

Supplementary Management Discussion

The capital-to-risk assets ratio of BDO Unibank Group as presented in the Audited Financial Statements as of December 31, 2012 and 2011 are shown in the table below.

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	2012	2011
	(in Millions)			
Tier 1 capital	147,472	90,612	139,895	84,303
Tier 2 capital	37,272	46,004	36,885	43,929
Gross qualifying capital	184,744	136,616	176,780	128,232
Less: Required deductions	7,405	10,405	25,701	25,238
Total qualifying capital	177,339	126,211	151,079	102,994
Credit risk-weighted assets	823,901	712,817	785,132	675,883
Market risk-weighted assets	7,887	6,539	7,290	5,682
Operational risk-weighted assets	89,709	79,580	82,799	75,002
Risk weighted assets	921,497	798,936	875,221	756,567
Total capital ratio	19.2%	15.8%	17.3%	13.6%
Tier 1 capital ratio	15.3%	10.2%	13.8%	8.7%

The regulatory qualifying capital of the Parent Bank consists of Tier 1 (core) capital which comprises paid-up common, surplus including current year profit, surplus reserves, and minority interest less deductions such as unsecured credit accommodations to DOSRI, deferred income tax, and goodwill. The other component of regulatory capital is Tier 2 (supplementary) capital, which includes unsecured subordinated debt, appraisal increment reserve, net unrealized gains on available for sale security and general loan loss provision.

The components of Tier 1 capital and deductions follow:

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	2012	2011
	(in Millions)			
Tier 1 capital				
Paid-up common stock	35,809	26,074	35,809	26,074
Paid-up perpetual and non-cumulative preferred stock	5,150	5,000	5,150	5,000
Additional paid-in capital	63,907	25,175	63,888	25,156
Retained earnings	42,416	34,151	35,397	28,389
Cumulative foreign currency translation	(429)	(366)	(349)	(316)
Minority interest in subsidiary financial allied undertakings which are less than wholly-owned	619	578		
Sub-total	147,472	90,612	139,895	84,303
Less deductions:				
Total outstanding unsecured credit accommodations, both direct and indirect, to DOSRI, and unsecured loans, other credit accommodations and guarantees granted to subsidiaries and affiliates (net of specific provisions, if any) referred to in Circular No. 560		2,645	7,145	6,116
Deferred income tax (net of allowance for impairment, if any)	5,115	5,483	5,176	5,586
Goodwill (net of allowance for impairment, if any)	302	289	302	289
Total deductions from Tier 1 capital	5,417	8,417	12,623	11,991
Total Tier 1 capital	142,055	82,195	127,272	72,312

The components of Tier 2 capital follow:

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	2012	2011
	(in Millions)			
Tier 2 capital				
Net unrealized gains on available for sale equity securities (subject to a 55% discount)	106	88	105	88
Appraisal increment reserve - bank premises, as authorized by the Monetay Board	923	925	923	925
General loan loss provision	8,243	6,991	7,857	6,760
Unsecured subordinated debts	28,000	38,000	28,000	36,156
Total Tier 2 capital	37,272	46,004	36,885	43,929

Deductions from Tier 1 and Tier 2 capital only include the following:

	BDO Unibank Group		Parent Bank	
	December 31			
	2012	2011	2012	2011
	(in Millions)			
Investments in equity of unconsolidated subsidiary banks and quasi-banks, and other financial allied undertakings (excluding subsidiary securities dealers/brokers, and insurance companies), after deducting related goodwill			11,050	11,219
Investments in equity of unconsolidated subsidiary securities dealers/brokers, insurance companies, and non-financial allied undertakings, after deducting related goodwill	1,988	1,988	2,028	2,028
Total deductions	1,988	1,988	13,078	13,247

Risk weighted assets by type of exposure as of December 31, 2012 and 2011 consist of the following:

	Credit Risk *		Market Risk **		Operational Risk	
	December 31, 2012					
	Group	Parent	Group	Parent	Group	Parent
	(in Millions)					
On-Balance Sheet	804,652	767,380				
Off-Balance Sheet	12,430	12,408				
Counterparty (Banking/Trading Book)	4,681	3,411				
Credit-Linked Notes in the Banking Book	2,499	2,499				
Sucurritization Exposures	-	-				
Deductions ***	(361)	(566)				
Interest Rate Exposures			4,180	3,444		
Foreign Exposures			3,694	3,833		
Options			13	13		
Basic Indicator					89,709	82,799
Total	823,901	785,132	7,887	7,290	89,709	82,799
Capital Requirements	82,390	78,513	789	729	8,971	8,280

* Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, LGUs, Government Corporations, and Corporates.

** Excludes interest rate risks in the banking book (IRRBB). For IRRBB, please refer to 2012 NFS Section 4.2.2. As a matter of policy, frequency of measurement for IRRBB is monthly.

*** General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2).

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	BDO Unibank Group							
			Risk Weights							
			0%	20%	50%	75%	100%	150%	Total	
Cash on Hand	23,289	23,289	23,289							23,289
Checks and Other Cash Items	155	155		155						155
Due from Bangko Sentral ng Pilipinas	156,520	156,520	156,520							156,520
Due from Other Banks	12,645	12,645		5,393	6,809			443		12,645
Financial Assets Designated at Fair Value through Profit or Loss	2,089	2,089						2,089		2,089
Available for Sale Securities	124,809	124,809	28,930	11,242	20,231			64,406		124,809
Held-to-Maturity Financial Assets	96,963	82,443	12,533		5,837			64,073		82,443
Unquoted Debt Securities Classified as Loans	3,899	3,899			3,899					3,899
Loans and Receivables	760,661	660,881	941	43,609	37,664	32,863	542,600	3,204		660,881
Sales Contract Receivable	2,692	2,649					1,994	655		2,649
Real and Other Properties Acquired	9,053	9,053						9,053		9,053
Other Assets	38,490	38,489	4,808	142	59		33,480			38,489
Total Exposures	1,231,265	1,116,921	227,021	60,541	74,499	32,863	709,085	12,912		1,116,921
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	12,108	37,250	24,647	709,085	19,368		802,458
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	0	0	0	2,194	0		2,194
Total Risk-weighted On-Balance Sheet Assets			0	12,108	37,250	24,647	711,279	19,368		804,652

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	18		4					4
Transaction-related contingencies	9,955		338			8,169	143	8,650
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	3,770					3,754	23	3,777
	13,743	0	342	0	0	11,923	166	12,430

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Parent Bank							
			Risk Weights							
			0%	20%	50%	75%	100%	150%	Total	
Cash on hand	23,264	23,264	23,264							23,264
Checks and other cash items	154	154		154						154
Due from Bangko Sentral ng Pilipinas	151,304	151,304	151,304							151,304
Due from other banks	11,488	11,488		4,628	6,800			60		11,488
Available for Sale Securities	117,401	117,401	28,350	11,242	20,231			57,578		117,401
Held-to-Maturity Financial Assets	89,607	75,086	9,645		5,836			59,605		75,086
Unquoted Debt Securities Classified as Loans	3,899	3,899			3,899					3,899
Loans and Receivables	745,744	645,964		42,136	37,563	27,903	535,157	3,205		645,964
Sales Contract Receivable	2,372	2,329					1,674	655		2,329
Real and Other Properties Acquired	8,576	8,576						8,576		8,576
Other Assets	27,685	27,685	4,808	142	59		22,676			27,685
Total Exposures	1,181,494	1,067,150	217,371	58,302	74,388	27,903	676,750	12,436		1,067,150
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	11,660	37,194	20,927	676,750	18,654		765,186
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	0	0	0	2,194	0		2,194
Total Risk-weighted On-Balance Sheet Assets			0	11,660	37,194	20,927	678,944	18,654		767,380

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						Total
		0%	20%	50%	75%	100%	150%	
Direct credit substitutes	18		4					4
Transaction-related contingencies	9,956		338			8,170	143	8,651
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	3,747					3,731	23	3,754
	13,721	0	342	0	0	11,901	166	12,408

Risk-weighted on-balance sheet assets covered by credit risk mitigants are mostly exposures covered by deposits or guarantees by the Philippine National Government. There are no exposures covered by credit derivatives, no outstanding credit protection provided by the Bank through credit derivatives, and no outstanding investments in Structured Products. Moreover, the Bank has no outstanding accounting hedges. In case there are accounting hedges, the Bank performs both prospective and retrospective hedge effectiveness tests to monitor the continuing effectiveness of accounting hedges as a matter of policy.

	Credit Risk *		Market Risk **		Operational Risk	
	December 31, 2011					
	Group	Parent	Group	Parent	Group	Parent
	(in Millions)					
On-Balance Sheet	684,679	649,534				
Off-Balance Sheet	12,012	12,012				
Counterparty (Banking/Trading Book)	5,909	4,207				
Credit-Linked Notes in the Banking Book	10,217	10,217				
Sucurritization Exposures		-				
Deductions ***		(87)				
Interest Rate Exposures			5,898	4,923		
Foreign Exposures			641	759		
Options						
Basic Indicator					79,580	75,002
Total	712,817	675,883	6,539	5,682	79,580	75,002
Capital Requirements	71,282	67,588	654	568	7,958	7,500

* Standardized credit risk weights were used in the credit assessment of asset exposures. Third party credit assessments were based on ratings by Standard and Poor's, Moody's, Fitch and PhilRatings on exposures to Sovereigns, MDBs, LGUs, Government Corporations, and Corporates.

** Excludes interest rate risks in the banking book (IRRBB). For IRRBB, please refer to 2011 NFS Section 4.02.02. As a matter of policy, frequency of measurement for IRRBB is monthly.

**** General loan loss provision (in excess of the amount permitted to be included in Upper Tier 2).

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	BDO Unibank Group							
			Risk Weights							
			0%	20%	50%	75%	100%	150%	Total	
Cash on Hand	35,078	35,078	35,078							35,078
Checks and Other Cash Items	114	114		114						114
Due from Bangko Sentral ng Pilipinas	124,672	124,672	124,672							124,672
Due from Other Banks	24,719	24,719		15,815	8,138			766		24,719
Financial Assets Designated at Fair Value through Profit or Loss	136	136						136		136
Available for Sale Securities	85,597	85,597	16,784	5,376	6,426			57,011		85,597
Held-to-Maturity Financial Assets	92,791	76,138	14,849	432	4,071			56,786		76,138
Unquoted Debt Securities Classified as Loans	1,755	1,755		438	1,317					1,755
Loans and Receivables	671,419	587,477	4,988	52,845	46,929	31,608	445,483	5,624		587,477
Sales Contract Receivable	2,371	2,371					1,799	572		2,371
Real and Other Properties Acquired	10,461	10,461						10,461		10,461
Other Assets	29,444	29,444	6,555	153	127		22,609			29,444
Total Exposures	1,078,557	977,962	202,926	75,173	67,008	31,608	584,590	16,657		977,962
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	15,035	33,504	23,706	584,590	24,984		681,818
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	0	0	0	2,861	0		2,861
Total Risk-weighted On-Balance Sheet Assets			0	15,035	33,504	23,706	587,451	24,984		684,679

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						
		0%	20%	50%	75%	100%	150%	Total
Direct credit substitutes	0		0					0
Transaction-related contingencies	10,417		335			8,743		9,078
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	2,931					2,924	11	2,935
	13,348	0	335	0	0	11,667	11	12,012

On-Balance Sheet Assets

Type of Exposures	Principal Amount (in millions)	Exposures After CRM (in millions)	Parent Bank							
			Risk Weights							
			0%	20%	50%	75%	100%	150%	Total	
Cash on hand	35,054	35,054	35,054							35,054
Checks and other cash items	114	114		114						114
Due from Bangko Sentral ng Pilipinas	115,992	115,992	115,992							115,992
Due from other banks	22,777	22,777		14,917	7,854			6		22,777
Available for Sale Securities	78,664	78,664	16,773	5,376	6,426			50,089		78,664
Held-to-Maturity Financial Assets	84,863	68,210	12,236	432	4,071			51,471		68,210
Unquoted Debt Securities Classified as Loans	1,755	1,755		438	1,317					1,755
Loans and Receivables	651,815	567,873		51,206	46,822	27,340	436,883	5,622		567,873
Sales Contract Receivable	2,258	2,258					1,687	571		2,258
Real and Other Properties Acquired	9,993	9,993						9,993		9,993
Other Assets	20,752	20,752	6,555	153	127		13,917			20,752
Total Exposures	1,024,037	923,442	186,610	72,636	66,617	27,340	554,053	16,186		923,442
Total Risk-weighted On-Balance Sheet Assets Not Covered by CRM			0	14,527	33,309	20,505	554,053	24,279		646,673
Total Risk-weighted On-Balance Sheet Assets Covered by CRM			0	0	0	0	2,861	0		2,861
Total Risk-weighted On-Balance Sheet Assets			0	14,527	33,309	20,505	556,914	24,279		649,534

Off-Balance Sheet Assets

Type of Exposures	Credit Equivalent (in millions)	Risk Weights						Total
		0%	20%	50%	75%	100%	150%	
Direct credit substitutes	0		0					0
Transaction-related contingencies	10,417		335			8,743		9,078
Trade-related contingencies arising from movement of goods and commitments with an original maturity of up to one (1) year	2,931					2,924	11	2,935
	<u>13,348</u>	<u>0</u>	<u>335</u>	<u>0</u>	<u>0</u>	<u>11,667</u>	<u>11</u>	<u>12,012</u>

Credit risk mitigants for risk-weighted on-balance sheet assets include deposits, guarantees by the Philippine National Government, and purchased credit default swaps (CDS). The Bank has about P2.3Bn of exposures in the Banking Book covered by purchased CDS, with total adjusted protected portion of about P0.8Bn after haircuts. The Bank also has investments in credit-linked notes (CLN) in the Banking Book with ROP as reference entity amounting to about P7.4Bn. The Bank, however, has no outstanding credit protection sold or provided through credit derivatives. The Bank has no outstanding accounting hedges. In case there are accounting hedges, the Bank performs both prospective and retrospective hedge effectiveness tests to monitor the continuing effectiveness of accounting hedges as a matter of policy.