortization	P 4,876	P 2,799	P 812	P 2,450	P 10,937

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2008 and 2007, the Bank has satisfactorily complied with this requirement.

12. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation and for rental. Income earned from investment properties under rental agreement amounted to P64 and P57 in 2008 and P35 and P29 in 2007 in the Group and Parent Bank financial statements, respectively. Direct expenses incurred from these properties amounted to P22 and P11 in 2008 and P18 and P11 in 2007 in the Group and Parent Bank financial statements, respectively.

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2008 and 2007 are shown below:

Group

	Land	Buildings	Total
December 31, 2008			
Cost	P 12,994	P 4,646	P 17,640
Accumulated depreciation	-	(1,378)	(1,378)
Accumulated impairment (see Note 14)	(1,019)	(9)	(1,028)
Net carrying amount	**P 11,975**	**P 3,259**	**P 15,234**
December 31, 2007			
Cost	P 14,952	P 5,327	P 20,279
Accumulated depreciation	-	(1,236)	(1,236)
Accumulated impairment (see Note 14)	(1,057)	(23)	(1,080)
Net carrying amount	P 13,895	P 4,068	P 17,963

Parent Bank

	Land	Buildings	Total
December 31, 2008			
Cost	P 12,241	P 4,398	P 16,639
Accumulated depreciation	-	(1,316)	(1,316)
Accumulated impairment (see Note 14)	(1,000)	(9)	(1,009)
Net carrying amount	**P 11,241**	**P 3,073**	**P 14,314**
December 31, 2007			
Cost	P 14,184	P 5,059	P 19,243
Accumulated depreciation	-	(1,185)	(1,185)
Accumulated impairment (see Note 14)	(1,051)	-	(1,051)
Net carrying amount	P 13,133	P 3,874	P 17,007

A reconciliation of the carrying amounts at the beginning and end of 2008 and 2007, of investment property is shown below:

Group

	Land	Buildings	Total
Balance at January 1, 2008, net of accumulated depreciation and impairment	P 13,895	P 4,068	P 17,963
Additions	125	197	322
Disposals	(1,886)	(457)	(2,343)
Reclassifications	(181)	(359)	(540)
Depreciation for the year	-	(196)	(196)
Impairment Recovery	22	6	28
Balance at December 31, 2008, net of accumulated depreciation and impairment	**P 11,975**	**P 3,259**	**P 15,234**
Balance at January 1, 2007, net of accumulated depreciation and impairment	P 13,587	P 4,747	P 18,334
Additions	2,483	1,129	3,612
Disposals	(1,483)	(1,562)	(3,045)
Impairment for the year	(692)	-	(692)
Depreciation for the year	-	(246)	(246)
Balance at December 31, 2007, net of accumulated depreciation and impairment	P 13,895	P 4,068	P 17,963

Parent Bank

	Land	Buildings	Total
Balance at January 1, 2008, net of accumulated depreciation and impairment	P 13,133	P 3,874	P 17,007
Additions	43	165	208
Disposals	(1,844)	(445)	(2,289)
Reclassification	(127)	(360)	(487)
Impairment recovery	36	6	42
Depreciation for the year	-	(167)	(167)
Balance at December 31, 2008, net of accumulated depreciation and impairment	**P 11,241**	**P 3,073**	**P 14,314**
Balance at January 1, 2007, net of accumulated depreciation and impairment	P 12,840	P 4,567	P 17,407
Additions	2,435	1,080	3,515
Disposals	(1,451)	(1,564)	(3,015)
Impairment for the year	(691)	-	(691)
Depreciation for the year	-	(209)	(209)
Balance at December 31, 2007, net of accumulated depreciation and impairment	P 13,133	P 3,874	P 17,007

The fair value of investment properties as of December 31, 2008 and 2007, determined based on the present value of the estimated future cash flows discounted at the current market rate, amounted to P23,021 and P19,061, respectively, for the Group accounts and P22,055 and P17,728, respectively, for the Parent Bank accounts.

Real and other properties acquired (ROPA) in settlement of loans through foreclosure or dacion in payment are accounted for as financial assets, investment properties, non-current assets held-for-sale and other resources - others. As of December 31, 2008 and 2007, ROPA gross of allowance comprise of the following:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Investment properties	**P 14,768**	P 16,203	**P 13,978**	P 16,278
Non-current assets held-for-sale	**2,209**	1,586	**2,181**	1,586
Available-for-sale securities	**844**	1,049	**844**	1,049
Other resources - others	**-**	28	**-**	-
	P 17,821	P 18,866	**P 17,003**	P 18,913

13. OTHER RESOURCES

The components of this account are shown below:

	Notes	Group		Parent Bank	
		2008	2007	**2008**	2007
Deferred tax assets	27	**P 5,780**	P 5,741	**P 5,747**	P 5,614
Receivables from SPVs		**3,435**	3,435	**3,435**	3,435
Deposits under escrow		**2,931**	2,931	**2,931**	2,931
Foreign currency notes and coins on hand		**2,220**	1,742	**2,220**	1,736
Non-current assets held for sale		**1,950**	1,441	**1,932**	1,401
Equity investments		**1,704**	1,696	**10,874**	11,560
Interoffice float items - net		**1,195**	1,104	**1,619**	1,108
Goodwill	26	**747**	747	**747**	747
Returned checks and other cash items		**465**	2,743	**465**	2,740
Deferred charges - net of amortization		**456**	1,038	**446**	1,025
Others		**8,860**	7,464	**7,330**	6,941
		29,743	30,082	**37,746**	39,238
Allowance for impairment	14	**(7,299)**	(6,956)	**(9,586)**	(10,065)
		P 22,444	P 23,126	**P 28,160**	P 29,173

13.1 Receivables from SPVs

Receivables from SPVs represent the amount due from sale of certain non-performing assets to the SPVs. In 2005, the former EPCIB sold certain nonperforming assets having 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 P98 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 on the 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.

As of December 31, 2008 and 2007, allowance for impairment losses on receivables from SPVs amounted to P2,991.

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by the 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 the Group with certain terms and conditions as stipulated in the MOA. Deposits under escrow earn an annual effective interest of 4.7% and 3.4% in 2008 and 2007, respectively.

13.3 Deferred Charges

Deferred charges mainly pertain to computer software licenses. Amortization expense on deferred charges amounted to P115, P94, and P37 in 2008, 2007 and 2006, respectively, in the Group financial statements and P115, P93, and P37 in 2008, 2007 and 2006, respectively, in the Parent Bank financial statements. These are included as part of Other Operating Expenses in the income statement (see Note 22).

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 the Group intends to sell within one year from the date of classification as held for sale.

13.5 Equity Investments

Equity investments consist of the following:

	% Interest Held	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Philippine Subsidiaries:					
BDO Private Bank, Inc. (BDO Private)	100%	P -	P -	P 2,579	P 2,579
BDO Leasing Finance, Inc.	85%	-	-	1,854	1,854
EBC Strategic Holdings Corporation (ESHC)	100%	-	-	1,421	1,421
EBC Investments, Inc. (EBCII)	100%	-	-	1,003	1,003
PCIB Properties, Inc.	100%	-	-	892	892
BDO Elite Savings Bank, Inc. (BDO Elite)	100%	-	-	-	678
BDO Capital Investment Corporation (BDO Capital)	100%	-	-	300	300
BDO Financial Services, Inc.	100%	-	-	200	200
BDO Technology Center, Inc. (BDO Technology)	100%	-	-	47	47
Equimark - NFC Development Corp.	60%	-	-	45	45
BDO Realty Corporation	100%	-	-	40	40
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
Foreign Subsidiaries:					
PCI Express Padala (HK) Ltd.	100%	-	-	215	215
PCIB Europe, S.P.A.	100%	-	-	33	33
Express Padala HK Ltd.	100%	-	-	28	28
BDO Remittance (USA), Inc	100%	-	-	26	26
Express Padala Frankfurt GmbH	100%	-	-	1	1
Equitable PCI Express Padala (Nederland) B.V.	100%	-	-	1	1
Associates:					
SM Keppel Land, Inc.	50%	1,294	1,294	1,294	1,294
Generali Pilipinas Holdings, Inc.	40%	446	446	378	378
Northpine Land Incorporated	20%	232	232	232	232
Taal Land	33%	170	170	170	170
Others		10	10	10	10
		2,152	2,152	10,861	11,539
Accumulated equity in net losses:					
Balance at beginning of year		(507)	(435)	-	-
Equity in net income (losses) during the year		47	(72)	-	-
Balance at end of year		(460)	(507)	-	-
At cost		12	51	12	21
Gross		1,704	1,696	10,874	11,560
Allowance for impairment (see Note 14)		(7)	-	(3,291)	(3,560)
Net		P 1,697	P 1,696	P 7,583	P 8,000

The Parent Bank's percentage of interest held in each subsidiary and associate is the same as that of the Group, except for Generali Pilipinas Holdings, Inc. which is at 30% at the Parent Bank and 40% at the Group level.

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

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

The following table presents financial information on the Group's associates as of and for the years ended December 31, 2008 and 2007:

2008	Assets	Liabilities	Revenue	Net Income (Loss)
SM Keppel Land, Inc.	P 1,765	P 234	P 254	P 63
Generali Pilipinas Holdings, Inc.	(253)	347	(456)	(468)
Northpine Land Incorporated	1,661	464	82	36
Taal Land	141	-	1	1
2007				
SM Keppel Land, Inc.	P 1,724	P 256	P 251	P 60
Generali Pilipinas Holdings, Inc.	730	336	8	(514)
Northpine Land Incorporated	1,423	500	102	57
Taal Land	159	200	1	-

13.5.1 Dividend Declarations

In 2008 and 2007, the Group's wholly-owned subsidiaries declared and paid cash dividends amounting to P109 and P2,384, respectively, and are presented as Dividend Income under Other Operating Income in the Parent Bank income statements.

13.5.2 Mergers Among Subsidiaries

In 2008, the following mergers among subsidiaries of the Group have taken place:

(a) On April 23, 2008, the respective Board of Directors of EBCII, Jardine Equitable Finance Corporation, EBC Capital Corporation, Equitable Exchange, Inc. and Express Padala International, Inc., approved the plan of Merger with EBCII as the surviving entity. The merger was approved by the SEC on October 6, 2008.

(b) On April 7, 2008, the respective Board of Directors of BDO Technology (formerly Equitable Data Center, Inc.) and PCI Automation Center, Inc, approved the Plan of Merger with BDO Technology as the surviving entity. The merger was approved by the SEC on September 5, 2008.

(c) On April 7, 2008, the respective Board of Directors of BDOI and EBC Insurance Brokerage, Inc. approved a Plan of Merger with BDOI as the surviving entity. The merger was approved by the SEC on August 21, 2008.

The above mergers were accounted for under the pooling-of-interests method since the merging entities are under the common control of the Group.

13.5.3 Decrease in Authorized Capital Stock

On July 30, 2007, the BOD and stockholders of ECN approved the decrease in authorized capital stock of ECN from P2,000 divided into 20.0 million shares to P675 divided into 6.75 million shares. The Board of Directors also approved the return to stockholders of P1,336 to be sourced from the funds of ECN representing surplus capital. On September 28, 2007, the SEC approved the decrease in authorized capital stock and P1,300 was returned by ECN on the same day. The remaining P36 was returned to stockholders on October 1, 2007.

13.5.4 Acquisitions/Disposals

On a special meeting dated August 17, 2007, the Board of Directors approved the purchase of BDO Elite Savings Bank, Inc. (see Note 26) and the American Express Philippine Dollar Charge Card Portfolio in the amount of P763.

On May 30, 2007, the then EPCIB entered into a MOA with ECN to purchase its outstanding credit card receivables and related liabilities as of March 31, 2007 for the amount of P3,650. ECN has also agreed to continue to provide the technical, marketing, collection and other credit card services with respect to the receivables and liabilities. On December 1, 2007, an addendum to the above-mentioned MOA was entered into with the Parent Bank for the assignment and transfer of ECN's assets and assumption of ECN's liabilities amounting to P403 and P490, respectively. The parties understand and agree that the liabilities assumed by the Parent Bank are more than the assets assigned and transferred to the Parent Bank. ECN undertakes and agrees to pay the net liability to the Parent Bank.

On February 22, 2007, the Group granted the management the authority and discretion to determine the manner and time of the implementation of the following corporate actions, taking into consideration the best interest of the Group and subject to applicable statutory and regulatory requirements:

(a) The sale or disposal of the Group's equity investments in certain publicly listed and non-listed corporations, the engagement of the services of a broker to handle the equity placement of the listed shares, and the engagement of the services of an investment/portfolio manager to implement the sale and disposition of the non-listed shares; and

(b) The sale or dissolution of certain non-operating non-stock companies. As of December 31, 2008, one of the subsidiaries is planned for dissolution, two subsidiaries are undergoing merger or planned to be merged with another subsidiary and two other subsidiaries were dissolved awaiting clearance from the Bureau of Internal Revenue or approval of license cancellation from SEC.

14. ALLOWANCE FOR IMPAIRMENT LOSSES

Changes in the allowance for impairment losses are summarized as follows:

	Group				Parent Bank			
		2008		2007		2008		2007
Balance at beginning of year:								
Available-for-sale securities	P	608	P	1,146	P	258	P	102
Held-to-maturity investments		844		1,125		844		1,128
Loans and other receivables		18,545		16,654		18,165		16,262
Investment properties		1,079		366		1,051		360
Other resources		6,956		3,137		10,064		7,553
		28,032		22,427		30,382		25,405
Provisions during the year - net		5,232		4,118		5,171		3,802
Reclassification/write-off		512		1,487	(	713)		1,176
Balance at end of year:								
Available-for-sale securities		5,645		608		4,714		258
Held-to-maturity investments		673		844		673		844
Loans and other receivables		19,131		18,545		18,858		18,165
Investment properties		1,028		1,080		1,009		1,051
Other resources		7,299		6,956		9,586		10,065
	P	33,776	P	28,033	P	34,841	P	30,383

Total provisions for impairment losses on financial assets amounted to P4,737, P3,292 and P1,259 in 2008, 2007 and 2006, respectively, in the Group financial statements and P4,575, P3,117 and P1,083 in 2008, 2007 and 2006, respectively in the Parent Bank financial statements.

Total provision for impairment losses on non-financial assets amounted to P495, P826 and P754 in 2008, 2007 and 2006, respectively, in the Group financial statements and P596, P685 and P909 in 2008, 2007 and 2006, respectively, in the Parent Bank financial statements.

In 2008, the Bank reversed excess allowance on Loans amounting to P1,506 reported as part of Impairment Losses account in the Group and Parent Bank income statements.

15. DEPOSIT LIABILITIES

The breakdown of this account as to type follows:

	Group				Parent Bank			
		2008		2007		2008		2007
Demand	P	36,321	P	25,165	P	22,814	P	23,202
Savings		263,248		318,670		264,803		319,864
Time		337,185		101,562		325,350		91,229
	P	636,754	P	445,397	P	612,967	P	434,295

This account is composed of the following:

	Group				Parent Bank			
	2008		2007		**2008**		2007	
Due to banks:								
Demand	**P**	**879**	P	571	**P**	**910**	P	571
Savings		**3,157**		1,768		**3,157**		1,750
Time		**3,440**		409		**1,753**		409
		7,475		2,748		**5,820**		2,730
Due to customers:								
Demand		**35,442**		24,594		**21,904**		22,631
Savings		**260,091**		316,902		**261,646**		318,114
Time		**333,745**		101,153		**323,597**		90,820
		629,278		442,649		**607,147**		431,565
	P	**636,754**	P	445,397	**P**	**612,967**	P	434,295

The breakdown of this account, as to currency, follows:

	Group				Parent Bank			
	2008		2007		**2008**		2007	
Foreign currency	**P**	**172,667**	P	116,933	**P**	**163,338**	P	105,360
Peso		**464,087**		328,464		**449,629**		328,935
	P	**636,754**	P	445,397	**P**	**612,967**	P	434,295

The maturity profile of this account is presented below:

	Group				Parent Bank			
	2008		2007		**2008**		2007	
Less than one year	**P**	**567,926**	P	400,090	**P**	**553,155**	P	393,130
One to five years		**39,937**		36,323		**31,751**		32,181
Beyond five years		**28,891**		8,984		**28,061**		8,984
	P	**636,754**	P	445,397	**P**	**612,967**	P	434,295

The Group's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates of 0% to 10% in 2008 and 2007. Demand and savings deposits usually have both fixed and variable interest rates while time deposit has fixed interest rate except for the peso-denominated long-term negotiable certificates of deposits which are repriced every quarter.

On December 23, 2004, the BSP approved the Parent Bank's application to issue in two or more tranches of up to P5,000 worth of peso-denominated long-term negotiable certificates of deposits (LTNCDs) within one year from date of approval. The first tranche amounting to P2,100 was issued on June 1, 2005 and will mature on June 2, 2010 and the second tranche amounting to P2,900 was issued on November 23, 2005 and will mature on November 24, 2010. The first tranche bears a variable interest based on MART 1 plus 0.3% spread while the second tranche pays a fixed rate of 9.7%. Also, on September 25, 2006, the BSP approved the Parent Bank's application to issue another P5,000 LTNCDs in one tranche. The P5,000 LTNCDs bear a fixed interest rate of 8.3% per annum. These are presented as part of the Time Deposit under Deposit Liabilities account in the statement of condition.

Also 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 will mature on December 18, 2012. These LTNCDs are presented, net of discount and including P17, in capitalized transaction costs, as part of the Time Deposit Liabilities account in the statement of condition.

Under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to liquidity reserve equivalent to 11% starting July 15, 2005 (under BSP Circular 491) and statutory reserve equivalent to 10%. As of December 31, 2008, the Group is in compliance with these regulations.

16. BILLS PAYABLE

This account is composed of the following:

	Note	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Foreign banks		P **13,305**	P 18,529	P **13,305**	P 14,223
Deposit substitutes		**12,379**	6,716	**11,798**	6,715
BSP		**6,787**	3,072	**6,787**	258
PDIC	26	**4,438**	4,438	**4,438**	4,438
Local banks		**3,083**	4,847	**1,437**	4,403
SMPHI (preferred shares)		**2,407**	2,158	**2,407**	2,158
Senior notes		**-**	8,997	**-**	8,997
Others		**9,037**	3,726	**3,070**	-
		P **51,436**	P 52,483	P **43,242**	P 41,192

The breakdown of this account as to currency follows:

	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Foreign currency	P **34,557**	P 27,578	P **16,879**	P 25,909
Peso	**16,879**	24,905	**26,363**	15,283
	P **51,436**	P 52,483	P **43,242**	P 41,192

The maturity profile of this account is presented below:

	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Less than one year	P **42,996**	P 38,814	P **34,810**	P 31,054
One to five years	**6,425**	10,920	**6,425**	8,080
Beyond five years	**2,015**	2,749	**2,007**	2,058
	P **51,436**	P 52,483	P **43,242**	P 41,192

Bills payable bear annual interest rates of 0.6% to 12% in 2008 and 3.6% to 12.2% in 2007. Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers.

The following comprise the interest expense on bills payable in the income statements (see Note 21):

	Group 2008	Group 2007	Parent Bank 2008	Parent Bank 2007
Deposit substitutes	P **890**	P 431	P **661**	P 430
Foreign banks	**559**	213	**485**	213
Senior notes	**290**	637	**290**	637
Local banks	**289**	400	**208**	383
BSP	**271**	28	**70**	28
PDIC	**175**	175	**175**	175
SMPHI	**146**	165	**146**	165
Amortization on deferred charges	**9**	40	**9**	40
Others	**1**	-	**2**	-
	P **2,630**	P 2,089	P **2,046**	P 2,071

Senior Notes

On November 23, 2004, the Board of Directors approved the issuance of senior bonds. Relative to this, on February 18, 2005 the Parent Bank issued US$100 million, 6.5% senior notes due in 2008 (the "Senior Note"). The issuance of the bonds under the terms approved by the Board of Directors was approved by the BSP on January 31, 2005. Among the significant terms and conditions of the issuance of the senior notes are:

(a) Issue price at 99.3% of the principal amount;

(b) The senior notes bear interest at the rate of 6.5% per annum from and including February 18, 2005 to but excluding February 19, 2008. Interest will be payable semi-annually in arrears on February 19 and August 19 of each year, commencing August 19, 2005, except that the first payment of interest will be in respect of the period from and including February 18, 2005 but excluding August 19, 2005;

(c) The senior notes will constitute direct, senior, unconditional, and unsecured obligations of the Bank and claims in respect of the notes shall at all times rank *pari passu* and without any preference among themselves. The payment obligations of the Bank under the senior notes shall at all times rank at least equally with all other present and future unsecured and unsubordinated obligations of the Parent Bank, including liabilities in respect of deposits;

(d) The Bank may redeem the senior notes in whole but not in part at redemption price equal to 100% of the principal amount of the Senior Notes together with accrued and unpaid interest to the date fixed for redemption upon the occurrence of certain changes affecting taxation in the Philippines, as more particularly specified in the covering offering circular; and,

(e) The 2008 senior notes are not guaranteed or insured by the PDIC and are not deposit liabilities of the Parent Bank.

On February 15, 2008, the Group settled in full the outstanding senior notes amounting to P4,174, inclusive of accrued interest of P119.

On October 16, 2003, the Group listed 6.5% US$150 senior notes in the Singapore Stock Exchange with maturity on October 16, 2008. The net proceeds from the issuance of the senior notes amounted to US$147 or about P8,890. Interest expense incurred by the Group on these senior notes amounted to P290 in 2008, P637 in 2007 and P478 in 2006 (shown as part of Interest Expense on Bills Payable and Others under Interest Expense account in the income statement). On October 16, 2006, $36 worth of senior notes was redeemed by various noteholders. The Group settled in full the outstanding senior notes of P5,536 on October 15, 2008 inclusive of accrued interest of P160.

SMPHI (Preferred Shares)

As required under PAS 32, *Financial Instruments: Disclosures and Presentation*, the Group recognized as financial liability 25,000,000 shares of redeemable, cumulative and non-participating preferred shares with a par value of P10 per share issued to SMPHI on October 18, 2004. The preferred shares were issued at US$2 per share or an aggregate subscription price of US$50. The preferred shares entitle SMPHI to cumulative dividends, payable in US dollars semi-annually in arrears, equal to 6.5% of the issue price per annum. The Group is also required to redeem the preferred shares from SMPHI at the original issue price five years from the date of issue. As required by BSP, the Bank set up a sinking fund on October 17, 2005 for the redemption of the preferred shares. The balance of the sinking fund as of December 31, 2008 and 2007 amounted to P2,110 and P1,357, respectively, and is invested in debt securities, shown as part of HTM investments (see Note 9.3). Dividends in arrears (recognized as interest expense) as of December 31, 2008 and 2007 amounted to P31 and P94, respectively, computed using the exchange rate at year end and are presented as part of Bills Payable account in the statements of condition.

17. SUBORDINATED NOTES PAYABLE

The components of this account are shown below:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Unsecured subordinated notes – P20 billion	**P 20,146**	P 10,074	**P 20,146**	P 10,074
Unsecured subordinated notes – US$200 million	**-**	8,557	**-**	8,557
	P 20,146	P 18,631	**P 20,146**	P 18,631

Total interest expense on subordinated notes payable amounted to P1,687 and P971 and P277 in 2008, 2007 and 2006, respectively, both in the Group and Parent Bank financial statements (see Note 21).

P20 Billion Unsecured Subordinated Notes

On November 21, 2007, the Group issued P10 billion unsecured subordinated notes eligible as Lower Tier 2 Capital due on 2017, callable with step-up in 2012 (the "notes") pursuant to the authority granted by the BSP to the Group on October 8, 2007 and BSP Circular No. 280 Series of 2001, as amended. The issuance was approved by the Board of Directors, in its special meeting held on June 1, 2007.

On May 20, 2008, the Group issued another tranche of P10 billion unsecured subordinated notes eligible as Lower Tier 2 Capital due on 2018, callable with step-up in 2013 pursuant to the authority granted by the BSP to the Group on April 3, 2008 and BSP Circular No. 280 Series of 2001, as amended. This issuance was approved by the Board of Directors, in its special meeting held on February 23, 2008.

The Notes represent direct, unconditional unsecured and subordinated peso-denominated obligations of the Group, issued in accordance with the Terms and Conditions under the Master Note. The Notes, like other subordinated indebtedness of the Group, are subordinated to the claims of depositors and ordinary creditors, are not a deposit, and are not guaranteed nor insured by the Group or any party related to the Group, 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 Group 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 Group has the option to call the Notes on the fifth year, subject to prior notice to Noteholders. The Notes will be used further to expand BDO Unibank's consumer loan portfolio and to refinance its existing issue of Lower Tier 2 debt. The Notes will also increase and strengthen BDO Unibank's capital base, in anticipation of continued growth in the coming years.

As of December 31, 2008, the outstanding balance of the Notes amounted to P20,146.

US$200 Million Unsecured Subordinated Notes

On October 15, 2002, the Board of Directors of former EPCIB approved the raising of Lower Tier 2 capital through the issuance in the international capital market of subordinated bonds maturing in ten years but with a call option exercisable after five years subject to the provisions of BSP Circular No. 280. The bonds bear a coupon rate of 9.4% per annum with provision for step-up after five years.

The issuance of the foregoing subordinated notes under the terms approved by the Board of Directors was approved by the BSP under MB Resolution No. 1660 dated November 12, 2002, as amended by MB Resolution No. 753 dated May 29, 2003.

Relative to this, on May 16, 2003 and June 5, 2003, the former EPCIB issued US$130 million and US$70 million, respectively, 9.4% subordinated notes due 2013. Among the significant terms and conditions of the issuance of the subordinated notes are:

(a) Issue price at 98.7% and 101.5% of their principal amount;

(b) The subordinated notes bear interest at the rate of 9.4% per annum from and including May 23, 2003 to but excluding July 1, 2008. Unless the call option is exercised, the interest rate from and including July 1, 2008 to but excluding July 1, 2013 will be reset at the US Treasury rate plus 10.8% per annum. Interest will be payable semi-annually in arrears on January 1 and July 1 of each year, commencing July 1, 2003;

(c) The subordinated notes will constitute direct, unconditional, unsecured and subordinated obligations of the Parent Bank and will at all times rank *pari passu* and without any preference among themselves but in priority to the rights and claims of holders of all classes of equity securities of the Parent Bank including holders of preference shares (if any);

(d) The Group may redeem the subordinated notes in whole but not in part at redemption price equal to 100% of the principal amount of the subordinated notes together with accrued and unpaid interest on July 1, 2008, subject to the prior consent of the BSP and the compliance by the Group with the prevailing requirements for the granting by the BSP of its consent thereof;

(e) Each noteholder by accepting a 2013 subordinated note will irrevocably agree and acknowledge that: (i) it may not exercise or claim any right of set-off in respect of any amount owed to it by the Group arising under or in connection with the subordinated notes; and, (ii) it shall, to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off; and,

(f) The subordinated notes are not deposits of the Group and are not guaranteed or insured by the Group or any party related to the Group or the PDIC and they may not be used as collateral for any loan made by the Group or any of its subsidiaries or affiliates. Also, the subordinated notes may not be redeemed at the option of the noteholders.

On June 30, 2008, the Group settled the outstanding balance of the notes amounting to P9,160, inclusive of interest expense of P410.

International Finance Corporation (IFC)

On June 27, 2002, the Group entered into a US$20 convertible loan agreement with IFC. IFC has the option to convert a portion of the loan into common shares of the Group commencing two years after the date of the agreement for P16.70 per share. Total proceeds of the loan amounted to P1,112. In compliance with PAS 32, *Financial Instruments: Disclosure and Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, the Group separated the equity component of the conversion option and unsecured loan with IFC. The loan bears interest at a rate of 5.4% per annum and will mature in 2008.

Upon approval by the Board of Directors on February 11, 2005, the Group converted US$10 convertible loan from IFC, qualified as Tier 2 capital, and issued 31,403,592 common shares of the Group based on the conversion price of P16.70 per share and exchange rate of P52.44 to a dollar. The BSP subsequently approved the conversion on May 3, 2005.

On April 18, 2007, the Group received notice of exercise from IFC to convert the remaining US$10 of its convertible loan to BDO Unibank, which conversion the BSP approved in a letter to the Group dated July 17, 2007. Subsequently, the Board of Directors, in its special meeting dated July 26, 2007, approved the conversion of the remaining US$10 of the convertible loan from IFC, qualified as Tier 2 capital. Thereafter, on August 23, 2007, the Group issued to IFC 31,403,592 common shares based on the pre-agreed conversion price of P16.70 per share and exchange rate of P52.44 to a dollar.

18. OTHER LIABILITIES

Other liabilities consist of the following:

	Group				Parent Bank			
	2008		2007		**2008**		2007	
Bills purchased-contra	**P**	**13,389**	P	16,564	**P**	**13,389**	P	16,598
Accounts payable		**3,979**		4,332		**3,777**		4,078
Derivative liabilities		**3,574**		3,844		**2,695**		3,211
Manager's checks		**3,381**		4,168		**3,371**		4,139
Accrued taxes, licenses and other expenses		**2,281**		2,065		**2,103**		1,829
Outstanding acceptances payable		**1,308**		1,698		**1,308**		1,697
Capitalized interest and other charges		**809**		193		**892**		193
Due to BSP and Treasurer of the Philippines		**792**		566		**781**		555
Withholding taxes payable		**690**		289		**642**		274
Income tax payable		**183**		206		**41**		47
Others		**5,536**		6,445		**3,012**		4,301
	P	**35,922**	P	40, 370	**P**	**32,011**	P	36,922

19. EQUITY

19.1 Capital Management and Regulatory Capital

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

Under current banking regulations, the combined capital accounts of each bank should not be less than an amount equal to ten percent of its risk assets. The qualifying capital of the 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.

The Group's policy is to maintain a strong capital base as to maintain 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 the 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 Group's 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 the bank 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.

As of the dates of the statements of condition, the Group has complied with the requirement on the ratio of combined capital accounts against the risk assets.

Under an existing BSP circular, expanded commercial banks are required to comply with the minimum capital requirement of P4,950. As of the dates of the statements of condition, the Group has complied with the above capitalization requirement.

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

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 the Group to particular operations or activities, it is not the sole basis used for decision making. Account also is taken of synergies with other operations and activities, the availability of management and other resources and the fit of the activity with the Group's longer term strategic objectives. The Group's policies in respect of capital management and allocation are reviewed regularly by its Board of Directors.

19.3 Capital Stock

Capital stock consists of the following:

	Number of Shares		
	2008	2007	2006
Common shares – P10 par value Authorized – 5,500,000,000 shares Issued and outstanding – 2,302,032,661 shares in 2008 and 2007; and 2,270,629,069 shares in 2006			
Balance at beginning of year	**2,302,032,661**	2,270,629,069	939,593,142
Issued during the year	**-**	31,403,592	1,331,036,927
	2,302,032,661	2,302,032,661	2,270,630,069
Preferred shares – P10 par value Authorized – 1,000,000,000 shares Issued and outstanding – 500,000,000 shares in 2008; none in 2007 and 2006	**500,000,000**	-	-

	Amount		
	2008	2007	2006
Common shares – P10 par value Authorized – 5,500,000,000 shares Issued and outstanding – 2,302,032,661 shares in 2008 and 2007; and 2,270,629,069 shares in 2006			
Balance at beginning of year	**P 23,020**	P 22,706	P 9,396
Issued during the year	**-**	314	13,310
	23,020	23,020	22,706
Preferred shares - P10 par value Authorized – 1,000,000,000 shares Issued and outstanding – 500,000,000 shares in 2008; none in 2007 and 2006	**5,000**	-	-
	P 28,020	P 23,020	P 22,706

On August 30, 2008, the Board of Directors 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 the Group. The conversion right is at the option of the holder after three years from the issue date or at the option of the 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 the 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 Bank issued 500,000,000 preferred shares at P10 per share or a total value of P5,000.

19.4 Increase in Authorized Capital Stock

On November 6, 2006 and December 27, 2006, the Board of Directors and stockholders, respectively, approved the increase in the Group's authorized capital stock from P15,000 divided into 1,015,000,000 common shares with a par value of P10 per share and 485,000,000 preferred shares with a par value of P10 per share to P65,000 divided into 5,500,000,000 common shares with a par value of P10 per share and 1,000,000,000 preferred shares with a par value of P10 per share, subject to the approval of the BSP and the SEC. The increase in the Group's authorized capital stock was filed with the BSP and SEC on January 8, 2007. Subsequently, this was approved by the BSP and the SEC on March 29, 2007 and May 25, 2007, respectively.

As indicated in Note 2.13, mandatory redeemable preferred shares are classified as financial liabilities as part of bills payable.

19.5 Issuance of Global Depositary Receipts by Primebridge

On various dates in 2006, Primebridge Holdings, Inc. ("Primebridge"), a stockholder owning 22.1% of the Group'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 Group's common stock.

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 offered 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 being traded at the London Stock Exchange.

As part of the offering, Primebridge, while remaining as the registered holder of the Group's shares underlying the GDRs, transferred all rights and interests in the 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 Group'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 Group. As of December 31, 2008, 1,246,375 GDRs equivalent to 24,927,500 shares of the Bank remained unconverted.

19.6 Surplus Free

On April 30, 2008 and July 26, 2007, the Board of Directors approved the declaration of cash dividends amounting to P0.80 per common share or a total of P1,842 and P1,842, respectively, payable to stockholders of record as of August 18, 2008 and March 11, 2008, respectively. The cash dividends were approved by the BSP on July 18, 2008 and February 14, 2008, respectively, and were paid by the Bank on September 11, 2008 and April 8, 2008, respectively.

On May 6, 2006, the Board of Directors approved the declaration of cash dividend amounting to P0.80 per share or a total of P770 payable to stockholders of record as of January 22, 2007. The cash dividend was approved by the BSP on December 28, 2006 and was paid on February 8, 2007.

Dividends also include the portion of interest expense paid by the Group to IFC attributable to the equity component (see Note 17). Total amount of dividends allocated to the equity component amounted to P0.43 in 2007.

20. INTEREST INCOME

Interest income consists of the following:

	Notes	Group		
		2008	2007	2006
Loans and other receivables	10	**P 27,939**	P 21,414	P 12,508
Investment and trading securities	9	**11,136**	11,743	10,564
Due from other banks	7, 8	**2,620**	2,339	571
Others		**664**	2,107	566
		P 42,359	P 37,603	P 24,209

	Notes	Parent Bank		
		2008	2007	2006
Loans and other receivables	10	**P 26,862**	P 20,639	P 12,182
Investment and trading securities	9	**9,800**	10,572	9,164
Due from other banks	7, 8	**2,506**	2,132	472
Others		**565**	1,892	524
		P 39,733	P 35,235	P 22,342

21. INTEREST EXPENSE

	Notes	Group 2008	Group 2007	Group 2006
Deposit liabilities	15	P 14,997	P 12,375	P 9,862
Bills payable and other liabilities	16, 18	4,326	3,792	3,272
		P 19,323	P 16,167	P 13,134

	Notes	Parent Bank 2008	Parent Bank 2007	Parent Bank 2006
Deposit liabilities	15	P 14,301	P 11,809	P 9,578
Bills payable and other liabilities	16, 18	3,742	3,169	2,551
		P 18,043	P 14,978	P 12,129

22. OTHER OPERATING INCOME AND EXPENSES

Other operating income is composed of the following:

	Notes	Group 2008	Group 2007	Group 2006
Service charges, fees and commissions		P 7,419	P 8,778	P 3,197
Foreign exchange gain – net		4,605	798	317
Trading gain (loss) – net	9	(2,868)	3,854	3,346
Trust fees	26	1,153	852	600
Rental income	12	181	260	38
Income from assets acquired		103	381	253
Dividend income	13	58	54	356
Miscellaneous - net		3,080	1,881	171
		P 13,731	P 16,858	P 8,278

	Notes	Parent Bank 2008	Parent Bank 2007	Parent Bank 2006
Service charges, fees and commissions		P 6,200	P 6,641	P 2,117
Foreign exchange gain – net		4,168	629	225
Trading gain (loss) – net	9	(2,711)	3,634	3,068
Trust fees	26	1,094	806	600
Dividend income	13	132	2,426	369
Miscellaneous - net		2,926	2,622	442
		P 11,810	P 16,758	P 6,821

Other operating expenses consist of the following:

	Notes	Group 2008	Group 2007	Group 2006
Employee benefits	23	P 10,096	P 8,363	P 3,957
Occupancy	31	3,501	3,393	1,640
Taxes and licenses		2,587	2,646	1,335
Security, clerical, messengerial and janitorial		1,599	1,109	529
Advertising		1,074	784	500
Insurance		1,044	997	382
Documentary stamp tax used		786	651	429
Repairs and maintenance		783	826	354
Travelling		605	381	197
Miscellaneous	13	5,777	5,610	2,757
		P 27,852	P 24,760	P 12,080

	Notes	Parent Bank		
		2008	2007	2006
Employee benefits	23	**P 9,378**	P 7,592	P 3,553
Occupancy	31	**3,157**	3,070	1,494
Taxes and licenses		**2,327**	2,379	1,132
Security, clerical, messengerial and janitorial		**1,570**	1,059	515
Advertising		**1,028**	641	261
Insurance		**1,010**	989	481
Repairs and maintenance		**775**	779	328
Documentary stamp tax used		**767**	577	426
Travelling		**552**	336	172
Representation and entertainment		**535**	613	257
Power, light and water		**516**	487	214
Miscellaneous		**4,277**	4,386	1,932
		P 25,892	P 22,908	P 10,765

23. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below:

	Group		
	2008	2007	2006
Salaries and wages	**P 6,194**	P 4,879	P 2,395
Bonuses	**1,685**	1,315	634
Retirement – defined benefit plan	**947**	779	426
Social security costs	**284**	230	104
Other benefits	**986**	1,160	398
	P 10,096	P 8,363	P 3,957

	Parent Bank		
	2008	2007	2006
Salaries and wages	**P 5,683**	P 4,360	P 2,142
Bonuses	**1,583**	1,237	612
Retirement – defined benefit plan	**899**	709	391
Social security costs	**266**	213	98
Other benefits	**947**	1,073	310
	P 9,378	P 7,592	P 3,553

The Group maintains a tax-qualified noncontributory retirement plan that is being administered by the Bank's trust department covering all regular full-time employees.

The amounts of retirement benefit asset recognized are determined as follows:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Present value of the obligation	**(P 7,086)**	(P 6,283)	**(P 6,684)**	(P 5,897)
Fair value of plan assets	**3,460**	2,989	**3,277**	2,690
Deficiency of plan assets	**(3,626)**	(3,294)	**(3,407)**	(3,207)
Unrecognized actuarial losses	**3,778**	3,627	**3,603**	3,554
Unrecognized net transition obligation	**(138)**	(278)	**(138)**	(278)
Retirement benefit asset	**P 14**	P 55	**P 58**	P 69

The movements in the present value of the retirement benefit obligation recognized in the books follows:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Balance at beginning of year	**P 6,283**	P 4,567	**P 5,897**	P 4,231
Current service cost and interest cost	**968**	797	**908**	711
Actuarial losses	**162**	1,135	**172**	1,158
Benefits paid by the plan	**(327)**	(216)	**(293)**	(203)
Balance at end of year	**P 7,086**	P 6,283	**P 6,684**	P 5,897

The movement in fair value of plan assets is presented below:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Balance at beginning of year	**P 2,989**	P 2,388	**P 2,690**	P 2,079
Contributions paid into the plan	**906**	706	**889**	680
Benefits paid by the plan	**(327)**	(216)	**(293)**	(203)
Actuarial loss	**(357)**	(108)	**(242)**	(61)
Expected return on plan assets	**249**	219	**233**	195
Balance at end of year	**P 3,460**	P 2,989	**P 3,277**	P 2,690

Actual return on plan assets were P969 and P423 and P77 and P62 in 2008 and in 2007 in the Group and the Parent Bank financial statements, respectively.

The amounts of retirement benefits recognized in the income statements are as follows:

	Group		
	2008	2007	2006
Current service costs	**P 455**	P 450	P 207
Interest costs	**513**	347	263
Expected return on plan assets	**(249)**	(219)	(187)
Net actuarial losses recognized	**89**	209	5
Net transition obligation (asset) recognized	**139**	(8)	138
	P 947	P 779	P 426

	Parent Bank		
	2008	2007	2006
Current service costs	**P 420**	P 392	P 178
Interest costs	**488**	313	235
Expected return on plan assets	**(233)**	(193)	(161)
Net actuarial gain recognized	**86**	214	-
Net transition obligation (asset) recognized	**139**	(8)	139
	P 900	P 718	P 391

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

	Group		Parent Bank	
	2008	2007	**2008**	2007
Balance at beginning of year	**P 55**	P 128	**P 69**	P 107
Expense recognized	**(947)**	(779)	**(900)**	(718)
Contributions paid	**906**	706	**889**	680
Balance at end of year	**P 14**	P 55	P **58**	P 69

As at December 31, 2008, the Group's plan assets were composed of 77.7% placements in debt instruments, 10.5% loans and other receivables, 6.7% deposits in other banks, and 5.1% other properties, and the Parent Bank's plan assets were composed of 77.5% placements in debt instruments, 11.0% loans and other receivables, 6.8% deposit in other banks, and 4.7% other properties.

For determination of the retirement benefits, the following actuarial assumptions were used:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Discount rates	**8.1% - 11.4%**	8.3%	**8.4%**	8.4%
Expected rate of return on plan assets	**7.0% - 10.0%**	8.1%	**10.0%**	8%
Expected rate of salary increases	**8.0% - 10.0%**	9.3%	**8.0%**	10%

24. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group has loans, deposits and other transactions with its related parties and with certain DOSRI.

(a) Loans to Related Parties

Under existing policies of the Group, 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 Group 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 deposit and book value of their investment in the Group. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of the Group, whichever is lower.

The following additional information is presented relative to the DOSRI loans:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Total DOSRI loans	**P 30,845**	P 12,405	**P 30,845**	P 12,384
Unsecured DOSRI loans	**P -**	P 6	**P -**	P 4
Past due DOSRI loans	**P -**	P 4	**P -**	P 4
% of DOSRI loans to total loan portfolio	**7.9%**	4.2%	**8.0%**	4.5%
% of unsecured DOSRI loans to total DOSRI loans	**0.0%**	0.1%	**0.0%**	0.0%
% of past due DOSRI loans to total DOSRI loans	**0.0%**	0.0%	**0.0%**	0.0%

DOSRI loans bear interest rates of 0% to 11% per annum in 2008, 4.5% to 9.8% per annum in 2007, and 5.5% to 18.2% per annum in 2006 both in the Group and Parent Bank financial statements.

(b) Deposits from Related Parties

As of December 31, 2008 and 2007, total deposits made by the related parties to the Group amounted to P230,931 and P107,080, respectively. The related interest expense from deposits amounted to P6, P2 and P10 in 2008, 2007 and 2006, respectively.

(c) Other Transactions with Related Parties

A summary of other transactions of the Parent Bank with subsidiaries and associates is shown below:

(i) Income to the Parent Bank

i. EBC Management, Inc. engaged the Parent Bank on August 29, 2005 to provide support services in connection with its general and administrative operations. The Parent Bank charges EBC Management, Inc. a service fee equivalent to P50 thousand per quarter excluding actual costs and expenditures. The service fee shall continue to be in force unless terminated through written notice by either party at least 60 days prior to the intended date of termination.

ii. ESHC engaged the Parent Bank to provide support services, such as human resource, audit, comptrollership, central administration and legal services in connection with its general and administrative operations. The Parent Bank charges ESHC P50 thousand per quarter or P200 thousand annually. The service fee shall continue to be in force unless terminated through written notice by either party at least 60 days prior to intended date of termination.

   On January 1, 2006, ESHC engaged BDO Technology to provide such services as systems development and maintenance, computer operations, technical support and network services. ESHC is charged P500 thousand annually for services rendered.

iii. EBCII engaged the Parent Bank to provide various support such as human resources management, audit, preparation and issuance of checks for and in behalf of EBCII, documentation and safekeeping/custodianship of securities and collateral documents, accounting functions and review of financial statements for EBCII. The Parent Bank charges EBCII a service fee equivalent to P11 thousand per month excluding actual costs and expenditures. The agreement is renewable every year. In 2008 and 2007, total service fees amounted to P132 thousand for each year.

iv. Strategic Property Holdings, Inc. (SPHI) engaged the Parent Bank to provide support services in connection with its general and administrative operations. SPHI pays the Parent Bank an annual service fee equivalent to P360 thousand. The service agreement shall continue to be in force unless terminated by either party through a written notice of either party at least 60 days prior to date intended for termination. SPHI also leases its office space from the Parent Bank at P1.6 per year.

v. Generali has an existing Investment Management Agreement with the Group. For services rendered, Generali shall pay the Group management fees equivalent to 0.25% of managed funds and 0.10% of directed investments and custodianship which shall be based on the average daily balance of the fund type and shall be deducted quarterly from the fund.

There are no outstanding balances arising from these transactions as of December 31, 2008 and 2007.

(ii) Expenses of the Parent Bank

i. On May 30, 2007, ECN entered into a service agreement with BDO Unibank. Under this agreement, ECN agreed to provide marketing, central operations, systems credit and collection support and finance services to BDO Unibank in connection with the operations of the credit card business. This agreement is pursuant to the terms and conditions of the MOA where ECN agreed to sell its rights, interests and obligations on its receivables and liabilities to BDO Unibank.

ii. BDO Technology renders technical services and/or management consultation to the Parent Bank and affiliates at substantially the same terms as transactions with third parties. In 2008 and 2007, total amount of transactions were P22 and P24, respectively.

iii. The Group leases from related parties space for its branch operations. For the years ended December 31, 2008, 2007 and 2006, total rent expense paid to related parties amounted to P259, P298, and P187, respectively, and is included as part of Occupancy account in the income statements.

iv. Service fees of Property Care, Inc. from property management are billed to the Parent Bank under a service agreement which is substantially comparable to terms with other individuals and business entities.

(iii) Others

The Parent Bank has cost sharing agreement with its certain subsidiaries as follows:

i. BDO Capital has a service agreement with BDO Unibank whereby BDO Unibank shall provide BDO Capital with various support services consisting of the following:
   1. Traditional bank transaction processing functions;
   2. Preparation and maintenance of the BDO Capital's books of accounts;
   3. Generation of required external regulatory reports and internal management information;
   4. General and periodic examination of the books of the BDO Capital's accounts;
   5. Advertising and marketing services;
   6. Information technology support services;
   7. Recruitment and selection of personnel;
   8. Preparation of payroll and benefit administration; and,
   9. Other administrative and general services.

ii. On January 31, 2008, BDO Securities entered into a service agreement with BDO. Under this agreement, BDO Unibank shall provide various support services such as general accounting, internal audit, human resources management, advertising and marketing services, information technology systems/processing, legal support and administrative and general services.

Outstanding balances arising from these transactions as of December 31, 2008 and 2007 amounted to P41 and 24, respectively.

*(iv)*The salaries and other compensation given to the Group's key management personnel follow:

	Group		
	2008	2007	2006
Salaries and wages	**P 437**	P 408	P 191
Bonuses	**208**	167	81
Social security costs	**-**	-	-
Other benefits	**32**	17	8
	P 678	P 592	P 280

	Parent Bank		
	2008	2007	2006
Salaries and wages	**P 270**	P 274	P 123
Bonuses	**135**	117	53
Social security costs	**-**	91	-
Other benefits	**21**	14	6
	P 426	P 405	P 182

25. TRUST OPERATIONS

The following securities and other properties held by the Group in fiduciary or agency capacity (for a fee) for its customers are not included in the accompanying Group statements of condition since these are not properties of the Group (see Note 31).

	Group				Parent Bank			
	2008		2007		**2008**		2007	
Investments	**P**	**188,553**	P	183,694	**P**	**188,554**	P	182,115
Others		**149,620**		90,414		**122,488**		73,384
	P	**338,173**	P	274,108	**P**	**311,042**	P	255,499

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

(a) Investment in government securities (shown as part of Held-to-maturity Investments) with a total face value of P3,057, as of December 31, 2008 and P2,263 as of December 31, 2007 are deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations (see Note 9); and,

(b) A certain percentage of the Bank's trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. As of December 31, 2008, the reserve for trust functions amounted to P627 and is included as part of Surplus Reserves in the Group statements of changes in equity.

Income from trust operations is reported gross of the related expenses and amounted to P1,153, P852, and P600, for the year ended December 31, 2008, 2007 and 2006, respectively, and shown as Trust Fees under Other Operating Income in the Group income statements.

26. MERGERS AND ACQUISITIONS

26.1 Merger with Equitable PCI Bank, Inc.

On August 29, 2006, BDO Unibank, together with SMIC, a major stockholder and other members of the SM Group, filed a Tender Offer with the SEC to acquire up to around 401.1 million shares representing 55.2% of the total outstanding shares of common stock of the then EPCIB at P92 per share. The payment terms of the offer were as follows: 10% on October 2, 2006; 10% on June 2, 2007; 10% on February 2, 2008; and the remaining balance to be paid on October 2, 2008. On October 2, 2006, a total of 377.7 million shares equivalent to 52% of the EPCIB's total shares outstanding were purchased by SMIC for a total consideration of P34.8 billion.

Consequently, on November 6, 2006, the respective Boards of Directors of BDO Unibank and EPCIB approved a Plan of Merger of BDO Unibank and EPCIB with BDO Unibank as the surviving entity. The Plan of Merger was subsequently approved by BDO Unibank and EPCIB shareholders in separate meetings on December 27, 2006. The Plan of Merger and Articles of Merger were approved by the BSP and the Securities and Exchange Commission (SEC) on March 29, 2007 and May 25, 2007, respectively, with May 31, 2007 as the effectivity date of the merger.

Since the merger is between two entities which are both under common control by SMIC, the Group has decided to account for the merger under the pooling-of-interests method of accounting. In applying the pooling-of-interests method, the financial statement items of BDO Unibank and EPCIB were combined at the beginning of the period in which the merger occurred, that is, January 1, 2007. The comparative financial data presented for 2006 have been restated to include the accounts of EPCIB from October 2, 2006, the date the two merging entities became under common control by SMIC.

Simultaneous and pursuant to the merger, BDO Unibank increased its authorized capital stock from P15 billion to P65 billion to provide for the issuance of the BDO Unibank common shares necessary to effect the exchange ratio (see Note 19).

The use of the pooling-of-interests method requires the restatement of all comparative financial data to be presented from the beginning of the earliest period presented, or if later, the date the two merging entities became under common control, which is October 2, 2006. BDO Unibank opted for the latter. Accordingly, the statement of condition as of December 31, 2006 have been restated to include all the resources, liabilities and equity accounts of both BDO Unibank and EPCIB as of December 31, 2006, and the income statement, statement of changes in equity and cash flow statement, for the year ended December 31, 2006 has been restated from the previously reported amounts to include all profit and loss accounts, changes in equity and cash flows of the former BDO Unibank for the whole year of 2006 and those of the former EPCIB from October 2, 2006 (the date both BDO Unibank and EPCIB became under common control by SMIC) to December 31, 2006.

Proforma Income Statements for 2006

Assuming BDO Unibank and EPCIB were already under common control at the beginning of 2006, instead of October 2, 2006, the proforma income statements for 2006 for both Group and Parent Bank would be as presented below:

	Income Statements for 2006			
	Group		Parent Bank	
Interest Income	P	38,938	P	34,838
Interest Expense		19,641		18,057
Net Interest Income		19,297		16,781
Impairment Losses		5,108		5,078
Net Interest Income after Impairment Losses		14,189		11,703
Other Operating Income		17,645		13,436
Other Operating Expenses		22,822		18,924
Income Before Tax		9,012		6,215
Tax Expense		2,437		1,819
Net Income	P	6,575	P	4,396
Attributable to:				
Shareholders of the Parent Bank	P	6,394		
Minority Interest		181		
	P	6,575		

The proforma income statements for 2006 do not represent what the results of operations would have been for 2006 had the merger of the two entities actually taken place at the beginning of 2006. The proforma income statements are being presented solely for analytical purposes.

26.2 Merger with Equitable Savings Bank, Inc., BDO Elite Savings Bank, Inc. and PCI Capital Corporation

The respective Board of Directors of BDO Unibank, Equitable Savings Bank, Inc. (ESB), BDO Elite Savings Bank, Inc. (BDO Elite) and PCI Capital Corporation (PCI Capital) approved on April 5, 2008, April 9, 2008, April 30, 2008 and April 30, 2008, respectively, the Plan of Merger and the Articles of Merger with BDO Unibank as the surviving entity.

The Plan of Merger was approved by stockholders of BDO Unibank, ESB, BDO Elite and PCI Capital on May 9, 2008, April 30, 2008, May 2, 2008 and May 2, 2008, respectively. The Plan of Merger and the Articles of Merger were approved by the BSP and the Securities and Exchange Commission (SEC) on October 2, 2008 and October 30, 2008, respectively, with October 30, 2008 as the effective date of the merger. Under the merger, the entire assets of ESB, BDO Elite and PCI Capital with carrying value of P14,790 and liabilities with carrying value of P9,249 as of October 30, 2008 were transferred to and absorbed by BDO Unibank. Since the merged entities were all former subsidiaries of BDO Unibank, the Group decided to account for the merger under the pooling-of-interest method of accounting. The financial statement items of BDO Unibank, ESB, BDO Elite and PCI Capital were combined at the beginning of the period in which the merger occurred, that is, January 1, 2008. The comparative financial data presented for 2007 and 2006 have been restated to include the accounts of ESB and PCI Capital from October 2, 2006, the date these entities became entities under common control (see Note 26.1).

26.3 BDO Elite Savings Bank, Inc.

On August 17, 2007, the Parent Bank entered into a stock purchase agreement with BDO Elite (formerly American Express Bank, Ltd.) wherein the Parent Bank acquired 100% of the total issued capital stock of BDO Elite for a consideration of P763. The fair value of the net assets of BDO Elite as of the closing date amounted to P677 (see Note 13). As such, the Bank recognized goodwill amounting to P86 representing excess of purchase price over the fair value of BDO Elite's net assets. The goodwill is included as part of Other Resources account in the Group statements of condition (see Note 13). The Parent Bank's acquisition of BDO Elite was approved by the BSP on October 30, 2007. In 2007, BDO Elite was merged with the Parent Bank (see Note 26.2).

26.4 United Overseas Bank Philippines

On May 6, 2005, BDO Unibank, UOBP and United Overseas Bank Limited (UOBL) signed a MOA whereby BDO acquired the 66 branches of UOBP for a total cash consideration of P600. As part of the MOA, BDO Unibank assumed the deposit liabilities of UOBP in consideration of an equivalent amount of related assets of UOBP, including cash payment in case the assets would be lower than the assumed liabilities. Also under the MOA, the P600 payment of BDO Unibank will be used by UOBL to subscribe for the Bank's shares of common stock valued at P26.75 per share, or equivalent to 22,429,906 shares. On December 19, 2005, the transfer of the assets including cash payment made by UOBP to fully offset the assumed liabilities by BDO Unibank was carried out. The goodwill amounting to P600 is presented as part of Other Resources in the statements of condition (see Note 13). The UOBP acquisition was approved by the BSP on September 8, 2005 while the shares to be subscribed by UOBL were subsequently issued in February 2006.

Also as part of the MOA, the Bank received financial assistance from PDIC amounting to P4,420 (see Note 16). The financial assistance, which is recorded as part of Bills Payable in the statements of condition will mature on December 19, 2012 and bears annual interest rate of 3.90%. The related interest expense amounting to P175 in 2008, 2007 and 2006 is shown as part of Interest Expense in the income statements. As of June 30, 2007, the proceeds of the financial assistance from PDIC are invested in government securities as provided for in the MOA. The Bank accounted for the financial assistance from PDIC under PAS 20, *Accounting for Government Grants*, wherein the loan received is initially recorded at the amount borrowed with no re-measurement to fair value or imputation of market interest.

27. TAXES

27.1 Current and Deferred Taxes

The major components of tax expense for the years ended December 31 are as follows:

	Group		
	2008	2007	2006
Income statements:			
Current tax expense:			
Regular corporate income tax (RCIT) at 35%	**P 298**	P 278	P 283
Minimum corporate income tax (MCIT) at 2%	**82**	149	22
Final taxes at 20%, 15%, 10% and 7.5%	**1,078**	1,703	807
	1,458	2,130	1,112
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(13)**	717	158
Tax expense reported in the income statements	**P 1,445**	P 2,847	P 1,270
Statements of changes in equity:			
Deferred tax relating to fair value gain on AFS financial assets	**P 2**	P -	P 4
Deferred tax relating to changes in revaluation increment	**22**	-	-
Tax income reported in the statements of changes in equity	**P 24**	P -	P 4

	Parent Bank		
	2008	2007	2006
Income statements:			
Current tax expense – MCIT at 2%	**P 81**	P 147	P 162
Final taxes at 20%, 15%, 10% and 7.5%	**983**	1,389	730
	1,064	1,536	892
Deferred tax expense (income) relating to origination and reversal of temporary differences	**(106)**	1,098	142
Tax expense reported in the income statements	**P 958**	P 2,634	P 1,034
Statement of changes in equity:			
Deferred tax relating to fair value gain on AFS financial assets	**P 4**	P -	P -
Deferred tax relating to changes in revaluation increment	**22**	-	-
Tax income reported in the statements of changes in equity	**P 26**	P -	P -

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

	Group		
	2008	2007	2006
Tax on pretax income at 35%.	**P 1,289**	P 3,296	P 1,841
Adjustment for income subjected to lower income tax rates	**(402)**	1,339	(608)
Tax effects of:			
NOLCO not recognized	**1,496**	76	886
Deferred tax on allowance recognized during the year	**(1,430)**	-	-
Income exempt from tax	**(1,183)**	(2,767)	(988)
Deductible temporary differences not recognized	**(1,063)**	1,155	354
Tax-exempt loss (income) of FCDU	**914**	(1,688)	(1,472)
Effects of changes in tax rates	**861**	-	-
Non-deductible expenses	**718**	1,271	1,038
Others	**245**	165	219
Tax expense reported in the income statements	**P 1,445**	P 2,847	P 1,270

	Parent Bank		
	2008	2007	2006
Tax on pretax income at 35%	**P 853**	P 3,607	P 1,497
Adjustment for income subjected to lower income tax rates	**(478)**	1,373	(520)
Tax effects of:			
NOLCO not recognized	**1,495**	(13)	814
Deductible temporary differences not recognized	**(1,414)**	1,138	331
Income exempted from tax	**(1,139)**	(2,523)	(1,000)
Deferred tax on allowance recognized during the year	**(1,165)**	-	-
Tax-exempt loss (income) of FCDU	**914**	(1,663)	(1,420)
Effects of changes in tax rates	**861**	-	-
Non-deductible expenses	**693**	814	1,087
Others	**338**	(99)	245
Tax expense reported in the income statements	**P 958**	P 2,634	P 1,034

The components of the deferred tax assets as of December 31, 2008 and 2007 are as follows:

	Statements of Condition			
	Group		Parent Bank	
	2008	2007	**2008**	2007
Deferred tax assets:				
Allowance for impairment losses	**P 5,904**	P 5,800	**P 5,939**	P 5,800
Unamortized past service cost	**380**	387	**375**	387
NOLCO	**183**	45	**11**	49
Lease income/expense differential	**98**	74	**75**	74
Accrual (reversal) of expenses	**(74)**	(110)	**4**	5
Unrealized loss on asset conversion	**(2)**	10	**-**	-
Unrealized loss on trading securities	**-**	10	**-**	-
Others	**56**	222	**26**	28
	6,546	6,438	**6,430**	6,343
Deferred tax liabilities:				
Revaluation increment in property	**(564)**	(585)	**(557)**	(579)
Capitalized interest	**(62)**	(74)	**(62)**	(75)
Changes in fair values of AFS financial assets	**(30)**	(32)	**(26)**	(30)
Retirement expense	**(11)**	(6)	**(7)**	(9)
Others	**(99)**	-	**(31)**	(36)
Net Deferred Tax Assets	**P 5,780**	P 5,741	**P 5,747**	P 5,614

Notes to Financial Statements

DECEMBER 31, 2008, 2007 AND 2006

(Amounts in Millions Except Per Share Data)

	Group Income Statements		
	2008	2007	2006
Allowance for impairment losses	**(P 45)**	P 521	(P 154)
NOLCO	**39**	875	292
Lease income differential	**22**	-	33
Capitalized interest	**(13)**	(26)	1
Unamortized past service cost	**10**	(10)	4
Unrealized loss on asset conversion	**(2)**	3	-
Others	**(24)**	(646)	(18)
Deferred Tax Expense (Income)	**(P 13)**	P 717	P 158

	Parent Bank Income Statements		
	2008	2007	2006
Allowance for probable losses	**(P 140)**	P 359	(P 132)
NOLCO	**38**	794	272
Capitalized interest	**(13)**	(26)	(1)
Unamortized past service cost	**12**	(10)	4
Investment properties	**(3)**	4	(81)
Net pension assets	**(1)**	4	2
Others	**1**	(27)	78
Deferred Tax Expense (Income)	**(P 106)**	P 1,098	P 142

	Group Statements of Changes in Equity			
	Group		Parent Bank	
	2008	2007	**2008**	2007
Change in fair value of AFS financial assets	**P 2**	P -	**P 4**	P -
Revaluation increment	**22**	-	**22**	-
Deferred Tax Expense (Income)	**P 24**	P -	**P 26**	P -

The breakdown of NOLCO with the corresponding validity periods follow:

Year	Group	Parent Bank	Valid Until
2008	P 4,333	P 4,330	2011
2007	1,720	1,666	2010
2006	3,923	3,641	2009
2005	4	-	2008

In 2008, NOLCO amounting to P4 was applied in the Group financial statements.

The breakdown of MCIT with the corresponding validity periods follow:

Year	Group	Parent Bank	Valid Until
2008	P 84	P 84	2011
2007	151	150	2010
2006	104	104	2009

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2008 and 2007 follow:

	Group			
	2008		2007	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
NOLCO	**P 9,976**	**P 2,993**	P 13,784	P 4,824
MCIT	**339**	**340**	458	458
Allowance for probable losses	**4,945**	**1,483**	2,025	709
Others	**-**	**-**	3	1
	P 15,260	**P 4,816**	P 16,270	P 5,992

	Parent Bank							
	2008				2007			
	Tax Base		Tax Effect		Tax Base		Tax Effect	
NOLCO	P	9,637	P	2,891	P	13,438	P	4,703
MCIT		339		339		372		372
Allowance for probable losses		6,016		1,805		-		-
	P	15,992	P	5,035	P	13,810	P	5,075

27.2 Relevant Tax Regulations

Republic Act 9504

Effective July 2008, Republic Act 9504 was approved giving corporate tax payers an option to claim itemized deduction or optional standard deduction (OSD) equivalent to 40% of gross sales. Once the option to use OSD is made, it shall be irrevocable for the taxable year for which the option was made. In 2008, the Group opted to continue claiming itemized standard deductions.

Revenue Regulation 12-2007

On October 19, 2007, the Bureau of Internal Revenue (BIR) issued Revenue Regulation (RR) 12-2007 which requires the quarterly computation and payment of the MCIT beginning on the income tax return for fiscal quarter ending September 30, 2007. This RR amended certain provisions of RR 9-98 which specifically provides for the computation of the MCIT at the end of each taxable year.

Thus, in the computation of the tax due for the taxable quarter, if the computed quarterly MCIT is higher than the quarterly regular corporate income tax, the tax due to be paid for such taxable quarter at the time of filing the quarterly corporate income tax return shall be the MCIT which is 2% of the gross income as of the end of the taxable quarter.

Republic Act 9337

On May 24, 2005, Republic Act No. 9337 (RA 9337), amending certain sections of the National Internal Revenue Code of 1997, was signed into law and became effective beginning on November 1, 2005. The following were the major changes brought about by RA 9337 that are relevant to the Group:

(a) RCIT rate was increased from 32% to 35% starting on November 1, 2005 until December 31, 2008 and will be reduced to 30% beginning on January 1, 2009;

(b) 10% value-added tax (VAT) rate was increased to 12% effective on February 1, 2006;

(c) 12% VAT rate was now imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

(d) Input tax on capital goods shall be claimed on a staggered basis over 60 months or the useful life of the related assets, whichever is shorter; and,

(e) Creditable input VAT was capped at a maximum of 70% of output VAT per quarter which was effective until the third quarter of 2006 (this cap was removed effective for quarters ending on December 31, 2006 and onwards).

27.3 Gross Receipts Tax (GRT)/ VAT

Beginning January 1, 2003, the imposition of VAT on banks and financial institutions became effective pursuant to the provisions of Republic Act 9010. The Bank and BDO Private became subject to VAT based on their gross receipts, in lieu of the GRT under Sections 121 and 122 of the Tax Code which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

On January 29, 2004, Republic Act 9238 reverts the imposition of GRT on banks and financial institutions. This law is retroactive to January 1, 2004. The Bank and BDO Private complied with the transitional guidelines provided by the BIR on the final disposition of the uncollected Output VAT as of December 31, 2004.

On May 24, 2005, the amendments on RA 9337 was approved amending, among others, the gross receipts tax 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.

27.4 Documentary Stamp Tax (DST)

Documentary stamp taxes (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 9243 was passed amending the rates of DST, the significant provisions of which are summarized below (in absolute amounts):

a. On every issue of debt instruments, there shall be collected a DST of P1.00 on each P200 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 P0.75 on each P200, 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 P0.30 on each P200, 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 P250,000 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 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.

28. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	Group		
	2008	2007	2006
Net income attributable to shareholders of the Parent Bank	**P 2,182**	P 6,518	P 3,970
Dividends in arrears	**(84)**	-	-
Total basic net income	**P 2,098**	P 6,518	P 3,970
Divided by the weighted average number of outstanding common shares (in millions)	**2,302**	2,281	1,287
Basic earnings per share	**P 0.91**	P 2.86	P 3.08

Diluted earnings per share computed as follows:

	Group		
	2008	2007	2006
Net income attributable to shareholders of the Parent Bank	**P 2,182**	P 6,518	P 3,970
Interest expense on convertible loan, net of tax	**-**	-	21
Total diluted net income	**P 2,182**	P 6,518	P 3,991
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**2,302**	2,281	1,287
Potential common shares from assumed conversion of convertible loans	**-**	-	29
Potential common shares from assumed conversion of preferred shares	**125**	-	-
Potential common shares from assumed conversion of stock option plan	**3**	3	3
Total weighted average numbers common shares after conversion	**2,430**	2,284	1,319
Diluted earnings per share	**P 0.90**	P 2.85	P 3.03

Basic earnings per share were computed as follows:

	Parent Bank		
	2008	2007	2006
Net income	**P 1,479**	P 7,671	P 3,244
Dividends in arrears	**(84)**	-	-
Total basic net income	**P 1,395**	P 7,671	P 3,244
Divided by the weighted average number of outstanding common shares (in millions):	**2,302**	2,281	1,287
Basic earnings per share	**P 0.61**	P 3.36	P 2.52

Diluted earnings per share were computed as follows:

	Parent Bank		
	2008	2007	2006
Net income	**P 1,479**	P 7,671	P 3,244
Interest expense on convertible loan, net of tax	**-**	-	21
Total diluted net income	**1,479**	7,671	3,265
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**2,302**	2,281	1,287
Potential common shares from assumed conversion of convertible loans	**-**	-	29
Potential common shares from assumed conversion of convertible preferred shares	**125**	-	-
Potential common shares from assumed conversion of stock option plan	**3**	3	3
Total weighted average common shares after conversion	**2,430**	2,284	1,319
Diluted earnings per share	**P 0.61**	P 3.36	P 2.48

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

(a) The following are some measures of the Group's financial performance:

	Group		
	2008	2007	2006
Return on average equity:			
Net income / Average total capital accounts	**3.8%**	11.7%	10.9%
Return on average resources:			
Net income / Average total resources	**0.3%**	1.1%	0.9%
Net interest margin:			
Net interest income / Average interest earning resources	**3.7%**	4.0%	3.0%
Capital to risk assets ratio:			
Combined credit and market risk	**13.8%**	14.6%	15.0%

	Parent Bank		
	2008	2007	2006
Return on average equity:			
Net income / Average total capital resources	2.7%	15.0%	9.9%
Return on average resources:			
Net income / Average total resources	0.2%	1.3%	0.8%
Net interest margin:			
Net interest income / Average interest earning assets	3.7%	4.1%	2.9%
Capital to risk assets ratio:			
Combined credit and market risk	11.2%	12.1%	11.8%

(b) Secured Liabilities and Assets Pledged as Security are shown below:

	Group		Parent Bank	
	2008	2007	**2008**	2007
Aggregate amount of secured liabilities	**P 16,645**	P 453	**P 16,645**	P 426
Aggregate amount of resources pledged as security	**P 12,151**	P 6,200	**P 12,151**	P 6,200

30. EVENTS AFTER THE STATEMENT OF CONDITION DATE

On January 31, 2009, the Board of Directors approved the issuance of the third tranche of unsecured subordinated debt qualifying as Tier 2 capital of the Bank, with face amount of up to P5,000. The Board of Directors also approved a rights offering of common shares to existing shareholders of the Bank. The Group expects to complete the rights offering within six months and projects to raise proceeds of between P7,000 to P8,000. The net proceeds of the rights offering shall be used for general corporate purposes, projects or investments as may be approved by the Board of Directors and initiatives for expansion. Management was authorized by the Board to fix the final issue size and other terms of both issuances.

On February 28, 2009, the Board of Directors approved the declaration of semi-annual dividend on peso denominated and US dollar denominated preferred shares at the rate of 6.5% per annum each for a total dividend of P84 payable on May 14, 2009 for the peso denominated preferred shares and US $2 payable on April 18, 2009 for the US dollar denominated preferred shares.

31. COMMITMENTS AND CONTINGENCIES

31.1 Litigations

The Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operation or its normal business activities. Management believes that no such legal proceedings are expected to have material adverse effect on the Group's financial condition.

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.

Sale of Bankard

The case involves the sale of the Group's ownership in Bankard, a former subsidiary of then EPCIB. Dispute on the said sale is under arbitration with the ICC, which recently ruled in favor of the claimant (the Partial Award of September 27, 2007), stating among others that the claimant is entitled to damages, subject to proof of loss. The Group has filed a motion for reconsideration to vacate the ruling at the Regional Trial Court (RTC) level. On January 8, 2008, the RTC issued a decision affirming the ruling of the ICC. Subsequently, the Group filed a Petition for Review on Certiorari with the Supreme Court (Second Division) to vacate the ruling issued by the RTC. The Supreme Court (Second Division) issued a decision denying the Group's petition and upholding the ruling of the RTC. On January 27, 2009, the Group filed an Omnibus Motion: (i) to urge the Honorable Second Division to elevate the case to the Supreme Court en *banc* in view of the novelty of the legal issues and the resolution thereof demands for the Honorable Court *en banc's* exercise of its constitutional power in respect to the promulgation of rules and regulations concerning court procedure; and/or (ii) to move for the reconsideration of the Decision on grounds of being contrary to law and established jurisprudence; and, (iii) to clarify certain portions of the Decision, which have caused confusion in the application of the pertinent laws governing arbitration.

The Partial Award sustained by the Second Division of the Supreme Court concluded that the Group is liable to the claimant but did not adjudicate the amount of damages for which the Group is liable to the claimant as the same shall still be proven by the claimant in the second phase of the arbitration (quantum phase); the hearing of which has been tentatively set by the Tribunal Chairman on October 26, 2009. However, in view of the Decision and the Omnibus Motion, as well as the continuing objection the Group raised against the procedure being followed by the Tribunal, the Group has requested for the suspension of the arbitration proceeding until the matters and issues are resolved.

As of December 31, 2008, management believes that the above claim is without merit or that the resulting liability if any, resulting from such claim, will not have material adverse effect on the Group's financial position and financial performance and will be taken up if and when a final resolution by the courts is made on the claim.

Sale of Maxicare

The Group is a defendant/respondent in legal proceedings arising from the sale of its 60% stake in Maxicare in 2007. Claimants have filed an Intra-Corporate Dispute with the Regional Trial Court of Makati (RTC). The claimants filed a Petition for Issuance of Writ of Preliminary Injunction in Support of Arbitration proceedings with Prayer for Temporary Restraining Order (TRO) and Writ of Replevin to enjoin the conduct of business of Maxicare, and if already executed, for annulment of sale of the Maxicare shares. The RTC has since denied the TRO and Writ of Replevin on the ground that the petitioners have no clear and unmistakable right over the shares, as there was no perfected contract of sale between the Bank and the claimants. Moreover, the RTC also ruled that the Bank's sale of the shares to Pin-An Holdings is valid. The Petitioners filed a Motion for Reconsideration (MR) which was denied since an MR is a prohibited pleading under the Interim Rules on Intra-Corporate Dispute. The RTC ruled further that its order declaring the validity of the sale of the Maxicare shares has become final under said Interim Rules. The claimants have since filed a Petition for Certiorari with the Court of Appeals, where the case is pending.

The claimants have also filed a Request for Arbitration with the International Chamber of Commerce (ICC) – International Court of Arbitration, where arbitration is currently ongoing on the same issue of the petitioners' right to buy the shares.

As of December 31, 2008, management believes that the above claim is baseless and without merit or that the resulting liability if any, resulting from such a claim, will not have a material adverse effect on the Group's financial position and financial performance.

Others

The Group is also a defendant in various cases pending in courts for alleged claims against the Group, the outcome of which are not fully determinable at present. As of December 31, 2008, 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 the Group and will be taken up if and when a final resolution by the courts is made on each claim.

31.2 Leases

The Group leases the premises of its head office and most of its branch offices for periods ranging from 1 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 Expense account in the income statement, amounted to P1,463 in 2008, P1,391 in 2007 and P867 in 2006 in the Group financial statements and P1,386 in 2008, P1,253 in 2007 and P698 in the Parent Bank financial statements.

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

Year		Group		Parent Bank
2009	P	1,009	P	1,003
2010		1,131		1,124
2011		1,250		1,243
2012		1,374		1,367
2013		1,511		1,504

31.3 Others

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying Group financial statements. The 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, 2008, no additional material losses or liabilities are required to be recognized in the accompanying Group financial statements as a result of the above commitments and transactions.

Following is a summary of the Group's commitments and contingent accounts:

		Group				Parent Bank			
	Note		**2008**		2007		**2008**		2007
Trust department accounts	25	**P**	**338,173**	P	274,108	**P**	**311,042**	P	255,499
Forward exchange sold			**91,711**		90,875		**77,207**		82,407
Forward exchange bought			**67,647**		62,964		**53,063**		54,607
Other contingent accounts			**78,708**		51,015		**77,890**		47,915
Unused commercial letters of credit (LCs)			**17,998**		25,254		**17,998**		25,252
Interest rate swap payable			**15,838**		7,065		**4,083**		1,671
Interest rate swap receivable			**14,753**		6,207		**2,997**		869
Bills for collection			**10,641**		9,065		**10,641**		9,065
Spot exchange bought			**6,645**		3,261		**6,241**		3,261
Late deposits/payments received			**5,341**		1,942		**5,341**		1,932
Spot exchange sold			**3,326**		1,865		**2,922**		1,865
Outstanding guarantees issued			**724**		1,410		**724**		1,410
Export Letters of Credit confirmed			**49**		75		**49**		75

COMPANY HEADQUARTERS

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BDO Corporate Center
7899 Makati Avenue, Makati City, Philippines

STOCKHOLDER INQUIRIES

Banco De Oro Unibank, Inc.'s common stock is listed and traded in the Philippine Stock Exchange under the symbol "BDO".

Inquiries regarding dividend payments, account status, address changes, stock certificates, and other pertinent matters may be addressed to the company's transfer agent:

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