2009 ANNUAL REPORT
FINANCIAL SUPPLEMENTS

CORPORATE PROFILE

The product of a merger heralded as unprecedented in size and scale in the Philippine banking industry, Banco De Oro Unibank (BDO) today represents a firm consolidation of distinct strengths and advantages built over the years by the entities behind its history. More importantly, BDO is an institution that does more than honor its past, it continues to improve on its present, and moves with innovation and dynamism toward an even stronger future.

BDO's reputation as a full-service universal bank remains as formidable as ever. It has the caliber and the muscle to provide industry-leading corporate, retail, investment banking and insurance services. It maintains its strategic focus on its principal markets, notably the corporate market, the middle-market banking segment – consisting of mid-sized corporations and small and medium-sized enterprises – and the retail / consumer market. Moreover, it has complimented this base with expertise in asset management, leasing and finance, remittances, bancassurance, credit cards, corporate cash management, trust, and treasury. Its institutional strengths and value-added products and services hold the key to its successful business relationships with customers. Through selective acquisitions and organic growth, BDO is positioning for growth and continued expansion into new markets.

CONTENTS

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.

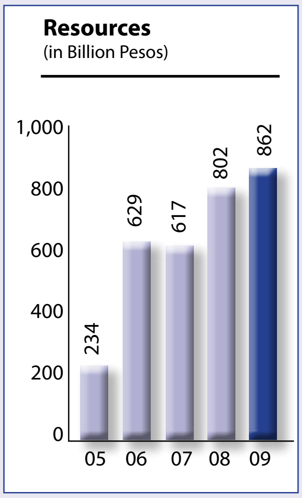
Commitment to Employees
We are committed to our employees' growth and development and we will nurture them in an environment where excellence, integrity, teamwork, professionalism and performance are valued above all else.

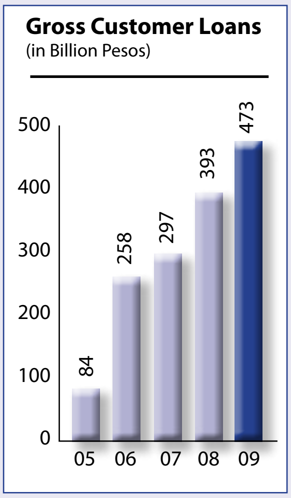
Commitment to Shareholders
We are committed to provide our shareholders with superior returns over the long term.

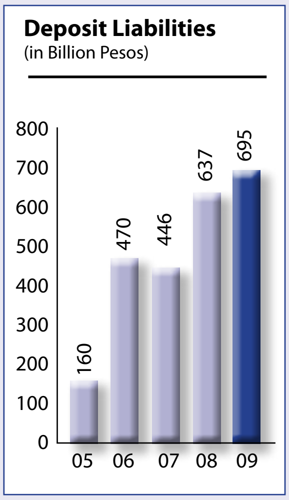
FINANCIAL HIGHLIGHTS

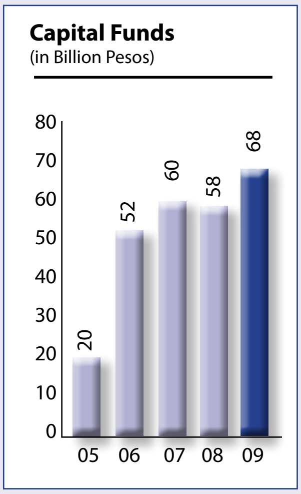
In Billion Pesos	2009	2008	% Change
Resources	**862.0**	802.0	7%
Gross Customer Loans	**472.7**	392.8	20%
Deposit Liabilities	**694.7**	636.8	9%
Capital Funds	**67.9**	57.8	18%
Net Income*	**6.0**	2.2	177%

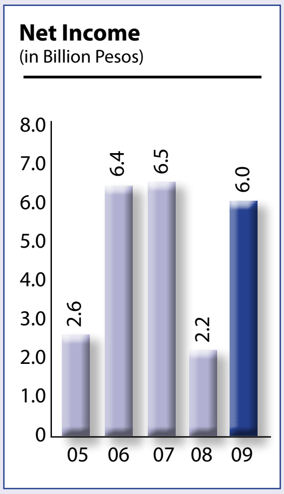
**Attributable to Shareholders of the Parent Bank*











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, 2009 and 2008. 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	**Nestor V. Tan**	**Lucy C. Dy**
Chairperson of the Board	President	Executive Vice President / Comptroller

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors and to the Stockholders
Banco De Oro Unibank, Inc.
BDO Corporate Center
7899 Makati Avenue, Makati City

We have audited the accompanying financial statements of Banco De Oro Unibank, Inc. and subsidiaries (together hereinafter referred to as the BDO Unibank Group) and Banco De Oro Unibank, Inc. (the Parent Bank), which comprise the statements of financial position as at December 31, 2009 and 2008, and the statements of income, comprehensive income, changes in equity and cash flows for each of the three years in the period ended December 31, 2009, 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 BDO Unibank Group and of the Parent Bank as of December 31, 2009 and 2008, and their financial performance and their cash flows for each of the three years in the period ended December 31, 2009, in accordance with 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. 2087602, January 4, 2010, Makati City
Partner's SEC Accreditation No. 009-AR-2
BIR AN 08-002511-11-2008 (Nov. 25, 2008 to 2011)

Firm BOA/PRC Cert. of Reg. No. 0002
Firm SEC Accreditation No. 002-FR-2

February 27, 2010

STATEMENTS OF FINANCIAL POSITION

December 31, 2009 and 2008

(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group		Parent Bank	
		2009	2008	**2009**	2008
RESOURCES					
CASH AND OTHER CASH ITEMS	7	**P 30,544**	P 21,770	**P 30,365**	P 21,763
DUE FROM BANGKO SENTRAL NG PILIPINAS	7	**64,833**	62,669	**62,864**	59,940
DUE FROM OTHER BANKS	8	**16,732**	17,102	**14,611**	14,881
TRADING AND INVESTMENT SECURITIES	9	**171,712**	156,151	**153,262**	142,092
LOANS AND OTHER RECEIVABLES - Net	10	**524,901**	491,986	**497,302**	467,590
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**14,732**	14,676	**13,058**	12,886
INVESTMENT PROPERTIES - Net	12	**13,834**	15,234	**12,805**	14,314
OTHER RESOURCES - Net	13	**24,761**	22,444	**30,917**	28,160
TOTAL RESOURCES		**P 862,049**	P 802,032	**P 815,184**	P 761,626
LIABILITIES AND EQUITY					
DEPOSIT LIABILITIES	15	**P 694,678**	P 636,754	**P 669,805**	P 612,967
BILLS PAYABLE	16	**31,415**	51,436	**21,519**	43,242
SUBORDINATED NOTES PAYABLE	17	**23,152**	20,146	**23,152**	20,146
OTHER LIABILITIES	18	**44,917**	35,922	**38,136**	32,011
Total Liabilities		**794,162**	744,258	**752,612**	708,366
EQUITY	19				
Attributable to:					
Shareholders of the Parent Bank		**67,252**	57,212	**62,572**	53,260
Non-controlling Interest		**635**	562	**-**	-
		67,887	57,774	**62,572**	53,260
TOTAL LIABILITIES AND EQUITY		**P 862,049**	P 802,032	**P 815,184**	P 761,626

See Notes to Financial Statements.

STATEMENTS OF INCOME

For the Years Ended December 31, 2009, 2008 and 2007

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

		BDO Unibank Group			Parent Bank		
	Notes	**2009**	2008	2007	**2009**	2008	2007 (Note 26)
INTEREST INCOME	20	**P 48,810**	P 42,359	P 37,603	**P 45,011**	P 39,733	P 35,235
INTEREST EXPENSE	21	**18,251**	19,323	16,167	**17,181**	18,043	14,978
NET INTEREST INCOME		**30,559**	23,036	21,437	**27,830**	21,690	20,257
IMPAIRMENT LOSSES - Net	14	**6,153**	5,232	4,118	**5,775**	5,171	3,802
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**24,406**	17,804	17,319	**22,055**	16,519	16,455
OTHER OPERATING INCOME	22	**15,483**	13,731	16,858	**14,375**	11,810	16,758
OTHER OPERATING EXPENSES	22	**32,129**	27,852	24,760	**28,811**	25,892	22,908
PROFIT BEFORE TAX		**7,760**	3,683	9,417	**7,619**	2,437	10,305
TAX EXPENSE	27	**1,659**	1,445	2,847	**1,263**	958	2,634
NET PROFIT		**P 6,101**	P 2,238	P 6,570	**P 6,356**	P 1,479	P 7,671
Attributable To:							
Shareholders of the Parent Bank		**P 6,035**	P 2,182	P 6,518			
Non-controlling Interest		**66**	56	52			
		P 6,101	P 2,238	P 6,570			
Earnings Per Share:							
Basic	28	**P 2.57**	P 0.95	P 2.86	**P 2.71**	P 0.64	P 3.36
Diluted	28	**P 2.47**	P 0.93	P 2.85	**P 2.60**	P 0.63	P 3.36

See Notes to Financial Statements.

STATEMENTS OF COMPREHENSIVE INCOME

For the Years Ended December 31, 2009, 2008 and 2007

(Amounts in Millions of Philippine Pesos)

In compliance with the revised Philippine Accounting Standard 1, *Presentation of Financial Statements,* that became effective in 2009, BDO Unibank Group is now required to present these separate statements of comprehensive income which comprise of the net profit and/or changes to equity which are not recognized in profit or loss or in the statements of income (see Note 2.2).

For financial statement analysis, the current results of operations of BDO Unibank Group and the Parent Bank amounted to P6,101 and P6,356, respectively, in 2009; P2,238 and P1,479, respectively, in 2008; and P6,570 and P7,671, respectively, in 2007, and are reported as net profit in the statements of income.

		BDO Unibank Group			Parent Bank		
	Note	**2009**	2008	2007	**2009**	2008	2007 (Note 26)
NET PROFIT		**P 6,101**	P 2,238	P 6,570	**P 6,356**	P 1,479	P 7,671
OTHER COMPREHENSIVE INCOME (LOSS)							
Net unrealized fair value gains (losses) on available-for-sale securities	9	**3,413**	(6,132)	(684)	**2,404**	(5,080)	(224)
Translation adjustment related to foreign operations		**(1)**	1	203	**-**	-	-
Other Comprehensive Income, net of tax		**3,412**	(6,131)	(481)	**2,404**	(5,080)	(224)
TOTAL COMPREHENSIVE INCOME (LOSS)		**P 9,513**	(P 3,893)	P 6,089	**P 8,760**	(P 3,601)	P 7,447
Attributable To:							
Shareholders of the Parent Bank		**P 9,447**	(P 3,949)	P 6,037			
Non-controlling Interest		**66**	56	52			
		P 9,513	(P 3,893)	P 6,089			

See Notes to Financial Statements.

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2009, 2008 and 2007

(Amounts in Millions of Philippine Pesos)

BDO Unibank Group

	Notes	Common Stock	Preferred Stock	Common Stock Options	Treasury Shares at Cost	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Revaluation Increment	Accumulated Translation Adjustment	Total Attributable to Shareholders of the Parent Bank	Non-controlling Interest	Total Equity
Balance at January 1, 2009		P 23,020	P 5,000	P 76	P -	P 15,937	P 1,329	P 14,049	(P 3,505)	P 1,311	(P 5)	P 57,212	P 562	P 57,774
Transactions with owners														
Issuance of additional shares	19	377	-	-	-	-	-	-	-	-	-	377	-	377
Contribution to stock options, net of recognition		-	-	(69)	-	-	-	-	-	-	-	(69)	-	(69)
Premium on issuance of new shares, net of listing fees	19	-	-	-	-	921	-	-	-	-	-	921	-	921
Cash dividends	19	-	-	-	-	-	-	(791)	-	-	-	(791)	-	(791)
Merger of subsidiaries	13	-	-	-	-	-	-	110	-	-	-	110	-	110
Acquisition of GEMB	26	-	-	-	-	-	-	-	-	-	-	-	7	7
Total transactions with owners		377	-	(69)	-	921	-	(681)	-	-	-	548	7	555
Total comprehensive income		-	-	-	-	-	-	6,035	3,413	-	(1)	9,447	66	9,513
Transfer to (from) Surplus Free														
Additional appropriation		-	-	-	-	-	128	(128)	-	-	-	-	-	-
Trust reserve	25	-	-	-	-	-	75	(75)	-	-	-	-	-	-
Revaluation increment on land and building sold		-	-	-	-	-	-	177	-	(132)	-	45	-	45
		-	-	-	-	-	203	(26)	-	(132)	-	45	-	45
BALANCE AT DECEMBER 31, 2009		**P 23,397**	**P 5,000**	**P 7**	**P -**	**P 16,858**	**P 1,532**	**P 19,377**	**(P 92)**	**P 1,179**	**(P 6)**	**P 67,252**	**P 635**	**P 67,887**
Balance at January 1, 2008		P 23,020	P -	P 76	P -	P 15,937	P 1,051	P 15,756	P 2,627	P 1,361	(P 6)	P 59,822	P 506	P 60,328
Transactions with owners														
Issuance of additional shares	19	-	5,000	-	-	-	-	-	-	-	-	5,000	-	5,000
Cash dividends	19	-	-	-	-	-	-	(3,683)	-	-	-	(3,683)	-	(3,683)
Total transactions with owners		-	5,000	-	-	-	-	(3,683)	-	-	-	1,317	-	1,317
Total comprehensive income		-	-	-	-	-	-	2,182	(6,132)	-	1	(3,949)	56	(3,893)
Transfer to (from) Surplus Free														
Trust reserve	25	-	-	-	-	-	278	(278)	-	-	-	-	-	-
Revaluation reversal, inclusive of tax component		-	-	-	-	-	-	72	-	(50)	-	22	-	22
		-	-	-	-	-	278	(206)	-	(50)	-	22	-	22
BALANCE AT DECEMBER 31, 2008		P 23,020	P 5,000	P 76	P -	P 15,937	P 1,329	P 14,049	(P 3,505)	P 1,311	(P 5)	P 57,212	P 562	P 57,774
Balance at January 1, 2007		P 22,706	P -	P 29	(P 1,428)	P 15,696	P 830	P 9,459	P 3,311	P 1,361	(P 209)	P 51,755	P 454	P 52,209
Transactions with owners														
Issuance of additional shares		314	-	-	-	241	-	-	-	-	-	555	-	555
Net disposal of treasury shares		-	-	-	1,428	-	-	-	-	-	-	1,428	-	1,428
Recognition of common stock options		-	-	47	-	-	-	-	-	-	-	47	-	47
Total transactions with owners		314	-	47	1,428	241	-	-	-	-	-	2,030	-	2,030
Total comprehensive income		-	-	-	-	-	-	6,518	(684)	-	203	6,037	52	6,089
Transfer to (from) Surplus Free														
Trust reserve		-	-	-	-	-	221	(221)	-	-	-	-	-	-
BALANCE AT DECEMBER 31, 2007		P 23,020	P -	P 76	P -	P 15,937	P 1,051	P 15,756	P 2,627	P 1,361	(P 6)	P 59,822	P 506	P 60,328

STATEMENTS OF CHANGES IN EQUITY

For the Years Ended December 31, 2009, 2008 and 2007

(Amounts in Millions of Philippine Pesos)

		Parent Bank										
	Notes	Common Stock	Preferred Stock	Common Stock Options	Treasury Shares at Cost	Additional Paid-in Capital	Surplus Reserves	Surplus Free	Net Unrealized Fair Value Gains (Losses) on Available-for-sale Securities	Revaluation Increment	Accumulated Translation Adjustment	Total Equity
Balance at January 1, 2009		P 23,020	P 5,000	P 76	P -	P 15,918	P 1,025	P 9,441	(P 2,520)	P 1,302	P -	P 53,262
Transactions with owners												
Issuance of additional shares	19	377	-	-	-	-	-	-	-	-	-	377
Premium on issuance of shares, net of listing fees	19	-	-	-	-	921	-	-	-	-	-	921
Cash dividends	19	-	-	-	-	-	-	(729)	-	-	-	(729)
Contribution to stock options, net of recognition		-	-	(69)	-	-	-	-	-	-	-	(69)
Total transactions with owners		377	-	(69)	-	921	-	(729)	-	-	-	500
Total comprehensive income		-	-	-	-	-	-	6,355	2,405	-	-	8,760
Transfer to (from) Surplus Free												
Trust reserve		-	-	-	-	-	75	(75)	-	-	-	-
Revaluation reversal, inclusive of tax component		-	-	-	-	-	-	176	-	(126)	-	50
		-	-	-	-	-	75	101	-	(126)	-	50
BALANCE AT DECEMBER 31, 2009		**P 23,397**	**P 5,000**	**P 7**	**P -**	**P 16,839**	**P 1,100**	**P 15,168**	**(P 115)**	**P 1,176**	**P -**	**P 62,572**
Balance at January 1, 2008		P 23,020	P -	P 76	P -	P 15,918	P 927	P 11,596	P 2,560	P 1,352	P -	P 55,449
Transactions with owners												
Issuance of additional shares	19	-	5,000	-	-	-	-	-	-	-	-	5,000
Cash dividends	19	-	-	-	-	-	-	(3,683)	-	-	-	(3,683)
Merger with BDO Elite, ESB and PCI Capital	26	-	-	-	-	-	-	75	-	-	-	75
Total transactions with owners		-	5,000	-	-	-	-	(3,608)	-	-	-	1,392
Total comprehensive income		-	-	-	-	-	-	1,479	(5,080)	-	-	(3,601)
Transfer to (from) Surplus Free												
Trust reserve		-	-	-	-	-	98	(98)	-	-	-	-
Revaluation reversal, inclusive of tax component		-	-	-	-	-	-	70	-	(50)	-	20
		-	-	-	-	-	98	(28)	-	(50)	-	20
BALANCE AT DECEMBER 31, 2008		P 23,020	P 5,000	P 76	-	P 15,918	P 1,025	P 9,439	(P 2,520)	P 1,302	P -	P 53,260
Balance at January 1, 2007		P 22,706	P -	P 29	(P 1,400)	P 15,695	P 825	P 4,027	P 2,784	P 1,352	P -	P 46,018
Transactions with owners												
Issuance of additional shares		314	-	-	-	223	-	-	-	-	-	537
Recognition of common stock option		-	-	47	-	-	-	-	-	-	-	47
Net disposal of treasury shares		-	-	-	1,400	-	-	-	-	-	-	1,400
Total transactions with owners		314	-	47	1,400	223	-	-	-	-	-	1,984
Total comprehensive income		-	-	-	-	-	-	7,671	(224)	-	-	7,447
Transfer to (from) Surplus Free												
Trust reserve	25	-	-	-	-	-	102	(102)	-	-	-	-
BALANCE AT DECEMBER 31, 2007		P 23,020	P -	P 76	P -	P 15,918	P 927	P 11,596	P 2,560	P 1,352	P -	P 55,449

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008 and 2007

(Amounts in Millions of Philippine Pesos)

		BDO Unibank Group			Parent Bank		
	Notes	**2009**	2008	2007	**2009**	2008	2007
CASH FLOWS FROM OPERATING ACTIVITIES							
Profit before tax		**P 7,760**	P 3,683	P 9,417	**P 7,619**	P 2,437	P 10,305
Adjustments for:							
Interest income	20	**(48,810)**	(42,359)	(37,603)	**(45,011)**	(39,733)	(35,235)
Interest received		**46,791**	35,301	38,292	**44,476**	37,877	35,823
Interest expense	21	**18,251**	19,323	16,167	**17,181**	18,043	14,978
Interest paid		**(16,800)**	(19,465)	(16,824)	**(16,341)**	(18,088)	(14,867)
Impairment losses	14	**6,153**	5,232	4,118	**5,775**	5,171	3,802
Depreciation and amortization	11, 12, 13	**2,848**	2,119	2,843	**1,684**	1,902	1,690
Fair value loss (gain)		**(1,719)**	2,335	792	**(1,663)**	2,226	750
Operating income before changes in operating resources and liabilities		**14,474**	6,169	17,202	**13,720**	9,835	17,246
Decrease in financial assets at fair value through profit or loss		**300**	12,329	10,326	**563**	10,890	11,873
Increase in loans and other receivables		**(52,460)**	(194,237)	(36,959)	**(48,417)**	(182,443)	(45,368)
Decrease (increase) in investment properties		**973**	2,533	(463)	**1,102**	2,526	(502)
Decrease (increase) in other resources		**273**	3,395	15,517	**(1,494)**	3,399	13,587
Increase (decrease) in deposit liabilities		**59,989**	195,825	(20,230)	**59,145**	182,459	(26,525)
Increase (decrease) in other liabilities		**4,585**	(4,071)	5,836	**1,459**	(4,653)	5,862
Cash generated from (used in) operations		**28,134**	21,943	(8,771)	**26,078**	22,013	(23,827)
Cash paid for income tax		**(1,933)**	(1,834)	(4,618)	**(1,253)**	(1,147)	(2,757)
Net Cash From (Used In) Operating Activities		**26,201**	20,109	(13,389)	**24,825**	20,866	(26,584)
CASH FLOWS FROM INVESTING ACTIVITIES							
Net decrease (increase) in held-to-maturity investments		**6,620**	(40,935)	21,595	**5,747**	(37,886)	22,355
Net decrease (increase) in available-for-sale securities		**(7,204)**	36,809	(7,205)	**(4,006)**	33,464	(7,553)
Net acquisitions of premises, furniture, fixtures and equipment		**(2,636)**	(5,079)	(1,948)	**(1,623)**	(3,569)	(1,614)
Proceeds from disposal (aquisition) of equity investments	13	**(2,000)**	-	-	**(2,000)**	-	923
Net Cash From (Used In) Investing Activities		**(5,220)**	(9,205)	12,442	**(1,882)**	(7,991)	14,111
CASH FLOWS FROM FINANCING ACTIVITIES							
Net proceeds from (payments of) bills payable		**(18,801)**	(3,859)	(1,370)	**(20,137)**	(178)	6,445
Proceeds from issuance of subordinated notes payable		**3,000**	-	-	**3,000**	-	-
Proceeds from issuance of common shares	19	**1,299**	-	314	**1,299**	-	314
Dividends paid	19	**(791)**	(3,683)	(770)	**(729)**	(3,683)	(770)
Disposal of treasury shares		**-**	-	1,428	**-**	-	1,400
Proceeds from issuance of preferred shares	19	**-**	5,000	-	**-**	5,000	-
Net Cash From (Used In) Financing Activities		**(15,293)**	(2,542)	(398)	**(16,567)**	1,139	7,389
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Carried Forward)*		**P 5,688**	P 8,362	(P 1,345)	**P 6,376**	P 14,014	(P 5,084)

See Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

For the Years Ended December 31, 2009, 2008 and 2007

(Amounts in Millions of Philippine Pesos)

	Notes	BDO Unibank Group			Parent Bank		
		2009	2008	2007	**2009**	2008	2007
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS *(Brought Forward)*		**P 5,688**	P 8,362	(P 1,345)	**P 6,376**	P 14,014	(P 5,084)
CASH AND CASH EQUIVALENTS AT BEGINNING 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 call loans receivable		**4,880**	9,520	26,428	**4,880**	4,591	26,427
		106,421	98,059	99,404	**101,464**	87,450	92,534
CASH AND CASH EQUIVALENTS AT END OF YEAR							
Cash and other cash items	7	**30,544**	21,770	18,388	**30,365**	21,763	18,437
Due from Bangko Sentral ng Pilipinas	7	**64,833**	62,669	49,461	**62,864**	59,940	48,320
Due from other banks	8	**16,732**	17,102	20,690	**14,611**	14,881	16,102
Interbank call loans receivable		**-**	4,880	9,520	**-**	4,880	4,591
		P 112,109	P 106,421	P 98,059	**P 107,840**	P 101,464	P 87,450

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions:

a. The carrying values of the resources and liabilities of Equitable Savings Bank (ESB), BDO Elite Savings Bank, Inc. and PCI Capital Corporation that were absorbed by Banco De Oro Unibank, Inc. (the Parent Bank) on October 30, 2008 were P14,790 and P9,249, respectively (see Note 26).

b. In 2008, BDO Unibank Group made the following reclassifications of trading and investment securities (see Note 9):

- Financial Assets at Fair Value through Profit or Loss (FVTPL) with a total carrying value of P6,297 was reclassified to Held to Maturity (HTM) both in the BDO Unibank Group and Parent Bank financial statements.
- Credit-linked Notes (CLNs) with a total carrying value of P18,590 and P14,166 were reclassified from Available for Sale (AFS) to Loans and Other Receivables in BDO Unibank Group 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 BDO Unibank Group 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 BDO Unibank Group financial statements and Parent Bank financial statements, respectively.
- FVTPL with carrying value of P102 was reclassified to AFS in BDO Unibank Group financial statements.

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

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

See Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

December 31, 2009, 2008 and 2007

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

1. CORPORATE MATTERS

1.1 Incorporation and Operations

Banco De Oro Unibank, Inc. (the Parent Bank) was incorporated in the Philippines on August 16, 1967 to engage in the business of banking. It was authorized to engage in trust operations on January 5, 1988 and in foreign currency deposit operations on November 23, 1990. The Bangko Sentral ng Pilipinas (BSP) granted approval to the Parent Bank to operate as an expanded commercial bank on August 5, 1996. The Parent Bank commenced operations as such in September of the same year. The Parent Bank and its subsidiaries (collectively referred to as the BDO Unibank 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, BDO Unibank Group's operations are regulated and supervised by the BSP. In this regard, BDO Unibank Group is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices, among others, as promulgated by the BSP. BDO Unibank Group is subject to the provisions of the General Banking Law of 2000 (Republic Act No. 8791).

The Parent Bank's common shares are listed in the Philippine Stock Exchange (PSE). As of December 31, 2009, the Parent Bank has 685 branches, and 784 on-site and 540 off-site automated teller machines, all located nationwide. The Parent Bank's registered address is at BDO Corporate Center, 7899 Makati Avenue, Makati City.

BDO Unibank Group operates mainly within the Philippines with a banking branch in Hong Kong and various remittance subsidiaries operating in Asia, Europe and the United States. In 2009 and 2008, these foreign operations accounted for 1.0% and 0.8% of the BDO Unibank Group's total revenues and 1.1% and 0.1% of BDO Unibank Group's total resources, respectively. BDO Unibank Group's subsidiaries and associates are shown in Note 13.5.

1.2 Approval of Financial Statements

The financial statements of BDO Unibank Group for the year ended December 31, 2009 (with comparatives for the years ended December 31, 2008 and 2007) were approved and authorized for issue by the Board of Directors on February 27, 2010.

1.3 Merger of BDO Unibank with EPCIBank (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 the Parent Bank and EPCIB which became effective on May 31, 2007.

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

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 Consolidated Financial Statements

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

The financial statements of BDO Unibank 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. FRSP and Philippine Financial Reporting Standards (PFRS) are similar 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 reporting, 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 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 statements of financial position under FRSP and PFRS. In 2007 and prior years, there is no difference between the FRSP and PFRS since the reclassification to UDSCL of embedded derivatives in CLNs and other similar instruments that are linked to ROP bonds out of FVTPL was made by BDO Unibank Group only in 2008.

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

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Equity under FRSP	**P 67,887**	P 57,774	**P 62,572**	P 53,260
Prior year reconciling items	**(1,141)**	-	**(908)**	-
Current year reconciling items:				
Amortization of premium/discount due to change in effective interest rates	**(75)**	(7)	**(65)**	1
Unrealized mark-to-market gain (loss) on embedded derivatives on CLNs reclassified to loans and other receivables	**1,597**	(1,134)	**1,274**	(909)
	1,522	(1,141)	**1,209**	(908)
Total adjustments to equity	**381**	(1,141)	**301**	(908)
Equity under PFRS	**P 68,268**	P 56,633	**P 62,873**	P 52,352

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

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

BDO Unibank Group

	2009		
	FRSP	**Difference**	**PFRS**
Changes in resources:			
Trading and investment securities	**P 171,712**	**P 1,277**	**P 172,989**
Loans and other receivables	**524,901**	**(896)**	**524,005**
	P 696,613		**P 696,994**
Total adjustments to equity		**P 381**	

	2008		
	FRSP	Difference	PFRS
Changes in loans and other receivables	P 491,986	P 194	P 492,180
Changes in other liabilities	35,922	1,335	37,257
	P 456,064		P 454,923
Total adjustments to equity		(P 1,141)	

Parent Bank

	2009		
	FRSP	**Difference**	**PFRS**
Changes in resources:			
Trading and investment securities	**P 153,262**	**P 1,197**	**P 154,459**
Loans and other receivables	**497,302**	**(896)**	**496,406**
	P 650,564		**P 650,865**
Total adjustments to equity		**P 301**	

	2008		
	FRSP	Difference	PFRS
Changes in loans and other receivables	P 467,590	P 78	P 467,668
Changes in other liabilities	32,011	986	32,997
	P 435,579		P 434,671
Total adjustments to equity		(P 908)	

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

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Net profit under FRSP	**P 6,101**	P 2,238	**P 6,356**	P 1,479
Amortization of premium/discount due to change in effective interest rates	**(75)**	(7)	**(65)**	1
Unrealized mark-to-market gain (loss) on embedded derivatives on CLNs reclassified to loans and other receivables	**1,597**	(1,134)	**1,274**	(909)
	1,522	(1,141)	**1,209**	(908)
Net profit under PFRS	**P 7,623**	P 1,097	**P 7,565**	P 571

(b) *Functional and Presentation Currency*

These financial statements are presented in Philippine pesos, BDO Unibank Group's functional and presentation currency, and all values represent absolute amounts, except when otherwise indicated (see also Note 2.23).

2.2 Adoption of New Interpretations, Revisions and Amendments to PFRS

(a) *Effective in 2009 that are Relevant to BDO Unibank Group*

In 2009, BDO Unibank Group adopted for the first time the following new and amended standards and interpretations which are mandatory in 2009.

Philippine Accounting Standards (PAS) 1 (Revised 2007)	:	Presentation of Financial Statements
PAS 23 (Revised 2007)	:	Borrowing Costs
PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate
PAS 32 and PAS 1 (Amendments)	:	Financial Instruments: Presentation and Presentation of Financial Statements (Revised 2007) – Puttable Financial Instruments and Obligations Arising on Liquidation
PFRS 2 (Amendment)	:	Share-based Payment – Vesting Conditions and Cancellations
PFRS 7 (Amendment)	:	Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments
PFRS 8	:	Operating Segments

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

Philippine Interpretation International Financial Reporting Interpretations Committee (IFRIC) 13	:	Customer Loyalty Programmes
Various Standards	:	2008 Annual Improvements to PFRS

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

(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 statement of income and a statement of comprehensive income. The statement of income shall disclose income and expense recognized in profit or 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 or loss or the "non-owner changes in equity", which are no longer allowed to be presented in the statements of changes in equity, 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 is also required to include in its set of financial statements a statement showing its financial position at the beginning of the previous period when the entity retrospectively applies an accounting policy or makes a retrospective restatement. The adoption of PAS 1 (Revised 2007) by BDO Unibank Group did not result in any material adjustments in its financial statements. With respect to the presentation of comprehensive income, BDO Unibank Group elected to present two statements: a separate statement of income and a statement of comprehensive income.

(ii) PAS 23 (Revised 2007), *Borrowing Costs*. The revised standard requires that 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 had been removed. BDO Unibank Group determined that the adoption of this new standard has no significant effects on the financial statements for 2009, as well as for prior and future periods, as the BDO Unibank Group's current accounting policy is to capitalize all interests directly related to qualifying assets.

(iii) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements – Cost of an Investment in a Subsidiary, Jointly Controlled Entity or Associate*. Under the revised standard, the definition of cost method from PAS 27 was removed and dividend was required to be presented as income in the separate financial statements of the investor. The amendments address the initial measurement requirements for the cost of an investment in the separate financial statements of a new parent formed as the result of a specific type of reorganization, i.e., the new parent is required to measure the cost of its investment in the previous parent at the carrying amount of its share of the equity items of the previous parent at the date of the reorganization. Management considered the amendments to have no impact on the financial statements of BDO Unibank Group.

(iv) PAS 32 (Amendment), *Financial Instruments: Presentation* and PAS 1 (Amendment), *Presentation of Financial Statements (Revised 2007) – Puttable Financial Instruments and Obligations Arising on Liquidation*. 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 instruments and the capital structure of the issuing entity meet certain conditions. The adoption of this standard has no significant impact on the financial statements of BDO Unibank Group.

(v) PFRS 2 (Amendment), *Share-based Payment*. The FRSC adopted the amendments to PFRS 2 regarding vesting conditions and cancellations. The current share-based payment scheme of BDO Unibank Group is not affected by the amendments. Management considered the amendments to have no impact on the BDO Unibank Group's financial statements.

(vi) PFRS 7 (Amendment), *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments*. The amendments require additional disclosures for financial instruments that are measured at fair value in the statements of financial position. These fair value measurements are categorized into a three-level fair value hierarchy, which reflects the extent to which they are based on observable market data. A separate quantitative maturity analysis must be presented for derivative financial liabilities that shows the remaining contractual maturities, where these are essential for an understanding of the timing of cash flows. BDO Unibank Group has taken advantage of the transitional provisions in the amendments and has not provided comparative information in respect of the new requirements.

(vii) PFRS 8, *Operating Segments*. This standard replaces PAS 14, *Segment Reporting*. The adoption of this standard has not affected the identified operating segments for BDO Unibank Group and its segment reporting since the accounting policy for identifying segments used by BDO Unibank Group is based on internal management reporting information that is regularly reviewed by the chief operating decision maker.

(viii) Philippine Interpretation IFRIC 13, *Customer Loyalty Programmes*. This interpretation clarifies that when goods or services are sold together with a customer loyalty incentive (for example, loyalty points), the arrangement is a multiple-element arrangement and the consideration receivable from the customer is allocated between the components of the arrangement using fair values. The revenue allocated for the loyalty rewards is deferred until such time that the loyalty incentive is provided to the customer. At present, BDO Unibank Group has an agreement with a third party running the loyalty programme and pays the third party an agreed amount for each point BDO Unibank Group has granted to customers. By engaging a third party to supply the rewards, the Parent Bank has fulfilled its obligations to its customers as soon as it granted the points; hence, BDO Unibank Group does not need to defer any revenue. Consequently, the adoption of this interpretation has no significant financial effects to BDO Unibank Group.

(ix) 2008 Annual Improvements to PFRS. The FRSC has adopted the *Improvements to PFRS 2008*. The following amendments to the standards are relevant to BDO Unibank Group's accounting policies:

- 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 adoption of this standard has no impact in the financial statements of BDO Unibank Group.

- PAS 16 (Amendment), *Property, Plant and Equipment* and consequential amendments to PAS 7, *Statement of Cash Flows*. The amendment clarifies that an entity, which in the course of ordinary activities sells property, plant and equipment that was held for rental, transfers the property, plant and equipment to inventories at carrying amount when they ceased to be rented and are held for sale. A consequential amendment to PAS 7 states that cash flows arising from purchase, rental and sale of those assets are classified as cash flows from operating activities. Also, the term 'net selling price' has been replaced with 'fair value less cost to sell' in the definition of recoverable amount so as to achieve consistency with the terminology used in PFRS 5. The amendments have no significant impact on the financial statements of BDO Unibank Group.

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

  i. 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.

  ii. 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.

  iii. 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.

  iv. 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.

  Management determined that the adoption of this amendment has no significant impact on the financial statements of BDO Unibank Group.

- PAS 20 (Amendment), *Accounting for Government Grants and Disclosure of Government Assistance*. This amendment clarifies that the benefit of a below-market rate government loan is measured as the difference between the carrying amount in accordance with PAS 39 and the proceeds received with the benefit accounted for in accordance with PAS 20. The current accounting policy of BDO Unibank Group for government grants received prior to January 1, 2009, the effectivity of PAS 20 (Amendment), is acceptable under the provisions of the PAS 20 (Amendment), which requires prospective application for all government loans received on or after January 1, 2009.

- PAS 23 (Amendment), *Borrowing Costs*. The amendment clarifies that definition of borrowing costs include interest expense determined using the effective interest method under PAS 39. The adoption of this standard has no significant financial impact to BDO Unibank Group since its current accounting policy considers all interest expense in determining its borrowing costs.

- PAS 27 (Amendment), *Consolidated and Separate Financial Statement*. When an entity prepares separate financial statements and accounts for investments in subsidiaries, jointly controlled entities and associates in accordance with PAS 39 (rather than at cost), such investments will continue to be measured using PAS 39 even if classified as held for sale in accordance with PFRS 5. Investment measured at cost will continue to be re-measured in accordance with PFRS 5 when classified as held for sale. This amendment does not have a significant impact on the financial statements of BDO Unibank Group since it does not have any investments in subsidiaries, jointly controlled entities and associates measured at fair value in accordance with PAS 39.

- PAS 28, (Amendment), *Investments in Associates*. Where an investment in associate is accounted for in accordance with PAS 39, only certain rather than all disclosure requirements in PAS 28 need to be made in addition to disclosures required by PAS 32 and PFRS 7. This amendment does not have an impact on the financial statements of BDO Unibank Group since it does not have any investments in associates measured at fair value in accordance with PAS 39.

- PAS 36 (Amendment), *Impairment of Assets*. Where fair value less cost to sell is calculated on the basis of discounted cash flows, disclosures equivalent to those for value-in-use calculation should be made. Management determined that the adoption of this amendment has no significant impact on the financial statements of BDO Unibank Group.

- 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 current accounting policies of BDO Unibank Group comply with the foregoing amendment. Hence, the adoption of this amendment has no 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 pattern of short-term profit taking is included in such a portfolio on initial recognition. The current accounting practice of BDO Unibank Group complies with this amendment. Hence, the adoption of this amendment has no material effect on its 2009 financial statements.

- PAS 40 (Amendment), *Investment Property*. The amendment requires that property under construction or development for future use as investment property shall be included under the definition of investment property. This results in such property being within the scope of PAS 40 which was previously 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. The adoption of this amendment has no significant financial impact to BDO Unibank Group as it has no property under construction or development for future use as investment property in 2009.

- PFRS 5 (Amendment), *Non-current Assets Held-for-sale and Discontinued Operations* and consequential amendment to PFRS 1, *First-time Adoption of PFRS – Disclosures of Non-current Assets (or Disposal Groups) Classified as Held for Sale of Discontinued Operations*. The amendment clarifies that all the assets and liabilities of a subsidiary should be classified as held for sale if the entity is committed to a sale plan involving loss of control of the subsidiary, regardless of whether the entity will retain a non-controlling interest after the sale. Relevant disclosures should be made for this subsidiary if the definition of discontinued operations is met. The consequential amendment to PFRS 1 states that the amendments are applied prospectively from the date of transition to PFRS. BDO Unibank Group will apply PFRS 5 (Amendment) prospectively to all partial disposals of subsidiary beginning January 1, 2009. Management initially determined that the adoption of PFRS 5 has no immediate significant impact on the financial statements of BDO Unibank Group.

Minor amendments were made to several other standards. However, those amendments are not expected to have a material impact on the financial statements of BDO Unibank Group.

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

(b) *Effective in 2009 but not Relevant to BDO Unibank Group*

The following amended standards and interpretations are mandatory for accounting periods beginning on or after January 1, 2009 but are not relevant to BDO Unibank Group:

PAS 29 (Amendment)	:	Financial Reporting in Hyperinflationary Economies
PAS 31 (Amendment)	:	Interest in Joint Ventures
PAS 41 (Amendment)	:	Agriculture
PFRS 1 (Amendment)	:	First-time Adoption of PFRS
Philippine Interpretations IFRIC 9	:	Reassessment of Embedded Derivatives
IFRIC 16	:	Hedges of a Net Investment in a Foreign Operation

(c) *Effective Subsequent to 2009 that are Relevant to BDO Unibank Group but not Adopted Early*

At the date of authorization of these financial statements, certain new standards, amendments and interpretations to existing standards have been published but are not yet effective, and have not been adopted early by BDO Unibank Group.

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

Management anticipates that all of the pronouncements will be adopted in the BDO Unibank Group's accounting policies for the first period beginning after the effective date of the pronouncement. Information on new standards, amendments and interpretations that are expected to be relevant to BDO Unibank Group's financial statements is provided below. Certain other new standards and interpretations have been issued but are not expected to have a material impact on BDO Unibank Group's financial statements.

PAS 24 (Revised 2008)	:	Related Party Disclosures
PAS 27 (Revised 2008)	:	Consolidated and Separate Financial Statements
PAS 39 (Amendment)	:	Financial Instruments: Recognition and Measurement – Eligible Hedged Items
PFRS 3 (Revised 2008)	:	Business Combinations
PFRS 9	:	Financial Instruments
Philippine Interpretation IFRIC 19	:	Extinguishing Financial Liabilities with Equity Instruments
Various Standards	:	2009 Annual Improvements to PFRS

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

(i) PAS 24 (Revised), *Related Party Disclosures* (effective from January 1, 2011). The revised standard introduces an exemption from the disclosure requirements of PAS 24 for transactions with: (a) government that has control, joint control or significant influence over the reporting entity; and, (b) government-related entities (entities controlled, jointly controlled or significantly influenced by the same government). Management has determined that the adoption of the revised PAS 24 will not have significant effect on BDO Unibank Group's financial statements.

(ii) PAS 27 (Revised 2008), *Consolidated and Separate Financial Statements (effective from July 1, 2009)*. The revised standard introduces changes to the accounting requirements for the loss of control of a subsidiary and for changes in the entity's interest in subsidiaries. These changes will be applied prospectively in accordance with the transitional provisions and so do not have an immediate effect on BDO Unibank Group's financial statements.

(iii) PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Eligible Hedged Items (effective from July 1, 2009)*. The amendment provides additional guidance on what can be designated as a hedged item. It clarifies that hedging instruments may be held by any entities within the group. This includes a foreign operation that itself is being hedged. This change will be applied prospectively in accordance with the transitional provisions and so do not have an immediate effect on BDO Unibank Group's financial statements.

(iv) PFRS 3 (Revised 2008), *Business Combinations (effective from July 1, 2009)*. The standard is applicable for business combinations occurring in reporting periods beginning on or after July 1, 2009 and will be applied prospectively. The new standard introduces changes to the accounting requirements for business combinations, but still requires use of the purchase method, and will have a significant effect on business combinations occurring in future reporting periods. Management has determined that the amendment has no immediate effect on BDO Unibank Group's financial statements.

(v) PFRS 9, *Financial Instruments (effective from January 1, 2013)*. The FRSC will align its objective with IASB to replace PAS 39, *Financial Instruments: Recognition and Measurement* in its entirety by the end of 2010, with the replacement standard to be effective for annual periods beginning January 1, 2013. FRSC will adopt PFRS 9 which is the first part of Phase 1 of this project. The main phases of the project are:

Phase 1: Classification and Measurement

Phase 2: Impairment methodology

Phase 3: Hedge accounting

In addition, a separate project is dealing with derecognition.

Management is yet to assess the impact that this amendment is likely to have on the financial statements of BDO Unibank Group. However, it does not expect to implement the amendments until all chapters of the PAS 39 replacement have been published and it can comprehensively assess the impact of all changes.

(vi) Philippine Interpretation IFRIC 19, *Extinguishing Financial Liabilities with Equity Instruments (effective on or after July 1, 2010)*. It addresses accounting by an entity when the terms of a financial liability are renegotiated and result in the entity issuing equity instruments to creditor to extinguish all or part of the financial liability. These transactions are sometimes referred to as "debt for equity" exchanges or swaps, and have happened with increased regularity during the financial crisis. The interpretation requires the debtor to account for a financial liability which is extinguished by equity instruments as follows:

- the issue of the equity instruments to a creditor to extinguish all (or part of a financial liability) is consideration paid in accordance with PAS 39;
- the entity measures the equity instrument issued at fair value, unless this cannot be reliably measured;
- if the fair value of the equity instruments cannot be reliably measured, then the fair value of the financial liability extinguished is used; and,
- the difference between the carrying amount of the financial liability extinguished and the consideration paid is the recognized profit or loss.

Management has determined that the adoption of the interpretation will not have a material effect on its financial statement as BDO Unibank Group does not normally extinguish financial liabilities through equity swap.

(vii) 2009 Annual Improvements to PFRS *(effective from July 1, 2009 and later)*. The Philippine FRSC has adopted the *Improvements to PFRS 2009*. Management has initially determined that among these amended standards, the following will be relevant to BDO Unibank Group subsequent to 2009 which will be applied in accordance with their transitional provisions:

- PAS 1 (Amendment), *Presentation of Financial Statements – Current/non-current Classification of Convertible Instruments (effective from January 1, 2010)*. The amendment clarifies that the classification of potential settlement of a liability by issuing equity is not relevant to its classification as current or non-current. The definition of current liability is amended which permits a liability to be classified as non-current (provided that the entity has an unconditional right to defer settlement by transfer of cash or other assets for at least 12 months after the accounting period) notwithstanding the fact that the entity could be required by the counterparty to settle in shares at any time. BDO Unibank Group will apply the amendment in its 2010 financial statements. Management has determined that this amendment has no immediate material impact on the financial statements of BDO Unibank Group.

- PAS 7 (Amendment), *Statement of Cash Flows – Classification of Expenditures on Unrecognized Assets (effective from January 1, 2010)*. This amendment requires that only expenditures that result in a recognized asset in the statements of financial position can be classified as investing activities. Management has determined that the amendment has no significant impact on the financial statements of BDO Unibank Group as only recognized assets are classified as cash flows from investing activities.

- PAS 17 (Amendment), *Leases – Classification of Leases of Land and Buildings (effective from January 1, 2010)*. This amendment deleted the specific guidance regarding the classification of leases of land as operating lease. It also eliminates the inconsistency with the general guidance on lease classification. As a result, leases of land should be classified as either finance or operating using the general principles of PAS 17. Management has determined that the amendment will not have material impact on the financial statements of BDO Unibank Group.

- PAS 18 (Amendment), *Revenue – Determining whether an Entity is Acting as a Principal or as an Agent (amendment to non-mandatory guidance)*. The amendment provides additional guidance to the appendix to PAS 18, *Revenue* regarding the determination as to whether an entity is acting as a principal or an agent. Management has determined that the amendment will not have material impact on the financial statements of BDO Unibank Group.

- PAS 36 (Amendment), *Impairment of Assets – Unit of Accounting for Goodwill Impairment Test (effective from January 1, 2010)*. This amendment clarifies that the largest cash-generating unit (or group of units) to which goodwill should be allocated for the purposes of impairment testing is an operating segment as defined in PFRS 8, *Operating Segments*. Management has determined that the amendment will not have material impact on the financial statements of BDO Unibank Group.

- PAS 38 (Amendment), *Intangible Assets – Consequential Amendments Arising from revised PFRS 3 and Measuring Fair Value of an Intangible Asset Acquired in a Business Combination (effective from July 1, 2009)*. The amendment clarifies the description of valuation techniques commonly used by entities when measuring the fair value of intangible assets acquired in a business combination that are not traded in active markets. Management has determined that the amendment will not have material impact on the financial statements of BDO Unibank Group.

- PAS 39 (Amendment), *Financial Instruments: Recognition and Measurement – Treating Loan Prepayment Penalties as Closely Related Embedded Derivatives, Scope Exemption for Business Combination Contracts and Cash Flow Hedge Accounting (effective from January 1, 2010)*. The amendments clarify that prepayment options, the exercise price of which compensates the lender for loss of interest by reducing the economic loss from reinvestment risk, should be considered closely related to the host debt contract. Herein, the scope exemption in PAS 39, *Financial Instruments: Recognition and Measurement* was amended to clarify that:

  i. It only applies to binding (forward) contracts between an acquirer and a vendor in a business combination to buy an acquiree at future date;

  ii. The term of the forward contract should not exceed a reasonable period normally necessary to obtain any required approvals and to complete the transaction; and,

  iii. The exemption should not be applied to option contracts (whether or not currently exercisable) that on exercise will result in control of an entity, nor by analogy to investments in associates and similar transactions.

  The amendment clarifies when to recognize gains or losses on hedging instruments as a reclassification adjustment in a cash flow hedge of a forecast transaction that results subsequently in the recognition of a financial instrument, that gains or losses should be reclassified from equity to profit or loss in the period in which the hedged forecast cash flow affects profit or loss and that entities should no longer use hedge accounting for transactions between segments in their separate financial statements. Management has determined that the amendment will not have material impact on the financial statements of BDO Unibank Group.

- PFRS 2 (Amendment), *Share-based Payment – Scope of PFRS 2 and revised PFRS 3 (effective from July 1, 2009)*. The amendment clarifies that in addition to business combinations as defined by PFRS 3, *Business Combination*, contributions of a business on formation of joint ventures and common control transactions are excluded from the scope of PFRS 2, *Share-based Payment*. Management has determined that the amendment will not have material impact on the financial statements of BDO Unibank Group.

- PFRS 8 (Amendment), *Operating Segments – Disclosure of Information about Segment Assets (effective from January 1, 2010)*. The amendment requires an entity to disclose a measure of segment assets only if that measure is regularly reported to the chief operating decision maker. Management has determined that the adoption of this amendment will not affect the existing disclosure policy of BDO Unibank Group on operating segments.

- Philippine Interpretation IFRIC 9 (Amendment), *Reassessment of Embedded Derivatives* and PAS 39*, Financial Instruments: Recognition and Measurement – Embedded Derivatives (effective from July 1, 2009)*. The amendments clarify that on reclassification of financial assets out of the FVTPL category, all embedded derivatives have to be assessed and, if necessary, separately accounted for in the financial statements. The amendment confirms that, in addition to business combinations as defined by PFRS 3 (Revised), derivatives acquired in the formation of a joint venture and in common control transactions are outside the scope of Philippine Interpretation IFRIC 9.

2.3 Presentation of Consolidated Financial Statements

The consolidated financial statements are presented in accordance with PAS 1 (Revised 2007), *Presentation of Financial Statements.* BDO Unibank Group has elected to present the statement of comprehensive income in two statements: a statement of income and a statement of comprehensive income.

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

(a) Applies an accounting policy retrospectively;

(b) Makes a retrospective restatement of items in its financial statements; or,

(c) Reclassifies items in the financial statements.

2.4 Basis of Consolidation

BDO Unibank Group obtains and exercises control through voting rights. BDO Unibank Group's financial statements comprise the accounts of the Parent Bank and its subsidiaries as enumerated in Note 13.5, after the elimination of material intercompany transactions. All significant intercompany balances and transactions with subsidiaries, including income, expenses and dividends, are eliminated in full. Unrealized profits and losses from intercompany transactions that are recognized in assets are also eliminated in full. Intercompany losses that indicate impairment are recognized in BDO Unibank Group financial statements.

Business combinations arising from transfers of interests in entities that are under the common control of the shareholder that controls BDO Unibank Group are accounted for under the pooling-of-interests method and reflected in the financial statements as if the business combination had occurred at the beginning of the earliest comparative period presented, or if later, at the date that common control was established; for this purpose, comparatives are restated. The resources and liabilities acquired are recognized in BDO Unibank Group's controlling shareholder's financial statements at the carrying amounts recognized previously. The components of equity of the acquired entities are added to the same components within BDO Unibank Group equity. BDO Unibank Group accounts for its investments in subsidiaries and non-controlling interest as follows:

(a) *Investments in Subsidiaries*

Subsidiaries are all entities over which BDO Unibank Group has the power to control in terms of financial and operating policies. BDO Unibank Group obtains and exercises control over subsidiaries through voting rights.

Subsidiaries are consolidated from the date BDO Unibank Group obtains control until such time that such control ceases. Except as otherwise indicated, the acquisition of subsidiaries are accounted for using the purchase method of accounting (see Note 2.12). Purchase method involves the revaluation at fair value of all identifiable assets and liabilities 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 statements of financial position of BDO Unibank Group at their revalued amounts, which are also used as bases for subsequent measurement in accordance with BDO Unibank Group's accounting policies.

Goodwill (positive) represents the excess of acquisition cost over BDO Unibank 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 BDO Unibank 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) Non-controlling Interests

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

BDO Unibank Group applies a policy of treating transactions with non-controlling interests as transactions with parties external to BDO Unibank Group. Disposals of equity investments to non-controlling interests result in gains and losses for BDO Unibank Group, which are recorded in BDO Unibank Group statement of income. Purchases of equity shares from non-controlling 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 BDO Unibank Group financial statements, the non-controlling interest component is shown in BDO Unibank Group statement of changes in equity and in BDO Unibank Group statement of income.

2.5 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.

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

2.6 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, held-to-maturity (HTM) and available-for-sale (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 the end of each reporting period at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

Cash and cash equivalents consist of cash and non-restricted balances with the BSP and amounts due from other banks. For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, interbank call loans receivable and 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 fair value through profit or loss are initially recognized at fair value plus any directly attributable transaction costs. Financial assets carried at fair value through profit or loss are initially recorded at fair value and transaction costs related to it are recognized in profit or loss.

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

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

This category includes derivative financial instruments and financial assets that are either classified as held for trading or are designated by BDO Unibank Group to be carried at FVTPL upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling 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 reporting 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 BDO Unibank Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are financial assets arising from direct loans to customers, interbank loans 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, except for reclassified financial assets under PAS 39 and PFRS 7 (Amendments). Increases in estimates of future cash receipts from financial assets that have been reclassified in accordance with PAS 39 and PFRS 7 (Amendments) shall be recognized as an adjustment to the effective interest rate from the date of the change in estimate. SPURRA, wherein BDO Unibank Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are included in this category. The difference between the sale and repurchase price is recognized as interest and accrued over the life of the agreements using the effective interest method.

Impairment loss is the estimated amount of loss in BDO Unibank Group's loan portfolio, based on the evaluation of the estimated future cash flows discounted at the loan's original effective interest rate or the last repricing rate for loans issued at variable rates (see Note 2.21). Impairment is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

(c) *Held-to-maturity Investments*

This category includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as HTM if BDO Unibank 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 BDO Unibank 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 BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group.

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 Securities*

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

Non-derivative financial asset classified as AFS 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 other comprehensive income, net of any effects arising from income taxes. Cumulative gains and losses arising from securities classified as AFS are reclassified from other comprehensive income to profit or loss when these are sold or when the investment are impaired and presented as a reclassification adjustment within comprehensive income.

In the case of impairment, any loss previously recognized in other comprehensive income is reclassified to profit or loss. Losses recognized in profit or loss on equity instruments are not reversed through the profit or loss. Losses recognized in prior period profit or loss resulting from the impairment of debt instruments are reversed through the profit or loss, when the recovery in the amount of previously recognized impairment losses can be objectively related to an event occurring after the impairment loss is recognized.

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), BDO Unibank Group establishes the fair value by using valuation techniques, which include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are reported as part of Trading Gain under Other Operating Income account in the statement of income in the period in which these arise. Gains and losses arising from changes in the fair value of AFS securities are recognized in other comprehensive income until the financial asset is derecognized or impaired, at which time the cumulative gain or loss previously recognized in other comprehensive income shall be reclassified to profit or loss. However, interest calculated using the effective interest method is recognized in profit or loss. Dividends on AFS equity instruments are recognized in profit or loss when BDO Unibank 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.

2.7 Derivative Financial Instruments and Hedge Accounting

BDO Unibank 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 BDO Unibank Group's foreign exchange and interest rate exposures, as well as for trading purposes.

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

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

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

Certain derivatives embedded in other financial instruments are considered as separate derivatives when their economic characteristics and risks are not closely-related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are bifurcated from the host contracts and are measured at fair value with changes in fair value recognized in profit or loss (except for the embedded derivatives in CLNs linked to ROP bonds which were not bifurcated from the host contracts and were reclassified to loans as permitted for prudential reporting).

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

2.8 Non-current Assets Classified as Held-for-Sale

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

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 profit or loss.

2.9 Investment Properties

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

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

BDO Unibank Group adopted the cost model in measuring its investment property; hence, this 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 profit or loss in the year of retirement or disposal.

2.10 Equity Investments

In the financial statements of BDO Unibank Group, investments in associates are accounted for under the equity method of accounting and are initially recognized at cost (see Note 2.22).

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

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

Subsidiaries are all entities over which BDO Unibank 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 BDO Unibank Group controls another entity. Subsidiaries are fully consolidated from the date on which BDO Unibank Group obtains control. They are de-consolidated from the date that control ceases.

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

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

2.11 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 BDO Unibank 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 profit or loss for the period.

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

Buildings	10 - 50 years
Furniture, fixtures and equipment	3 - 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 2.22).

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

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

2.12 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 BDO Unibank Group's interest in the net fair value of the identifiable assets, liabilities and contingent liabilities. 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 2.22). Negative goodwill, if any, which is the excess of BDO Unibank Group's interest in the net fair value of acquired identifiable assets, liabilities and contingent liabilities over cost is recognized directly to income.

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

2.13 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 2.22). 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 life of five years. Costs associated with maintaining computer software are expensed as incurred.

2.14 Financial Liabilities

Financial liabilities of the BDO Unibank 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 profit or loss 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 financial position. The dividends on these preferred shares are recognized in profit or loss 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 profit or loss.

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), arising from the acquisition of First e-Bank in 2002, 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 financial position only when the obligations are extinguished either through discharge, cancellation or expiration.

2.15 Offsetting Financial Instruments

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

2.16 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.

2.17 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: Presentation* and the cumulative amount of stock option arising from the stock option plan granted by BDO Unibank Group to its qualified officers.

Treasury shares include the cost of BDO Unibank Group's shares of stock which were acquired by a subsidiary. The treasury shares were disposed of in 2007.

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

Surplus free includes all current and prior period results as disclosed in profit or loss and which are available and not restricted for use by BDO Unibank Group.

Net unrealized 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 to other comprehensive income.

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

2.18 Revenue and Cost Recognition

Revenue is recognized to the extent that it is probable that the economic benefits will flow to BDO Unibank 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 profit or loss 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, BDO Unibank Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

(b) *Service charges, fees and commissions* – Service charges, fees and commissions are generally recognized when the service has been provided. Loan syndication fees are recognized as revenue when the syndication has been completed and BDO Unibank Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. 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 is 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 profit or loss.

(e) *Dividend income* – Dividend income is recognized when BDO Unibank Group's right to receive dividend 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 profit or loss 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 profit or loss upon utilization of the assets or services or at the date these are incurred.

2.19 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 end of reporting period, 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 the end of each reporting period and adjusted to reflect the current best estimate.

In those cases where the possible outflow of economic resource as a result of present obligations is considered improbable or remote, or the amount to be provided for cannot be measured reliably, no liability is recognized in the financial statements.

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.

2.20 Leases

BDO Unibank Group accounts for its leases as follows:

(a) *BDO Unibank Group as Lessor*

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

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

(b) *BDO Unibank Group as Lessee*

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

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

2.21 Impairment of Financial Assets

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

(a) *Assets carried at amortized cost.* BDO Unibank Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant and individually or collectively for financial assets that are not individually significant. If BDO Unibank Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, BDO Unibank Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. 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 profit or loss. 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, BDO Unibank Group may measure impairment on the basis of an instrument's fair value using an observable market price.

The calculation of the present value of the estimated future cash flows of a collateralized financial asset reflects the cash flows that may result from 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 BDO Unibank 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 BDO Unibank Group to reduce any differences between loss estimates and actual loss experience.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures, including approval from the management and the 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 profit or loss.

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

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

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

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

2.22 Impairment of Non-financial Assets

BDO Unibank 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.

2.23 Functional Currency and Foreign Currency Transactions

(a) *Functional and Presentation Currency*

Items included in the financial statements of BDO Unibank 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 functional and presentation currency of BDO Unibank Group. The financial statements of the foreign currency deposit units (FCDUs) of BDO Unibank Group and foreign subsidiaries are translated at the prevailing current exchange rates (for statement of financial position accounts) and average exchange rate during the period (for statement of income accounts) for consolidation purposes.

(b) *Transactions and Balances*

The accounting records of BDO Unibank 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 profit or loss.

(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, are translated to Philippine pesos, the BDO Unibank Group's functional currency as follows:

(i) Assets and liabilities are translated at the closing rate at the end of reporting period;

(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 other comprehensive income.

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

2.24 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 BDO Unibank Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. BDO Unibank Group's defined benefit 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 financial position for defined benefit pension plans is the fair value of plan assets at the end of reporting period less the present value of the defined benefit obligation (DBO), together with adjustments for unrecognized actuarial gains or losses and past service costs. The DBO is calculated by independent actuaries using the projected unit credit method. The present value of the DBO is determined by discounting the estimated future cash outflows using 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 profit or loss, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

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

(b) Termination Benefits

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

(c) Bonus Plans

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

(d) Executive Stock Option Plan

BDO Unibank Group grants stock option plan to its senior officers (from vice-president up) for their contribution to BDO Unibank Group's performance and attainment of team goals. The amount of stock option allocated to the qualified officers is based on the performance of the individual officers as determined by the management and is determined based on BDO Unibank Group's performance in the preceding year and amortized over five years starting from the date of the approval of the 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 profit or loss 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 end of reporting period. These are included in Other Liabilities account at the undiscounted amount that BDO Unibank Group expects to pay as a result of the unused entitlement.

2.25 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 end of reporting period. They are calculated according to the tax rates and tax laws applicable to the fiscal periods to which they relate, based on the taxable profit for the period. All changes to current tax assets or liabilities are recognized as a component of tax expense in profit or loss.

Deferred tax is provided, using the liability method, on temporary differences at the end of reporting period between the tax base of assets and liabilities and their carrying amounts for financial reporting purposes.

Under the liability method, with certain exceptions, deferred tax liabilities are recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences and the carryforward of unused tax losses and unused tax credits to the extent that it is probable that taxable profit will be available against which the deferred tax asset can be utilized.

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply 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 end of each reporting period.

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

2.26 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.

The 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 BDO Unibank Group to the qualified officers. Convertible preferred shares are deemed to have been converted to common shares at the issuance of preferred shares. 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 is granted.

2.27 Trust Activities

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

2.28 Subsequent Events

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

3. SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

3.1 Critical Judgments in Applying Accounting Policies

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

(a) *HTM Investments*

BDO Unibank 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, BDO Unibank Group considers its intention and ability to hold such investments to maturity.

If BDO Unibank Group fails to keep these investments at maturity (other than for the allowed specific circumstances, e.g., selling more than an insignificant amount close to maturity), it will be required to reclassify the entire class to AFS securities. The investments would therefore be measured at fair value and not at amortized cost. However, the tainting provision will not apply if the sales or reclassifications of HTM investments: *(i)* are so close to maturity or the financial asset's call date that changes in the market rate of interest would not have a significant effect on the financial asset's fair value; *(ii)* occur after BDO Unibank Group has collected substantially all of the financial asset's original principal through scheduled payments or prepayments; or, *(iii)* are attributable to an isolated event that is beyond the control of BDO Unibank Group, is nonrecurring and could not have been reasonably anticipated by BDO Unibank Group.

(b) *Impairment of AFS Securities*

BDO Unibank Group follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement*, in determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, BDO Unibank Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow. For investments issued by counterparty under bankruptcy, BDO Unibank Group determines permanent impairment based on the price of the most recent transaction and on latest indications obtained from reputable counterparties (which regularly quote prices for distressed securities) since current bid prices are no longer available.

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

BDO Unibank Group determines whether a property qualifies as investment property. In making its judgment, BDO Unibank Group considers whether the property generated cash flows largely independent of the other assets held by BDO Unibank Group. Owner-occupied properties generate cash flows that are attributable not only to 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), BDO Unibank Group accounts for those portions separately. If the portion cannot be sold separately, the property is accounted for as investment property only if an insignificant portion is held for use in the production or supply of goods or services for administrative purposes. Judgment is applied in determining whether ancillary services are so significant that a property does not qualify as investment property. BDO Unibank Group considers each property separately in making its judgment.

(d) *Operating and Finance Leases*

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

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

BDO Unibank Group classifies its acquired properties as Premises, Furniture, Fixtures and Equipment if used in operations, as Non-current Assets Held-for-sale if expected that the properties will be recovered through sale rather than use, as Investment Property if intended to be held for capital appreciation or as Financial Assets if qualified as such in accordance with PAS 39. At initial recognition, BDO Unibank 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 2.19 and relevant disclosures are presented in Note 31.

3.2 Key Sources of Estimation Uncertainty

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

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

BDO Unibank 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 profit or loss, BDO Unibank Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the 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.

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

For the total impairment losses on financial assets recognized in profit or loss, please refer to Note 14.

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

(b) Fair Value of Financial Assets and Liabilities

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

	BDO Unibank Group		Parent Bank	
	Cost	**Fair Value**	**Cost**	**Fair Value**
December 31, 2009				
Financial Assets:				
Due from other banks and BSP	P 81,565	P 81,452	P 77,475	P 77,362
AFS securities – unquoted	5,704	*	1,267	*
HTM investments	116,177	121,000	107,440	111,781
Loans and other receivables	524,901	523,604	497,302	498,665
Financial Liabilities:				
Deposit liabilities	694,678	684,912	669,805	660,039
Bills payable	31,415	31,271	21,519	21,375
Subordinated notes payable	23,152	24,199	23,152	24,199
December 31, 2008				
Financial Assets:				
Due from other banks and BSP	79,771	79,771	74,821	75,198
AFS securities – unquoted	3,441	*	1,918	*
HTM 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

** Data not available*

(i) Due from Other Banks and BSP

Due from BSP pertains to deposits made by BDO Unibank 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) AFS 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) HTM 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. BDO Unibank Group uses judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at the end of each reporting period.

(d) Financial Instruments Measured at Fair Value

BDO Unibank Group adopted the amendments to PFRS 7, *Financial Instruments: Disclosures – Improving Disclosures about Financial Instruments* effective from January 1, 2009. These amendments require BDO Unibank Group to present certain information about financial instruments measured at fair value in the statements of financial position. In the first year of application comparative information need not be presented for the disclosures required by the amendment. Accordingly, the disclosure for the fair value hierarchy is only presented for December 31, 2009.

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

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

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

The level within which the financial asset or liability is classified is determined based on the lowest level of significant input to the fair value measurement.

The financial assets and liabilities measured at fair value in the statement of financial position as of December 31, 2009 are grouped into the fair value hierarchy as presented in the following table. For the purpose of this disclosure, the investments in unquoted equity securities classified as AFS amounting to P3,376 and P565 in the financial statements of BDO Unibank Group and the Parent Bank, respectively, are measured at cost less impairment charges because the fair value cannot be reliably measured and therefore are not included. Unquoted equity securities consist of preferred shares and common shares of various unlisted local companies.

BDO Unibank Group

	Notes	**Level 1**	**Level 2**	**Total**
Resources				
Financial assets at FVTPL	9.1			
Derivative financial assets		P 3,957	P 1,604	P 5,561
Government bonds		1,886	37	1,923
Other debt securities		32	936	968
Equity securities - quoted		50	-	50
		5,925	2,577	8,502
AFS securities				
Government debt securities		34,540	435	34,975
Other debt securities				
Quoted		6,483	652	7,135
Equity securities				
Quoted		1,118	-	1,118
Not quoted		-	429	429
	9.2	42,141	1,516	43,657
		P 48,066	P 4,093	P 52,159
Liabilities				
Derivative with negative fair values	18	P 3,549	P 1,394	P 4,943

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

Parent Bank

	Notes	Level 1	Level 2	Total
Resources				
Financial assets at FVTPL	9.1			
Derivative financial assets		P 3,956	P -	P 3,956
Government bonds		1,557	-	1,557
Other debt securities		32	924	956
Equity securities - quoted		26	-	26
		5,571	924	6,495
AFS securities				
Government debt securities		31,793	87	31,880
Other debt securities				
Quoted		5,238	498	5,736
Equity securities				
Quoted		717	-	717
Not quoted		-	429	429
		37,748	1,014	38,762
		P 43,319	P 1,938	P 45,257
Liabilities				
Derivative with negative fair values	18	P 3,549	P -	P 3,549

There have been no significant transfers between levels 1 and 2 in the reporting period.

BDO Unibank Group has no financial instrument as of December 31, 2009 whose fair value was measured under level 3.

The methods and valuation techniques used for the purpose of measuring fair value are unchanged compared to the previous reporting period.

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

BDO Unibank 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.

(f) Realizable Amount of Deferred Tax Assets

BDO Unibank Group reviews its deferred tax assets at the end of each reporting period and reduces the carrying amount to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

(g) 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 BDO Unibank Group's policy on estimating the impairment of non-financial assets is discussed in detail in Note 2.22. 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.

Refer to impairment losses recognized in profit or loss in Note 14.

(h) Retirement Benefits

The determination of the BDO Unibank 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 liability and net unrecognized actuarial losses of BDO Unibank Group amounted to P97 and P4,005, respectively, in 2009 while the retirement benefit asset and net unrecognized actuarial losses amounted to P14 and P3,778, respectively, in 2008. On the other hand, the retirement benefit liability and net unrecognized actuarial losses of the Parent Bank amounted to P67 and P3,732, respectively, in 2009 while the retirement benefit asset and net unrecognized actuarial losses amounted to P58 and P3,603 respectively, in 2008 (see Note 23).

4. RISK MANAGEMENT

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

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

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

Separately, the Risk Management Group (RMG) is mandated to adequately and consistently evaluate, manage, control, and monitor the over-all risk profile of the 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 BDO Unibank 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 BDO Unibank Group's Non-Performing Loan (NPL)/property-related items in litigations portfolio and ensures that appropriate strategies are formulated to maximize collection and/or recovery of these assets.
- It is also responsible for regular review and monitoring of accounts under its supervision and ensuring that the account's loan classification is assessed timely and accurately.

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

4.1 Liquidity Risk

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

The analysis of the maturity groupings of resources, liabilities and off-book items as of December 31, 2009 and 2008 in accordance with account classification of the BSP, are presented subsequently. 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 financial position because the statement of financial position amounts are based on discounted cash flows.

BDO Unibank 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, 2009					
Resources:					
Cash	P 30,544	P -	P -	P -	P 30,544
Loans	182,368	51,242	78,726	212,565	524,901
Investments	8,456	5,453	27,677	130,126	171,712
Due from BSP/other banks	81,116	-	449	-	81,565
Other resources	-	-	-	53,327	53,327
Total Resources	302,484	56,695	106,852	396,018	862,049
Liabilities and Equity:					
Deposit liabilities	170,829	6,871	10,695	506,283	694,678
Bills payable	15,607	3,862	2,962	32,136	54,567
Other liabilities	4,138	975	1,122	38,682	44,917
Total Liabilities	190,574	11,708	14,779	577,101	794,162
Equity	-	-	-	67,887	67,887
Total Liabilities and Equity	190,574	11,708	14,779	644,988	862,049
On-book gap	111,910	44,987	92,073	(248,970)	-
Cumulative on-book gap	111,910	156,897	248,970	-	-
Contingent assets	191,164	52,517	22,022	10,095	275,798
Contingent liabilities	200,270	51,710	21,950	10,493	284,423
Off-book gap	(9,106)	807	72	(398)	(8,625)
Net Periodic Gap	102,804	45,794	92,145	(249,368)	(8,625)
Cumulative Total Gap	**P 102,804**	**P 148,598**	**P 240,743**	**(P 8,625)**	**P -**

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

	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
Due from BSP/other banks	79,722	48	-	-	79,771
Other resources	-	10,642	(177)	41,890	52,354
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	71,582
Other liabilities	3,689	29,645	2,724	(135)	35,922
Total Liabilities	159,868	47,666	18,381	518,343	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 -

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

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, 2009					
Resources:					
Cash	P 30,365	P -	P -	P -	P 30,365
Loans	173,427	47,290	68,902	207,683	497,302
Investments	8,230	4,698	26,124	114,210	153,262
Due from BSP/other banks	77,475	-	-	-	77,475
Other resources	-	-	-	56,780	56,780
Total Resources	289,497	51,988	95,026	378,673	815,184
Liabilities and Equity:					
Deposit liabilities	162,259	6,220	9,491	491,835	669,805
Bills payable	8,537	3,518	2,799	29,817	44,671
Other liabilities	3,845	-	-	34,291	38,136
Total Liabilities	174,641	9,738	12,290	555,943	752,612
Equity	-	-	-	62,572	62,572
Total Liabilities and Equity	174,641	9,738	12,290	618,515	815,184
On-book gap	114,856	42,250	82,736	(239,842)	-
Cumulative on-book gap	114,856	157,106	239,842	-	-
Contingent assets	180,995	51,747	10,145	5,347	248,234
Contingent liabilities	190,217	50,949	10,104	5,779	257,049
Off-book gap	(9,222)	798	41	(432)	(8,815)
Net Periodic Gap	105,634	43,048	82,777	(240,274)	(8,815)
Cumulative Total Gap	**P 105,634**	**P 148,682**	**P 231,459**	**(P 8,815)**	**P -**

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

	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
Due from BSP/other banks	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	3,369	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	59,433	(256,370)	3,797
Cumulative Total Gap	P 183,108	P 200,734	P 260,167	P 3,797	P -

4.2 Market Risk

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

4.2.1 Foreign Exchange Risk

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

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

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

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

The breakdown of the financial assets and liabilities as to foreign and peso-denominated balances as of December 31, 2009 and 2008 follows:

BDO Unibank Group

	2009			2008		
	Foreign Currency	**Peso**	**Total**	Foreign Currency	Peso	Total
Resources:						
Cash and other cash items and due from BSP	**P 19**	**P 95,358**	**P 95,377**	P -	P 84,439	P 84,439
Due from other banks	**16,707**	**25**	**16,732**	16,974	128	17,102
Trading and investment securities:						
At FVTPL	**5,535**	**2,967**	**8,502**	3,562	3,288	6,850
AFS securities	**23,296**	**23,737**	**47,033**	13,808	21,365	35,173
HTM	**93,891**	**22,286**	**116,177**	84,268	29,860	114,128
Loans and other receivables	**75,717**	**449,184**	**524,901**	68,815	423,171	491,986
Other resources	**2,071**	**821**	**2,892**	1,138	13,829	14,967
	P 217,236	**P 594,378**	**P 811,614**	P 188,565	P 576,080	P 764,645
Liabilities:						
Deposit liabilities	**P 188,988**	**P 505,690**	**P 694,678**	P 172,667	P 464,087	P 636,754
Bills payable	**3,594**	**27,821**	**31,415**	16,879	34,557	51,436
Subordinated notes	**-**	**23,152**	**23,152**	-	20,146	20,146
Other liabilities	**8,469**	**36,448**	**44,917**	10,934	24,988	35,922
	P 201,051	**P 593,111**	**P 794,162**	P 200,480	P 543,778	P 744,258

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

Parent Bank

	2009			2008		
	Foreign Currency	**Peso**	**Total**	Foreign Currency	Peso	Total
Resources:						
Cash and other cash items and due from BSP	**P 11**	**P 93,218**	**P 93,229**	P -	P 81,703	P 81,703
Due from other banks	**14,261**	**350**	**14,611**	14,573	308	14,881
Trading and investment securities:						
At FVTPL	**5,070**	**1,425**	**6,495**	3,448	1,712	5,160
AFS securities	**20,558**	**18,769**	**39,327**	11,887	19,769	31,656
HTM	**88,259**	**19,181**	**107,440**	80,325	24,951	105,276
Loans and other receivables	**71,143**	**426,159**	**497,302**	68,281	399,309	467,590
Other resources	**2,071**	**439**	**2,510**	1,448	13,383	14,831
	P 201,373	**P 559,541**	**P 760,914**	P 179,962	P 541,135	P 721,097
Liabilities:						
Deposit liabilities	**P 179,377**	**P 490,428**	**P 669,805**	P 163,338	P 449,629	P 612,967
Bills payable	**3,593**	**17,926**	**21,519**	16,879	26,363	43,242
Subordinated notes	**-**	**23,152**	**23,152**	-	20,146	20,146
Other liabilities	**8,072**	**30,064**	**38,136**	10,766	21,245	32,011
	P 191,042	**P 561,570**	**P 752,612**	P 190,983	P 517,383	P 708,366

4.2.2 Interest Rate Risk

BDO Unibank Group prepares gap analysis to measure the sensitivity of its resources, liabilities and off-book items to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities 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 BDO Unibank Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

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

The analyses of the groupings of resources, liabilities and off-book items as of December 31, 2009 and 2008 based on the expected interest realization or recognition are presented below.

BDO Unibank 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, 2009						
Resources:						
Cash	P 30,544	P -	P -	P -	P -	P 30,544
Loans	342,014	51,177	69,136	52,300	10,274	524,901
Investments	10,009	6,024	51,091	98,028	6,560	171,712
Due from BSP/other banks	81,116	-	449	-	-	81,565
Other Resources	-	-	-	-	53,327	53,327
Total Resources	463,683	57,201	120,676	150,328	70,161	862,049
Liabilities and Equity:						
Deposit liabilities	239,458	24,219	58,387	13,377	359,237	694,678
Bills payable	15,607	5,522	30,002	3,436	-	54,567
Other liabilities	293	978	2,283	10	41,353	44,917
Total Liabilities	255,358	30,719	90,672	16,823	400,590	794,162
Equity	-	-	-	-	67,887	67,887
Total Liabilities and Equity	255,358	30,719	90,672	16,823	468,477	862,049
On-book gap	208,325	26,482	30,004	133,505	(398,316)	-
Cumulative on-book gap	208,325	234,807	264,811	398,316	-	-
Contingent assets	31,264	4,680	21,953	-	-	57,897
Contingent liabilities	29,824	5,160	22,294	-	-	57,278
Off-book gap	1,440	(480)	(341)	-	-	619
Net Periodic Gap	209,765	26,002	29,663	133,505	(398,316)	619
Cumulative Total Gap	**P 209,765**	**P 235,767**	**P 265,430**	**P 398,935**	**P 619**	**P -**

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

	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
Due from BSP/other banks	79,722	48	-	-	-	79,771
Other Resources	-	-	-	-	52,355	52,354
Total Resources	509,742	51,187	90,970	93,948	56,185	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	-	71,582
Other liabilities	227	430	1,380	-	33,886	35,922
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	3,362	919	(1,221)	-	-	3,060
Net Periodic Gap	189,264	15,103	7,687	92,748	(301,742)	3,060
Cumulative Total Gap	P 189,264	P 204,367	P 212,054	P 304,802	P 3,060	P -

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

Parent Bank

December 31, 2009	**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 30,365	P -	P -	P -	P -	P 30,365
Loans	333,073	47,225	56,170	50,560	10,274	497,302
Investments	9,786	5,275	45,752	85,889	6,560	153,262
Due from BSP/other banks	77,475	-	-	-	-	77,475
Other Resources	-	-	-	-	56,780	56,780
Total Resources	450,699	52,500	101,922	136,449	73,614	815,184
Liabilities and Equity:						
Deposit liabilities	231,531	23,568	56,201	-	358,505	669,805
Bills payable	8,537	5,178	29,511	1,445	-	44,671
Other liabilities	-	-	-	-	38,136	38,136
Total Liabilities	240,068	28,746	85,712	1,445	396,641	752,612
Equity	-	-	-	-	62,572	62,572
Total Liabilities and Equity	240,068	28,746	85,712	1,445	459,213	815,184
On-book gap	210,631	23,754	16,210	135,004	(385,599)	-
Cumulative on-book gap	210,631	234,385	250,595	385,599	-	-
Contingent assets	21,873	3,921	5,347	-	-	31,141
Contingent liabilities	20,544	4,436	5,775	-	-	30,755
Off-book gap	1,329	(515)	(428)	-	-	386
Net Periodic Gap	211,960	23,239	15,782	135,004	(385,599)	386
Cumulative Total Gap	**P 211,960**	**P 235,199**	**P 250,981**	**P 385,985**	**P 386**	**P -**

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

	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
Due from BSP/other banks	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	9,300	89,233	(292,348)	-
Cumulative on-book gap	181,247	193,815	203,115	292,348	-	-
Contingent assets	11,739	1,547	6,864	-	-	20,150
Contingent liabilities	8,448	713	8,093	-	-	17,254
Off-book gap	3,291	834	(1,229)	-	-	2,896
Net Periodic Gap	184,538	13,402	8,071	89,233	(292,348)	2,896
Cumulative Total Gap	P 184,538	P 197,940	P 206,011	P 295,244	P 2,896	P -

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

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

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

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

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

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

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

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

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

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

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

BDO Unibank Group

	2009		2008	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 22)**	**(P 147)**	(P 25)	(P 294)
Interest rate risk – Peso	**(14)**	**(123)**	(29)	(171)
Interest rate risk – USD	**(13)**	**(202)**	(6)	(29)
	(P 49)	**(P 472)**	(P 60)	(P 494)

Parent Bank

	2009		2008	
	VaR	**Stress VaR**	VaR	Stress VaR
Foreign currency risk	**(P 22)**	**(P 147)**	(P 21)	(P 254)
Interest rate risk – Peso	**(10)**	**(81)**	(28)	(165)
Interest rate risk – USD	**(10)**	**(156)**	(3)	(19)
	(P 42)	**(P 384)**	(P 52)	(P 438)

The earnings-at-risk before tax in a rising and declining interest rate scenario for financial assets and liabilities repriced during 2009 and 2008 is shown below.

BDO Unibank Group

	2009			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 1,026)**	**P 1,026**	**(P 513)**	**P 513**
As a percentage of BDO Unibank Group's net interest income for 2009	**(3.4%)**	**3.4%**	**(1.7%)**	**1.7%**
Earnings-at-risk	**P 506**			

	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 BDO Unibank Group's net interest income for 2008	(3.9%)	3.9%	(2.0%)	2.0%
Earnings-at-risk	P 831			

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

Parent Bank

	2009			
	Change in interest rates (in basis points)			
	-100	**+100**	**-50**	**+50**
Change on annualized net interest income	**(P 1,103)**	**P 1,103**	**(P 552)**	**P 552**
As a percentage of Parent Bank's net interest income for 2009	**(4.0%)**	**4.0%**	**(2.0%)**	**2.0%**
Earnings-at-risk	**P 512**			

	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 Parent Bank's net interest income for 2008	(4.3%)	4.3%	(2.2%)	2.2%
Earnings-at-risk	P 821			

4.2.3 Price Risk

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

The table below summarizes the impact of increases of the financial assets at FVTPL and AFS securities on BDO Unibank Group's net profit after tax and equity as of December 31. The analysis is based on the assumption that the correlated equity indices had increased by 37.6% in 2009 and decreased by 46.4% in 2008 for securities under FVTPL and AFS securities with all other variables held constant and all BDO Unibank Group's equity instruments moved according to the historical correlation with the index.

BDO Unibank Group

	Impact on net profit after tax increase (decrease)		**Impact on other comprehensive income increase (decrease)**	
	2009	2008	**2009**	2008
Financial assets at FVTPL	**P 13**	(P 28)	**P -**	P -
AFS securities	**-**	-	**304**	(189)
	P 13	(P 28)	**P 304**	(P 189)

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

Parent Bank

	Impact on net profit after tax increase (decrease)		Impact on other comprehensive income increase (decrease)	
	2009	2008	**2009**	2008
Financial assets at FVTPL	**P 7**	(P 28)	**P -**	P -
AFS securities	**-**	-	**189**	(45)
	P 7	(P 28)	**P 189**	(P 45)

4.2.4 Credit Risk

Credit risk is the risk that the counterparty in a transaction may default and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the BDO Unibank Group. BDO Unibank 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 BDO Unibank 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 BDO Unibank Group's credit policies and procedures are adequate to meet the demands of the business. The RMG is also responsible for developing procedures to streamline and expedite the processing of credit applications.

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

BDO Unibank Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to industry segments. Such risks are monitored on a revolving basis and subject to an annual or more frequent review. 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 BDO Unibank Group's loan portfolio in line with BDO Unibank 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.

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

4.2.4.1 Exposure to Credit Risk

The following table shows the exposure to credit risk as of December 31, 2009 and 2008 for each internal risk grade and the related allowance for impairment:

BDO Unibank Group

	2009		
	Loans and Receivables	Due from Other Banks	Investment Securities
Carrying Amount	**P 524,901**	**P 16,732**	**P 166,098**
Individually Impaired			
Grade: Unclassified	P 1,291	P 1,418	P 2,532
Grade C: Impaired	1,885	-	-
Grade D: Impaired	6,952	-	133
Grade E: Impaired	4,322	-	5,027
Grade F: Impaired	8,845	-	1,380
Gross amount	23,295	1,418	9,072
Allowance for impairment	(17,068)	-	(6,064)
Carrying amount	6,227	1,418	3,008
Collectively Impaired			
Grade: Unclassified	152	-	-
Grade C: Impaired	2,880	-	-
Grade D: Impaired	1,512	-	-
Grade E: Impaired	494	-	-
Grade F: Impaired	4,635	-	-
Gross amount	9,673	-	-
Allowance for impairment	(5,428)	-	-
Carrying amount	4,245	-	-
Past Due But Not Impaired			
Grade: Unclassified	3,772	-	2
Neither Past Due Nor Impaired			
Grade: Unclassified	510,657	14,999	163,088
Accounts with Negotiated Terms	-	315	-
Total Carrying Amount	**P 524,901**	**P 16,732**	**P 166,098**

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

	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 C: Impaired	683	-	-
Grade D: Impaired	607	-	-
Grade E: Impaired	997	-	-
Grade F: Impaired	1,368	-	-
Gross amount	3,655	-	-
Allowance for impairment	(2,718)	-	-
Carrying amount	937	-	-
Past Due But Not Impaired			
Grade: Unclassified	4,498	-	-
Neither Past Due Nor Impaired			
Grade: Unclassified	478,825	16,941	152,787
Total Carrying Amount	P 491,986	P 17,102	P 153,698

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

	Loans and Receivables		**Investment Securities**	
	2009	2008	**2009**	2008
Below 30 days	**P 3,249**	P 507	**P -**	P -
30 to 60 days	**17**	293	**-**	-
61 to 90 days	**122**	375	**-**	-
91 to 180 days	**40**	604	**-**	-
More than 180 days	**275**	2,719	**2**	-
	P 3,703	P 4,498	**P 2**	P -

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

Parent Bank

	2009		
	Loans and Receivables	**Due from Other Banks**	**Investment Securities**
Carrying Amount	**P 497,302**	**P 14,611**	**P 151,525**
Individually Impaired			
Grade: Unclassified	P -	P 1,418	P 1,918
Grade C: Impaired	1,880	-	-
Grade D: Impaired	6,488	-	133
Grade E: Impaired	4,150	-	5,027
Grade F: Impaired	8,178	-	1,380
Gross amount	20,696	1,418	8,458
Allowance for impairment	(16,156)	-	(5,911)
Carrying amount	4,540	1,418	2,547
Collectively Impaired			
Grade C: Impaired	2,868	-	-
Grade D: Impaired	1,275	-	-
Grade E: Impaired	487	-	-
Grade F: Impaired	4,635	-	-
Gross amount	9,265	-	-
Allowance for impairment	(5,208)	-	-
Carrying amount	4,057	-	-
Past Due But Not Impaired			
Grade: Unclassified	3,679	-	2
Neither Past Due Nor Impaired			
Grade: Unclassified	485,026	13,193	148,976
Total Carrying Amount	**P 497,302**	**P 14,611**	**P 151,525**

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

	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 C: Impaired	675	-	-
Grade D: Impaired	302	-	-
Grade E: Impaired	885	-	-
Grade F: Impaired	1,368	-	-
Gross amount	3,230	-	-
Allowance for impairment	(2,575)	-	-
Carrying amount	655	-	-
Past Due But Not Impaired			
Grade: Unclassified	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

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

	Loans and Receivables		**Investment Securities**	
	2009	2008	**2009**	2008
Below 30 days	**P 3,249**	P 507	**P -**	P -
30 to 60 days	**16**	212	**-**	-
61 to 90 days	**121**	350	**-**	-
91 to 180 days	**39**	546	**-**	-
More than 180 days	**254**	2,248	**2**	-
	P 3,679	P 3,863	**P 2**	P -

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

Exposure to credit risk also includes unused commercial letters of credit amounting to P26,492 and P17,998 for 2009 and 2008, respectively, in the BDO Unibank Group financial statements and P25,845 and P17,998 for 2009 and 2008, respectively, in the Parent Bank financial statements (see Note 31.3).

4.2.4.2 Collateral Held as Security and Other Credit Enhancements

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

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

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Individually impaired				
Property	**P 26,654**	P 49,964	**P 26,363**	P 49,964
Debt security	**229**	2	**2**	2
Equity	**195**	248	**181**	248
Others	**5,696**	24,200	**5,530**	24,200
	32,774	74,414	**32,076**	74,414
Collectively impaired				
Property	**4,105**	-	**4,063**	-
Others	**2,459**	-	**2,407**	-
	6,564	-	**6,470**	-
Past due but not impaired				
Property	**5,943**	5,710	**5,745**	5,561
Debt security	**-**	5	**-**	5
Equity	**10**	23	**-**	23
Others	**3,088**	2,167	**2,615**	1,894
	9,041	7,905	**8,360**	7,483
Neither past due nor impaired				
Property	**156,943**	236,723	**149,441**	141,546
Debt security	**13**	475	**13**	8
Equity	**95,168**	58,610	**95,158**	58,185
Others	**107,336**	70,242	**99,640**	83,606
	359,460	366,050	**344,252**	283,345
	P 407,839	P 448,369	**P 391,158**	P 365,242

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

4.2.4.3 Concentrations of Credit Risk

The Parent 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.

BDO Unibank Group

	2009			2008		
	Cash and Cash Equivalents	**Loans and Receivables**	**Investment Securities**	Cash and Cash Equivalents	Loans and Receivables	Investment Securities
Concentration by sector:						
Financial intermediaries	**P 111,780**	**P 85,660**	**P 132,086**	P 101,541	P 65,452	P 81,037
Manufacturing	**-**	**84,668**	**4,477**	-	82,783	15,471
Wholesale and retail trade	**-**	**63,625**	**-**	-	54,794	-
Real estate, renting and other related activities	**-**	**48,815**	**38,922**	-	30,609	797
Transportation and communication	**-**	**38,405**	**29**	-	31,187	-
Other community, social and personal activities	**-**	**34,318**	**717**	-	31,712	65,164
Agriculture, fishing and forestry	**-**	**6,875**	**1,063**	-	5,229	-
Others	**329**	**110,318**	**1,682**	-	91,028	-
	P 112,109	**P 472,684**	**P 178,976**	P 101,541	P 392,794	P 162,469
Concentration by location:						
Philippines	**P 110,037**	**P 467,728**	**P 147,866**	P 84,805	P 390,188	P 127,165
Others	**2,072**	**4,956**	**31,110**	16,736	2,606	35,304
	P 112,109	**P 472,684**	**P 178,976**	P 101,541	P 392,794	P 162,469

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

Parent Bank

	2009			2008		
	Cash and Cash Equivalents	**Loans and Receivables**	**Investment Securities**	Cash and Cash Equivalents	Loans and Receivables	Investment Securities
Concentration by sector:						
Financial intermediaries	**P 107,840**	**P 83,546**	**P 118,599**	P 96,584	P 66,401	P 67,906
Manufacturing	**-**	**81,311**	**1,393**	-	79,994	14,967
Wholesale and retail trade	**-**	**61,937**	**-**	-	53,398	-
Real estate, renting and other related activities	**-**	**44,252**	**38,722**	-	30,331	44
Transportation and communication	**-**	**36,251**	**-**	-	29,362	-
Other community, social and personal activities	**-**	**31,543**	**717**	-	31,202	64,562
Agriculture, fishing and forestry	**-**	**5,627**	**-**	-	5,182	-
Others	**-**	**109,604**	**-**	-	87,914	-
	P 107,840	**P 454,071**	**P 159,431**	P 96,584	P 383,784	P 147,479
Concentration by location:						
Philippines	**P 93,720**	**P 449,226**	**P 128,531**	P 82,111	P 381,211	P 112,255
Others	**14,120**	**4,845**	**30,900**	14,473	2,573	35,224
	P 107,840	**P 454,071**	**P 159,431**	P 96,584	P 383,784	P 147,479

4.3 Operational Risk

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

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

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

Framework

True to its commitment to sound management and corporate governance, BDO Unibank Group considers operational risk management as a critical element in the conduct of its business. Under BDO Unibank Group's Operational Risk Management (ORM) framework, the Board of Directors has the ultimate responsibility for providing leadership in the management of risk in BDO Unibank 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 BDO Unibank Group as well as monitors the implementation of the ORM framework and policies.

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

In 2007, the ORM Policy Manual, which defines BDO Unibank Group's minimum requirements that must be strictly adhered to by all units within BDO Unibank 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.

In 2009, RMG focused on implementing risk management tools by launching the assessment process using Key Risk Indicators (KRI) and Key Controls Self-Assessment (KCSA) as alerts for operational risk vulnerabilities. RMG also began the groundwork for the build-up of a loss database in compliance to Basel II requirements.

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. SEGMENT REPORTING

For management purposes, BDO Unibank Group is organized into four major business segments, namely commercial banking, investment banking, private banking and others. These are also the basis of BDO Unibank 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. Inter-segment transactions are eliminated in consolidation.

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

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

Segment information (by business segment) as of and for the years ended December 31, 2009 and 2008 follows:

	Commercial Banking	Investment Banking	Private Banking	Others	Eliminations	Group
December 31, 2009						
Statements of Income						
Total interest income						
External	P 45,284	P 20	P 1,528	P 1,978	P -	P 48,810
Inter-segment	16	14	-	69	(99)	-
	45,300	34	1,528	2,047	(99)	48,810
Total interest expense						
External	17,194	-	860	197	-	18,251
Inter-segment	83	1	-	15	(99)	-
	17,277	1	860	212	(99)	18,251
Net interest income	28,023	33	668	1,835	-	30,559
Other operating income						
Investment banking fees	-	622	-	-	-	622
Others	14,402	43	655	1,144	(1,383)	14,861
	14,402	665	655	1,144	(1,383)	15,483
Other operating expenses						
Depreciation and amortization	1,582	4	18	1,095	-	2,699
Impairment losses	5,764	-	207	182	-	6,153
Others	27,502	423	589	1,088	(172)	29,430
	34,848	427	814	2,365	(172)	38,282
Profit before tax	7,577	271	509	614	(1,211)	7,760
Tax expense	1,273	85	85	216	-	1,659
Net profit	P 6,304	P 186	P 424	P 398	(P 1,211)	P 6,101
Statements of Financial Position						
Total resources						
Segment assets	P 816,862	P 2,917	P 29,389	P 20,217	(P 14,183)	P 855,202
Intangible assets	1,148	10	3	-	-	1,161
Deferred tax assets	5,740	(18)	27	(63)	-	5,686
	P 823,750	P 2,909	P 29,419	P 20,154	(P 14,183)	P 862,049
Total liabilities	P 759,719	P 1,615	P 25,594	P 13,769	(P 6,535)	P 794,162
Other segment information						
Capital expenditures	P 2,787	P 1	P 7	P 870	P -	P 3,665
Investment in associate under equity method	2,168	68	-	-	-	2,236
Share in the profit of associates	24	-	-	-	-	24

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

	Commercial Banking	Investment Banking	Private Banking	Others	Eliminations	Group
December 31, 2008						
Statements of Income						
Total interest income						
External	P 39,720	P 28	P 1,562	P 1,049	P -	P 42,359
Inter-segment	13	19	-	41	(73)	-
	39,733	47	1,562	1,090	(73)	42,359
Total interest expense						
External	17,984	-	1,117	221	-	19,322
Inter-segment	59	2	1	11	(73)	-
	18,043	2	1,118	232	(73)	19,322
Net interest income	21,690	45	444	858	-	23,037
Other operating income						
Investment banking fees	-	462	-	-	-	462
Others	11,810	(89)	265	1,442	(159)	13,269
	11,810	373	265	1,442	(159)	13,731
Other operating expenses						
Depreciation and amortization	1,886	3	26	255	-	2,170
Impairment losses	5,171	2	84	78	(102)	5,233
Others	24,006	202	425	1,137	(88)	25,682
	31,063	207	535	1,470	(190)	33,085
Profit before tax	2,437	211	174	830	31	3,683
Tax expense	958	70	73	242	102	1,445
Net profit	P 1,479	P 141	P 101	P 588	(P 71)	P 2,238
Statements of Financial Position						
Total resources						
Segment assets	P 755,132	P 1,259	P 36,604	P 17,813	(P 15,303)	P 795,505
Intangible assets	747	-	-	-	-	747
Deferred tax assets	5,747	40	24	71	(102)	5,780
	P 761,626	P 1,299	P 36,628	P 17,884	(P 15,405)	P 802,032
Total liabilities	P 708,366	P 249	P 33,315	P 11,130	(P 8,802)	P 744,258
Other segment information						
Capital expenditures	P 3,949	P 7	P 25	P 1,355	P -	P 5,336
Investments in associates under equity method	1,636	68	-	-	-	1,704
Share in the profit of associates	47	-	-	-	-	47

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

6. FINANCIAL ASSETS AND LIABILITIES

These consist of the following:

BDO Unibank Group

	2009			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	P -	P 30,544	P 30,544	P 30,544
Due from BSP	-	64,833	64,833	64,720
Due from other banks	-	16,732	16,732	16,732
Financial assets at FVTPL	-	8,502	8,502	8,502
AFS securities	-	47,033	47,033	47,033
HTM investments	116,177	-	116,177	121,000
Loans and other receivables	524,901	-	524,901	523,604
	P 641,078	**P 167,644**	**P 808,722**	**P 812,135**

	At Amortized Cost	Carrying Amount	Fair Value
Financial Liabilities			
Deposit liabilities	P 694,678	P 694,678	P 684,912
Bills payable	31,415	31,415	31,271
Subordinated notes	23,152	23,152	24,199
Other liabilities	44,917	44,917	44,917
	P 794,162	**P 794,162**	**P 785,299**

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

	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	-	6,850	6,850	6,849
AFS securities	-	35,173	35,173	35,173
HTM investments	114,128	-	114,128	109,780
Loans and other receivables	491,986	-	491,986	496,494
	P 606,114	P 143,564	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

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

Parent Bank

	2009			
	Classes			
	At Amortized Cost	At Fair Value	Carrying Amount	Fair Value
Financial Assets				
Cash and other cash items	P -	P 30,365	P 30,365	P 30,365
Due from BSP	-	62,864	62,864	62,751
Due from other banks	-	14,611	14,611	14,611
Financial assets at FVTPL	-	6,495	6,495	6,495
AFS securities	-	39,327	39,327	39,327
HTM investments	107,440	-	107,440	111,781
Loans and other receivables	497,302	-	497,302	498,665
	P 604,742	**P 153,662**	**P 758,404**	**P 763,995**

	At Amortized Cost	Carrying Amount	Fair Value
Financial Liabilities			
Deposit liabilities	P 669,805	P 669,805	P 660,039
Bills payable	21,519	21,519	21,375
Subordinated notes	23,152	23,152	24,199
Other liabilities	38,136	38,136	38,136
	P 752,612	**P 752,612**	**P 743,749**

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

	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	60,317
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 705,549

	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

7. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Cash and other cash items	**P 30,544**	P 21,770	**P 30,365**	P 21,763
Due from BSP:				
Mandatory reserves	**53,622**	47,450	**52,549**	45,977
Other than mandatory reserves	**11,211**	15,219	**10,315**	13,963
	64,833	62,669	**62,864**	59,940
	P 95,377	P 84,439	**P 93,229**	P 81,703

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 3.2% to 4.2% in 2009 and 4.0% to 5.7% in 2008, except for the amounts within the required reserve as determined by BSP. Total interest income earned amounted to P1,988, P1,811, and P1,334 in 2009, 2008 and 2007, respectively, in BDO Unibank Group financial statements and P1,941, P1,789, and P1,011 in 2009, 2008 and 2007, respectively, in the Parent Bank financial statements (see Note 20).

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

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 statutory 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:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Foreign banks	**P 16,142**	P 16,736	**P 14,120**	P 14,466
Local banks	**590**	366	**491**	415
	P 16,732	P 17,102	**P 14,611**	P 14,881

The breakdown of the account as to currency follows:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
US dollar	**P 13,162**	P 13,817	**P 11,088**	P 12,038
Other currencies	**3,545**	3,157	**3,173**	2,535
Peso	**25**	128	**350**	308
	P 16,732	P 17,102	**P 14,611**	P 14,881

Annual interest rates on these deposits range from 0% to 10% in 2009, 0% to 5.9% in 2008, and 0% to 4.8% in 2007 in BDO Unibank Group financial statements and 0% to 5% in 2009, 0% to 4.5% in 2008, and 0% to 4.8% in 2007 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.

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Financial assets at FVTPL	**P 8,502**	P 6,850	**P 6,495**	P 5,160
AFS securities	**47,033**	35,173	**39,327**	31,656
HTM investments	**116,177**	114,128	**107,440**	105,276
	P 171,712	P 156,151	**P 153,262**	P 142,092

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

9.1 Financial Assets at FVTPL

This account is composed of the following:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Derivative financial assets	**P 5,561**	P 4,256	**P 3,956**	P 2,911
Government bonds	**1,923**	1,505	**1,557**	1,194
Other debt securities	**968**	997	**956**	982
	8,452	6,758	**6,469**	5,087
Equity securities - quoted	**50**	92	**26**	73
	P 8,502	P 6,850	**P 6,495**	P 5,160

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. BDO Unibank Group recognized total fair value gain (loss) on financial assets at FVTPL amounting to P1,814, (P1,356), and P104 in 2009, 2008 and 2007, respectively, in BDO Unibank Group financial statements and P1,778, (P1,452), and (P83) in 2009, 2008 and 2007, respectively, in the Parent Bank financial statements. These are included as part of Other Operating Income in the statements of income.

Foreign currency-denominated securities amounted to P5,535 and P3,562 as of December 31, 2009 and 2008, respectively, in BDO Unibank Group financial statements and P5,070 and P3,448 as of December 31, 2009 and 2008, respectively, in the Parent Bank financial statements.

Derivative instruments used by BDO Unibank 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 and Other Receivables 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.

BDO Unibank Group

	2009			2008		
	Notional Amount	**Fair Values Assets**	**Fair Values Liabilities**	Notional Amount	Fair Values Assets	Fair Values Liabilities
Currency forwards/futures	**P 279,550**	**P 3,365**	**P 2,804**	P 122,636	P 2,105	P 1,343
Currency swaps	**32,196**	**1,600**	**1,471**	26,281	1,271	1,154
Interest rate swaps	**22,070**	**541**	**639**	14,637	809	1,031
Credit default swap	**1,873**	**1**	**1**	818	-	-
Others	**1,888**	**54**	**28**	8,553	71	46
	P 337,577	**P 5,561**	**P 4,943**	P 172,925	P 4,256	P 3,574

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

Parent Bank

	2009			2008		
	Notional	**Fair Values**		Notional	Fair Values	
	Amount	**Assets**	**Liabilities**	Amount	Assets	Liabilities
Currency forwards/futures	**P 226,629**	**P 2,601**	**P 2,089**	P 108,132	P 1,483	P 1,072
Currency swaps	**17,985**	**792**	**880**	21,249	863	988
Interest rate swaps	**12,765**	**509**	**552**	9,842	493	588
Credit default swap	**236**	**-**	**-**	-	-	-
Others	**1,888**	**54**	**28**	8,553	72	47
	P 259,503	**P 3,956**	**P 3,549**	P 147,776	P 2,911	P 2,695

In 2008, BDO Unibank Group reclassified certain equity securities from FVTPL to AFS and debt securities and embedded derivatives of CLNs from FVTPL to HTM and Loans and Other Receivables, respectively (see Note 9.4).

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

9.2 AFS Securities

The BDO Unibank Group's AFS securities consist of the following:

		BDO Unibank Group		**Parent Bank**	
	Note	**2009**	2008	**2009**	2008
Government debt securities		**P 35,050**	P 25,102	**P 31,954**	P 23,302
Other debt securities:					
Quoted		**11,649**	11,650	**10,821**	11,001
Not quoted		**638**	634	**15**	348
Equity securities:					
Quoted		**1,156**	625	**717**	149
Not quoted		**5,066**	2,807	**1,252**	1,570
		53,559	40,818	**44,759**	36,370
Allowance for impairment	14	**(6,526)**	(5,645)	**(5,432)**	(4,714)
		P 47,033	P 35,173	**P 39,327**	P 31,656

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

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Foreign currency	**P 23,296**	P 13,808	**P 20,558**	P 11,887
Peso	**23,737**	21,365	**18,769**	19,769
	P 47,033	P 35,173	**P 39,327**	P 31,656

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

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 rates ranging from 0% to 13% in 2009, 0% to 13% in 2008, and 4.2% to 18% in 2007 in the BDO Unibank Group financial statements and 0% to 13% in 2009, 0% to 13% in 2008, and 5.2% to 18% in 2007 in the Parent Bank financial statements.

Other debt securities also include investments in a foreign financial institution under bankruptcy amounting to P5,650 and P5,053 as of December 31, 2009 and 2008, respectively, both in BDO Unibank Group and Parent Bank financial statements. The allowance for impairment on such investments amounted to P5,085 and P4,440 as of December 31, 2009 and 2008, respectively, both in BDO Unibank Group and Parent Bank financial statements (see Note 10 for the related interbank loan receivables from this financial institution).

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 preferred shares and common shares of various unlisted local companies.

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

Changes in AFS securities are presented below.

		BDO Unibank Group		Parent Bank	
	Notes	**2009**	2008	**2009**	2008
Balance at beginning of year		**P 35,173**	P 75,604	**P 31,656**	P 68,563
Additions		**78,783**	153,842	**73,142**	149,054
Disposals		**(67,508)**	(150,219)	**(66,069)**	(150,842)
Foreign currency revaluation		**(890)**	7,330	**(857)**	7,245
Unrealized fair value gain (loss) other comprehensive income		**2,356**	(2,827)	**2,173**	(1,776)
Reclassification from FVTPL	9.4	-	102	-	-
Reclassification to HTM	9.4	-	(25,540)	-	(22,474)
Reclassification to loans and other receivables	9.4	-	(18,520)	-	(14,096)
Reclassification from loans and other receivables	10	-	438	-	438
Impairment losses		**(881)**	(5,037)	**(718)**	(4,456)
		P 47,033	P 35,173	**P 39,327**	P 31,656

In 2008, BDO Unibank 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, BDO Unibank Group and the Parent Bank reclassified all CLNs that are linked to ROP bonds, with carrying value of P18,520 and P14,096, respectively, inclusive of embedded derivatives, to Loans and Other Receivables (see Note 9.4).

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

9.3 Held-to-Maturity Investments

The balance of this account is composed of the following:

		BDO Unibank Group		Parent Bank	
	Note	**2009**	2008	**2009**	2008
Government debt securities		**P 98,959**	P 92,220	**P 90,596**	P 83,752
Other debt securities:					
Listed		**16,007**	13,388	**15,776**	13,388
Not quoted		**1,948**	9,193	**1,805**	8,809
		116,914	114,801	**108,177**	105,949
Allowance for impairment	14	**(737)**	(673)	**(737)**	(673)
		P 116,177	P 114,128	**P 107,440**	P 105,276

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

In 2008, other debt securities include investments in a sinking fund set up by the Parent Bank as required by BSP in connection with the Parent Bank'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 amounted to P2,110 (nil as of December 31, 2009) in the BDO Unibank Group and Parent Bank financial statements.

As to currency, HTM investments comprise of the following:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Foreign currency	**P 93,891**	P 84,268	**P 88,259**	P 80,325
Peso	**22,286**	29,860	**19,181**	24,951
	P 116,177	P 114,128	**P 107,440**	P 105,276

The maturity profile of this account is presented below.

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Less than one year	**P 11,014**	P 11,678	**P 10,069**	P 11,026
One to five years	**40,325**	49,079	**35,283**	44,671
Beyond five years	**64,838**	53,371	**62,088**	49,579
	P 116,177	P 114,128	**P 107,440**	P 105,276

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

Changes in the HTM account are summarized below.

	Note	BDO Unibank Group		Parent Bank	
		2009	2008	**2009**	2008
Balance at beginning of year		**P 114,128**	P 67,946	**P 105,276**	P 62,571
Additions		**47,612**	51,961	**46,896**	48,522
Maturities		**(42,761)**	(46,426)	**(42,027)**	(42,827)
Foreign currency revaluation		**(2,738)**	8,639	**(2,641)**	8,068
Impairment recovery (loss)		**(64)**	171	**(64)**	171
Reclassification from FVPTL	9.4	**-**	6,297	**-**	6,297
Reclassification from AFS	9.4	**-**	25,540	**-**	22,474
		P 116,177	P 114,128	**P 107,440**	P 105,276

The fair values of the HTM investments are as follows:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Government debt securities	**P 86,988**	P 77,295	**P 78,161**	P 68,959
Other debt securities	**34,012**	32,485	**33,620**	32,136
	P 121,000	P 109,780	**P 111,781**	P 101,095

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 11.4% in 2009 and 0% to 16.5% in 2008 both in the BDO Unibank Group and the Parent Bank financial statements.

9.4 Reclassification of Investment Securities

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

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

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Presented below are the details of the reclassifications made by BDO Unibank Group in 2008 and the related details at the end of 2009 and 2008.

BDO Unibank Group

	Reclassification Date	
	Carrying Value	Fair Value
Reclassification from FVTPL to AFS	P 102	P 102
Reclassification from FVTPL to HTM	6,297	6,297
Reclassification of debt securities from AFS to HTM	25,540	25,540
Reclassification of embedded derivatives of CLNs from FVTPL to Loans and Other Receivables	(183)	(183)
Reclassification of CLNs from AFS to Loans and Other Receivables	18,520	18,520

	December 31, 2009		December 31, 2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Reclassification from FVTPL to AFS	**P -**	**P -**	P 36	P 36
Reclassification from FVTPL to HTM	**4,661**	**4,918**	6,400	6,219
Reclassification of debt securities from AFS to HTM	**24,044**	**25,577**	27,223	25,093
Reclassification of CLNs from AFS to Loans and Other Receivables	**19,417**	**20,366**	19,973	19,232

Parent Bank

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

	December 31, 2009		December 31, 2008	
	Carrying Value	**Fair Value**	Carrying Value	Fair Value
Reclassification from FVTPL to HTM	**P 4,661**	**P 4,918**	P 6,400	P 6,219
Reclassification of debt securities from AFS to HTM	**21,038**	**22,366**	24,182	22,173
Reclassification of CLNs from AFS to Loans and Other Receivables	**14,967**	**15,913**	15,211	14,845

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

Reclassification from FVTPL to AFS

Trading losses of FVTPL transferred to AFS amounted to P39 in 2008. 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. No impairment recovery (loss) was booked on reclassified instruments in 2009. Fair value loss realized from reclassified instruments as a result of their disposal in 2009 amounted to P61.

Reclassification from FVTPL to HTM

Total trading losses of FVTPL reclassified to HTM both in BDO Unibank Group and Parent Bank financial statements which were recognized in profit or loss amounted to P199 in 2008. On the other hand, the net trading gain (loss) that would have been recognized in the period following the reclassification during 2009 and 2008 if the reclassifications had not been made would have amounted to P396 and (P125) for BDO Unibank Group and Parent Bank, respectively. Effective interest rates of FVTPL reclassified to HTM range from 7% to 8.8% in 2009 and in 2008 in BDO Unibank Group and Parent Bank financial statements. Interest income recognized in profit or loss on reclassified securities amounted to P37 in BDO Unibank Group and Parent Bank financial statements in 2009. No impairment recovery (loss) was booked on reclassified instruments in BDO Unibank Group and Parent Bank financial statements in 2009.

Reclassification of Debt Securities from AFS to HTM

Unrealized fair value losses in equity of debt securities reclassified from AFS to HTM at reclassification dates amounted to P102 and P46 in BDO Unibank Group and Parent Bank financial statements, respectively, in 2008. The net trading gain (loss) that would have been recognized in other comprehensive income during the period following the reclassification in 2009 and 2008 if the reclassifications had not been made would have amounted to P3,190 and (P2,132), respectively. No impairment recovery (loss) was booked on reclassified instruments both in BDO Unibank Group and Parent Bank financial statements, respectively, in 2009. On the other hand, amortization of fair value loss previously recognized in other comprehensive income to profit or loss due to reclassification amounted to (P94) both in BDO Unibank Group and Parent Bank financial statements in 2009.

Reclassification of CLNs from AFS to Loans and Other Receivables

Unrealized fair value losses in equity of CLNs linked to ROP bonds reclassified from AFS to Loans at reclassification dates amounted to P627 and P624 in the BDO Unibank Group and Parent Bank financial statements, respectively, in 2008. The effective interest rates on reclassified instruments range from 4.3% to 9.6% and 7.3% to 9.6% in the BDO Unibank Group and Parent Bank financial statements in 2009 and from 4.7% to 11.4% and 7.3% to 9.6% in the BDO Unibank Group and Parent Bank financial statements in 2008. Interest income recognized in profit or loss on reclassified securities amounted to P372 and P216 in the BDO Unibank Group and Parent Bank financial statements, respectively, in 2009. Additional unrealized fair value losses recognized in other comprehensive income in the period following the reclassification had the CLNs not been reclassified to loans and other receivables would have amounted to P643 and P623 in the BDO Unibank Group and Parent Bank financial statements, respectively, in 2009 and P495 and P555 in the BDO Unibank Group and Parent Bank financial statements, respectively, in 2008. Additional trading gain (loss) to be recognized in profit or loss had the embedded derivatives not been reclassified totaled to P1,597 and P1,274 in the BDO Unibank Group and Parent Bank financial statements, respectively, in 2009 and (P1,134) and (P909) in the BDO Unibank Group and Parent Bank financial statements, respectively, in 2008. Impairment loss of P65 was recognized on the reclassified securities by BDO Unibank Group in 2009 (nil in the Parent Bank's 2009 financial statements).

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After this reclassification, amortization in 2009 of unrealized fair value losses previously recognized directly in equity amounting to P184 and P194 for BDO Unibank Group and Parent Bank, respectively, was charged to profit or loss.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Notes	BDO Unibank Group		Parent Bank	
		2009	2008	**2009**	2008
Receivables from customers:					
Loans and discounts		**P 409,669**	P 322,729	**P 391,170**	P 313,728
Customers' liabilities under letters of credit and trust receipts		**30,717**	40,722	**30,608**	40,722
Bills purchased		**10,750**	13,408	**10,745**	13,408
Others		**21,548**	15,935	**21,548**	15,926
		472,684	392,794	**454,071**	383,784
Allowance for impairment	14	**(18,968)**	(15,721)	**(17,956)**	(15,485)
Net		**453,716**	377,073	**436,115**	368,299
Other receivables:					
SPURRA		**11,286**	60,770	**6,502**	48,648
Interbank loans receivables		**33,012**	29,194	**33,012**	29,194
UDSCL	9	**20,217**	20,388	**15,359**	15,626
Accounts receivable		**7,891**	5,948	**7,639**	7,305
Sales contract receivables		**2,263**	1,982	**2,083**	1,891
Others		**44**	41	**-**	-
		74,713	118,323	**64,595**	102,664
Allowance for impairment	14	**(3,528)**	(3,410)	**(3,408)**	(3,373)
Net		**71,185**	114,913	**61,187**	99,291
		P 524,901	P 491,986	**P 497,302**	P 467,590

Included in loans and other receivables are non-accruing loans amounting to P23,931 and P23,110 as of December 31, 2009 and 2008, respectively, in the BDO Unibank Group financial statements and P22,657 and P22,609 as of December 31, 2009 and 2008, respectively, in the Parent Bank financial statements.

As of December 31, 2009 and 2008, interbank loans receivables include loans to a foreign financial institution under bankruptcy amounting to P1,426 and P1,467, respectively, with related allowance for impairment of P1,248 and P1,308, respectively, (see Note 9.2 for the investment in other debt securities in that foreign financial institution).

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Manufacturing (various industries)	**P 84,869**	P 82,783	**P 81,311**	P 79,994
Financial intermediaries	**84,148**	65,452	**83,546**	66,401
Wholesale and retail trade	**63,685**	54,794	**61,937**	53,398
Real estate, renting and other related activities	**49,701**	30,609	**44,252**	30,331
Transportation and communication	**38,418**	31,187	**36,251**	29,362
Other community, social and personal activities	**34,628**	31,712	**31,543**	31,202
Agriculture, fishing and forestry	**6,917**	5,229	**5,627**	5,182
Others	**110,318**	91,028	**109,604**	87,914
	P 472,684	P 392,794	**P 454,071**	P 383,784

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Secured:				
Real estate mortgage	**P 82,379**	P 74,475	**P 78,029**	P 73,502
Chattel mortgage	**34,504**	30,851	**26,449**	24,458
Other securities	**101,678**	64,892	**101,008**	64,822
	218,561	170,218	**205,486**	162,782
Unsecured	**254,123**	222,576	**248,585**	221,002
	P 472,684	P 392,794	**P 454,071**	P 383,784

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Variable interest rates	**P 322,249**	P 292,115	**P 319,136**	P 285,009
Fixed interest rates	**150,435**	100,679	**134,935**	98,775
	P 472,684	P 392,794	**P 454,071**	P 383,784

Loans and other receivables bear annual interest rates of 0% to 43.7% per annum in 2009 and 0% to 51.1% in 2008 in the BDO Unibank Group and Parent Bank financial statements.

The Bank's receivables from customers amounting to P4,707 and P6,807 as of December 31, 2009 and 2008, respectively, were pledged as collaterals with the BSP to secure borrowings under rediscounting privileges. In addition, receivables from customers amounting to P15 and P55 as of December 31, 2009 and 2008, respectively, have been rediscounted under the Development Bank of the Philippines, Land Bank of the Philippines and SSS rediscounting facilities.

In 2008, BDO Unibank 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 P18,520 and (P183), respectively (see Note 9.4). The related accrued interest receivables of CLNs amounting to P171 were also transferred to loans and other receivables.

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11. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

The gross carrying amounts and accumulated depreciation and amortization of premises, furniture, fixtures and equipment at the beginning and end of 2009 and 2008 are shown below.

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group					
December 31, 2009					
Cost	P 4,780	P 5,568	P 2,293	P 16,475	P 29,116
Accumulated depreciation and amortization	-	(1,685)	(880)	(11,811)	(14,376)
Allowance for impairment	-	-	(4)	(4)	(8)
Net carrying amount	**P 4,780**	**P 3,883**	**P 1,409**	**P 4,660**	**P 14,732**
December 31, 2008					
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
Parent Bank					
December 31, 2009					
Cost	P 4,780	P 5,509	P 2,125	P 13,487	P 25,901
Accumulated depreciation and amortization	-	(1,651)	(803)	(10,389)	(12,843)
Net carrying amount	**P 4,780**	**P 3,858**	**P 1,322**	**P 3,098**	**P 13,058**
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

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A reconciliation of the carrying amounts, at the beginning and end of 2009 and 2008, of premises, furniture, fixtures and equipment is shown below.

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
BDO Unibank Group					
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 4,956	P 3,857	P 1,429	P 4,434	P 14,676
Additions	-	428	377	2,269	3,074
Disposals	(258)	(56)	(2)	(122)	(438)
Reclassifications	82	(132)	10	(4)	(44)
Depreciation and amortization charges for the year	-	(214)	(401)	(1,913)	(2,528)
Impairment	-	-	(4)	(4)	(8)
Balance at December 31, 2009, net of accumulated depreciation and amortization	**P 4,780**	**P 3,883**	**P 1,409**	**P 4,660**	**P 14,732**
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	2,984	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 3,857	P 1,429	P 4,434	P 14,676
Parent Bank					
Balance at January 1, 2009, net of accumulated depreciation and amortization	P 4,956	P 3,800	P 1,374	P 2,756	P 12,886
Additions	-	428	305	1,215	1,948
Disposals	(258)	(26)	(1)	(40)	(325)
Reclassifications	82	(133)	9	(23)	(65)
Depreciation and amortization charges for the year	-	(211)	(365)	(810)	(1,386)
Balance at December 31, 2009, net of accumulated depreciation and amortization	**P 4,780**	**P 3,858**	**P 1,322**	**P 3,098**	**P 13,058**
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

Under BSP rules, investments in premises, furniture, fixtures and equipment should not exceed 50% of a bank's unimpaired capital. As of December 31, 2009 and 2008, the Bank has satisfactorily complied with this requirement.

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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 P124 and P120 in 2009 and P64 and P57 in 2008 in BDO Unibank Group and Parent Bank financial statements, respectively. Direct expenses incurred from these properties amounted to P43 and P41 in 2009 and P22 and P11 in 2008 in the BDO Unibank Group and Parent Bank financial statements, respectively.

The gross carrying amounts and accumulated depreciation and impairment at the beginning and end of 2009 and 2008 are shown below.

	Note	Land	Buildings	Total
BDO Unibank Group				
December 31, 2009				
Cost		P 12,123	P 4,537	P 16,660
Accumulated depreciation		-	(1,555)	(1,555)
Allowance for impairment	14	(1,251)	(20)	(1,271)
Net carrying amount		**P 10,872**	**P 2,962**	**P 13,834**
December 31, 2008				
Cost		P 12,994	P 4,646	P 17,640
Accumulated depreciation		-	(1,378)	(1,378)
Allowance for impairment	14	(1,019)	(9)	(1,028)
Net carrying amount		P 11,975	P 3,259	P 15,234
Parent Bank				
December 31, 2009				
Cost		P 11,312	P 4,225	P 15,537
Accumulated depreciation		-	(1,479)	(1,479)
Allowance for impairment	14	(1,233)	(20)	(1,253)
Net carrying amount		**P 10,079**	**P 2,726**	**P 12,805**
December 31, 2008				
Cost		P 12,241	P 4,398	P 16,639
Accumulated depreciation		-	(1,316)	(1,316)
Allowance for impairment	14	(1,000)	(9)	(1,009)
Net carrying amount		P 11,241	P 3,073	P 14,314

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A reconciliation of the carrying amounts, at the beginning and end of 2009 and 2008, of investment property is shown below.

	Land	Buildings	Total
BDO Unibank Group			
Balance at January 1, 2009, net of accumulated depreciation and impairment	P 11,975	P 3,259	P 15,234
Additions	77	193	270
Disposals	(958)	(285)	(1,243)
Reclassifications	11	(11)	-
Depreciation for the year	-	(184)	(184)
Impairment	(233)	(10)	(243)
Balance at December 31, 2009, net of accumulated depreciation and impairment	**P 10,872**	**P 2,962**	**P 13,834**
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	22	6	28
Balance at December 31, 2008, net of accumulated depreciation and impairment	P 11,975	P 3,259	P 15,234
Parent Bank			
Balance at January 1, 2009, net of accumulated depreciation and impairment	P 11,241	P 3,073	P 14,314
Additions	3	87	90
Disposals	(932)	(260)	(1,192)
Impairment	(233)	(10)	(243)
Depreciation for the year	-	(164)	(164)
Balance at December 31, 2009, net of accumulated depreciation and impairment	**P 10,079**	**P 2,726**	**P 12,805**
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	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

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The fair value of investment properties as of December 31, 2009 and 2008, determined based on the present value of the estimated future cash flows discounted at the current market rate, amounted to P21,250 and P23,021, respectively, for BDO Unibank Group accounts and P20,504 and P22,055, 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 either: financial assets, investment properties, non-current assets held-for-sale or other resources - others. As of December 31, 2009 and 2008, ROPA, gross of allowance, comprise of the following:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Investment properties	**P 12,916**	P 14,768	**P 12,811**	P 13,978
Non-current assets held-for-sale	**2,489**	2,209	**2,489**	2,181
Available-for-sale securities	**2,953**	844	**2,953**	844
Other resources - others	**1**	-	**-**	-
	P 18,359	P 17,821	**P 18,253**	P 17,003

13. OTHER RESOURCES

The components of this account are shown below.

		BDO Unibank Group		Parent Bank	
	Notes	**2009**	2008	**2009**	2008
Deferred tax assets	27	**P 5,686**	P 5,780	**P 5,740**	P 5,747
Receivables from special purpose vehicles (SPVs)		**3,440**	3,435	**3,440**	3,435
Deposits under escrow		**2,931**	2,931	**2,931**	2,931
Equity investments		**2,236**	1,704	**12,905**	10,874
Non-current assets held for sale		**2,225**	1,950	**2,208**	1,932
Foreign currency notes and coins on hand		**2,071**	2,220	**2,071**	2,220
Interoffice float items – net		**1,698**	1,195	**1,698**	1,619
Goodwill	26	**1,247**	747	**1,247**	747
Computer software – net		**480**	456	**438**	433
Returned checks and other cash items		**184**	465	**184**	465
Deferred charges – net		**114**	-	**-**	13
Others		**10,380**	8,860	**8,669**	7,330
		32,692	29,743	**41,531**	37,746
Allowance for impairment	14	**(7,931)**	(7,299)	**(10,614)**	(9,586)
		P 24,761	P 22,444	**P 30,917**	P 28,160

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, 2009 and 2008, allowance for impairment on receivables from SPVs amounted to P3,440 and P2,991, respectively.

13.2 Deposits Under Escrow

Deposits under escrow pertain to the portion of the cash received by BDO Unibank Group in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities in October 2002. This amount is held in escrow pending compliance by BDO Unibank Group with certain terms and conditions as stipulated in the Memorandum of Agreement (MOA). Deposits under escrow earn an annual effective interest of 6.7% and 4.7% in 2009 and 2008, respectively.

13.3 Computer Software Licenses

Amortization expense on computer software licenses amounted to P136, P115, and P94 in 2009, 2008 and 2007, respectively, in the BDO Unibank Group financial statements and P134, P115, and P93 in 2009, 2008 and 2007, respectively, in the Parent Bank financial statements. These are included as part of Other Operating Expenses in the statement of income (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 BDO Unibank Group intends to sell within one year from the date of classification as held for sale.

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13.5 Equity Investments

Equity investments consist of the following:

	% Interest Held	BDO Unibank Group 2009	BDO Unibank Group 2008	Parent Bank 2009	Parent Bank 2008
Philippine Subsidiaries					
BDO Private Bank, Inc. (BDO Private)	100%	**P -**	P -	**P 2,579**	P 2,579
BDO Strategic Holdings, Inc. (BDOSHI) (formerly EBC Investments, Inc. or EBCII)	100%	**-**	-	**2,135**	2,135
BDO Leasing and Finance, Inc.	85%	**-**	-	**1,878**	1,854
GE Money Bank, Inc. (GEMB)	99%	**-**	-	**1,500**	-
EBC Strategic Holdings Corporation (ESHC)	100%	**-**	-	**1,421**	1,421
BDO Capital & Investment Corporation (BDO Capital)	100%	**-**	-	**300**	300
BDO Technology Center, Inc. (BDO Technology)	100%	**-**	-	**47**	47
Equimark - NFC Development Corp.	60%	**-**	-	**45**	45
PCIB Securities, Inc.	100%	**-**	-	**39**	39
PCI Realty Corporation	100%	**-**	-	**34**	34
BDO Insurance Brokers, Inc. (BDOI)	100%	**-**	-	**11**	11
PCI Insurance Brokers, Inc. (PCI Insurance)	100%	**-**	-	**8**	8
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%	**966**	446	**898**	378
Northpine Land Incorporated	20%	**232**	232	**232**	232
Taal Land	33%	**170**	170	**170**	170
Others		**10**	10	**10**	10
		2,672	2,152	**12,905**	10,861
Accumulated equity in net losses:					
Balance at beginning of year		**(460)**	(507)	**-**	-
Equity in net income during the year		**24**	47	**-**	-
Balance at end of year		**(436)**	(460)	**-**	-
At cost		**-**	12	**-**	12
Gross		**2,236**	1,704	**12,905**	10,874
Allowance for impairment (see Note 14)		**(526)**	(7)	**(4,291)**	(3,291)
Net		**P 1,710**	P 1,697	**P 8,614**	P 7,583

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

The BDO Unibank Group's percentage of interest held in each subsidiary and associate is the same as that of the Parent Bank, except for Generali Pilipinas Holdings, Inc. which is at 40% at the BDO Unibank Group and 37.5% at the Parent Bank.

The BDO Unibank 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 the aggregated financial information of BDO Unibank Group's associates as of and for the years ended December 31, 2009, 2008 and 2007:

	2009	2008	2007
Assets	**P 3,941**	P 3,314	P 4,036
Liabilities	**799**	1,045	1,293
Revenues	**(9)**	(119)	361
Net loss	**(352)**	(368)	(397)

13.5.1 Dividend Declarations

In 2009 and 2008, the BDO Unibank Group's subsidiaries declared and paid cash dividends amounting to P1,239 and P84, respectively, and are presented as part of Dividend Income under Other Operating Income in the Parent Bank statement of income (see Note 22).

13.5.2 Mergers Among Subsidiaries

The following mergers among subsidiaries of the Parent Bank have taken place in 2009 and 2008:

(a) On April 24, 2009, the respective Board of Directors of EBCII, PCIB Properties, Inc., BDO Financial Services, Inc., Property Care, Inc., BDO Realty Corporation and EBC Management, Inc. approved the plan of merger with EBCII, renamed as BDO Strategic Holdings, Inc., as the surviving entity. The merger was approved by the SEC on September 24, 2009.

(b) On August 30, 2008, the respective Board of Directors of Equitable Card Network, Inc., (ECNI) and EC Premium Finance, Inc. approved the plan of merger with ECNI as the surviving entity. The merger was approved by the SEC on December 28, 2009.

(c) 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.

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

(d) On April 7, 2008, the respective Board of Directors of BDO Technology 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.

(e) 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 using the pooling-of-interests method since the merging entities are under the common control of the BDO Unibank Group.

13.5.3 Acquisition

On August 24, 2009, the Parent Bank acquired 98.81% of the issued and outstanding common stock of GEMB (see Note 26.3) for a total consideration of P2,000. The agreed price for the net assets of GEMB at the closing date amounted to P1,500. Hence, the Parent Bank recognized goodwill of P500 representing the excess of purchase price over the fair value of GEMB's net assets. The goodwill is considered a part of Other Resources account in the statement of financial position. The acquisition was approved by the Board of Directors and the BSP on May 27, 2009 and July 30, 2009, respectively.

14. ALLOWANCE FOR IMPAIRMENT

Changes in the allowance for impairment are summarized as follows:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Balance at beginning of year:				
AFS securities	**P 5,645**	P 608	**P 4,714**	P 258
HTM investments	**673**	844	**673**	844
Loans and other receivables	**19,131**	18,545	**18,858**	18,165
Investment properties	**1,028**	1,079	**1,009**	1,051
Other resources	**7,299**	6,956	**9,586**	10,065
	33,776	28,032	**34,840**	30,383
Impairment losses - net	**6,153**	5,232	**5,775**	5,171
Reclassification/write-off/foreign currency revaluation	**(968)**	512	**(1,215)**	(714)
Balance at end of year:				
AFS securities	**6,526**	5,645	**5,432**	4,714
HTM investments	**737**	673	**737**	673
Loans and other receivables	**22,496**	19,131	**21,364**	18,858
Investment properties	**1,271**	1,028	**1,253**	1,009
Other resources	**7,931**	7,299	**10,614**	9,586
	P 38,961	P 33,776	**P 39,400**	P 34,840

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

Total impairment losses on financial assets amounted to P5,261, P4,737, and P3,292 in 2009, 2008 and 2007, respectively, in the BDO Unibank Group financial statements and P4,892, P4,575, and P3,117 in 2009, 2008 and 2007, respectively, in the Parent Bank financial statements.

Total impairment losses on non-financial assets amounted to P892, P495, and P826 in 2009, 2008 and 2007, respectively, in the BDO Unibank Group financial statements and P883, P596 and P685 in 2009, 2008 and 2007, respectively, in the Parent Bank financial statements.

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

15. DEPOSIT LIABILITIES

The breakdown of this account follows:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Demand	**P 42,692**	P 36,321	**P 32,910**	P 22,814
Savings	**354,407**	263,248	**354,847**	264,803
Time	**297,579**	337,185	**282,048**	325,350
	P 694,678	P 636,754	**P 669,805**	P 612,967

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Due to other banks				
Demand	**P 1,194**	P 879	**P 1,063**	P 910
Savings	**2,172**	3,156	**2,172**	3,157
Time	**1,191**	3,440	**1,164**	1,753
	4,557	7,475	**4,399**	5,820
Due to customers				
Demand	**41,498**	35,443	**31,846**	21,904
Savings	**352,235**	260,091	**352,676**	261,646
Time	**296,388**	333,745	**280,884**	323,597
	690,121	629,279	**665,406**	607,147
	P 694,678	P 636,754	**P 669,805**	P 612,967

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

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

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Foreign currency	**P 188,988**	P 172,667	**P 179,377**	P 163,338
Peso	**505,690**	464,087	**490,428**	449,629
	P 694,678	P 636,754	**P 669,805**	P 612,967

The maturity profile of this account is presented below.

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Less than one year	**P 610,286**	P 567,926	**P 594,275**	P 553,155
One to five years	**69,988**	39,937	**61,127**	31,751
Beyond five years	**14,404**	28,891	**14,403**	28,061
	P 694,678	P 636,754	**P 669,805**	P 612,967

The BDO Unibank Group's deposit liabilities are in the form of demand, savings and time deposit accounts bearing annual interest rates of 0% to 8% in 2009 and 0% to 10% in 2008. Demand and savings deposits usually have both fixed and variable interest rates while time deposit has fixed interest rate except for one tranche of the peso-denominated long-term negotiable certificates of deposits (LTNCDs) 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 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 3M PDST-F (formerly MART 1) plus 0.25% spread while the second tranche pays a fixed rate of 9.73%. 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, with a fixed interest rate of 8.25% per annum, were issued on October 4, 2006 and will mature on October 5, 2011. These are presented as part of the Time Deposit under Deposit Liabilities account in the statement of financial position.

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 financial position.

Under existing BSP regulations, non-FCDU deposit liabilities of the BDO Unibank Group are subject to liquidity reserve equivalent to 11% starting November 14, 2009 (under BSP Circular 632) and statutory reserve equivalent to 8%. As of December 31, 2009, the BDO Unibank Group is in compliance with these regulations.

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

This account is composed of the following:

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Deposit substitutes	**P 6,598**	P 12,379	**P 5,068**	P 11,798
BSP	**4,917**	6,787	**4,917**	6,787
PDIC	**4,438**	4,438	**4,438**	4,438
Foreign banks	**3,456**	13,305	**3,456**	13,305
Local banks	**125**	3,083	**106**	1,437
SMPHI	**-**	2,407	**-**	2,407
Others	**11,881**	9,037	**3,534**	3,070
	P 31,415	P 51,436	**P 21,519**	P 43,242

The breakdown of this account as to currency follows:

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Peso	**P 27,821**	P 16,879	**P 17,926**	P 26,363
Foreign currency	**3,594**	34,557	**3,593**	16,879
	P 31,415	P 51,436	**P 21,519**	P 43,242

The maturity profile of this account is presented below.

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Less than one year	**P 20,399**	P 42,996	**P 10,617**	P 34,810
One to five years	**8,737**	6,425	**8,679**	6,425
Beyond five years	**2,279**	2,015	**2,223**	2,007
	P 31,415	P 51,436	**P 21,519**	P 43,242

Bills payable bear annual interest rates of 0% to 12.0% in 2009 and 0.6% to 12.0% in 2008. Certain bills payable to local banks and the BSP are collateralized by certain receivables from customers.

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

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

	BDO Unibank Group		
	2009	2008	2007
Deposit substitutes	**P 635**	P 890	P 431
BSP	**254**	271	28
PDIC	**175**	175	175
SMPHI	**126**	146	165
Foreign banks	**112**	559	213
Local banks	**29**	289	400
Senior notes	**-**	290	637
Others	**459**	10	40
	P 1,790	P 2,630	P 2,089

	Parent Bank		
	2009	2008	2007
Deposit substitutes	**P 422**	P 661	P 430
BSP	**254**	70	28
PDIC	**175**	175	175
SMPHI	**127**	146	165
Foreign banks	**112**	485	213
Local banks	**27**	208	383
Senior notes	**-**	290	637
Others	**303**	11	40
	P 1,420	P 2,046	P 2,071

PDIC

This represents the financial assistance of United Overseas Bank Philippines (UOBP) from PDIC amounting to P4,420 which was transferred to the Parent Bank. The transfer was covered by the Memorandum of Agreement (MOA) relative to the Parent Bank's acquisition of UOBP branches in 2005. The financial assistance, which is recorded as part of Bills Payable in the statements of financial position will mature on December 19, 2012 and bears annual interest rate of 3.90%. The proceeds of the financial assistance from PDIC are invested in government securities as provided for in the MOA.

SMPHI (Preferred Shares)

As required under PAS 32, *Financial Instruments: Presentation*, the Parent Bank 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 million. 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 Parent Bank 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 Parent 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 amounted to P2,110 and was 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 amounted to P31 computed using the exchange rate at year end and are presented as part of Bills Payable account in the statement of financial position.

On October 19, 2009, the preferred shares were redeemed in full by the Parent Bank at P2,446 inclusive of remaining dividends in arrears of P77 (see Note 19.7).

17. SUBORDINATED NOTES PAYABLE

On November 21, 2007, the Parent Bank issued P10,000 unsecured subordinated notes eligible as Lower Tier 2 Capital due on 2017, callable with step-up in 2012 (the Notes) pursuant to the authority granted by the BSP to the Parent Bank on October 8, 2007 and BSP Circular No. 280 Series of 2001, as amended. The issuance was approved by the Board of Directors, in its special meeting held on June 1, 2007.

On May 20, 2008, the Parent Bank issued another tranche of P10,000 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 Parent Bank 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.

On March 20, 2009, the Parent Bank issued the third tranche of unsecured subordinated debt qualifying as Tier 2 Capital of the Parent Bank with face of P3,000. This issuance was approved by the Board of Directors on January 31, 2009.

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

As of December 31, 2009 and 2008, the outstanding balance of the Notes amounted to P23,152 and P20,146, respectively.

Total interest expense on subordinated notes payable amounted to P1,725, P1,687 and P971 in 2009, 2008 and 2007, respectively, both in the BDO Unibank Group and Parent Bank financial statements (see Note 21).

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

18. OTHER LIABILITIES

Other liabilities consist of the following:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Bills purchased-contra	**P 10,580**	P 13,389	**P 10,575**	P 13,389
Accounts payable	**6,987**	3,979	**5,154**	3,777
Derivative with negative fair values	**4,943**	3,574	**3,549**	2,695
Manager's checks	**3,883**	3,381	**3,846**	3,371
Accrued taxes, licenses and other expenses	**2,955**	2,281	**2,651**	2,103
Outstanding acceptances payable	**1,589**	1,308	**1,589**	1,308
Capitalized interest and other charges	**1,045**	809	**1,040**	892
Due to BSP and Treasurer of the Philippines	**153**	792	**151**	781
Withholding taxes payable	**752**	690	**698**	642
Income tax payable	**223**	183	**90**	41
Others	**11,807**	5,536	**8,793**	3,012
	P 44,917	P 35,922	**P 38,136**	P 32,011

19. EQUITY

19.1 Capital Management and Regulatory Capital

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

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

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

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

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

The BDO Unibank Group's policy is to maintain a strong capital base so 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 BDO Unibank Group recognizes the need to maintain a balance between the higher returns that might be possible with greater gearing and the advantages and security afforded by a sound capital position.

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

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

(a) Investments in equity of unconsolidated subsidiary banks and other financial allied undertakings, but excluding insurance companies;
(b) Investments in debt capital instruments of unconsolidated subsidiary banks;
(c) Investments in equity of subsidiary insurance companies and non-financial allied undertakings;
(d) Reciprocal investments in equity of other banks/enterprises; and,
(e) Reciprocal investments in unsecured subordinated term debt instruments of other banks/quasi-banks qualifying as Hybrid Tier 1, Upper Tier 2 and Lower Tier 2, in excess of the lower of: *(i)* an aggregate ceiling of 5% of total Tier 1 capital of 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.

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

Under an existing BSP circular, expanded commercial banks are required to comply with the minimum capital requirement of P4,950. At the end of each reporting period, BDO Unibank Group has complied with the above capitalization requirement.

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

The Bank's regulatory capital position as of December 31, 2009 and 2008 follows:

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Tier 1 Capital	**P 66,381**	P 59,973	**P 61,512**	P 54,479
Tier 2 Capital	**27,175**	26,598	**27,103**	26,598
Total Regulatory Capital	**93,556**	86,571	**88,615**	81,077
Deductions	**(10,200)**	(12,354)	**(21,768)**	(24,114)
Total Qualifying Capital	**P 83,356**	P 74,218	**P 66,848**	P 56,963
Total Risk Weighted Assets	**P 684,660**	P 539,003	**P 640,458**	P 511,415
Capital ratios				
Total regulatory capital expressed as percentage of total risk weighted assets	**12.2%**	13.8%	**10.4%**	11.1%
Total Tier 1 expressed as percentage of total risk weighted assets	**8.3%**	9.3%	**6.9%**	7.3%
Tier 1 Capital	**P 66,381**	P 59,973	**P 61,512**	P 54,479
Tier 1 Capital Deductions	**(9,499)**	(9,875)	**(17,602)**	(17,050)
Net Tier 1 Capital	**P 56,883**	P 50,098	**P 43,911**	P 37,429

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

19.2 Capital Allocation

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

Although maximization of the return on risk-adjusted capital is the principal basis used in determining how capital is allocated within BDO Unibank Group to particular operations or activities, it is not the sole basis used for decision making. 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 longer term strategic objectives. The policies in respect of capital management and allocation are reviewed regularly by the Board of Directors.

19.3 Capital Stock

Capital stock consists of the following:

	Number of Shares		
	2009	2008	2007
Common shares – P10 par value			
Authorized – 5,500,000,000 shares			
Issued, fully paid and outstanding – 2,339,768,510 shares in 2009; 2,302,032,661 shares in 2008 and 2007			
Balance at beginning of year	**2,302,032,661**	2,302,032,661	2,270,629,069
Issued during the year	**37,735,849**	-	31,403,592
Balance at end of year	**2,339,768,510**	2,302,032,661	2,302,032,661
Preferred shares – P10 par value			
Authorized – 1,000,000,000 shares			
Issued, fully paid and outstanding – 500,000,000 shares in 2009 and 2008; and none in 2007	**500,000,000**	500,000,000	-

	Amount		
	2009	2008	2007
Common shares			
Balance at beginning of year	**P 23,020**	P 23,020	P 22,706
Issued during the year	**377**	-	314
Balance at end of year	**P 23,397**	P 23,020	P 23,020
Preferred shares			
Issued, fully paid and outstanding	**P 5,000**	P 5,000	P -

In 2009, the Parent Bank issued to GE Capital International Holdings Corporation (GE Capital) 37,735,849 common shares worth P377 in line with the latter's strategic investment in the Parent Bank (see Note 26.3).

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 BDO Unibank Group. The conversion right is at the option of the holder after three years from the issue date or at the option of BDO Unibank Group at any time after issue date upon the occurrence of certain trigger events such as: *(i)* a change in tax status of the preferred shares; or, *(ii)* the preferred shares do not qualify as Tier 1 capital of BDO Unibank Group as determined by the BSP or other applicable laws and regulations. Dividend rate is at 6.5% per annum of the par value. Subsequently, on September 30, 2008, the 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 Parent Bank'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 Parent Bank'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.

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 Parent Bank's total outstanding shares as of December 31, 2005, offered and sold in aggregate 9,399,700 global depositary receipts (GDRs) with each GDR representing 20 shares of the Parent Bank's common 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 BDO Unibank Group 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 Parent Bank's shares.

As of December 31, 2006, 4,724,214 GDRs issued, covering shares originally held by Primebridge, were converted into 94,484,280 shares of the Parent Bank. As of December 31, 2009, 699,382 GDRs equivalent to 13,987,640 shares of the Parent Bank remained unconverted.

19.6 Reclassification of Authorized Capital Stock

On April 25, 2009 and May 29, 2009, the Board of Directors and stockholders approved the reclassification in the Parent Bank's authorized capital stock of 1,000,000,000 unissued common shares into 1,000,000,000 Series A preferred shares without affecting the features of unissued shares of the Parent Bank, both common and preferred, and without modifying the rights of current stockholders. As of December 31, 2009, the Parent Bank is yet to receive the approval from the SEC for the implementing amendment to the Parent Bank's Articles of Incorporation.

19.7 Surplus Free

On February 28, 2009, the Board of Directors approved the declaration of annual dividend on peso denominated and semi-annual dividend on US dollar denominated preferred shares at the rate of 6.5% per annum each for a total dividend of P84 for the peso denominated preferred shares and US$1,625 thousand for the US dollar denominated preferred shares. The dividends were approved by the BSP on July 17, 2009 and were paid by the Parent Bank on July 23, 2009.

On May 23, 2009, the Board of Directors approved the declaration of cash dividends amounting to P0.28 per common share or a total of P645 payable to stockholders of record as of August 11, 2009. The cash dividends were approved by the BSP on July 17, 2009 and were paid by the Parent Bank on August 28, 2009.

On September 26, 2009, the Board of Directors approved the declaration of semi-annual dividend on US dollar denominated preferred shares at the rate of 6.5% per annum of US$1,625 thousand. The dividends were approved by the BSP on November 19, 2009 and were paid by the Parent Bank on December 2, 2009.

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 Parent Bank on September 11, 2008 and April 8, 2008, respectively.

On May 6, 2006, the Board of Directors approved the declaration of cash dividends 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.

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

20. INTEREST INCOME

Interest income consists of the following:

	Notes	BDO Unibank Group		
		2009	2008	2007
Loans and other receivables	10	**P 33,561**	P 27,939	P 21,414
Investment and trading securities	9	**11,345**	11,136	11,743
Due from other banks	7, 8	**2,531**	2,620	2,339
Others		**1,373**	664	2,107
		P 48,810	P 42,359	P 37,603

	Notes	Parent Bank		
		2009	2008	2007
Loans and other receivables	10	**P 32,238**	P 26,862	P 20,639
Investment and trading securities	9	**10,123**	9,800	10,572
Due from other banks	7, 8	**2,473**	2,506	2,132
Others		**177**	565	1,892
		P 45,011	P 39,733	P 35,235

21. INTEREST EXPENSE

Interest expense is composed of the following:

	Notes	BDO Unibank Group		
		2009	2008	2007
Deposit liabilities	15	**P 14,735**	P 14,997	P 12,375
Bills payable and other liabilities	16, 17, 18	**3,516**	4,326	3,792
		P 18,251	P 19,323	P 16,167

	Notes	Parent Bank		
		2009	2008	2007
Deposit liabilities	15	**P 14,034**	P 14,301	P 11,809
Bills payable and other liabilities	16, 17, 18	**3,147**	3,742	3,169
		P 17,181	P 18,043	P 14,978

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

22. OTHER OPERATING INCOME AND EXPENSES

Other operating income (expenses) is composed of the following:

		BDO Unibank Group		
	Notes	**2009**	2008	2007
Service charges, fees and commissions		**P 8,351**	P 7,419	P 8,778
Trading gain (loss) – net	9	**3,712**	(2,868)	3,854
Trust fees	25	**1,218**	1,153	852
Foreign exchange gain – net		**294**	4,605	798
Rental income	12	**199**	181	260
Income from assets acquired		**140**	103	381
Dividend income	13	**71**	58	54
Miscellaneous - net		**1,498**	3,080	1,881
		P 15,483	P 13,731	P 16,858

		Parent Bank		
		2009	2008	2007
Service charges, fees and commissions		**P 7,155**	P 6,200	P 6,641
Trading gain (loss) – net	9	**3,399**	(2,710)	3,634
Trust fees	25	**1,089**	1,094	806
Dividend income	13	**1,286**	132	2,426
Foreign exchange gain (loss) – net		**(71)**	4,168	629
Miscellaneous - net		**1,517**	2,926	2,622
		P 14,375	P 11,810	P 16,758

Other operating expenses consist of the following:

		BDO Unibank Group		
	Notes	**2009**	2008	2007
Employee benefits	23	**P 12,399**	P 10,096	P 8,363
Occupancy	31	**4,334**	3,501	3,393
Taxes and licenses		**2,568**	2,587	2,646
Security, clerical, messengerial and janitorial		**1,881**	1,599	1,109
Insurance		**1,367**	1,044	997
Advertising		**1,278**	1,074	784
Documentary stamp tax used		**856**	786	651
Repairs and maintenance		**638**	783	826
Travelling		**583**	605	381
Miscellaneous	13.3	**6,225**	5,777	5,610
		P 32,129	P 27,852	P 24,760

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

	Notes	Parent Bank		
		2009	2008	2007
Employee benefits	23	**P 11,520**	P 9,378	P 7,592
Occupancy	31	**3,081**	3,157	3,070
Taxes and licenses		**2,251**	2,327	2,379
Security, clerical, messengerial and janitorial		**1,832**	1,570	1,059
Insurance		**1,313**	1,010	989
Advertising		**1,209**	1,028	641
Documentary stamp tax used		**855**	767	577
Representation and entertainment		**666**	535	613
Repairs and maintenance		**620**	775	779
Power, light and water		**573**	516	487
Travelling		**534**	552	336
Miscellaneous	13.3	**4,357**	4,277	4,386
		P 28,811	P 25,892	P 22,908

23. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below.

	BDO Unibank Group		
	2009	2008	2007
Salaries and wages	**P 6,977**	P 6,194	P 4,879
Bonuses	**2,217**	1,685	1,315
Retirement – defined benefit plan	**1,309**	947	779
Social security costs	**309**	284	230
Other benefits	**1,587**	986	1,160
	P 12,399	P 10,096	P 8,363

	Parent Bank		
	2009	2008	2007
Salaries and wages	**P 6,385**	P 5,683	P 4,360
Bonuses	**2,079**	1,583	1,237
Retirement – defined benefit plan	**1,239**	900	709
Social security costs	**291**	266	213
Other benefits	**1,526**	946	1,073
	P 11,520	P 9,378	P 7,592

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

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

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Present value of the obligation	**(P 8,459)**	(P 7,086)	**(P 7,913)**	(P 6,684)
Fair value of plan assets	**4,357**	3,460	**4,114**	3,277
Deficiency of plan assets	**(4,102)**	(3,626)	**(3,799)**	(3,407)
Unrecognized actuarial losses	**4,005**	3,778	**3,732**	3,603
Unrecognized net transition obligation	**-**	(138)	**-**	(138)
Retirement benefit asset (liability)	**(P 97)**	P 14	**(P 67)**	P 58

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Balance at beginning of year	**P 7,086**	P 6,283	**P 6,684**	P 5,897
Current service cost and interest cost	**1,333**	968	**1,241**	908
Actuarial losses	**739**	162	**648**	172
Benefits paid by the plan	**(699)**	(327)	**(660)**	(293)
Balance at end of year	**P 8,459**	P 7,086	**P 7,913**	P 6,684

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Balance at beginning of year	**P 3,460**	P 2,989	**P 3,277**	P 2,690
Contributions paid into the plan	**1,173**	906	**1,114**	889
Benefits paid by the plan	**(699)**	(327)	**(660)**	(293)
Actuarial gains (losses)	**164**	(357)	**138**	(242)
Expected return on plan assets	**259**	249	**245**	233
Balance at end of year	**P 4,357**	P 3,460	**P 4,114**	P 3,277

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Placements in debt instruments	**61.8%**	77.7%	**61.8%**	77.5%
Loans and other receivables	**9.2%**	10.5%	**9.2%**	11.0%
Deposits in other banks	**5.7%**	6.7%	**5.7%**	6.8%
Other properties	**23.3%**	5.1%	**23.3%**	4.7%
	100.0%	100.0%	**100.0%**	100.0%

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Actual returns on plan assets were P416 and P383 in 2009 and P969 and P423 in 2008 in the BDO Unibank Group and the Parent Bank financial statements, respectively.

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

	BDO Unibank Group		
	2009	2008	2007
Current service costs	**P 515**	P 455	P 450
Interest costs	**818**	513	347
Expected return on plan assets	**(259)**	(249)	(219)
Net actuarial losses recognized	**111**	89	209
Net transition obligation (asset) recognized	**124**	139	(8)
	P 1,309	P 947	P 779

	Parent Bank		
	2009	2008	2007
Current service costs	**P 480**	P 420	P 392
Interest costs	**761**	488	313
Expected return on plan assets	**(245)**	(233)	(193)
Net actuarial gain recognized	**104**	86	214
Net transition obligation (asset) recognized	**139**	139	(8)
	P 1,239	P 900	P 718

The movements in the retirement benefit asset (liability) recognized in the books follow:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Balance at beginning of year	**P 14**	P 55	**P 58**	P 69
Expense recognized	**(1,309)**	(947)	**(1,239)**	(900)
Contributions paid	**1,198**	906	**1,114**	889
Balance at end of year	**(P 97)**	P 14	**(P 67)**	P 58

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

<u>BDO Unibank Group</u>

	2009	2008	2007	2006
Present value of the obligation	**P 8,459**	P 7,086	P 6,283	P 4,567
Fair value of the plan assets	**4,357**	3,460	2,989	2,388
Deficit in the plan	**P 4,102**	P 3,626	P 3,294	P 2,179
Experience adjustments arising on plan liabilities	**P 985**	P 967	P 397	P 760
Experience adjustments arising on plan assets	**P 148**	(P 179)	(P 72)	P 191

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Parent Bank

	2009	2008	2007	2006
Present value of the obligation	**P 7,913**	P 6,684	P 5,897	P 5,840
Fair value of the plan assets	**4,114**	3,277	2,690	2,619
Deficit in the plan	**P 3,799**	P 3,407	P 3,207	P 3,221
Experience adjustments arising on plan liabilities	**P 930**	P 919	P 351	P 750
Experience adjustments arising on plan assets	**P 137**	(P 170)	(P 72)	P 189

BDO Unibank Group and the Parent Bank expect to pay P1,562 and P1,528, respectively, as contributions to retirement benefit plans in 2010.

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

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Discount rates	**8.0% - 9.3%**	8.1% - 11.4%	**9.3%**	8.4%
Expected rate of return on plan assets	**5.0%**	7.0% - 10.0%	**5.0%**	10.0%
Expected rate of salary increases	**10.0%**	8.0% - 10.0%	**10.0%**	8.0%

24. RELATED PARTY TRANSACTIONS

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

(a) *Loans to Related Parties*

Under existing policies of BDO Unibank 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 bank to a single borrower to 25% of equity. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the BDO Unibank Group. In the aggregate, loans to DOSRI generally should not exceed the total equity or 15% of the total loan portfolio of BDO Unibank Group, whichever is lower.

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The following additional information relates to the DOSRI loans:

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Total DOSRI loans	**P 24,430**	P 30,845	**P 24,412**	P 30,845
Unsecured DOSRI loans	**2,005**	-	**2,000**	-
Past due DOSRI loans	**-**	-	**-**	-
% of DOSRI loans to total loan portfolio	**5.0%**	7.9%	**5.0%**	8.0%
% of unsecured DOSRI loans to total DOSRI loans	**8.0%**	0.0%	**8.0%**	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 11.0% per annum both in 2009 and 2008 and 4.5% to 9.8% per annum in 2007 both in BDO Unibank Group and Parent Bank financial statements.

(b) *Deposits from Related Parties*

As of December 31, 2009 and 2008, total deposits made by the related parties to BDO Unibank Group amounted to P94,796 and P230,931, respectively. The related interest expense from deposits amounted to P6, P6 and P2 in 2009, 2008 and 2007, 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. 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.

ii. BDO Strategic Holdings, Inc. (BDOSHI) engaged the Parent Bank to provide various support such as human resources management, audit, preparation and issuance of checks for and in behalf of BDOSHI, documentation and safekeeping/custodianship of securities and collateral documents, accounting functions and review of financial statements for BDOSHI. The agreement is renewable every year. In 2009 and 2008, total service fees amounted to P295 thousand and P1,760 thousand, respectively.

iii. 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.

iv. Generali has an existing Investment Management Agreement with the BDO Unibank Group. For services rendered, Generali shall pay BDO Unibank 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. In 2009 and 2008, total service fees amounted to P5 and P3, respectively.

There are no outstanding balances arising from these transactions as of December 31, 2009 and 2008.

(ii) *Expenses of the Parent Bank*

i. On May 30, 2007, ECN entered into a service agreement with the Parent Bank. Under this agreement, ECN agreed to provide marketing, central operations, systems credit and collection support and finance services to Parent Bank 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 the Parent Bank.

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 2009 and 2008, total amount of transactions were P5 and P22, respectively.

iii. BDO Unibank Group leases space from related parties for its branch operations. For the years ended December 31, 2009, 2008 and 2007, total rent expense paid to related parties amounted to P315, P259, and P298, respectively, and is included as part of Occupancy account in the statements of income.

(iii) *Others*

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

i. BDO Capital has a service agreement with the Parent Bank whereby the Parent Bank 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.

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ii. On January 31, 2008, BDO Securities entered into a service agreement with the Parent Bank. Under this agreement, the Parent Bank 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, 2009 and 2008 amounted to P5 and P41, respectively.

(iv) The salaries and other compensation given to BDO Unibank Group's key management follow:

	BDO Unibank Group		
	2009	2008	2007
Salaries and wages	**P 504**	P 437	P 408
Bonuses	**239**	208	167
Social security costs and other benefits	**34**	33	17
	P 777	P 678	P 592

	Parent Bank		
	2009	2008	2007
Salaries and wages	**P 326**	P 270	P 274
Bonuses	**165**	135	117
Social security costs and other benefits	**19**	21	14
	P 510	P 426	P 405

25. TRUST OPERATIONS

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

	BDO Unibank Group		**Parent Bank**	
	2009	2008	**2009**	2008
Investments	**P 195,775**	P 188,553	**P 149,654**	P 188,554
Others	**261,253**	149,620	**240,258**	122,488
	P 457,028	P 338,173	**P 389,912**	P 311,042

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 P8,007 and P3,057 as of December 31, 2009 and 2008, respectively, in BDO Unibank Group and P3,771 and P2,707 as of December 31, 2009 and 2008, respectively, in the Parent Bank are deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations; and,

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(b) A certain percentage of the trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the BDO Unibank Group's authorized capital stock. As of December 31, 2009, the reserve for trust functions amounted to P702 and is included as part of Surplus Reserves in BDO Unibank Group statements of changes in equity.

Income from trust operations, shown as Trust Fees under Other Operating Income, amounted to P1,218, P1,153, and P852, for the year ended December 31, 2009, 2008 and 2007, respectively, in the BDO Unibank Group statements of income and P1,089, P1,094 and P806 in December 31, 2009, 2008 and 2007, respectively, in the Parent Bank statements of income.

26. MERGERS AND ACQUISITIONS

26.1 Merger with Equitable PCI Bank, Inc.

On August 29, 2006, the Parent Bank, together with SM Investments Corporation (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: 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 Board of Directors of the Parent Bank and EPCIB approved a Plan of Merger of the Parent Bank and EPCIB with the Parent Bank as the surviving entity. The Plan of Merger was subsequently approved by the Parent Bank 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, BDO Unibank 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 the Parent Bank 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.

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

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

The Parent Bank issued EPCIB shareholders 1,308,606,021 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 Parent Bank shares for every EPCIB share.

Simultaneous and pursuant to the merger, the Parent Bank increased its authorized capital stock from P15,000 to P65,000 to provide for the issuance of the Parent Bank common shares necessary to effect the share exchange ratio (see Note 19.4).

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

The respective Board of Directors of the Parent Bank, 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 the Parent Bank as the surviving entity.

The Plan of Merger was approved by stockholders of the Parent Bank, 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 the Parent Bank. Since the merged entities were all subsidiaries of the Parent Bank, BDO Unibank Group accounted the merger under the pooling-of-interest method of accounting. The financial statement items of the Parent Bank, 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 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 Acquisition of GE Money Bank

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

26.4 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. As such, the Parent 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 BDO Unibank Group statement of financial position (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).

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27. TAXES

27.1 Current and Deferred Taxes

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

	BDO Unibank Group		
	2009	2008	2007
Reported in profit or loss			
Current tax expense:			
Regular corporate income tax (RCIT)at 30% in 2009; and 35% in 2008 and 2007	**P 231**	P 298	P 278
Minimum corporate income tax (MCIT) at 2%	**297**	82	149
Final taxes at 20%, 15%, 10% and 7.5%	**980**	1,078	1,703
	1,508	1,458	2,130
Deferred tax expense (income) relating to origination and reversal of temporary differences	**151**	(13)	717
	P 1,659	P 1,445	P 2,847
Reported in other comprehensive income			
Movements in fair value of AFS securities	**P 2**	(P 2)	P -
Movements in revaluation increment	**(59)**	(22)	-
	(P 57)	(P 24)	P -

	Parent Bank		
	2009	2008	2007
Reported in profit or loss			
Current tax expense – MCIT at 2%	**P 273**	P 81	P 147
Final taxes at 20%, 15%, 10% and 7.5%	**903**	983	1,389
	1,176	1,064	1,536
Deferred tax expense (income) relating to origination and reversal of temporary differences	**87**	(106)	1,098
	P 1,263	P 958	P 2,634
Reported in other comprehensive income			
Movements in fair value of AFS securities	**(P 26)**	(P 4)	P -
Movements in revaluation increment	**(54)**	(22)	-
	(P 80)	(P 26)	P -

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

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

	BDO Unibank Group		
	2009	2008	2007
Tax on pretax income at 30% in 2009 and 35% in 2008 and 2007	**P 2,328**	P 1,289	P 3,296
Adjustment for income subjected to lower income tax rates	**(633)**	(402)	1,339
Tax effects of:			
Tax-exempt loss (income) of FCDU	**(1,314)**	914	(1,688)
Income exempt from tax	**(1,010)**	(1,183)	(2,767)
Non-deductible expenses	**585**	718	1,271
Deductible temporary differences not recognized	**51**	(1,063)	1,155
Net operating loss carryover (NOLCO) not recognized	**14**	1,496	76
Effects of change in tax rate	**-**	861	-
Others	**1,638**	(1,185)	165
Tax expense reported in profit or loss	**P 1,659**	P 1,445	P 2,847

	Parent Bank		
	2009	2008	2007
Tax on pretax income at 30% in 2009 and 35% in 2008 and 2007	**P 2,286**	P 853	P 3,607
Adjustment for income subjected to lower income tax rates	**(531)**	(478)	1,373
Tax effects of:			
Deductible temporary differences not recognized	**1,439**	(1,414)	1,138
Tax-exempt loss (income) of FCDU	**(1,314)**	914	(1,663)
Income exempt from tax	**(1,015)**	(1,139)	(2,523)
Non-deductible expenses	**542**	693	814
NOLCO not recognized (applied)	**(458)**	1,495	(13)
Effects of change in tax rate	**-**	861	-
Others	**314**	(827)	(99)
Tax expense reported in profit or loss	**P 1,263**	P 958	P 2,634

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

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

	Statements of Financial Position			
	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Deferred tax assets:				
Allowance for impairment	**P 5,870**	P 5,904	**P 5,917**	P 5,939
Unamortized past service cost	**324**	380	**319**	375
NOLCO	**133**	183	**-**	11
Lease differential	**-**	98	**67**	75
Others	**31**	-	**-**	30
	6,358	6,565	**6,303**	6,430
Deferred tax liabilities:				
Revaluation increment	**505**	564	**503**	557
Lease differential	**71**	-	**-**	-
Capitalized interest	**60**	62	**60**	62
Changes in fair values of AFS	**32**	30	**-**	26
Others	**4**	129	**-**	38
	672	785	**563**	683
Net Deferred Tax Assets	**P 5,686**	P 5,780	**P 5,740**	P 5,747

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

	Statements of Income		
	2009	2008	2007
BDO Unibank Group			
Lease income differential	**P 169**	P 22	P -
Unamortized past service costs	**56**	10	(10)
NOLCO	**50**	39	875
Allowance for impairment	**34**	(45)	521
Capitalized interest	**(2)**	(13)	(26)
Others	**(156)**	(26)	(643)
Deferred Tax Expense (Income)	**P 151**	(P 13)	P 717
Parent Bank			
Unamortized past service costs	**P 56**	P 12	(P 10)
NOLCO	**11**	38	794
Allowance for impairment	**22**	(140)	359
Capitalized interest	**(2)**	(13)	(26)
Others	**-**	(3)	(19)
Deferred Tax Expense (Income)	**P 87**	(P 106)	P 1,098

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

	Statements of Comprehensive Income			
	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Movements in fair value of AFS securities	**P 2**	(P 2)	**(P 26)**	(P 4)
Movements in revaluation increment	**(59)**	(22)	**(54)**	(22)
Deferred Tax Income	**(P 57)**	(P 24)	**(P 80)**	(P 26)

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

The breakdown of NOLCO with the corresponding validity periods follow:

Year	BDO Unibank Group	Parent Bank	Valid Until
2009	P 705	P -	2012
2008	4,333	4,330	2011
2007	1,969	1,915	2010

In 2009 and 2008, NOLCO amounting to P2,469 and P4, respectively, were applied.

The breakdown of MCIT with the corresponding validity periods follow:

Year	BDO Unibank Group	Parent Bank	Valid Until
2009	P 297	P 273	2012
2008	78	78	2011
2007	186	185	2010

The amounts of unrecognized deferred tax assets arising from NOLCO and other temporary differences as of December 31, 2009 and 2008 follow:

	BDO Unibank Group			
	2009		2008	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 20,667**	**P 6,200**	P 4,945	P 1,483
NOLCO	**6,563**	**1,969**	5,693	1,708
MCIT	**561**	**561**	370	370
Others	**3**	**1**	-	-
	P 27,794	**P 8,731**	P 11,008	P 3,561

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

	Parent Bank			
	2009		2008	
	Tax Base	**Tax Effect**	Tax Base	Tax Effect
Allowance for impairment	**P 19,678**	**P 5,903**	P 6,016	P 1,805
NOLCO	**6,245**	**1,874**	9,886	2,966
MCIT	**536**	**536**	369	369
	P 26,459	**P 8,313**	P 16,271	P 5,140

27.2 Optional Standard Deductions

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. Since 2008, the BDO Unibank Group had opted to continue claiming itemized deductions.

27.3 Change in Applicable Tax Rate

Effective January 1, 2009, in accordance with Republic Act 9337, RCIT rate was reduced from 35% to 30% and non-allowable deductions for interest expense from 42% to 33% of interest income subjected to final tax.

27.4 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 Parent 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.

However, on January 29, 2004, Republic Act 9238 reverted the imposition of GRT on banks and financial institutions.

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.

27.5 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.

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

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

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

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

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;

- Loan agreements or promissory notes, the aggregate of which does not exceed P250 thousand or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;

- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of RA 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:

	BDO Unibank Group		
	2009	2008	2007
Net profit attributable to shareholders of the Parent Bank	**P 6,035**	P 2,182	P 6,518
Dividends on preferred shares	**(84)**	-	-
Net profit available to common shares	**P 5,951**	P 2,182	P 6,518
Divided by the weighted average number of outstanding common shares (in millions)	**2,315**	2,302	2,281
Basic earnings per share	**P 2.57**	P 0.95	P 2.86

Diluted earnings per share were computed as follows:

	BDO Unibank Group		
	2009	2008	2007
Net profit attributable to shareholders of the Parent Bank	**P 6,035**	P 2,182	P 6,518
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**2,315**	2,302	2,281
Potential common shares from assumed conversion of preferred shares	**128**	52	-
Potential common shares from assumed conversion of stock option plan	**1**	3	3
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**2,444**	2,357	2,284
Diluted earnings per share	**P 2.47**	P 0.93	P 2.85

Basic earnings per share were computed as follows:

	Parent Bank		
	2009	2008	2007
Net profit	**P 6,356**	P 1,479	P 7,671
Dividends on preferred shares	**(84)**	-	-
Net profit available to common shares	**6,272**	1,479	7,671
Divided by the weighted average number of outstanding common shares (in millions)	**2,315**	2,302	2,281
Basic earnings per share	**P 2.71**	P 0.64	P 3.36

Diluted earnings per share were computed as follows:

	Parent Bank		
	2009	2008	2007
Net profit	**P 6,356**	P 1,479	P 7,671
Divided by the weighted average number of outstanding common shares (in millions):			
Outstanding common shares	**2,315**	2,302	2,281
Potential common shares from assumed conversion of convertible preferred shares	**128**	52	-
Potential common shares from assumed conversion of stock option plan	**1**	3	3
Total weighted average number of common shares after assumed conversion of convertible preferred shares	**2,444**	2,357	2,284
Diluted earnings per share	**P 2.60**	P 0.63	P 3.36

29. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2009	2008	2007
BDO Unibank Group			
Return on average equity: Net income / Average total capital accounts	**9.7%**	3.8%	11.7%
Return on average resources: Net income / Average total resources	**0.7%**	0.3%	1.1%
Net interest margin: Net interest income / Average interest earning resources	**4.1%**	3.7%	4.0%
Capital to risk assets ratio: Combined credit, market and operational risks	**12.2%**	13.8%	14.6%
Parent Bank			
Return on average equity: Net income / Average total capital accounts	**11.0%**	2.7%	15.0%
Return on average resources: Net income / Average total resources	**0.8%**	0.2%	1.3%
Net interest margin: Net interest income / Average interest earning resources	**4.0%**	3.7%	4.1%
Capital to risk assets ratio: Combined credit, market and operational risks	**10.4%**	11.2%	12.1%

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

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

	BDO Unibank Group		Parent Bank	
	2009	2008	**2009**	2008
Aggregate amount of secured liabilities	**P 9,947**	P 16,645	**P 9,947**	P 16,645
Aggregate amount of resources pledged as security	**P 11,257**	P 12,151	**P 11,257**	P 12,151

30. EVENT AFTER THE REPORTING PERIOD

On January 9, 2010, the Board of Directors approved the declaration of annual dividends on peso denominated preferred shares at the rate of 6.5% per annum for a total dividend of P330 payable within 60 banking days from the dividend declaration date. The declaration was approved by the BSP on February 19, 2010.

31. COMMITMENTS AND CONTINGENCIES

31.1 Litigations

BDO Unibank Group has pending claims and/or is a defendant in various legal actions arising from the ordinary course of business operation. As of December 31, 2009, management believes that no such legal proceedings are expected to have material adverse effect on the BDO Unibank Group's financial position.

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

Sale of Bankard

The case involves the sale of BDO Unibank 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. BDO Unibank 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, BDO Unibank 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 BDO Unibank Group's petition and upholding the ruling of the RTC. On January 27, 2009, BDO Unibank 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 Supreme Court denied the BDO Unibank Group's petition and upheld the RTC Ruling.

The Partial Award sustained by the Second Division of the Supreme Court concluded that BDO Unibank Group is liable to the claimant but did not adjudicate the amount of damages for which the BDO Unibank 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 was set by the Tribunal Chairman on October 26, 2009.

To determine the amount of the Bank's liability during the quantum phase, the Tribunal appointed an independent forensic accounting expert. In his report dated May 13, 2009, the forensic expert found that Bankard's net assets were understated as claimed. After a "without prejudice" meeting among the parties' accounting experts, the forensic accounting expert's Supplemental report came out, still with no definitive finding on liability, but with three scenarios on the condition of Bankard's net asset value depending on which evidence were to be used. The first scenario is an understated net asset value, the second scenario is an overstated value and the third scenario has no conclusion on overstatement or understatement. The scenarios were presented and defended by the respective parties' expert accountants during a two-day hearing of the Tribunal on October 26 to 27, 2009. As of December 15, 2009, the parties have submitted their respective Memoranda and Replies on the quantum issue for resolution by the Tribunal.

As of December 31, 2009, management continues to believe 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 BDO Unibank 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

BDO Unibank 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) in connection with their 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 sale of Maxicare shares, 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 Parent 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, which resolved that the RTC Judge did not commit an abuse of discretion in issuing the said ruling. The CA resolution is presently the subject of a motion for reconsideration filed by the claimants.

The claimants have also filed a Request for Arbitration with the International Chamber of Commerce (ICC) – International Court of Arbitration in Singapore where arbitration is currently ongoing on the same issue of the petitioners' right to buy the shares. As of November 25, 2009, the Singapore arbitration hearing has been suspended by virtue of a writ of injunction issued by the Presiding Judge of the Makati Regional Trial Court, Branch 66 (RTC) restraining the parties, and their respective representatives from participating and performing any act in connection with the arbitration case. The injunction has been issued in connection with the petition filed by Maxicare for a declaration as to the rightful shareholder of its 60% outstanding shares. The claimants went up to the Court of Appeals (CA) for the immediate lifting of the preliminary injunction to restrain the implementation of the RTC injunction. Since the CA did not lift the injunction, the claimants filed a Petition for Certiorari with the Supreme Court in early February 2010 questioning the CA resolution and praying for the setting aside of the RTC writ of injunction.

As of December 31, 2009, 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 BDO Unibank Group's financial position and financial performance.

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

Others

The BDO Unibank Group is also a defendant in various cases pending in courts for alleged claims against the BDO Unibank Group, the outcomes of which are not fully determinable at present. As of December 31, 2009, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of BDO Unibank Group and will be taken up if and when a final resolution by the courts is made on each claim.

31.2 Leases

BDO Unibank Group leases the premises of its head office and most of its branch offices for periods ranging from 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 statements of income, amounted to P1,651 in 2009, P1,463 in 2008 and P1,391 in 2007 in the BDO Unibank Group financial statements and P1,531 in 2009, P1,386 in 2008 and P1,253 in 2007 in the Parent Bank financial statements.

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

Year	BDO Unibank Group	Parent Bank
2010	P 1,114	P 1,107
2011	1,268	1,261
2012	1,418	1,411
2013	1,585	1,578
2014	1,831	1,765

31.3 Others

In the normal course of BDO Unibank Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying BDO Unibank Group financial statements. BDO Unibank Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2009, no additional material losses or liabilities are required to be recognized in the accompanying financial statements of BDO Unibank Group as a result of the above commitments and transactions.

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

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

		BDO Unibank Group		**Parent Bank**	
	Note	**2009**	2008	**2009**	2008
Trust department accounts	25	**P 457,028**	P 338,173	**P 389,912**	P 311,042
Forward exchange sold		**165,030**	91,711	**138,608**	77,207
Forward exchange bought		**132,504**	67,647	**106,006**	53,063
Interest rate swap payable		**25,016**	15,838	**6,383**	4,083
Interest rate swap receivable		**24,986**	14,753	**6,383**	2,997
Spot exchange bought		**3,410**	6,645	**3,364**	6,241
Spot exchange sold		**4,037**	3,326	**3,991**	2,922
Late deposits/payments received		**1,655**	5,341	**1,586**	5,341
Unused commercial letters of credit		**26,492**	17,998	**25,845**	17,998
Bills for collection		**4,209**	10,641	**4,209**	10,641
Outstanding guarantees issued		**1,248**	724	**1,248**	724
Export letters of credit confirmed		**44**	49	**44**	49
Other contingent accounts		**96,619**	78,708	**95,800**	77,890

COMPANY HEADQUARTERS

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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:

Stock Transfer Service, Inc.
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