BANCO DE ORO

2005
ANNUAL
REPORT

A Member of the SM Group of Companies

Contents

Banco de Oro Universal Bank provides a wide range of commercial and investment banking services in the Philippines. These services include the traditional loan and deposit products, as well as treasury, trust, capital markets, cash management, insurance, and credit card services.

The Bank's strategic focus is on becoming the preferred bank in its chosen markets in the Philippines. The Bank's principal markets consist of a select group of large corporations and financial institutions, and geographic niches in the middle-market banking segment (consisting of mid-size corporations and small- and medium-sized enterprises), and the retail/consumer market. The Bank plans to pursue its growth strategy through selective acquisition and/or organic growth. BDO will continue to maintain its focused approach in seeking new markets and developing products for those markets.

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 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 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 improvement in everything we do.

Commitment to Shareholders

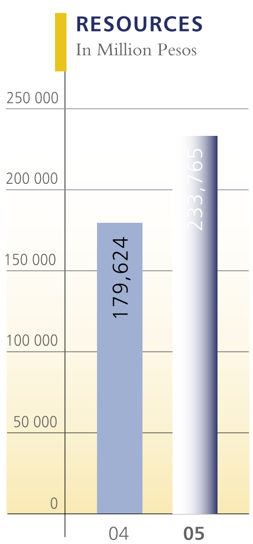
We are committed to provide our shareholders with superior returns over the long term.

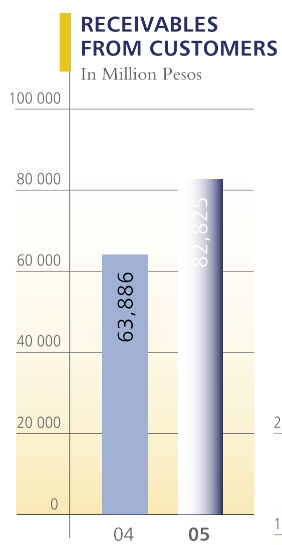
Corporate Mission

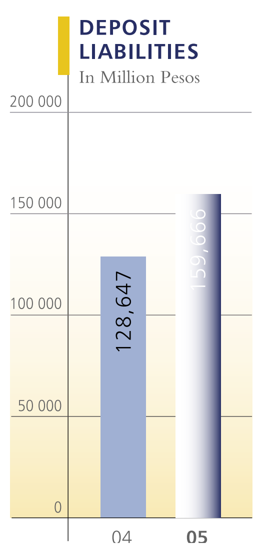
To be the preferred bank in every market we serve by consistently providing innovative products and flawless delivery of services, proactively reinventing ourselves to meet market demands, creating shareholders value through superior returns, cultivating in our people a sense of pride and ownership,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

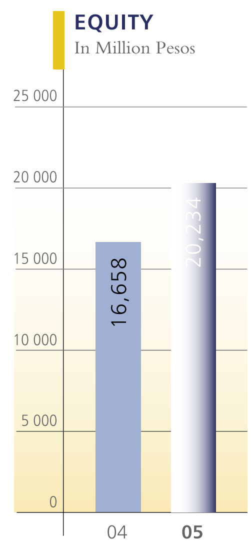
Financial Highlights

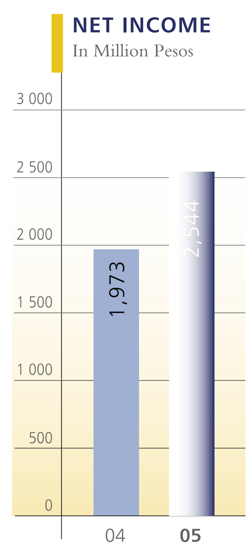
in '000	**2005**	2004	% INCREASE
RESOURCES	**233,764,786**	179,624,101	30.14%
RECEIVABLES FROM CUSTOMERS	**82,824,545**	63,885,500	29.65%
DEPOSIT LIABILITIES	**159,666,123**	128,647,318	24.11%
EQUITY	**20,234,305**	16,658,170	21.47%
NET INCOME	**2,543,517**	1,972,634	28.94%











Message from the Chairman Emeritus

Over the past years, we have made significant progress in developing Banco de Oro into one of the best banks in the Philippines. This year marks another milestone in the development of Banco de Oro.

We registered record profits of P2.54 billion and, based on resources, Banco de Oro is now the fifth largest bank in the country. Despite the rapid growth, the balance sheet remains among the strongest. It boasts of a high capital ratio and the lowest non-performing asset level among universal banks. We continue to build on our programs for Corporate Governance.

I have often said that success does not happen overnight, and Banco de Oro's success is no different. Its performance has been marked with consistent growth and quality profits, earning it recognitions from the international investing community. Asiamoney awarded it as the Best Managed Company - Medium Cap category and Euromoney awarded it as the Commercial Bank of the Year in the Philippines. Most recently, Finance Asia cited it as among the best managed companies in the Philippines.

Let me take this opportunity to say thank you to all the people who have made this success possible. To our customers, thank you for your continued support and patronage, to our officers and staff, thank you for your commitment, dedication and contributions, and to my fellow shareholders, thank you for your trust. Together, we are on our way to making Banco de Oro the best bank in the country.

Henry Sy, Sr.
Chairman Emeritus

Message from the Chairman

It has always been our goal to make Banco de Oro the best bank in the Philippines. While we still have a long way to go, we are certainly making good strides in that direction. 2005 was another banner performance for the Bank with profits of 2.54 bn, continuing the earnings momentum that has been building up the last few years. In terms of resources, the Bank is now among the top five in the industry. Asset quality and balance sheet remains strong. In terms of business mix, we have been able to build business lines that now rank among the leaders in their respective fields. No less than three prestigious publications – Asiamoney, Euromoney and Finance Asia – recognize it as among the best managed institution in the country, an honor we all should be proud of.

The Bank's performance notwithstanding, we also realize that the financial services industry is changing rapidly. New international reporting standards, BASEL 2, and the fast-paced development of products and technology are all pushing banks to make adjustments in order to survive. At SM Investments Inc. (SMIC), we are cognizant of the implications of these changes. While we have made substantial progress through organic growth, we cannot turn away opportunities that may present themselves along the way. It is for this reason that we seized the opportunity to take a strategic stake in Equitable PCI (EPCI) last year. We view the potential partnership between BDO and EPCI as transformational for both and will create an institution that can vie for leadership in the Philippine banking industry.

Whether this develops or not however, BDO will not wait idly for things to unfold. With the United Overseas Bank Philippines acquisition and the developments in its business lines, BDO will not run out of opportunities to cover. It will continue to create its own growth path with or without the EPCI merger. In the meantime, I am delighted that the Bank moves from strength to strength with the passage of time.

To the officers and staff of BDO, congratulations on a job well done. Rest assured that whichever direction BDO takes, SMIC will be there to support it.

Teresita T. Sy
Chairman*

*until August 5, 2005

"The Bank has been judged among the best managed companies for 2005 by three prestigious publications- Asiamoney, Euromoney and Finance Asia. Their consensus view is the best recognition of our performance for 2005. For that, we thank you – our shareholders, customers, officers and staff – for your continued support and trust."

Nestor V. Tan
President

Message from the President

The year 2005 was another banner year for Banco de Oro (BDO). We recorded a net income of Php 2.54bn, the highest in the Bank's history and an increase of 29% over 2004 figures. Resources likewise increased by 30% to Php 233.7bn, enough to make the Bank the fifth largest in the country.

Beyond the headline numbers is also a strong performance by the Bank across all business lines. Despite the uncertain economic environment, we have been able to keep our growth and development targets on track. Loans and deposits have grown 36% and 24% respectively, outpacing the industry in a big way. Consumer lending now comprises a meaningful share of our loan portfolio. Our fee generating businesses continue to be strong. Our trust, transaction banking, and investment banking businesses are now considered among the leaders in the industry and making major contributions to profit. Remittances and bancassurance are starting to achieve critical mass. Our balance sheet is among the strongest in the industry .

Beyond organic growth, we also made strategic moves to further fuel our long-term growth. We acquired the 66-strong retail branch network of United Overseas Bank Philippines to strengthen our distribution network. Together with SM Investments Corporation, we took a strategic stake in Equitable PCI Bank (EPCI) and Equitable Card Network Inc., paving the way for future cooperation and partnership between the two banks. A merger of BDO and EPCI would create a dominant industry player with market leadership in a number of business lines. On the capital markets side, we made preparations and had a successful issue in 2006 of our Global Depository Receipts (GDRs). These GDRs are listed in the London Stock Exchange, creating another venue for capital raising should the need arise.

Our progress has not gone unnoticed. The Bank has been judged among the best managed companies for 2005 by three prestigious publications- Asiamoney, Euromoney and Finance Asia. Their consensus view is the best recognition of our performance for 2005. For that, we thank you - our shareholders, customers, officers and staff - for your continued support and trust.

Accolades however, reward what we have accomplished. It is by no means a guarantee of good performance in the future. We should and will continue to build on our success. There is still a lot of room for us to improve and we remain committed to making Banco de Oro Universal Bank the best bank in the country.

Asia Money 2006 Awards for **"Best Managed Company (Medium-Cap Category)"**

EuroMoney 2005 Real Estate Awards for **"Commercial Banking in the Philippines"**

Review of 2005 Operations

Despite the political and economic uncertainties in the local and global markets, the Philippines registered a respectable performance in 2005, proof of the economy's resilience and sustainability. Gross Domestic Product expanded by 5.1%, much higher than what most economists and analysts had expected. The fiscal deficit, targeted to reach P180 billion or 3.4% of GDP, amounted to only P146.5 billion or just 2.7%. The Balance of Payments turned in a huge surplus of $2.4 billion, much higher than the optimistic estimates of government and a huge reversal of the $280 million deficit in 2004. Gross International Reserves hit a record high of $18.5 billion, boosted by the record-breaking $10.7 billion in OFW remittances. The negative factors were the slowdown in agriculture, as the El Nino hit the country last summer, and the weak performance of exports, particularly of electronics components.

Foreign Exchange Rate

The peso broke below the P53.00 level as early as the first quarter of 2005, but the political crisis and the delay in the passage of the EVAT dragged down the peso back to the P56.00 level by the third quarter. However, the peso still managed to recover strongly in the last two months, closing the year at P53.090. Robust inflows of OFW remittances and net foreign investments, coupled with the overall mending of confidence in the economy's prospects, provided additional strength. These inflows also contributed to the hefty surplus in the country's balance of payments. All in all, these developments resulted in the peso being the best performing currency in the region last year.

Interest Rates

Domestic interest rates followed a steep downward trend in 2005, attributable to high system liquidity and the BSP's prudent but still relatively loose monetary policy. The banking system was awash with money on the back of the double-digit expansion rate in domestic liquidity (M3) as of the third quarter and continued weak private sector demand for credit. Moreover, banks bid aggressively for the limited supply of government debt papers after the scheduled auctions in December were cancelled due to the improved fiscal position. Likewise, with inflation easing in December, the peso appreciating, and the US Fed perceived to be ending its tightening cycle, the BSP considered it unnecessary to raise its own policy rates any further.

Prices

Inflation was on a mild downturn starting in the second half of 2005 after staying at 8.5% for most of the first semester. This downturn can be largely attributed to the high-base effect in 2004 and, to a certain extent, the delayed implementation of the EVAT law, which finally took effect in November. By then, world oil prices, initially feared to be the main source of inflationary pressure, were already falling after peaking in August-September, thereby mitigating the impact of the EVAT.

Prospects for 2006

The Philippine economy is off to a good start this 2006: the peso is expected to continue regaining lost ground, fuelled by the resurgence of investor and creditor confidence in the country while interest rates are seen to remain low, stable, and thus conducive to heightened business activity. The upbeat mood on the country rests largely on expectations that the government will remain on-track in solving its fiscal problems, not only with the effective implementation of the revised Value Added Tax system starting last February, but more importantly by way of improved revenue collection in general.

Foreign Exchange Rate

For 2006, the following factors will essentially dictate the peso's direction: the Federal Reserve's actions on US interest rates, BSP's own interest rate policy, magnitude of inflows from OFW remittances and investments vis import payment requirements, perceptions on the sustainability of fiscal reforms, and the political backdrop.

Interest Rates

For this year, the dominant variable affecting the short-term direction of interest rates is once again market liquidity. Given this, a soft interest rate environment is expected for most of the year especially if the government meets its fiscal objectives. A mild upward correction may be seen though once the BSP steps in to raise interest rates slightly, possibly in the second semester should consecutive hikes in US Fed rates occur, along with the expected weakening of the peso in the third quarter due to the import season. The main caveat would be a fiscal downturn, as well as external shocks such as the threat of renewed political volatility or another spike in world oil prices resulting in the build-up of inflationary pressures.

Prices

For 2006, inflation is expected to remain high, around the same average posted in 2005. The biggest upside risk comes from the cost-push effects generated by the higher VAT rate imposed last February, and speculation governing world crude oil prices. Together, these two will likely raise inflationary expectations in the near term. However, inflation should subside in the second semester, again due to the high computational base during the same period last year. Likewise expected to temper price pressures is the improved outlook on food prices with the end of the El Nino. The strong peso can also help ease inflationary pressures as the costs of imported inputs decline.

Banco De Oro Operational Highlights

Banco de Oro had another banner year in 2005, posting a 29% increase in Net Income to P2.54B. This translates to a Return on Average Equity (ROE) of 13.8% compared to 12.4% the previous year. The Bank experienced good performance from all of its business lines, fuelled by exceptionally strong loan and deposit growth, substantial gains from fee-based services, new products launched and increased market coverage. Significant growth was seen while the overall quality of the balance sheet was maintained. The implementation of new, more stringent financial reporting standards did not adversely affect the Bank's balance sheet, and non-performing loans (NPL) and non-performing assets (NPA) ratios still remain among the best in the industry. Capital Adequacy Ratio was still comfortable at 18.3% despite the exceptional loan growth in 2005.

The Bank likewise embarked on a number of strategic initiatives in 2005:

- Acquisition of the banking business of United Overseas Bank Philippines (UOBP). This comprised 66 branch licenses and approximately P11B in deposits. This transaction also creates opportunities for strategic partnerships in the areas of trade finance, private banking and consumer lending.
- Acquisition of stakes in Equitable PCI Bank (EPCI) & Equitable Card Network Inc. (ECNI) in partnership with SM Investments Corporation (SMIC). This gives BDO and the SM Group a foothold in an institution that could provide significant synergies for BDO's major businesses. A merger with EPCI would transform BDO into a dominant industry player, possessing market leadership and operational scale while enhancing shareholder value through a potential re-rating in the share price and reduced funding cost.

- Opening of the first BDO Onsite outlet, which provides clients an additional venue to access ancillary services even beyond the regular banking hours. These services include foreign exchange, remittances, acceptance of bills payment, inquiries on consumer loans, and application drop-off for consumer loans and insurance products.
- Launch of BDO Rewards, the first multi-product bank loyalty program that aims to reward customers for maintaining a banking relationship with BDO. BDO Rewards aims to provide the best loyalty program in the country with its superior and flexible features.


BANKING HAS NEVER BEEN THIS REWARDING!
"I opened a savings account with Banco de Oro. My deposit is secure and earns great rewards. Iba ang REWARDS dito!"
Jethro Dionisio,
World Class Shooting Champion
Open a peso or dollar savings account now and start earning points which you can use to redeem real rewards of your choice from any SM Affiliate Store.
Invest in any of BDO's Unit Investment Trust Funds and avail of Banco de Oro's Consumer Loans now to earn points faster!
BDO Rewards
We find ways
appliance
Home
ACE
* For BDO Rewards program details, contact the BDO Call Center at 631-8000, Domestic Toll Free # 1-800-10-631-8000 or visit any Banco de Oro Branch near you. Points system is subject to the terms and conditions of the BDO Rewards program.
Member: PDIC. Maximum deposit insurance for each depositor: P250,000.00

Account Management

Corporate Banking implemented organizational initiatives in 2005 aimed at transforming the Group into industry specialists, and further bolstering their relationship management role. Corbank was able to grow its portfolio by 38%, with an increase in its client base and expanded banking relationships with existing clients.

Commercial Banking on the other hand, registered a portfolio growth of 16% in 2005. The increased branch network, coupled with the establishment of additional Regional Lending Offices, provided more opportunities for identifying and tapping potential loan clients specially in areas outside Metro Manila.

Consumer Lending

Consumer Lending, composed of the mortgage, auto finance, credit card and personal loan businesses, established a major presence in the retail market, as portfolio levels almost tripled in 2005. Consumer Loans, which accounted for less than 3% of total loans in 2004, now comprises approximately 7% of total, with rapid growth experienced across all product segments. Credit Cards outstanding more than doubled to over 140,000 with the launch of new credit card variants, designed for specific market segments. Home Mastercard, a co-branded credit card with Meralco, was launched in October 2005 targeting homemakers and meant to be used for household expenses such as utility bills as well as other home essentials and needs. BDO Gold Mastercard was launched in November 2005 and is aimed at the up and coming young professionals on their way up the corporate ladder, as well as senior executives and established entrepreneurs.

Branch Banking

Branch Banking posted growth rates of over 20% in low-cost deposits and fee-based services. This was achieved through a continued thrust to make banking more convenient and accessible to clients, through an increase in both the branch and ATM networks, repositioning of branch sites to more attractive areas, and new product launches. The integration of the additional 66 branch licenses from UOBP in 2006 will further enhance the Bank's market reach, increase the client base and increase the potential for cross-selling other products.

First in Performance - Ranked 1st in the latest Watson Wyatt Survey

First in Growth - Highest in peso asset growth in the Trust Industry for 2005

First in UITFs - Largest family of Unit Investment Trust Funds (UITFs) by the end of 2005

BDO
Trust Banking Group

Driven to Perform

Our drive to keep our customers satisfied brought us to new heights.

With your confidence, BDO-Trust stepped up the industry ladder to the No.3 position in terms of asset size, having grown by over ₱25 billion in 2005 to reach the ₱111 billion mark as of year-end. It has set the pace in UITF sales as it sold more than ₱60 billion worth of funds in less than a year. It leads the industry in terms of returns, ranking 1st in the latest (83rd) Watson Wyatt Survey on Investment Performance of Retirement Funds in the Philippines, among managers handling at least five (5) funds with full discretion.

Thank you for your trust.

It is your confidence that drives us to perform.

BDO Head Office: 12 ADB Avenue, Ortigas Center, Mandaluyong City
BDO Trust: Tel. Nos. 667-1542, 631-9309, 635-0316, 636-5704, 702-6607 and 635-7402

BDO Call Center: 631-8000 (Metro Manila) Domestic Toll-Free No.: 1-800-10-6318000
International Toll-Free No.: (IAC)+800-8-6318000

BDO UNIBANK BANCO DE ORO

www.bancodeoro.com.ph

Treasury

For 2005 Treasury focused on the diversification and re-alignment of the Bank's investment and trading portfolios to take into account the new, more stringent reporting requirements as well as the expected changes in interest rates locally and globally. Treasury registered a 46% improvement in net interest income from its investing activities, while trading produced a combined income of P1.57B, a 58% improvement over the previous year. New products were also launched, including the first local issue of long-term negotiable certificates of deposit (LTNCDs), meant to increase the Bank's product array, and provide more stable funding sources at lower cost.

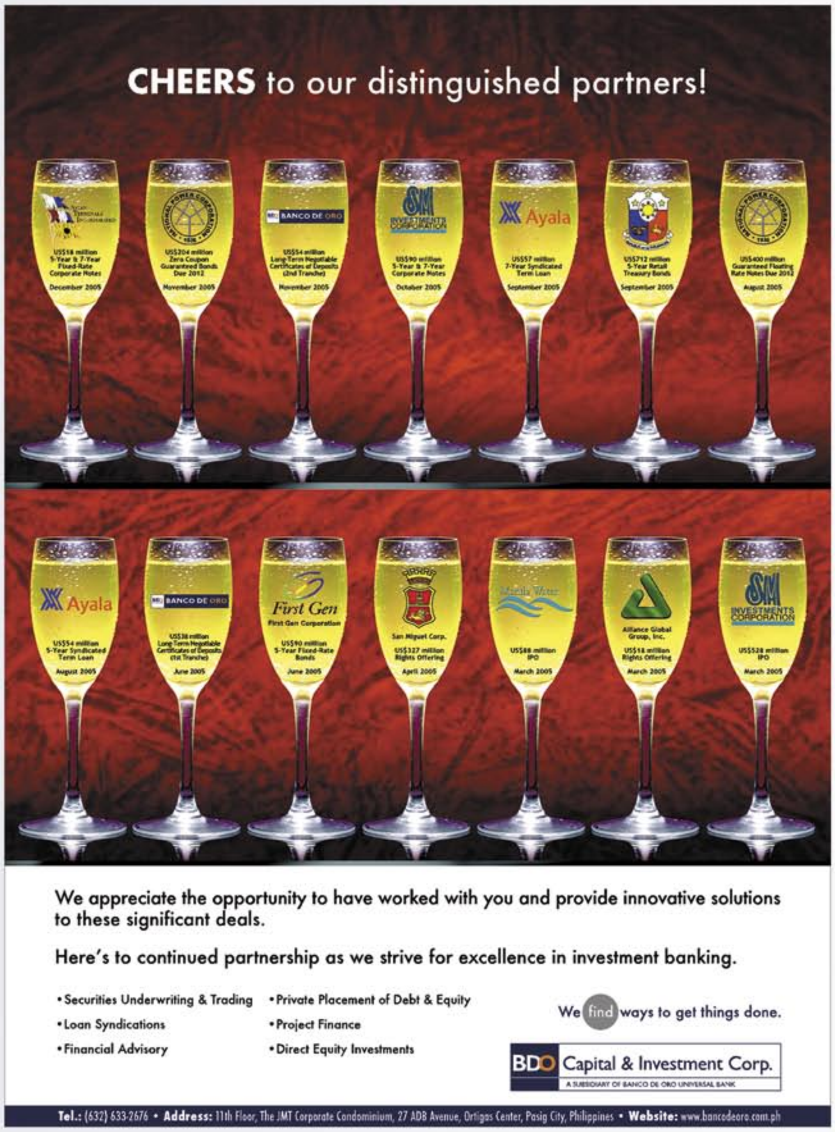
Fee-Based Activities

Trust

Trust achieved new milestones in 2005, reaching the P111.8B mark in funds under management and attaining the #3 rank in the industry. Total Trust Funds grew by 26%, while Fee Income increased by 13%. Intensified business development efforts brought in new institutional and individual accounts. The Group also launched last year its Peso and US Dollar-denominated Unit Investment Trust Funds (UITFs), which proved highly successful endeavors as fund levels reached over P60B since its launch in June 2005. Trust Banking likewise led the industry in terms of return on investment based on the latest (83rd) Watson Wyatt survey on Investment Performance of retirement funds in the Philippines.

Transaction Banking

Transaction Banking realized a 50% growth in revenues, with the retail business contributing 143% revenue improvement while the corporate sector grew at a respectable 34%. This strong performance was boosted by a 86% increase in consumer clients, a 200% increase in POS terminals, and a 22% increase


CHEERS to our distinguished partners!
We appreciate the opportunity to have worked with you and provide innovative solutions to these significant deals.
Here's to continued partnership as we strive for excellence in investment banking.
• Securities Underwriting & Trading
• Loan Syndications
• Financial Advisory
• Private Placement of Debt & Equity
• Project Finance
• Direct Equity Investments
We find ways to get things done.
BDO Capital & Investment Corp.
A SUBSIDIARY OF BANCO DE ORO UNIVERSAL BANK
Tel.: (632) 633-2676 • Address: 11th Floor, The JMT Corporate Condominium, 27 ADB Avenue, Ortigas Center, Pasig City, Philippines • Website: www.bancodeoro.com.ph

in off-site ATMs. Consumer clients numbered close to 4 million, while alternative distribution channels such as internet and phonebanking, call center, and offsite ATMs provided customers with remote access to various services.

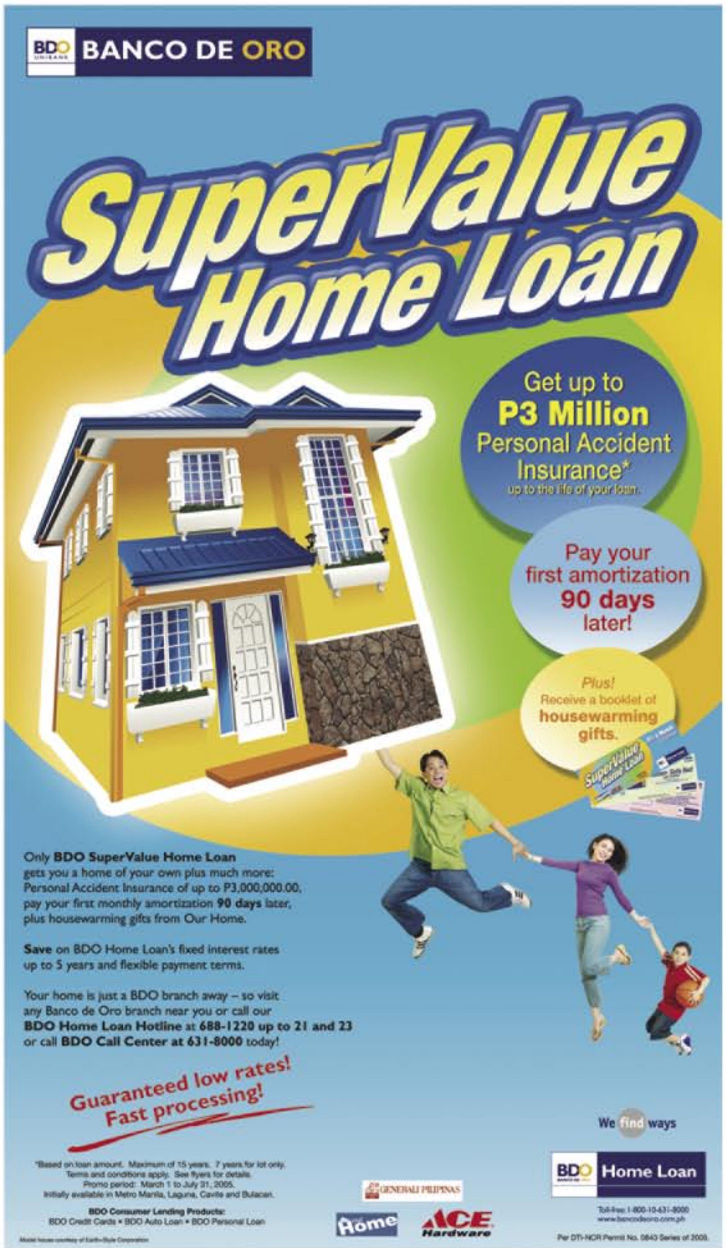
BDO launched the BDO International ATM card, the first MasterCard Electronic Branded Debit Card in the country. This product allows access to ExpressNet and Megalink ATMs and BDO and ExpressNet EPS POS. In addition, the BDO International ATM cardholders can use millions of Cirrus ATMs and MasterCard Electronic and Maestro point-of-sale terminals worldwide. This is especially valuable for clients who are after convenience, reliability and innovation. Transaction Banking likewise enhanced the functionalities of internet and phonebanking to support a growing client base and adopt to clients' changing needs.

Private Banking

BDO Private Bank likewise had a banner year, registering substantial improvements in both Net Income and funds managed. Net Income stood at P477.6M, representing an increase of 35% over 2004, while funds under management increased 106% to P25.7B. The client base likewise improved 36% from 2004. Total Resources increased to P15.3B while Capital stood at P3.4B. With this performance, the Private Bank registered a Return on average Equity of 14.7%, allowing Private Bank to declare and pay a cash dividend amounting to P250M in 2005.

Investment Banking

BDO Capital & Investment Corp. (BCIC) maintained an active presence in the capital markets, with participations in the major equity and fixed income issues for 2005. BCIC acted as Financial Advisor, Domestic Lead Manager or participating Underwriter for P52.4B worth of equity offerings for SM Investments Corporation, (the largest IPO in the country to date), San Miguel Corporation (the largest rights offering to date), Manila Water Company, and Alliance Global Group. BCIC also participated as Issue Manager, Bookrunner, Arranger, Underwriter or Selling Agent in over P96B


BANCO DE ORO
SuperValue Home Loan
Get up to P3 Million Personal Accident Insurance* up to the life of your loan.
Pay your first amortization 90 days later!
Plus! Receive a booklet of housewarming gifts.
Only BDO SuperValue Home Loan gets you a home of your own plus much more: Personal Accident Insurance of up to P3,000,000.00, pay your first monthly amortization 90 days later, plus housewarming gifts from Our Home.
Save on BDO Home Loan's fixed interest rates up to 5 years and flexible payment terms.
Your home is just a BDO branch away – so visit any Banco de Oro branch near you or call our BDO Home Loan Hotline at 688-1220 up to 21 and 23 or call BDO Call Center at 631-8000 today!
Guaranteed low rates! Fast processing!
*Based on loan amount. Maximum of 15 years. 7 years for lot only. Terms and conditions apply. See flyers for details. Promo period: March 1 to July 31, 2005. Initially available in Metro Manila, Laguna, Cavite and Bulacan.
BDO Consumer Lending Products: BDO Credit Cards • BDO Auto Loan • BDO Personal Loan
We find ways
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Per DTI-NCR Permit No. 0843 Series of 2005.
GENERALI PILIPINAS
Home
ACE Hardware

worth of fixed-income securities issued by government and private sector entities. Net Income was at P106M, bringing Total Resources and Capital to P1.2B and P1.1B, respectively.

Insurance

The Bank's insurance business, through Generali Pilipinas and BDO Insurance Brokers Inc. (BDOI), posted significant gains last year. BDOI registered over 50% growth in insurance premiums, on the back of a 300% increase from the bancassurance segment. Generali Pilipinas likewise posted an industry-leading 97% growth in premiums, with bancassurance growing at a more rapid pace of 234%. Total premiums generated in 2005 reached P1.3B, and represented a new record achievement for the company. The company's performance so far has been in accordance with long-term strategic plans.

Remittance

The Bank's Remittance business is starting to reap the benefits from its expanded network of overseas partners, as remittance volumes increased by over 70% and the number of transactions almost doubled compared to 2004. Net Income of the unit consequently increased by over 200% during the year. Remittance added 20 new overseas partners, spanning a total of 26 countries. The Unit also expanded its domestic distribution system by partnering with SM department stores, a rural bank and other non-traditional channels to further improve accessibility and convenience to its clients. Remittance likewise developed a web-based, on-line tracking system to help both remitters and beneficiaries monitor the status of their remittance transaction.

Risk Management

Credit & Risk Management focused its efforts on remedial management and strengthening the risk management function. Problem accounts were contained despite the exceptional increase in the loan and investment portfolios. Working with the Board Risk Management Committee, the group implemented a series of policy and reporting changes that allowed the bank to exert tighter risk control and closer monitoring over its increasingly diversified asset portfolio.

Information Technology

The Information Technology Group (ITG) completed a number of major projects in 2005. First was the upgrade of the Bank's hardware, now three times more powerful than the previous version. The new hardware offers flexibility in handling mixed workloads, provides faster transaction processing, allows increased transaction volumes, and enhanced user and product capability. In addition, the Bank's core system was upgraded to provide 24/7 processing capability. This was complemented by a hardware upgrade in the BDO Contingency Site. Together these changes provide the Bank with mirroring capability for its Core System allowing immediate resumption of operations in the event of any disruption in its main system.

Human Resource Management

The Bank's manpower count continues to rise due to the Bank's intrinsic growth whether organic or through acquisitions. The Employee's Integration Program was put into place to allow new joiners to get immersed into the Bank's culture, core values, work processes and system in an organized manner, ensuring their seamless integration into the organization.

The Training Team has likewise partnered with key business lines to ensure that new products launched are given the appropriate training support. This was clearly demonstrated in the successful launch of the Bank's UITF products and On Site outlets.

HRM shall continue to be a strategic partner to the Bank's support and business groups and shall ensure that the human factor continue to be BDO's crucial competitive edge.

Asset Quality

The level of non-performing loans in 2005 increased slightly from P4.3B to P4.4B, despite the substantial loan growth experienced during the period. This was achieved through aggressive collection efforts and a continuing thrust to implement reasonable settlement arrangements. The Bank set aside total provisions of P1.1B in 2005, bringing the NPL coverage ratio to 97% from 83% the previous year.

Acquired assets on the other hand decreased from P5.9B to P5.7B, due to continuing efforts to reduce non-earning assets. The Bank has undertaken auction sales as an alternative means of facilitating ROPOA sales. The Bank also partnered with a number of leading property developers to derive best value out of its portfolio of acquired assets. BDO entered into development arrangements with major property developers covering approximately 35% of it's total acquired assets located in and around Metro Manila. The projects are under various stages of development, and the Bank expects these activities to be major contributors to income over the coming years.

Corporate Governance

After instituting changes in 2004, the Bank implemented initiatives to further strengthen the governance structure. The charters and memberships of the various committees were reviewed, updated and approved by the Board of Directors. A new committee, the Corporate Governance Committee was established to assist the Board of Directors in shaping the Bank's governance policies and practices, and maintain oversight over the Bank's governance structure.

Among the Corporate Governance Committee's duties and responsibilities are the review and assessment of the Bank's Corporate Governance Manual and the oversight over the Bank's compliance with Corporate Governance Regulations.

Members of the Bank's Board of Directors likewise attended a training program sponsored by the International Finance Corporation (IFC), and conducted by McKinsey & Co., as part of the Board's continuing education. The seminar covered topics such as risk management, governance and value enhancement.

Board of Directors

Left to right: *Henry Sy, Sr., Teresita T. Sy., Ismael M. Estella, Senen T. Mendiola, Jose T. Sio*

1 Henry Sy, Sr.
Chairman Emeritus

Henry Sy, Sr. is the Founder and Chairman of the SM Group of Companies.

He remains active in the SM Group of Companies as Chairman of its key businesses: SM Prime Holdings, the country's leading owner and developer of shopping centers; SM Investments Corporation, the Group's holding company; and SM Development Corporation, its real estate and leisure development arm.

2 Teresita T. Sy
Chairman
Board Advisor

Teresita T. Sy was the Bank's Chairperson until August 5, 2005. Currently she is a Director and Vice-Chairperson of Equitable-PCI Bank. She is presently the President and Chairman of Shoemart Inc. and Supervalue Inc., respectively. She is also a Director of SM Investments Corp., Multi-Realty Development Corp, First Asia Realty Development, SM Prime Holdings, SM Keppel Land, Inc., and Philippine Long Distance Telephone Company. Ms. Sy is a graduate of AB-BSC in Management from the Assumption College.

3 Jesus A. Jacinto, Jr.
Vice Chairman

Jesus A. Jacinto, Jr. , was elected Vice Chairman of the Bank in May 1996. He is concurrently the Chairman and President of BDO Insurance Brokers, Inc., Director and Treasurer of BDO Realty Corp. and Director of BDO Private Bank, Inc. He also holds various directorships in different companies. He was formerly a Director and Executive Vice-President of Citytrust Banking Corp.; Director of Citytrust Investments Phil. and Citytrust Finance Corp.; and Vice-President and Managing Partner of Citibank N.A. He holds a Bachelor's degree in Business Administration from Fordham University in New York City and acquired his MBA (International Business) from Columbia University, New York.

4 Nestor V. Tan
Director and President

Nestor V. Tan, was elected President of the Bank in July 1998. He concurrently holds directorships in the following subsidiaries of the Bank: BDO Capital & Investments Corp., BDO Realty Corp., Generali Pilipinas Insurance Corp. and Generali Pilipinas Life Insurance Corp. He was formerly connected with the Mellon Bank, the Bankers Trust Company in New York and the Barclays Group in New York and London. Prior to joining the Bank, he was the Chief Operating Officer for the Financial Institution Services Group of BZW, the investment banking subsidiary of the Barclays Group. He holds a Bachelor's degree in Commerce from De La Salle University and received his MBA from Wharton School, University of Pennsylvania.

5 Violeta O. LuYm
Director

Violeta O. LuYm was appointed as Director in 1987. She is currently a Director and Chair of BDO Financial Services, Inc. and Director of BDO Capital & Investments Corp. She also served as BDO's Executive Vice President from 1995 to 1997. She was formerly connected with Security Bank, Bancom Development Corp., Bancom Finance and International Corp. Bank. She holds a Bachelor's degree in Commerce from Assumption College and received her MBA from the University of California in Los Angeles.

6 Senen T. Mendiola
Director

Senen T. Mendiola has served as a Director since 1977. He is also presently the Vice Chairman and Director of Shoemart, Inc.; Executive Vice President and Director of Beach Rubber Co., Inc.; Vice President and Director of SM Appliance Center; and Director of Multi Realty Development Corp. He holds a Bachelor's degree in Commerce from San Beda College.

Seated left to right: *Violeta O. LuYm, Nestor V. Tan, Josefina N. Tan Christopher A. Bell-Knight, Jesus A. Jacinto, Jr.*

Standing left to right: *Jimmy T. Tang, Antonio C. Pacis, Teodoro B. Montecillo*

7 Jimmy T. Tang
Independent Director

Jimmy T. Tang served as a Director of the Bank since 1984. He is also currently the President of Avesco Marketing Corporation. He was formerly the President of the Federation of Filipino-Chinese Chamber of Commerce and Industry. He holds a Bachelor's degree in Electrical Engineering from Mapua Institute of Techonology.

8 Teodoro B. Montecillo
Independent Director

Teodoro B. Montecillo was appointed BDO's Independent Director in August 2004. He is also currently an Independent Director of various companies and professional organizations. He was appointed member of the Monetary Board of Bangko Sentral (1996 to 2002), and Chairman of the Central Bank Board of Liquidators (1999 to 2002). He holds a Bachelor of Science in Education degree from University of the East, Bachelor of Science degree in Business Administration from the University of the Philippines and an MBA from Northwestern University, Chicago.

9 Josefina N. Tan
Director (until August 27, 2005)
Board Advisor

Josefina N. Tan holds a Bachelor of Arts degree in Communication Arts from Maryknoll College. She acquired her MBA from the Ateneo Graduate School of Business. Ms. Tan was formerly Executive Vice President of Far East Bank and Trust Company (1976 - 2000) and an Assistant Vice President at Associated Banking Corporation (1974 - 1976). She was also Chairperson and Registrar of the Department of Business Administration of Maryknoll College from 1971 to 1973 and Director of Research and Publications of Ateneo Graduate School of Business from 1969 to 1971. Presently, Ms. Tan is Vice Chairman of the Board of Trustees of Miriam College (formerly Maryknoll College). Ms. Tan joined BDO as Director on February 3, 2001.

10 Ismael M. Estella
Director

Ismael M. Estella, has served as a Director of the Bank since 1981. He is also presently a partner of Estella & Virtudazo Law Office and President of Olympia Philippines, Inc. He obtained his Bachelor of Laws degree from the Francisco Law School after completing his pre-law course at the Ateneo de Manila University.

11 Antonio C. Pacis
Director and Corporate Secretary

Antonio C. Pacis was elected as the bank's Corporate Secretary in March 2005. He currently holds various directorships in various companies. He was formerly the Corporate Secretary and a Director of Security Banking Corp. until 2004 and 2001, respectively. He holds a Bachelor's degree from Ateneo de Manila University. He also received his Bachelor of Laws from Ateneo de Manila University and obtained his Master of Laws at Harvard Law School.

12 Jose T. Sio
Board Advisor

Jose T. Sio was appointed to the Bank's Board by SM Investment Corporation. He is a certified public accountant and holds a Bachelor of Science degree in Commerce from the University of San Agustin. He obtained his MBA at the New York University.

He is currently connected with SM Investments Corp. as Second Executive Vice President and Chief Finance Officer and its various subsidiaries and affiliates as Director.

13 Christopher A. Bell-Knight
Independent Director

Christopher A. Bell-Knight, was appointed as Director of the Bank last May 2005. He was formerly a Director of Solidbank Corp. from 1990 to 1998 and Vice President and Country Head of the Bank of Nova Scotia. He has had over 40 years of banking experience in England, Canada and Asia. He studied at Frome Grammar School, Somerset, England.

Statement of Management Responsibility

The management of Banco de Oro Universal Bank is responsible for all information and representations contained in the financial -statements for the years ended December 31, 2005 and 2004. The financial statements have been prepared in conformity with generally accepted accounting principles 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 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 Board of Directors and stockholders, have examined the financial statements of the bank in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of -presentation upon completion of such examination, in the attached report to the stockholders.

Nestor V. Tan
President

Lucy C. Dy
Senior Vice President / Comptroller

Report of Independent Auditors

The Board of Directors and Stockholders
Banco de Oro Universal Bank

We have audited the accompanying consolidated statements of condition of Banco de Oro Universal Bank and subsidiaries and the statements of condition of Banco de Oro Universal Bank as of December 31, 2005 and 2004, and the related statements of income, changes in capital funds and cash flows for the years then ended. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards in the Philippines. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of Banco de Oro Universal Bank and subsidiaries and the financial position of Banco de Oro Universal Bank as of December 31, 2005 and 2004, and the results of their operations and their cash flows for the years then ended in accordance with generally accepted accounting principles in the Philippines.

PUNONGBAYAN & ARAULLO

By: **Francis B. Albalate**
Partner
CPA Reg. No. 0088499
TIN 120-319-015
PTR No. 4182114, January 4, 2006, Makati City
Partner SEC Accreditation No. 0104-A
BIR AN 08-002511-5-2005 (Dec. 27, 2005 to 2008)

March 25, 2006

Statements of Condition

December 31, 2005 and 2004
(Amounts In Thousands of Pesos)

	Notes	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT 2005	PARENT 2004
RESOURCES					
CASH AND OTHER CASH ITEMS	5	**P 6,621,220**	P 5,627,066	**P 6,620,667**	P 5,626,974
DUE FROM BANGKO SENTRAL NG PILIPINAS	5	**4,271,506**	1,971,323	**3,658,937**	1,741,549
DUE FROM OTHER BANKS	6	**5,134,339**	4,241,266	**3,865,194**	3,097,239
INVESTMENT SECURITIES					
Financial Assets at Fair Value Through Profit or Loss	7	**7,502,555**	13,967,120	**6,245,532**	12,211,480
Available-for-Sale Securities - net	8	**49,520,137**	37,152,275	**43,391,835**	34,223,905
Held-to-Maturity Investments - net	9	**31,041,642**	26,185,668	**28,407,386**	24,078,260
LOANS AND OTHER RECEIVABLES - Net	10	**104,114,877**	76,540,797	**104,337,382**	75,269,665
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	11	**1,723,771**	1,169,193	**1,632,769**	1,106,263
EQUITY INVESTMENTS - Net	12	**3,551,936**	1,602,312	**6,449,625**	4,477,953
REAL AND OTHER PROPERTIES ACQUIRED					
Non-current Assets Held For Sale		**3,454,997**	139,975	**3,454,997**	139,974
Investment Properties	13	**1,396,305**	4,970,114	**1,396,305**	4,970,114
OTHER RESOURCES - Net	14	**15,431,501**	6,056,992	**6,311,792**	5,929,105
TOTAL RESOURCES		**P 233,764,786**	P 179,624,101	**P 215,772,421**	P 172,872,481
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES	15				
Demand		**P 4,726,836**	P 3,620,643	**P 4,119,884**	P 3,127,348
Savings		**99,283,098**	77,675,373	**99,634,613**	77,856,358
Time		**55,656,189**	47,351,302	**52,437,039**	44,896,244
Total Deposit Liabilities		**159,666,123**	128,647,318	**156,191,536**	125,879,950
BILLS PAYABLE	16	**45,845,351**	28,607,299	**33,493,924**	26,207,102
DERIVATIVE LIABILITIES	7	**1,158,317**	616,393	**994,836**	332,557
OTHER LIABILITIES	17	**6,860,690**	5,094,921	**6,322,373**	4,890,808
Total Liabilities		**213,530,481**	162,965,931	**197,002,669**	157,310,417
CAPITAL FUNDS	18	**20,234,305**	16,658,170	**18,769,752**	15,562,064
TOTAL LIABILITIES AND CAPITAL FUNDS		**P 233,764,786**	P 179,624,101	**P 215,772,421**	P 172,872,481

See Notes to Financial Statements.

Statements of Income

For the Years Ended December 31, 2005 and 2004
(Amounts In Thousands of Pesos Except per Share Data)

	Notes	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT 2005	PARENT 2004
INTEREST INCOME ON					
Loans and Receivables		**P 7,267,168**	P 6,140,974	**P 7,033,709**	P 6,074,071
Investment Securities		**7,184,121**	4,694,303	**6,344,406**	4,171,076
Due from Other Banks		**257,405**	154,812	**219,589**	137,860
Others		**76,112**	157,483	**70,935**	72,829
		14,784,806	11,147,572	**13,668,639**	10,455,836
INTEREST EXPENSE ON					
Deposit Liabilities	15	**5,998,459**	4,702,297	**5,853,457**	4,598,718
Bills Payable and Others	16	**1,943,639**	1,484,261	**1,613,042**	1,410,367
		7,942,098	6,186,558	**7,466,499**	6,009,085
NET INTEREST INCOME		**6,842,708**	4,961,014	**6,202,140**	4,446,751
IMPAIRMENT LOSSES		**1,167,379**	783,555	**1,176,431**	950,210
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		**5,675,329**	4,177,459	**5,025,709**	3,496,541
OTHER INCOME					
Trading Gain		**1,575,117**	994,964	**1,446,700**	900,496
Service Charges and Fees		**1,499,830**	1,005,220	**991,141**	810,228
Trust Fees	22	**422,777**	375,516	**422,777**	375,516
Foreign Exchange Gain - net		**402,331**	331	**368,075**	-
Dividend Income		**-**	-	**367,750**	8,999
Miscellaneous - net	19	**48,753**	38,585	**131,716**	71,266
		3,948,808	2,414,616	**3,728,159**	2,166,505
OTHER EXPENSES					
Employee Benefits	20	**2,108,975**	1,680,008	**1,934,489**	1,541,205
Occupancy	27	**748,779**	576,636	**693,410**	538,327
Taxes and Licenses		**721,995**	419,715	**627,497**	369,347
Insurance		**282,429**	223,600	**282,408**	218,924
Documentary Stamps Used		**252,919**	128,828	**252,919**	128,828
Security, Clerical, Messengerial and Janitorial		**252,884**	209,515	**241,844**	200,790
Litigation/Assets Acquired		**240,489**	162,013	**239,286**	162,013
Information Technology		**181,450**	198,927	**181,451**	148,368
Foreign Exchange Loss - net		**-**	-	**-**	58,783
Others	19	**1,759,413**	1,059,329	**1,395,443**	871,916
		6,549,333	4,658,571	**5,848,747**	4,238,501
INCOME BEFORE TAX		**3,074,804**	1,933,504	**2,905,121**	1,424,545
TAX EXPENSE (INCOME)	21	**531,287**	(39,130)	**434,759**	(90,116)
NET INCOME		**P 2,543,517**	P 1,972,634	**P 2,470,362**	P 1,514,661
ATTRIBUTABLE TO:					
Equity holders of the parent		**P 2,586,191**	P 2,021,038		
Minority interest		**(42,674)**	(48,404)		
		P 2,543,517	P 1,972,634		
Earnings Per Share					
Basic	25	**P 2.76**	P 2.23	**P 2.64**	P 1.67
Diluted	25	**P 2.70**	P 2.16	**P 2.58**	P 1.62

See Notes to Financial Statements.

Statements of Changes in Capital Funds

For the Years Ended December 31, 2005 and 2004

(Amounts In Thousands of Pesos)

	Notes	CONSOLIDATED 2005	CONSOLIDATED 2004	PARENT 2005	PARENT 2004
CAPITAL STOCK	18				
Common Stock - P10 par value					
Authorized - 1,015,000,000 shares					
Issued and outstanding - 939,593,142 shares in 2005 and 908,189,550 shares in 2004					
Balance at beginning of year		**P 9,081,895**	P 9,081,895	**P 9,081,895**	P 9,081,895
Issuance of additional shares during the year		**314,036**	-	**314,036**	-
Balance at end of year		**9,395,931**	9,081,895	**9,395,931**	9,081,895
COMMON STOCK OPTION					
Balance at Beginning of Year					
As previously stated		**-**	-	**-**	-
Effects of transition to PFRS	2	**27,268**	27,268	**27,268**	27,268
As restated		**27,268**	27,268	**27,268**	27,268
Conversion of common stock option	16	**(13,634)**	-	**(13,634)**	-
Balance at End of Year		**13,634**	27,268	**13,634**	27,268
TREASURY SHARES - At Cost	2	**(31,967)**	(45,731)	**-**	-
ADDITIONAL PAID-IN CAPITAL					
Balance at Beginning of Year					
As previously stated		**4,418,063**	1,850,013	**4,418,063**	1,850,013
Effects of transition to PFRS	2	**(2,568,050)**	-	**(2,568,050)**	-
As restated		**1,850,013**	1,850,013	**1,850,013**	1,850,013
Additional Paid in Capital on Common Stock Subscription During the Year		**214,264**	-	**214,264**	-
Balance at End of Year		**2,064,277**	1,850,013	**2,064,277**	1,850,013
SURPLUS RESERVES					
Balance at Beginning of Year					
As previously stated		**104,063**	66,511	**104,063**	66,511
Effects of transition to PFRS	2	**5,143**	5,143	**-**	-
As restated		**109,206**	71,654	**104,063**	66,511
Transfer from Surplus Free		**31,662**	37,552	**31,661**	37,552
Balance at End of Year		**140,868**	109,206	**135,724**	104,063
SURPLUS FREE					
Balance at Beginning of Year					
As previously stated		**5,458,993**	3,934,970	**5,458,993**	3,934,970
Effects of transition to PFRS	2	**(103,237)**	(59,675)	**(1,214,235)**	(712,700)
As restated		**5,355,756**	3,875,295	**4,244,758**	3,222,270
Net Income		**2,543,517**	1,972,634	**2,470,362**	1,514,661
Cash Dividends	16, 18	**(611,549)**	(454,621)	**(611,550)**	(454,621)
Transfer to Surplus Reserves		**(31,662)**	(37,552)	**(31,661)**	(37,552)
Balance at End of Year		**7,256,062**	5,355,756	**6,071,909**	4,244,758
FAIR VALUE GAIN (LOSS) ON AVAILABLE-FOR-SALE SECURITIES					
Balance at Beginning of Year					
As previously stated		**(24,570)**	(33,664)	**(24,570)**	(33,664)
Effects of transition to PFRS	2	**333,168**	34,476	**278,637**	(7,085)
As restated		**308,598**	812	**254,067**	(40,749)
Recovery in Value of Securities		**1,158,411**	307,786	**834,210**	294,816
Balance at End of Year		**1,467,009**	308,598	**1,088,277**	254,067
MINORITY INTEREST					
Balance at Beginning of Year					
As previously stated		**-**	-	**-**	-
Effects of transition to PFRS	2	**(28,835)**	19,569	**-**	-
As restated		**(28,835)**	19,569	**-**	-
Share in net loss for the year		**(42,674)**	(48,404)	**-**	-
Balance at End of Year		**(71,509)**	(28,835)	**-**	-
TOTAL CAPITAL FUNDS		**P 20,234,305**	P 16,658,170	**P 18,769,752**	P 15,562,064
Net Gains Directly Recognized in Capital Funds		**P 1,158,411**	P 307,786	**P 834,210**	P 294,816

See Notes to Financial Statements.

Statements of Cash Flows

For the Years Ended December 31, 2005 and 2004

(Amounts In Thousands of Pesos)

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before tax	**P 3,074,804**	P 1,933,504	**P 2,905,121**	P 1,424,545
Adjustments for:				
Interest expense	**7,942,098**	6,186,558	**7,466,499**	6,009,085
Interest income	**(14,784,806)**	(11,147,572)	**(13,668,639)**	(10,455,836)
Fair value (gain) loss	**(809,767)**	495,315	**(641,908)**	167,477
Amortization of deferred charges	**5,286**	54,431	**5,286**	54,431
Equity in net loss of associates	**98,652**	51,913	**-**	-
Loss on sale of assets acquired	**63,346**	133,904	**63,346**	133,904
Depreciation and amortization	**228,533**	265,543	**295,466**	277,032
Operating loss before changes in operating resources and liabilities	**(4,181,854)**	(2,026,404)	**(3,574,829)**	(2,389,362)
Decrease (increase) in financial assets at fair value through profit or loss	**7,816,257**	(10,603,137)	**6,628,228**	2,799,020
Increase in loans and receivable	**(33,080,990)**	(5,726,706)	**(25,195,086)**	(15,540,582)
Decrease (increase) in non-current assets held for sale	**911,682**	(139,975)	**975,027**	(139,975)
Increase in investment properties	**(715,609)**	(651,166)	**(673,830)**	(385,212)
Decrease (increase) in other resources	**(156,697)**	65,390	**(115,791)**	(217,313)
Increase in deposit liabilities	**27,889,282**	25,126,296	**27,158,197**	23,750,246
Increase (decrease) in other liabilities	**822,718**	(1,693,850)	**1,223,854**	(728,116)
Cash generated from (used in) operations	**(695,211)**	4,350,448	**6,425,770**	7,148,706
Interest received	**14,499,088**	11,433,292	**13,267,443**	9,986,202
Interest paid	**(7,616,084)**	(6,186,558)	**(7,505,146)**	(6,224,546)
Cash paid for income tax	**(139,914)**	(213,865)	**(263,967)**	(195,905)
Net Cash From Operating Activities	**6,047,879**	9,383,317	**11,924,100**	10,714,457
CASH FLOWS FROM INVESTING ACTIVITIES				
Net acquisitions of bank premises, furniture, fixtures and equipment	**(826,337)**	(333,041)	**(811,396)**	(387,846)
Net proceeds from sale of property and equipment	**816**	4,648	**10,912**	919
Net additions to equity investments	**(2,048,276)**	(20,797)	**(1,971,672)**	(15,000)
Net decrease (increase) in held-to-maturity investments	**(4,914,218)**	17,594,883	**(4,329,127)**	16,656,219
Net increase in available-for-sale financial assets	**(11,251,812)**	(27,739,392)	**(8,333,720)**	(25,914,493)
Net Cash Used in Investing Activities	**(19,039,827)**	(10,493,699)	**(15,435,003)**	(9,660,201)
CASH FLOWS FROM FINANCING ACTIVITIES				
Net proceeds from bills payable	**17,777,143**	4,602,417	**7,801,489**	2,772,772
Sale (acquisition) of treasury stock	**13,764**	(45,731)	**-**	-
Dividends paid	**(611,549)**	(454,621)	**(611,550)**	(1,167,321)
Net Cash From Financing Activities	**17,179,358**	4,102,065	**7,189,939**	1,605,451
NET INCREASE IN CASH AND CASH EQUIVALENTS	**4,187,410**	2,991,683	**3,679,036**	2,659,707
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	**5,627,066**	3,249,916	**5,626,974**	3,249,915
Due from Bangko Sentral ng Pilipinas	**1,971,323**	1,991,978	**1,741,549**	1,788,248
Due from other banks	**4,241,266**	3,606,078	**3,097,239**	2,767,892
	11,839,655	8,847,972	**10,465,762**	7,806,055
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	**6,621,220**	5,627,066	**6,620,667**	5,626,974
Due from Bangko Sentral ng Pilipinas	**4,271,506**	1,971,323	**3,658,937**	1,741,549
Due from other banks	**5,134,339**	4,241,266	**3,865,194**	3,097,239
	P 16,027,065	P 11,839,655	**P 14,144,798**	P 10,465,762

Supplemental Information on Noncash Financing and Investing Activities

The following are the significant noncash transactions in 2005:

a. On May 6, 2005, the Bank acquired certain assets totalling P8,469,410 and assumed certain liabilities totalling P8,469,410 from United Overseas Bank Philippines for a total cash consideration of P600,000 resulting to the recognition of goodwill by the same amount. The total consideration was not yet paid as of December 31, 2005.

b. In compliance with the new accounting standards, the Group reclassified real and other properties acquired into available-for-sale financial assets, non-current assets held for sale and investment properties while accrued interest receivable and payable are now part of the balances of the related principal accounts.

See Notes to Financial Statements.

Notes to Financial Statements

December 31, 2005 and 2004

(Amounts in Thousands of Pesos Except Per Share Data)

1. CORPORATE INFORMATION

Banco de Oro Universal Bank (the "Bank") was incorporated in the Philippines on August 16, 1967 to engage in the business of banking. It was authorized to engage in trust operations on September 18, 1987 and in foreign currency deposit operations on November 23, 1990. On August 5, 1996, the Bangko Sentral ng Pilipinas (BSP) granted approval to the Bank to operate as an expanded commercial bank. The Bank commenced operations as such in September of the same year. At the end of 2005, the Bank has 185 branches, and 164 on-site and 235 off-site automated teller machines, all located nationwide.

The Bank has nine subsidiaries engaged in allied undertakings, namely:

Subsidiary	Nature of Business
BDO Capital & Investment Corporation (BDO Capital) – 100% owned	Investment house
BDO Private Bank, Inc. – 100% owned (BDO Private Bank)	Commercial bank
BDO Financial Services, Inc. (BDO Financial) – 100% owned	Foreign exchange dealer
BDO Realty Corporation (BDO Realty) – 100% owned	Real estate
BDO Insurance Brokers, Inc. (BDO Insurance) – 100% owned	Insurance broker
BDO Card Corporation (BDO Card) – approximately 60% owned	Credit card
Onshore Strategic Assets, Inc. (Onshore) – 100% owned	Asset management
BDO Securities Corporation (BDO Securities) – 100% owned subsidiary of BDO Capital	Stock broker
BDO Remittance Limited (BDO Remittance) – 100% owned subsidiary of BDO Financial	Remittance

The Bank's registered address is at 12 ADB Avenue, Benguet Center, Ortigas Center, Mandaluyong City.

The Bank and its subsidiaries (the "Group"), except for BDO Remittance which operates in Hongkong, operate within the Philippines.

The Bank's common shares are listed in the Philippine Stock Exchange (PSE).

The consolidated financial statements of the Bank and its subsidiaries and the financial statements of the Bank for the year ended December 31, 2005 (including the comparatives for the year ended December 31, 2004) were authorized for issue by the Bank's Board of Directors through its Audit Committee on March 25, 2006.

2. TRANSITION TO PHILIPPINE FINANCIAL REPORTING STANDARDS

The Accounting Standards Council (ASC), the accounting standards-setting body in the Philippines, started a program in 1997 to move fully to the International Accounting Standards (IASs) issued by the then International Accounting Standards Committee (IASC). In April 2001, IASC was succeeded by the International Accounting Standards Board (IASB) which since then has issued revised IASs and new International Financial Reporting Standards (IFRSs).

To correspond better with the issuances of the IASB, the ASC re-named the Standards it issues as Philippine Financial Reporting Standards or PFRSs (previously referred to as Statements of Financial Accounting Standards or SFASs). PFRSs consist of:

a. PFRSs (corresponding to IFRSs);
b. Philippine Accounting Standards or PASs (corresponding to IASs); and,
c. Interpretations (corresponding to IFRICs and SICs).

In compliance with the pronouncements of ASC and regulations of the Securities and Exchange Commission (SEC) and the BSP, the Group has adopted PFRS for the first time in its financial statements for the year ended December 31, 2005, with January 1, 2004 as its transition date. The transition from previous generally accepted accounting principles (GAAP) in the Philippines to PFRS has been made in accordance with PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards.*

The Group's financial statements for 2005 and the comparatives presented for 2004 comply with all presentation and disclosure requirements of the relevant PFRSs applicable for accounting periods commencing on or after January 1, 2005.

Due to the transition to PFRS, the 2004 comparatives contained in these financial statements differ from those previously presented in the financial statements for the year ended December 31, 2004.

The following reconciliations and explanatory notes thereto describe the effects of the transition on the Group's opening PFRS statement of condition as of January 1, 2004 and for the financial year 2004. All explanations should be read in conjunction with the PFRSs accounting policies of the Group as disclosed in Note 3.

Adjustments on the comparatives prepared for the year ended December 31, 2005 and 2004 on the preferred shares and additional paid-in capital were necessary to comply with the provisions of PAS 32, *Financial Instruments: Disclosure and Presentation* and PAS 39*, Financial Instruments: Recognition and Measurement.*

2.1 Reconciliations

a. The reconciliation of the capital funds reported under previous GAAP to capital funds under PFRS are summarized as follows:

		CONSOLIDATED		PARENT	
	Notes	December 31, 2004	January 1, 2004	December 31, 2004	January 1, 2004
Capital Stock under previous GAAP		**P 9,331,895**	**P 9,081,895**	**P 9,331,895**	**P 9,081,895**
Reclassification of mandatory redeemable preferred shares to bills payable	2.2, 2.3	(250,000)	-	(250,000)	-
Capital Stock under PFRS		**9,081,895**	**9,081,895**	**9,081,895**	**9,081,895**
Common Stock Option under previous GAAP		-	-	-	-
Segregation of equity portion of convertible unsecured subordinated debt	2.4	27,268	27,268	27,268	27,268
Common Stock Option under PFRS		27,268	27,268	27,268	27,268
Additional Paid-in Capital under previous GAAP		**4,418,063**	**1,850,013**	**4,418,063**	**1,850,013**
Reclassification of premium on issuance of mandatory redeemable preferred shares to bills payable	2.2, 2.3	(2,568,050)	-	(2,568,050)	-
Additional Paid-in Capital under PFRS		**1,850,013**	**1,850,013**	**1,850,013**	**1,850,013**
Treasury Shares under previous GAAP		-	-	-	-
Recognition as treasury shares Bank shares held by a subsidiary	2.5	(45,731)	-	-	-
Treasury Shares under PFRS		**(45,731)**	**-**	**-**	**-**
Fair Value Gain (Loss) on Available-for-Sale Securities under previous GAAP		**(24,570)**	(33,664)	**(24,570)**	(33,664)
Reversal of fair value gain of an investee accounted for at cost	2.6	-	-	7,172	5,069
Recognition of permanent impairment of available-for-sale financial assets	2.9	2,230	2,120	-	-
Fair value change related to reclassification of held-to-maturity investments to to available-for-sale securities	2.7	330,938	32,356	271,465	(12,154)
Total adjustments to fair value gain (loss) on available-for-sale securities		333,168	34,476	278,637	(7,085)
Fair Value Gain (Loss) of Available-for-Sale Securities under PFRS		**308,598**	**812**	**254,067**	**(40,749)**
Equity Share in Reserve for Foreign Exchange Fluctuation of an Investee under previous GAAP		**6,536**	4,418	**6,536**	4,418
Reversal due to application of PAS 39	2.6	(6,536)	(4,418)	(6,536)	(4,418)
Equity Share in Reserve for Foreign Exchange Fluctuation of an Investee under PFRS		**P -**	**P -**	**P -**	**P -**

	Notes	CONSOLIDATED December 31, 2004	CONSOLIDATED January 1, 2004	PARENT December 31, 2004	PARENT January 1, 2004
Surplus reserves under previous GAAP		P 104,063	P 66,511	P 104,063	P 66,511
Appropriation for general banking risk	2.12	5,143	5,143	-	-
Surplus reserves under PFRS		**109,206**	**71,654**	**104,063**	66,511
Minority interest under previous GAAP		-	-	-	-
Recognition of minority interest during the year	2.2	(28,835)	19,569	-	-
Minority interest under PFRS		**(28,835)**	**19,569**	-	-
Surplus Free under previous GAAP		**5,458,993**	**3,934,970**	**5,458,993**	**3,934,970**
Reversal of equity in net earnings of subsidiaries and associates	2.6	-	-	(1,057,517)	(734,291)
Recognition of dividends from equity investments as income	2.6	-	-	34,499	25,500
Recognition of impairment on equity investments	2.6	-	-	(207,186)	-
Recognition of dividends on preferred shares as interest expense	2.3	(37,589)	-	(37,589)	-
Recognition of transitional asset (liability) and reduction (increase) in defined benefit expense	2.16	157,744	3,394	158,661	(191)
Recognition of impairment loss on available-for-sale financial assets	2.9	(2,230)	(2,120)	-	-
Amortization of discount on IFC Loan	2.4	(9,048)	(3,718)	(9,048)	(3,718)
Adjustment on the amortization of auto loans	2.8	(2,719)	-	(2,719)	-
Adjustment on the amortization of investments from straight line method to effective interest method	2.8	(20,484)	-	(20,484)	-
Adjustment on the amortization of transaction costs on the issuance of Senior Notes	2.8	2,632	-	2,632	-
Recognition of embedded credit default swaps	2.10	(43,585)	-	-	-
Reversal of amortization of trading right	2.13	264	-	-	-
Recognition of previously unrecognized results of operations of BDO Remittance	2.14	(22,276)	-	-	-
Revaluation of derivatives	2.11	(16,290)	(88,084)	-	-
Reversal of allowance on ROPA	2.15	605,264	742,090	605,264	742,090
Depreciation on investment properties	2.15	(265,543)	(174,444)	(265,543)	(174,444)
Impairment loss on investment properties and non-current assets held for sale	2.15	(339,721)	(567,646)	(339,721)	(567,646)
Reversal of allowance for general loan losses	2.12	5,143	5,143	-	-
Appropriation for general banking risk	2.12	(5,143)	(5,143)	-	-
Derecognition of deferred tax assets	2.17	(109,656)	30,853	(75,484)	-
Total adjustments to surplus free		(103,237)	(59,675)	(1,214,235)	(712,700)
Surplus Free under PFRS		**5,355,756**	**3,875,295**	**4,244,758**	**3,222,270**
Total adjustments to Capital Funds		(2,636,810)	22,363	(3,732,916)	(696,935)
Capital Funds under previous GAAP		19,294,980	14,904,143	19,294,980	14,904,143
Capital Funds under PFRS		**P 16,658,170**	**P 14,926,506**	**P 15,562,064**	**P 14,207,208**

b. The re-measurement of statement of condition items at the opening PFRS statement of condition and as of January 1, 2004 and comparative financial year as of December 31, 2004 are summarized as follows:

		Consolidated			Parent		
	Notes	Previous GAAP	Effects of Transition	PFRS	Previous GAAP	Effects of Transition	PFRS
January 1, 2004							
Changes in resources:							
Interbank loans receivable	2.2	P 14,677,943	(P 14,677,943)	P -	P 14,677,943	(P14,677,943)	P -
Trading and available-for-sale securities	2.2	9,028,260	(9,028,260)	-	7,076,833	(7,076,833)	-
Investments in bonds and other debt instruments	2.2, 2.7	43,726,725	(43,726,725)	-	40,734,479	(40,734,479)	-
Financial assets at fair value through profit or loss	2.2, 2.7	-	5,932,143	5,932,143	-	5,072,172	5,072,172
Available-for-sale securities	2.2, 2.7, 2.9, 2.11, 2.15	-	2,417,780	2,417,780	-	2,187,886	2,187,886
Held-to-maturity investments	2.2, 2.7	-	44,495,743	44,495,743	-	41,539,913	41,539,913
Receivables from customers – net	2.2	56,194,392	(56,194,392)	-	56,546,905	(56,546,905)	-
Loans and other receivables	2.2, 2.11, 2.12	-	74,048,822	74,048,822	-	75,030,802	75,030,802
Equity investments – net	2.6	1,633,428	(4,418)	1,629,010	5,118,317	(713,209)	4,405,108
ROPA	2.2, 2.15	4,623,013	(4,623,013)	-	4,605,836	(4,605,836)	-
Non-current assets held for sale	2.2, 2.15	-	125,198	125,198	-	120,898	120,898
Investment properties	2.2, 2.15	-	4,445,424	4,445,424	-	4,292,730	4,292,730
Other resources	2.2, 2.15	9,293,912	(3,231,113)	6,062,799	8,813,239	(4,609,490)	4,203,749
		139,177,673	(20,754)	139,156,919	137,573,552	(720,294)	136,853,258
Changes in liabilities:							
Deposit liabilities	2.2	102,925,407	906,763	103,832,170	101,630,707	887,418	102,518,125
Bills payable	2.2, 2.3, 2.4	24,007,724	1,309,471	25,317,195	23,453,728	1,316,513	24,770,241
Accrued interest, taxes and other expenses	2.2	1,401,205	(1,401,205)	-	1,258,477	(1,258,477)	-
Other liabilities	2.2	5,761,870	(858,146)	4,903,724	6,292,298	(964,813)	5,327,485
		P 5,081,467		**P 5,103,830**	**P 4,934,342**		**P 4,273,407**
Total adjustments to capital funds			**P 22,363**			**(P 696,935)**	
December 31, 2004							
Changes in resources:							
Interbank loans receivable	2.2	P 10,253,376	(P 10,253,376)	P -	P 11,379,978	(P11,379,978)	P -
Trading and available-for-sale securities	2.2, 2.5	21,199,470	(21,199,470)	-	17,486,792	(17,486,792)	-
Investments in bonds and other debt instruments	2.2, 2.7	56,394,989	(56,394,989)	-	52,341,567	(52,341,567)	-
Financial assets at fair value through profit or loss	2.2, 2.5, 2.7	-	13,967,120	13,967,120	-	12,211,480	12,211,480
Available-for-sale securities	2.2, 2.7, 2.9 2.11, 2.15	-	37,152,275	37,152,275	-	34,223,905	34,223,905
Held-to-maturity investments	2.2, 2.7, 2.8	-	26,185,668	26,185,668	-	24,078,260	24,078,260
Receivables from customers – net	2.2	60,022,423	(60,022,423)	-	59,712,852	(59,712,852)	-
Loans and other receivables - net	2.2, 2.8, 2.11, 2.12	-	76,540,797	76,540,797	-	75,269,665	75,269,665
Equity investments – net	2.6	1,608,530	(6,218)	1,602,312	5,752,475	(1,274,522)	4,477,953
ROPA	2.2, 2.15	5,349,804	(5,349,804)	-	5,332,628	(5,332,628)	-
Non-current assets held for sale	2.2, 2.15	-	139,975	139,975	-	139,974	139,974
Investment properties	2.2, 2.15	-	4,970,114	4,970,114	-	4,970,114	4,970,114
Other resources	2.2, 2.13, 2.15	11,309,962	(5,252,970)	6,056,992	9,906,449	(3,977,344)	5,929,105
		166,138,554	476,699	166,615,253	161,912,741	(612,285)	161,300,456
Changes in liabilities:							
Deposit liabilities	2.2	128,051,703	595,615	128,647,318	125,380,953	498,997	125,879,950
Bills payable	2.2, 2.3, 2.4 2.8	24,424,524	4,182,775	28,607,299	22,040,911	4,166,191	26,207,102
Accrued interest, taxes and other expenses	2.2	1,440,559	(1,440,559)	-	1,104,491	(1,104,491)	-
Derivative liabilities	2.2, 2.10	-	616,393	616,393	-	332,557	332,557
Other liabilities	2.2	5,935,636	(840,715)	5,094,921	5,663,431	(772,623)	4,890,808
		P 6,286,132		**P 3,649,322**	**P 7,722,955**		**P 3,990,039**
Total adjustments to capital funds			**(P2,636,810)**			**(P3,732,916)**	

c. Profit and loss reported under Philippine GAAP for the year ended December 31, 2004 is reconciled to profit and loss under PFRS as follows:

	Notes	Consolidated Previous GAAP	Consolidated Effects of Transition	Consolidated PFRS	Parent Previous GAAP	Parent Effects of Transition	Parent PFRS
Interest income	2.8	P 11,171,026	(P 23,454)	P 11,147,572	P 10,479,039	(P 23,203)	P 10,455,836
Interest expense	2.3, 2.4, 2.8	(6,146,797)	39,761	(6,186,558)	(5,969,324)	39,761	(6,009,085)
Net interest income before impairment loss		5,024,229	(63,215)	4,961,014	4,509,715	(62,964)	(4,446,751)
Impairment loss	2.6, 2.9	(746,613)	(36,942)	(783,555)	(743,024)	(207,186)	(950,210)
Net interest income after impairment loss		**4,277,616**	**(100,157)**	**4,177,459**	**3,766,691**	**(270,150)**	**3,496,541**
Other income	2.10, 2.11	2,566,079	(151,463)	2,414,616	2,546,906	(380,401)	2,166,505
Other expenses	2.15, 2.16	(4,885,763)	227,192	4,658,571	(4,397,354)	158,853	(4,238,501)
Income before tax	2.17	1,957,932	(24,428)	1,933,504	1,916,243	(491,698)	1,424,545
Tax income		(57,738)	18,608	(39,130)	99,427	(9,311)	90,116
Net income for the year		**P 2,015,670**	**(P 43,036)**	**P 1,972,634**	**P 2,015,670**	**(P 501,009)**	**P 1,514,661**

2.2 Revised Structure of Statement of Condition and Statement of Income

The Group has modified its former statement of condition and statement of income structure on transition to PFRS. The main changes are summarized as follows:

a. Interbank loans receivable are now shown as part of loans and other receivables;
b. Assets classified as trading account securities under the previous GAAP are now presented under a separate statement of condition line item Financial Assets at Fair Value through Profit or Loss;
c. Assets classified as Investments in Bonds and Other Debt Instruments under previous GAAP are presented as Held-to-maturity Investments;
d. Assets foreclosed by the Group from borrowers were reclassified from Real and Other Properties Acquired (ROPA) as presented under previous GAAP to the separate statement of condition line items as Investment Properties, Non-current Assets Held for Sale and Available-for-Sale Securities;
e. Accounts receivable and other receivables presented as part of Other Resources account under the previous GAAP now forms part of the Loans and Other Receivables account;
f. Accrued interest receivables and payables previously presented as part of Other Resources and Other Liabilities, respectively, are now presented as part of the related principal accounts;
g. In the consolidated financial statements, minority interest for the equity share of the minority stockholder of a subsidiary previously deducted from Other Resources is now presented as part of Capital Funds;
h. Fair value measurement of derivatives shall be presented under Financial Assets at Fair Value through Profit or Loss if the fair values are positive and under Derivative Liabilities if the fair values are negative rather than shown net under Other Resources or Other Liabilities accounts; and
i. Preferred shares and the related additional paid-in capital previously presented as part of the capital funds under the previous GAAP are now presented as part of bills payable. Cumulative dividends declared and not declared were recognized as interest expense and unpaid portion presented as part of bills payable.

2.3 Reclassification of Mandatory Redeemable Preferred Shares to Financial Liability

Under previous GAAP, subscription of preferred shares is recorded as part of capital funds with the excess over the par value recorded as additional paid-in capital. Under PFRS, mandatory redeemable preferred shares should be recognized as financial liability and any dividends paid are recognized as interest expense. Accordingly, the Bank reclassified the mandatory redeemable preferred shares issued in 2004 to SM Prime Holdings, Inc. with total par value of P250,000 and the related additional paid-in capital amounting to P2,568,050 to financial liability as part of Bills Payable. In addition, the related dividends amounting to P37,589 are now recognized as part of interest expense in the 2004 statement of income.

2.4 Separation of the Liability and Equity Components of Convertible Loan and Amortization of the Related Loan

The Bank has a US$20,000 convertible loan with the International Finance Corporation (IFC) which can be converted at the option of IFC to common stock starting two years after the date of the loan agreement. Under previous GAAP, the nominal value of the loan is recorded as financial liability while the value of the option to convert is not recognized.

Under PFRS, compound financial instrument should be separated for its liability and equity components. Accordingly, the Bank separated the liability and equity components of the IFC loan and recognized stock option outstanding presented as part of capital funds amounting to P27,268 as of January 1, 2004 and December 31, 2004 and reduced the balance of the liability by the same amount. Subsequently, the liability component is amortized using the effective interest method over the expected life of the loan assuming IFC will not opt to convert. The amortization resulted to the increase in interest expense by P3,718 and P5,330 as of January 1, 2004 and December 31, 2004,respectively, and increased the balance of liability to P1,103,270 and P1,108,600 as of January 1, 2004 and December 31, 2004, respectively. The adjustment also resulted to the decrease in the balance of surplus free by P3,718 and P9,048 as of January 1, 2004 and December 31, 2004, respectively.

Moreover, the interest paid on IFC loan is segregated into interest expense for the liability component and dividends for the equity component. Accordingly, the interest expense was reduced by P526 in the 2004 statement of income and recognized as dividends directly charged to Surplus Free. This PFRS adjustment has no impact in the Surplus Free account under previous GAAP and under PFRS.

2.5 Recognition as Treasury Shares the Bank's Common Stock Held by a Subsidiary

Under the previous GAAP, the shares of stock of the Bank held by a subsidiary, where the intention of the subsidiary is to hold the shares for trading, was accounted for as trading account securities in the statements of condition instead of treasury shares in the consolidated financial statements. Under PFRS, the shares of stock of the Bank should be accounted for as treasury stock in the consolidated statements of condition. Accordingly, in the consolidated financial statements, this resulted to the recognition of treasury shares in 2004 amounting to P45,731 representing the acquisition cost of the unsold shares of stock of the Bank held by the subsidiary. No adjustment in the opening PFRS statement of condition has been made since there was no outstanding shares of the Bank held by a subsidiary as of transition date.

2.6 Remeasurement of Investments in Subsidiaries and Associates at Cost, Recognition of Dividend Income and Test of Impairment of Investments

Under the previous GAAP in the parent company financial statements, investments in subsidiaries and associates were accounted for at cost, plus the Bank's equity in net earnings or losses and other changes in its share in net assets of the investees from date of acquisition, less any impairment in value. These investments are now accounted for by the Bank at cost in the parent company financial statements as allowed under PFRS. This resulted in the reversal of the previously recognized equity in net earnings of the subsidiaries and associates against the Bank's surplus free as of January 1, 2004 and December 31, 2004 amounting to P734,291 and P1,057,517, respectively. This also reduced the reported net income in 2004 by P323,226.

Also under previous GAAP in the parent company financial statements, the Bank recognizes its proportionate share on the fair value gain or loss directly recognized to capital funds in the books of its subsidiaries and associates. Under PFRS, the Bank's investments in subsidiaries and associates should be accounted for at cost. Accordingly, the equity share on the fair value loss recognized in the books of its subsidiaries and associates that were also taken up by the Bank in its books amounting to P5,069 and P7,172 as of January 1, 2004 and December 31, 2004, respectively, were reversed by the Bank. Moreover, the Bank also recognized equity share in reserve for foreign exchange fluctuation recognized directly to capital funds in the books of its subsidiaries. Accordingly, such equity share in reserve for foreign fluctuation carried directly to capital funds in the books of its subsidiaries amounting to P4,418 and P6,536 as of January 1, 2004 and December 31, 2004, respectively, was reversed both in the parent company and consolidated financial statements.

Under the previous GAAP, dividends declared by the subsidiaries and associates are recognized as return of investments and deducted from the carrying amount of investments in the parent company financial statements. Under PFRS, in the parent company financial statements of the Bank, dividends received from the subsidiaries and associates are recognized as dividend income. Accordingly, the Bank recognized P34,499 and P25,500 for the dividends declared by certain subsidiaries in December 31, 2004 and January 1, 2004, respectively. This also increased the reported net income in 2004 by P8,999.

In the parent company financial statements, investments in subsidiaries and associates under PFRS are carried at cost less impairment losses, if any. The Bank is required to test for impairment if there is an indication that the carrying amount of the Bank's investment is impaired. Accordingly, the Bank recognized impairment amounting to P207,186 in 2004 as a result of the decline in value of an associate. The carrying amount of investment was reduced by P207,186 and the surplus free was reduced by the same amount.

2.7 Mark-to-Market Valuation of Available-for-Sale Financial Assets Previously Classified as Held-to-Maturity

The Group reclassified a portion of its held-to-maturity investments as available-for-sale as allowed under PAS 39 and by BSP to designate its financial assets on the initial adoption of PFRS. Accordingly, these investments were re-measured at mark-to-market with changes directly recognized to capital funds under Fair Value Gain (Loss) of Available-for-Sale Financial Asset account. The re-measurement of Available-For-Sale Financial Assets resulted to a loss of P12,154 as of January 1, 2004 and gain of P271,465 as of December 31, 2004 in the parent company financial statements and a gain of P32,356 as of January 1, 2004 and P330,938 as of December 31, 2004 in the consolidated financial statements.

2.8 Remeasurement of Certain Financial Assets Using the Effective Interest Method

Under the previous GAAP, the Group's held-to-maturity investments previously classified as investments in bonds and other debt instruments were amortized using the straight-line method of accounting. Under PFRS, the Bank shall use the effective interest method in calculating the amortized cost and in allocating the related interest income over the relevant period covered. This resulted to the decrease in interest income amounting to P20,484 for the year ended December 31, 2004 and decline in the balance of held-to-maturity investments by P20,484 as of December 31, 2004 both in the parent company and consolidated financial statements. The Bank did not adjust the opening PFRS statement of condition as of January 1, 2004 as it is impracticable to determine the effect as of January 1, 2004 due to system limitation.

Also, under the previous GAAP, certain consumer loans of the Bank (e.g., auto loans) were amortized using the rule of 78 method. Under the PFRS, the Group shall use the effective interest method in calculating the amortized cost and in allocating the related interest income over the relevant period covered. This resulted to the decrease in interest income amounting to P2,719 for the year ended December 31, 2004 and decrease in the balance of loans and receivables by P2,719 as of December 31, 2004 both in the parent company and consolidated financial statements. The Bank did not adjust the opening PFRS statement of condition as of January 1, 2004 due to immateriality of the relevant outstanding consumer loans at such date.

Also, under the previous GAAP, transaction costs incurred on the issuance of Senior Notes were amortized on the straight-line basis. Under the PFRS, the Bank shall use the effective interest method in amortizing transaction costs. Accordingly, this resulted to the decrease in interest expense amounting to P2,632 for the year ended December 31, 2004 and increase in the balance of Bills Payable for Senior Notes by P2,632 as of December 31, 2004 both in the parent company and consolidated financial statements. The Bank did not adjust the opening PFRS statement of condition as of January 1, 2004 due to immateriality of the amount involved.

2.9 Impairment of Investment in Shares

Under the previous GAAP, the decline in value of the Group's investment in club shares designated as available-for-sale financial assets recorded as part of Other Non-current Assets, was reported as a direct reduction to capital funds. Under PFRS, however, any decline in value of available-for-sale financial assets, which are deemed as other-than-temporary, are recognized in profit or loss. Thus, in the consolidated financial statements, the beginning balance of Fair Value Gain (Loss) of Available-for-Sale Financial Assets (previously presented as net unrealized decline in value of available-for-sale financial assets) in 2004 amounting to P2,120, previously reported as a component of capital funds in the 2004 statement of changes in capital funds, was charged against Surplus Free in the Group's opening PFRS financial statements. Additional impairment of P110 incurred in 2004 was likewise reclassified and charged to Other Operating Expenses account in the 2004 statement of income in the consolidated financial statements. In the consolidated financial statements, total adjustments in the beginning Surplus Free as of December 31, 2004 amounted to P2,230.

2.10 Revaluation of Derivatives

Under previous accounting practice, amounts contracted for derivatives are recorded as contingent accounts and are not included in the statements of condition. Unrealized gains and losses on forward contracts designated as hedges are deferred and recognized as income or expense over the term of the contract. Realized gains and losses on contracts that are not designated as hedges are credited or charged to current operations. Under PFRS, derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when fair value is negative.

In the consolidated financial statements, this resulted in the recognition of P43,585 losses from the revaluation of the Group's derivatives as of December 31, 2004. These were recorded as part of Trading Gain account in the statements of income. As of January 1, 2004, these derivatives (foreign currency forwards) qualified for hedge accounting and had the approval of the BSP to apply hedge accounting. Accordingly, no adjustment on revaluation of derivatives was made as of January 1, 2004.

2.11 Recognition and Fair Value Measurement of Embedded Derivatives

Under PFRS, derivatives embedded in other financial instruments are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with changes in fair value recognized in the statements of income.

Credit default swaps embedded in the credit linked notes (shown as part of Available-for-Sale Financial Assets account) or credit linked deposits (shown as part of Interbank Loans Receivable under Loans and Other Receivables account) qualified to be bifurcated and recognized as separate derivatives. In the consolidated financial statements, this resulted in the recognition of losses on changes in fair value amounting to P88,084 in the January 1, 2004 opening PFRS statement of condition and loss on changes in fair value amounting to P16,290 as of December 31, 2004. This resulted to gain on change in fair value amounting to P71,794 in the 2004 statement of income.

2.12 Appropriation for General Loan Losses

As required under PAS 30, banks and similar financial institutions are required to record any amount set-up as general provision for loan losses as an appropriation of Surplus Free rather than as part of profit or loss. Accordingly, the allowance for probable losses of a subsidiary amounting to P5,143 both as of December 31, 2004 and January 1, 2004 have been reversed and recognized as appropriation for loan losses presented under Surplus Reserves account in the statements of changes in capital funds in the consolidated financial statements.

2.13 Classification and Measurement of Intangible Asset with Indefinite Useful Life

As a result of the adoption of PAS 38, Intangibles Assets, the trading right of a subsidiary was presented as intangibles under Other Resources in the statements of condition in the consolidated financial statements. Also, the Group assessed that the life of the trading right is indefinite as long as the subsidiary continues on its trading activities, thus, the trading right is carried at cost less impairment losses, if any. Accordingly, the amortization amounting to P264 charged in 2004 was reversed in the consolidated financial statements.

2.14 Recognition of Previously Unrecognized Results of Operations of BDO Remittance

The Group did not recognize income or loss of BDO Remittance starting from the time the Group acquired control over the operating and financial decision of BDO Remittance as the acquisition was completed near the statement of condition date. Under PFRS, business acquisition should be accounted for under purchase method and the Group should recognize income or loss from a subsidiary from the time of acquisition. Accordingly, the Group recognized the results of operations of BDO Remittance in 2004 starting from the time the Group had significant control on the operations of BDO Remittance. Total loss recognized in 2004 amounted to P22,276 in the consolidated financial statements.

2.15 Classification of Real and Other Properties Acquired, Reversal of Allowance on ROPA and Measurement of Investment Properties and Non-current Assets Held for Sale

Under the previous GAAP, real and other properties acquired from borrowers through foreclosure or repossession are stated at cost (which is the lower of the outstanding loan balance and bid price), less allowance for impairment. Under PFRS, the Group is required to classify its ROPA into the following: investment property, non-current assets held for sale or financial assets. ROPA classified as investment property is carried at cost less accumulated depreciation while non-current assets held for sale is carried at the lower of cost or fair value less costs to sell. As a result of the adoption of the new standard, the Bank classified its ROPA as of January 1, 2004 and December 31, 2004 to investment properties, non-current assets held for sale, available-for-sale financial assets and other resources (for personal properties not saleable within one year). Moreover, previous allowance on ROPA amounting to P742,090 and P605,264 as of January 1, 2004 and December 31, 2004, respectively, both in the parent company and consolidated financial statements was reversed.

With regard to investment property, the Group adopted the cost model and recognized cumulative depreciation on depreciable investment properties amounting to P174,444 and P265,543 as of January 1, 2004 and December 31, 2004, respectively, both in the parent company and consolidated financial statements. In addition, the Bank recognized impairment on investment properties amounting to P567,646 and P329,140 as of January 1, 2004 and December 31, 2004, respectively, both in the parent company and consolidated financial statements.

On the other hand, non-current assets held for sale are measured at the lower of their carrying amount and fair value less costs to sell. Accordingly, the Bank recognized impairment loss due to the decline in the fair value of non-current assets held for sale amounting to P10,581 as of December 31, 2004 both in the parent company and consolidated financial statements.

2.16 Full Recognition of Defined Benefit Obligation

Under PFRS, the Group's obligation under post-employment defined benefit plan should be determined using projected unit credit method. The adoption of this new standard resulted in the recognition of transitional liability amounting to P191 in the parent company financial statements and net additional transitional asset amounting to P3,394 in the consolidated financial statements as of January 1, 2004 after considering the previously set-up accrued retirement liability. This transitional asset was recognized retrospectively in the Group's opening PFRS statement of condition. This also resulted in the reversal of excess defined benefit expense in 2004 amounting to P158,852 in the parent company financial statements and P154,330 in the consolidated financial statements and recognition of transitional asset amounting to P4,198 in the parent company financial statements and transitional liability amounting to P36,407 in the consolidated financial statements. The total adjustments resulted to increase of the surplus free account by P158,661 and decrease by P191 as of December 31, 2004 and January 1, 2004, respectively, in the parent company financial statements and increase by P157,744 and P3,394 as of January 1, 2005 and 2004, respectively, in the consolidated financial statements.

2.17 Deferred Tax Adjustments

The deferred tax expense recognized and reversed by the Group relates to derecognition of certain deferred tax assets totaling P75,484 in the parent company financial statements and P109,656 in the consolidated financial statements arising from net operating loss carryover and other temporary differences as of December 31, 2004, and reversal of deferred tax assets of P30,853 as of January 1, 2004 in the consolidated financial statements.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of Preparation

The financial statements of Banco de Oro Universal Bank and its subsidiaries have been prepared in accordance with generally accepted accounting principles in the Philippines as set forth in PFRSs.

The financial statements have been prepared on a historical cost basis, except for the valuation at fair value of certain financial assets. The measurement bases are more fully described in the accounting policies below.

Accounting estimates and assumptions are used in preparing the financial statements. Although these estimates are based on management's best knowledge of current events and actions, actual results may ultimately differ from those estimates.

The financial statements are presented in Philippine pesos, the Group's functional currency, and all values represent absolute amounts except when otherwise indicated.

3.2 Impact of New and Revised Accounting Standards Effective Subsequent to 2005

There are new and revised accounting standards, amendments and interpretations to existing standards that have been published by IASB and adopted by the ASC which are mandatory for accounting periods beginning on or after January 1, 2006. The applicable standards, which the Group has not opted to adopt early, are as follows:

<u>2006</u>		
PAS 19 (Amendment)	:	Employee Benefits
PAS 39 (Amendment)	:	Cash Flow Hedge Accounting of Forecast Intra-group Transaction
PAS 39 (Amendment)	:	The Fair Value Option
PAS 39 and PFRS 4 (Amendment)	:	Financial Guarantee Contracts
PFRS 1 (Amendment)	:	First-time Adoption of Philippine Financial Reporting Standards
IFRIC 4	:	Determination Whether an Arrangement Contains a Lease
IFRIC 6	:	Liabilities Arising from Participating in a Specific Market
<u>2007</u>		
PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures

The Group will apply the relevant new accounting standards in 2006 and 2007 in accordance with their transitional provisions. It is currently evaluating the impact of those standards on its financial statements and has initially determined that the following new standards may have significant effects on the financial statements for 2006, as well as for prior and future periods:

- PAS 19 (Amended), *Employee Benefits.* This amendment introduces the option of an alternative recognition approach for actuarial gains and losses. It may impose additional recognition requirements for multi-employer plans where insufficient information is available to apply defined benefit accounting. It also adds new disclosure requirements. As the Group does not intend to change the accounting policy adopted for recognition of actuarial gains and losses and does not participate in any multi-employer plans, adoption of this amendment will only impact the format and extent of disclosures presented in the accounts. The Group will apply this amendment from annual periods beginning January 1, 2006.

- PAS 39 (Amended), *Cash Flow Hedge Accounting of Forecast Intra-group Transactions.* The amendment allows the foreign currency risk of highly probable forecast intra-group transaction to qualify as a hedged item in the financial statements, provided that: (a) the transaction is denominated in a currency other than the functional currency of the entity entering into that transaction; and (b) the foreign currency risk will affect profit or loss. The Group is currently evaluating if this amendment will be relevant to its operations and reviewing if there are intra-group transactions that would qualify as hedged item in the financial statements as of December 31, 2005 and 2004.

- PAS 39 (Amended), *The Fair Value Option*. This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning January 1, 2006.

- PAS 39 and PFRS 4 (Amendment), *Financial Guarantee Contracts.* This amendment requires issued financial guarantees, other than those previously asserted by the entity to be insurance contracts, to be initially recognized at their fair value and subsequently measured at the higher of: (a) the unamortized balance of the related fees received and deferred, and (b) the expenditure required to settle the commitment at the statement of condition date. Management considered this amendment to PAS 39 and is currently evaluating the impact to the Group's financial statements.

- PFRS 7, *Financial Instruments: Disclosures* and complementary amendment to PAS 1. PFRS 7 introduces new disclosures to improve the information about financial instruments. It requires the disclosure of qualitative and quantitative information about exposure to risks arising from financial instruments, including specified minimum disclosures about credit risk, liquidity risk and market risk, including sensitivity analysis to market risk. It replaces PAS 30, Disclosures in the *Financial Statements of Banks and Similar Financial Institutions*, and disclosure requirements in PAS 32, *Financial Instruments: Disclosure and Presentation*. It is applicable to all entities that report under PFRS. The amendment to PAS 1 introduces disclosures about the level of an entity's capital and how it manages capital. The Group assessed the impact of PFRS 7 and the amendment to PAS 1 and concluded that the main additional disclosures will be the sensitivity analysis to market risk and the capital disclosures required by the amendment of PAS 1. The Group will apply PFRS 7 and the amendment to PAS 1 from annual periods beginning January 1, 2007.

- IFRIC 4, Determining whether an Arrangement Contains a Lease. IFRIC 4 requires the determination of whether an arrangement is or contains a lease to be based on the substance of the arrangement. It requires an assessment of whether: (a) fulfillment of the arrangement is dependent on the use of a specific asset or assets (the asset); and (b) the arrangement conveys a right to use the asset. Management is currently assessing the impact of IFRIC 4 on the Group's operations.

As for the other new accounting standards, the Group has initially assessed that they will not result in significant changes to the amounts or disclosures in its financial statements.

3.3 Principles of Consolidation

The consolidated financial statements comprise the accounts of the Bank (parent company) and its subsidiaries (BDO Capital, BDO Private Bank, BDO Financial, BDO Realty, BDO Insurance, BDO Card, Onshore, BDO Securities and BDO Remittance), referred to herein as the "Group", after elimination of material intercompany transactions.

Subsidiaries are fully consolidated from the date on which the Group obtains control. They are de-consolidated from the date that control ceases.

The purchase method of accounting is used to account for the acquisition of subsidiaries by the Group. The cost of the acquisition is measured as the fair value of the assets given, equity instruments issued and liabilities incurred or assumed at the date of exchange, plus costs directly attributable to the acquisition. Identifiable assets acquired and liabilities and contingent liabilities assumed in a business combination are measured initially at their fair values at the acquisition date, irrespective of the extent of any minority interest. The excess of the cost of acquisition over the fair value of the Group's share of the identifiable net assets acquired, is recorded as goodwill. If the cost of acquisition is less than the fair value of the net assets of the subsidiary acquired, the difference is recognized directly in the statements of income (see Note 3.12).

Inter-company transactions, balances and unrealized gains on transactions between group companies are eliminated. Unrealized losses are also eliminated unless the transaction provides evidence of impairment of the asset transferred. Accounting policies of subsidiaries have been changed where necessary to ensure consistency with the policies adopted by the Group.

The financial statements of subsidiaries are prepared, except for BDO Remittance, for the same reporting period as the parent company, using consistent accounting principles. BDO Remittance, however, has prepared financial statements using the same accounting period as the parent for consolidation purposes.

In the consolidated financial statements, the minority interest component in the 2005 and 2004 financial statements are shown in the statements of changes in capital funds.

3.4 Segment Reporting

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

3.5 Cash and Cash Equivalents

For purposes of the cash flows statement, cash and cash equivalents comprise balances with less than three months' maturity from the date of acquisition, including: cash and non-restricted balances with the BSP and amounts due from other banks. Cash and cash equivalents are initially and subsequently measured at fair value.

3.6 Financial Assets

Financial assets include cash and financial instruments. The Group classifies its financial assets, other than hedging instruments, into the following categories: financial assets at fair value through profit or loss, loans and receivables, held-to-maturity investments and available-for-sale financial assets. Financial assets are assigned to the different categories by management on initial recognition, depending on the purpose for which the investments were acquired. The designation of financial assets is re-evaluated at every reporting date at which date a choice of classification or accounting treatment is available, subject to compliance with specific provisions of applicable accounting standards.

All financial assets that are not classified as at fair value through profit or loss are initially recognized at fair value, plus transaction costs.

- *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 the entity to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short 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 originally designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

- *Loans and Receivables*. Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They arise when the Group provides money, goods or services directly to the debtor with no intention of trading the receivables. Included in this category are those arising from direct loans to customers, interbank loans, sales contract receivables, and all receivables from customers and other banks.

  Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses.

  Securities Purchases Under Reverse Repurchase Agreement wherein the Bank and a subsidiary enter 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 treated as interest and accrued over the life of the agreements using the effective interest method.

  Impairment losses is the estimated amount of losses in the Group's loan portfolio, based on the evaluation of the future cash flows discounted at the loan's original effective interest rates or the last repricing rate for loans issued at variable rates (see Note 3.18). It is established through an allowance account which is charged to expense. Loans and receivables are written off against the allowance for impairment losses when management believes that the collectibility of the principal is unlikely, subject to BSP regulations.

- *Held-to-maturity Investments*. This includes non-derivative financial assets with fixed or determinable payments and a fixed date of maturity. Investments are classified as held-to maturity if the Group has the positive intention and ability to hold them until maturity. Investments intended to be held for an undefined period are not included in this classification.

  Held-to-maturity investments consist of government and private debt securities. Should the Group sell other than an insignificant amount of held-to-maturity assets, the entire category would be tainted and reclassified as available-for-sale financial assets.

  Held-to-maturity investments are subsequently measured at amortized cost using the effective interest method. In addition, if there is objective evidence that the investment has been impaired, the financial asset is measured at the present value of estimated cash flows (see Note 3.18). Any changes to the carrying amount of the investment due to impairment are recognized in profit or loss.

- *Available-for-sale Financial Assets*. This 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.
  All financial assets within this category are subsequently measured at fair value, unless otherwise disclosed, with changes in value recognized in capital funds, net of any effects arising from income taxes. Gains and losses arising from securities classified as available-for-sale are recognized in the statements of income when they are sold or when the investment is impaired.

  In the case of impairment, any loss previously recognized in capital funds is transferred to the statements of income (see Note 3.18). Losses recognized in the statements of income on equity investments are not reversed through the statements of income. Losses recognized in prior period statements of income resulting from the impairment of debt instruments are reversed through the statements of income, when there is recovery in the amount of previously recognized impairment losses.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes 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 included in Trading and Securities Gain – net account in the statements of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in capital funds, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in capital funds shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the statements of income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the entity's right to receive payment is established.

Non-compounding interest and other cash flows resulting from holding 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 rights 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.

3.7 Derivative Financial Instruments and Hedge Accounting

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

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. 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 that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Group recognizes profits at initial recognition.

Certain derivatives embedded in other financial instruments, such as the conversion option in a convertible bond and credit default swap in a credit linked note, 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 measured at fair value with changes in fair value recognized in the statements of income.

Except for derivatives that qualify as a hedging instrument, change in the fair value of derivatives are recognized in profit or loss. The method of recognizing the resulting fair value gain or loss on derivatives that qualify as hedging instrument depends on the hedging relationship designated by the Group. The Group designates certain derivatives as either: (1) hedges of the fair value of recognized assets or liabilities or firm commitments (fair value hedge); or (2) hedges of highly probable future cash flows attributable to a recognized asset or liability, or a forecasted transaction (cash flow hedge). Hedge accounting is used for derivatives designated in this way provided certain criteria are met.

The Group documents, at the inception of the transaction, the relationship between hedging instruments and hedged items, as well as its risk management objective and strategy for undertaking various hedge transactions. The Group also documents its assessment, both at hedge inception and on an ongoing basis, of whether the derivatives that are used in hedging transactions are highly effective in offsetting changes in fair values or cash flows of hedged items.

- *Fair value hedge*. Changes in the fair value of derivatives that are designated and qualify as fair value hedges are recorded in the statements of income, together with any changes in the fair value of the hedged asset or liability that are attributable to the hedged risk.

  If the hedge no longer meets the criteria for hedge accounting, the adjustment to the carrying amount of a hedged item for which the effective interest method is used is amortized to profit or loss over the period to maturity. The adjustment to the carrying amount of a hedged equity security remains as part of capital funds until the disposal of the equity security.

- *Cash flow hedge*. The effective portion of changes in the fair value of derivatives that are designated and qualify as cash flow hedges are recognized in capital funds. The gain or loss relating to the ineffective portion is recognized immediately in the statements of income.

Amounts accumulated in capital funds are recycled to the statements of income in the periods in which the hedged item will affect profit or loss (for example, when the forecast sale that is hedged takes place).

When a hedging instrument expires or is sold, or when a hedge no longer meets the criteria for hedge accounting, any cumulative gain or loss existing in capital funds at that time remains in capital funds and is recognized when the forecast transaction is ultimately recognized in the statements of income. When a forecast transaction is no longer expected to occur, the cumulative gain or loss that was reported in equity is immediately transferred to the statements of income.

- *Derivatives that do not qualify for hedge accounting*. Certain derivative instruments do not qualify for hedge accounting. Changes in the fair value of any derivative instrument which do not qualify for hedge accounting are recognized immediately in the statements of income.

3.8 Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment are carried at acquisition cost less accumulated depreciation and amortization and impairment in value.

The cost of an asset comprises its purchase price and directly attributable costs of bringing the asset to working condition for its intended use. Expenditures for additions, major improvements and renewals are capitalized; expenditures for repairs and maintenance are charged to expense as incurred. When assets are sold, retired or otherwise disposed of, their cost and related accumulated depreciation and amortization and impairment losses are removed from the accounts and any resulting gain or loss is reflected in income for the period.

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

Buildings	10 - 25 years
Furniture, fixtures and equipment	5 years

Leasehold rights and improvements are amortized over the term of the lease 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 3.19).

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

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

3.9 Equity Investments

In the parent company financial statements, the Bank's investments in subsidiaries and associates are accounted for at cost, less any impairment loss. If there is objective evidence that the investments in subsidiaries and associates will not be recovered, an impairment loss is provided. Impairment loss is measured as the difference between the carrying amount of the investment and the present value of the estimated cash flows discounted at the current market rate of return for similar financial asset. The amount of the impairment loss is recognized in the profit or loss. Impairment losses recognized are not reversed.

Subsidiaries are all entities (including special purpose entities) over which the Bank has the power to govern the financial reporting policies generally accompanying a shareholding of more than one half of the voting rights. The Bank obtains and exercises control through voting rights. The existence and effect of potential voting rights that are currently exercisable and convertible are considered when assessing whether the Bank controls another entity.

Associates are those entities over which the Bank is able to exert significant influence but which are neither subsidiaries nor interests in a joint venture.

In the consolidated financial statements, investments in associates are accounted for under equity method of accounting and are initially recognized at cost. The Group's investment in associates includes goodwill, if any, (net of any accumulated impairment loss) identified on acquisition. The Group's share of its associates' post-acquisition profits or losses is recognized in the statements of income, 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 investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

3.10 Investment Properties

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable cost incurred. This also includes land and building acquired by the Bank from defaulting borrowers not held for sale in the next twelve months. For these assets, the cost is recognized initially at the lower of the outstanding loan balance or bid price, which should not be higher than the appraised value of the property. Investment properties are depreciated over a period of five years.

3.11 Non-current Assets Held for Sale

Assets held-for-sale include real and other properties acquired through repossession or foreclosure that the Bank 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 or revaluation of held-for-sale assets is included in the Other Income (Expenses) account in the statements of income.

3.12 Intangible Assets

Goodwill represents the excess of the cost of acquisition over the fair value of the Bank's acquisition of certain assets and liabilities of United Overseas Bank Philippines 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 would require an annual test for impairment. Goodwill is subsequently carried at cost less 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 (see Note 3.19).

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 the basis of the expected useful lives five years. Costs associated with maintaining computer software are expensed as incurred.

The cost of acquired branch license is capitalized as part of deferred charges and amortized over a period of five years.

3.13 Financial Liabilities

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

Financial liabilities are recognized when the Group becomes a party to the contractual agreements of the instrument. All interest related charges are recognized as an expense in the statements of income.

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

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received) net of direct issue costs. Bills payable are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the statements of income 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 statements of condition. The dividends on these preferred shares recognized in the statements of income 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 capital funds, net of income tax effects.

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

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

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

3.14 Offsetting Financial Instruments

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

3.15 Provisions

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

Provisions are measured at the estimated expenditure required to settle the present obligation, based on the most reliable evidence available at the statement of condition date, including the risks and uncertainties associated with the present obligation. Any reimbursement expected to be received in the course of settlement of the present obligation is recognized, if virtually certain as a separate asset, not exceeding the amount of the related provision. Where there are a number of similar obligations, the likelihood that an outflow will be required in settlement is determined by considering the class of obligations as a whole. In addition, long-term provisions are discounted to their present values, where time value of money is material.

Provisions are reviewed at each statement of condition date and adjusted to reflect the current best estimate.

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

Probable inflows of economic benefits that do not yet meet the recognition criteria of an asset are considered contingent assets, hence, are not recognized in the financial statements.

3.16 Revenue and Cost Recognition

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

- Interest income and expenses are recognized in the statements of income for all instruments measured at amortized cost using the effective interest method.

  The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, the Group estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

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

- Trading Gain – 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.

- Service charges, fees and commissions are generally recognized when the service has been provided. Loan commitment fees for loans that are likely to be drawn down are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan. Loan syndication fees are recognized as revenue when the syndication has been completed and the Group retained no part of the loan package for itself or retained a part at the same effective interest rate for the other participants. Commission and fees arising from negotiating, or participating in the negotiation of a transaction for a third party – such as the arrangement of the acquisition of shares or other securities or the purchase or sale of businesses- are recognized on the completion of the underlying transaction. Portfolio and other management advisory and service fees are recognized based on the applicable service contracts, usually on a time-proportionate basis. Asset management fees related to investment funds are recognized ratably over the period the service is provided. The same principle is applied for wealth management, financial planning and custody services that are continuously provided over an extended period of time.

- Profit from assets sold or exchanged – when the title to the assets is transferred to the buyer or as gross profit is realized in the case of sale accounted for as installment sale, or when the collectibility of the entire sales price is reasonably assured. This is included in the Trading Gain account in the statements of income.

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

3.17 Leases

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

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

3.18 Impairment of financial assets

The Group assesses at each statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a loss event) and that loss event has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about certain loss events, including, among others: significant financial difficulty of the issuer or debtor; a breach of contract, such as a default or delinquency in interest or principal payments; it is probable that the borrower will enter bankruptcy or other financial reorganization; the disappearance of an active market for that financial asset because of financial difficulties; or 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.

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

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

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

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

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

  When a loan is uncollectible and subject to BSP guidelines, 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 have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment loss in the statements of income.

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

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

- *Assets carried at cost.* The Group assesses at each statement of condition date whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost and for which objective evidence of impairment exist. 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.

3.19 Impairment of Non-financial Assets

The Group's equity investments, intangible assets (recorded as part of Other Resources), bank premises, furniture, fixtures and equipment and investment properties are subject to impairment testing. Intangible assets with an indefinite useful life or those not yet available for use are tested for impairment at least annually. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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.

3.20 Functional Currency and Foreign Currency Transactions

- *Functional and presentation currency*

  Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The financial statements are presented in Philippine peso, which is also the Group's functional currency. The financial statements of the foreign currency deposit units (FCDUs) of the Bank and a subsidiary, which are expressed in United States (US) dollars as their functional currency, and of BDO Remittance, which is expressed in Hongkong dollars, are translated at the prevailing current exchange rates for statement of condition accounts and average exchange rate during the year for profit or loss accounts.

- *Transactions and balances*

  The accounting records of the Group are maintained in Philippine pesos except for the FCDUs and BDO Remittance which are maintained in US and Hongkong dollars, respectively. 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 year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the statements of income.

3.21 Employee Benefits

- *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 salary. The legal obligation for any benefits from this kind of pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

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

  Actuarial gains and losses are not recognized as an expense unless the total unrecognized gain or loss exceeds 10% of the greater of the obligation and related plan assets. The amount exceeding this 10% corridor is charged or credited to profit or loss over the employees' expected average remaining working lives. Actuarial gains and losses within the 10% corridor are disclosed separately. Past-service costs are recognized immediately in the statements of income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past service costs are amortized on a straight-line basis over the vesting period.

  A defined contribution plan is a pension plan under which the Group pays fixed contributions into an independent entity. The Group has no legal or constructive obligations to pay further contributions after payment of the fixed contribution. The contributions recognized in respect of defined contribution plans are expensed as they fall due. Liabilities and assets may be recognized if underpayment or prepayment has occurred and are included in current liabilities or current assets as they are normally of a short term nature.

- *Termination Benefits*

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

- *Bonus Plans*

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

- *Compensated Absences*

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

3.22 Income Taxes

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

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

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

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

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply to the period when the asset is realized or the liability is settled, based on tax rates and tax laws that have been enacted or substantively enacted at the statement of condition date.

Most changes in deferred tax assets or liabilities are recognized as a component of tax expense in the statements of income. Only changes in deferred tax assets or liabilities that relate to a change in value of assets or liabilities that is charged directly to capital funds.

3.23 Capital Funds

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

Common stock option pertains to the value of the segregated equity component of the convertible loan as required under PAS 32: *Financial Instruments: Disclosures and Presentation.*

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

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

Surplus reserves pertain to a portion of the Bank's income from trust operations set-up on a yearly basis in compliance with BSP regulations and appropriation for general banking risks.

Surplus free includes all current and prior period results as disclosed in the statements of income.

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

3.24 Earnings Per Share (EPS)

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

Diluted earnings per common share is also computed by dividing net income by the weighted average number of common shares subscribed and issued during the period. However, net income attributable to common shares and the weighted average number of common shares outstanding are adjusted to reflect the effects of potentially dilutive convertible loan. Convertible loan is deemed to have been converted into common shares at the start of the conversion period.

3.25 Trust Activities

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

3.26 Critical Accounting Estimates and Assumptions

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

- *Impairment losses on receivables from customers and held-to-maturity investments*. The Group reviews its loan and held-to-maturity investments portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statements of income, the Group makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from the portfolio before the decrease can be identified with an individual item in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers or issuers in a group, or national or local economic conditions that correlate with defaults on assets in the group. Management uses estimates based on historical loss experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio when scheduling its future cash flows. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

- *Fair value of financial assets and liabilities.* The following table summarizes the carrying amounts and fair values of those financial assets and liabilities in 2005 not presented on the statements of condition at their fair value.

	Consolidated		Parent	
	Cost	Fair Value	Cost	Fair Value
Due from Other Banks and BSP	P 9,405,845	P 9,405,845	P 7,524,131	P 7,524,131
Held-to-Maturity Investments	31,041,642	32,702,334	28,407,386	30,020,275
Available-for-Sale Securities – Unquoted	2,288,413	2,288,413	39,672	39,672
Loans and Other Receivables - Net	104,114,877	104,114,877	104,337,382	104,331,382
Deposit Liabilities	159,666,123	159,666,123	156,191,536	156,191,536
Bills Payable	45,845,351	45,845,351	33,493,924	33,493,924

a) *Due from other Banks and BSP*

Due from BSP pertains to deposits made by the Group to BSP for clearing and reserve requirements. Due from other banks includes interbank placements and items in the course of collection. The fair value of floating rate placements and overnight deposits is their carrying amount. The estimated fair value of fixed interest bearing deposits is based on discounted cash flows using prevailing money-market interest rates for debts with similar credit risk and remaining maturity, which for short term deposits approximates the nominal value.

b) *Held-to-maturity investments*

Fair value for held to maturity assets is based on market prices. Where this information is not available, fair value has been estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

c) *Available-for-sale securities*

The fair value of available-for-sale securities is determined by direct reference to published price quoted in an active market for traded securities. On the other hand, non-quoted 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.

d) *Loans and receivables*

Loans and 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.

e) *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. The carrying amounts of deposits and borrowings already approximate their fair values.

- *Fair value of derivatives*

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

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

3.27 Critical Accounting Judgments

The following critical accounting judgments may be applicable, among many other possible areas not presented in the financial statements.

- *Held-to-maturity investments.* The Group follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement*, on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments at maturity other than for the allowed specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class to available-for-sale. The investments would therefore be measured at fair value not amortized cost. If the entire class of held-to-maturity investments is tainted, the fair value would increase by P1,612,889 in the parent company financial statements and P1,660,692 in the consolidated financial statements, with a corresponding entry in the Fair Value Gain on Available-for-Sale Securities account in the statements of changes in capital funds.

- *Impairment of available-for sale financial assets.* The Group follows the guidance of PAS 39, *Financial Instruments: Recognition and Measurement* on determining when an investment is permanently impaired. This determination requires significant judgment. In making this judgment, the Group evaluates, among other factors, the duration and extent to which the fair value of an investment is less than its cost; and the financial health of and near-term business outlook for the investee, including factors such as industry and sector performance, changes in technology and operational and financing cash flow.

3.28 Risk Management

By their nature, the Group's activities are principally related to the use of financial instruments including derivatives. The Group accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. The Group seeks to increase these margins by consolidating short-term funds and lending for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due.

The Group also trades in financial instruments where it takes positions in traded and over-the-counter instruments, including derivatives, to take advantage of short-term market movements in equities and bonds and in currency and interest rate prices.

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

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

Separately, the Credit and Risk Management Group (CRMG) is tasked with managing the credit risk, which is the risk that the counterpart in a transaction may default, and market risk, which is the risk of future loss from changes in the pricing of financial instruments.

3.28.1 Market Risk

The Group's exposure to market risk, the risk of future loss from changes in the price of a financial instrument, relates primarily to its holdings in foreign exchange instruments, debt securities and derivatives. The Group manages its risk by identifying, analyzing and measuring relevant or likely market risks. It recommends various limits based on activity indicators to the Group's Risk Management Committee. The Risk Management Committee in turn passes its recommendations to the Board, which reviews and approves these limits on a daily basis.

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

- Value-at-risk – the CRMG computes the value-at-risk benchmarked at a level which is 20% of projected earnings. The Group uses the value at risk (VaR) model to estimate the daily potential loss that the Group can incur from its trading book, based on a number of assumptions with a confidence level of 99%. The measurement is designed such that exceptions over dealing limits should only arise in very exceptional circumstances.
- Stop loss – the CRMG sets the amount of each risk-bearing activity at a percentage of the budgeted annual income for such activity.
- Nominal position – the CRMG sets the nominal amount of U.S. dollar denominated instruments at the BSP-mandated U.S. dollar overbought position limit.
- Trading volume – the CRMG 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 CRMG computes the earnings-at-risk based on 20% of projected earnings.

The CRMG is also responsible for conducting stress tests (based on the value-at-risk model) on the Group's portfolio of financial instruments and reporting the results to the Board for a more concrete assessment of the risks. The CRMG ensures that all policies as approved by the Board are properly communicated to, and adopted by, the risk-taking personnel. The CRMG also conducts market risk analysis before new products are introduced.

In 2005, the Group applied a 99% confidence level and a 260-day observation period.

During the year, the average value-at-risk for the Group's trading portfolio for a one-day holding period was P202 million. The maximum and minimum values were P69 million (January 24, 2005) and P341 million (February 8, 2005), respectively.

For December 31, 2004, the respective items are as follows:

- Average value-at-risk for 260 days, P15 million; and
- Maximum and minimum values P84 million (December 28, 2004) and P3 million (October 14, 2004), respectively.

3.28.2 Liquidity Risk

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

The analysis of the concentration of assets, liabilities and off-statement of condition items as of December 31, 2005 and 2004 are presented below (amounts in millions):

Consolidated

	2005				
	One to three months	**Three months to one year**	**One to three years**	**More than three years**	**Total**
Resources:					
Cash	P 1,197	P 22	P -	P 5,402	P 6,621
Loans	12,358	20,588	23,233	22,308	78,487
Investments	23,680	6,113	19,506	38,765	88,064
Placements	18,783	439	2,153	5,273	26,648
Other assets	9,083	2,708	1,215	20,939	33,945
Total Resources	65,101	29,870	46,107	92,687	233,765
Liabilities and Capital Funds:					
Customer's deposits	32,678	1,092	17,900	107,996	159,666
Bills payable	22,850	10,045	4,029	8,921	45,845
Other liabilities	473	5,901	1,115	531	8,020
Total liabilities	56,001	17,038	23,044	117,448	213,531
Capital Funds	-	2,771	-	17,463	20,234
Total Liabilities and Capital Funds	56,001	19,809	23,044	134,911	233,765
On-book gap	9,100	10,061	23,063	(42,224)	-
Cumulative on-book gap	9,100	19,161	42,224	-	-
Contingent assets	13,510	6,588	4,663	2,505	27,266
Contingent liabilities	11,311	21,437	4,592	3,622	40,962
Total gap	P 11,299	(P 4,788)	P 23,134	(P 43,341)	(P 13,696)
Cumulative total gap	P 11,299	P 6,511	P 29,645	(P 13,696)	(P 13,696)

Consolidated

	One to three months	Three months to one year	2004 One to three years	More than three years	Total
Resources:					
Cash	P 1,299	P 5	P -	P 4,323	P 5,627
Loans	10,518	17,705	14,329	17,728	60,280
Investments	27,461	1,993	16,183	31,610	77,247
Placements	8,768	648	6,409	2,499	18,324
Other assets	5,479	1,899	1,268	9,500	18,146
Total Resources	53,525	22,250	38,189	65,660	179,624
Liabilities and Capital Funds:					
Customer's deposits	36,396	1,420	18,762	72,069	128,647
Bills payable	10,491	6,736	8,824	2,556	28,607
Other liabilities	370	3,386	829	1,127	5,712
Total liabilities	47,257	11,542	28,415	75,752	162,966
Capital	-	1,298	-	15,360	16,658
Total Liabilities and Capital Funds:	47,257	12,840	28,415	91,112	179,624
On-book gap	6,268	9,410	9,774	(25,452)	-
Cumulative on-book gap	6,268	15,678	25,452	-	-
Contingent assets	16,405	2,857	8,752	958	28,972
Contingent liabilities	12,346	17,150	8,827	958	39,281
Total gap	P 10,327	(P 4,883)	P 9,699	(P 25,452)	(P 10,309)
Cumulative total gap	P 10,327	P 5,444	P 15,143	(P 10,309)	(P 10,309)

Parent Company

	One to three months	Three months to one year	2005 One to three years	More than three years	Total
Resources:					
Cash	P 1,197	P 22	P -	P 5,402	P 6,621
Loans	20,736	20,250	22,750	17,599	81,335
Investments	19,001	5,895	14,719	38,430	78,045
Placements	18,056	349	2,153	5,265	25,823
Other resources	639	2,701	1,119	19,489	23,948
Total Resources	59,629	29,217	40,741	86,185	215,772
Liabilities and Capital Funds:					
Deposits liabilities	31,049	614	16,114	108,414	156,191
Bills payable	13,112	9,724	1,737	8,921	33,494
Other liabilities	469	5,367	950	531	7,317
Total Liabilities	44,630	15,705	18,801	117,866	197,002
Capital Funds	-	2,843	-	15,927	18,770
Total Liabilities and Capital Funds	44,630	18,548	18,801	133,793	215,772
On-book gap	14,999	10,669	21,940	(47,608)	-
Cumulative on-book gap	14,999	25,668	47,608	-	-
Contingent assets	10,715	1,274	89	2,505	14,583
Contingent liabilities	8,544	16,129	112	3,622	28,407
Total gap	P 17,170	(P 4,186)	P 21,917	(P 48,725)	(P 13,824)
Cumulative total gap	P 17,170	P 12,984	P 34,901	(P 13,824)	(P 13,824)

Parent Company

	2004				
	One to three months	Three months to one year	One to three years	More than three years	Total
Resources:					
Cash	P 1,299	P 5	P -	P 4,323	P 5,627
Loans	14,618	17,532	14,024	13,558	59,732
Investments	24,383	1,970	12,423	31,738	70,514
Placements	7,447	648	5,634	1,390	15,119
Other resources	1,339	1,899	1,185	17,457	21,880
Total Resources	49,086	22,054	33,266	68,466	172,872
Liabilities and Capital Funds					
Deposit liabilities	35,404	1,313	16,892	72,271	125,880
Bills payable	8,733	6,087	8,824	2,563	26,207
Other liabilities	365	3,694	544	620	5,223
Total liabilities	44,502	11,094	26,260	75,454	157,310
Capital Funds	-	1,369	-	14,193	15,562
Total Liabilities and Capital Funds	44,502	12,463	26,260	89,647	172,872
On-book gap	4,584	9,591	7,006	(21,181)	-
Cumulative on-book gap	4,584	14,175	21,181	-	-
Contingent asset	14,360	1,916	637	958	17,871
Contingent liabilities	10,314	16,221	686	958	28,179
Total gap	P 8,630	(P 4,714)	P 6,957	(P 21,181)	(P 10,308)
Cumulative total gap	P 8,630	P 3,916	P 10,873	(P 10,308)	(P 10,308)

3.28.3 Foreign Exchange Risk

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

The Group's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 2.5% of net worth, or U.S.$5 million, whichever is lower, on the consolidated excess foreign exchange holding of banks in the Philippines. In the case of the Group, its foreign exchange exposure is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. The Group, being a major market participant in the Philippine Dealing System (PDS), may engage in proprietary trading to take advantage of foreign exchange fluctuations.

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

The breakdown of the financial resources and liabilities as to foreign and peso- denominated balances as of December 31, 2005 and 2004 are as follows:

Consolidated

	2005		
	Foreign Currency	Peso	Total
Resources:			
Due from BSP	P 1,031,177	P 3,240,329	P 4,271,506
Due from other banks	4,615,496	518,843	5,134,339
Financial assets at fair value through profit or loss	599,937	6,902,618	7,502,555
Available-for-sale financial Assets - net	39,624,443	9,895,694	49,520,137
Held-to-maturity investments - net	10,625,352	20,416,290	31,041,642
Loans and receivable - net	14,211,488	89,903,389	104,114,877
Other resources - net	1,403,056	14,028,445	15,431,501
Liabilities:			
Deposit liabilities	61,648,890	98,017,233	159,666,123
Bills payable	27,265,482	18,579,869	45,845,351
Other liabilities	1,492,891	5,367,799	6,860,690

Consolidated

	2004		
	Foreign Currency	Peso	Total
Resources:			
Due from BSP	P -	P 1,971,323	P 1,971,323
Due from other banks	3,862,562	378,704	4,241,266
Financial assets at fair value through profit or loss	706,895	13,260,235	13,967,120
Available-for-sale financial Assets - net	31,321,067	5,831,208	37,152,275
Held-to-maturity investments - net	7,448,537	18,737,131	26,185,668
Loans and receivable - net	21,222,380	55,318,417	76,540,797
Other resources - net	880,295	5,176,697	6,056,992
Liabilities:			
Deposit liabilities	54,960,183	73,687,135	128,647,318
Bills payable	23,509,485	5,097,814	28,607,299
Other liabilities	857,585	4,237,336	5,094,921

Parent Company

	2005		
	Foreign Currency	Peso	Total
Resources:			
Due from BSP	P 1,031,177	P 2,627,760	P 3,658,937
Due from other banks	3,292,814	572,380	3,865,194
Financial assets at fair value through profit or loss	1,420,631	4,824,901	6,245,532
Available-for-sale securities - net	35,101,529	8,290,306	43,391,835
Held-to-maturity securities - net	9,004,942	19,402,444	28,407,386
Loans and other receivables - net	14,711,488	89,625,894	104,337,382
Other resources	609,650	5,702,142	6,311,792
Liabilities:			
Deposit liabilities	59,192,904	96,998,632	156,191,536
Bills payable	24,036,164	9,457,760	33,493,924
Derivative liabilities	56,323	938,513	994,836
Other liabilities	1,492,891	4,829,482	6,322,373

	2004		
	Foreign Currency	Peso	Total
Resources:			
Due from BSP	P -	P 1,741,549	P 1,741,549
Due from other banks	2,700,297	396,942	3,097,239
Financial assets at fair value through profit or loss	629,139	11,582,341	12,211,480
Available-for-sale securities - net	29,035,299	5,188,606	34,223,905
Held-to-maturity securities - net	6,277,817	17,800,443	24,078,260
Loans and other receivables - net	21,222,380	54,047,285	75,269,665
Other resources	857,585	5,071,520	5,929,105
Liabilities:			
Deposit liabilities	53,140,100	72,739,850	125,879,950
Bills payable	22,090,342	4,116,760	26,207,102
Derivative liabilities	157,804	174,753	332,557
Other liabilities	857,585	4,033,223	4,890,808

3.28.4 Credit Risk

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

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

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

The Group structures the levels of credit risk it undertakes by placing limits on the amount of risk accepted in relation to one borrower, or groups of borrowers, and to geographical and 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, industry sector and by country 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 CRM reviews the Group's loan portfolio in line with the Group's policy of not having significant unwarranted concentrations of exposure to individual counterparties, in accordance with the BSP's prohibitions on maintaining a financial exposure to any single person or group of connected persons in excess of 25% of its Net Worth.

3.28.5 Cash Flow Interest Rate Risk

The Bank prepares gap analysis to measure the sensitivity of its resources, liabilities and off-statement of condition positions to interest rate fluctuations. The focus of analysis is the impact of changes in interest rates on accrual or reported earnings. This analysis would give management a glimpse of maturity and re-pricing profile of its interest sensitive resources and liabilities. An interest rate gap report is prepared by classifying all assets and liabilities into various time buckets according to contracted maturities or anticipated repricing dates, and other applicable behavioral assumptions. The difference in the amount of resources and liabilities maturing or being repriced in any time period category would then give the Group an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

4. BUSINESS SEGMENTS

In the consolidated financial statements, the Group is organized into the following business segments:

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

2) 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.

3) Private banking – provides traditional and non-traditional investment and structured products to high net worth individuals and institutional accounts.

4) Others – includes asset management, credit card operations, insurance, securities brokerage and realty management, none of which constitutes a separately reportable segment.

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

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

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

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

Primary segment information (by business segment) as of and for the years ended December 31, 2005 and 2004 follow:

	Consolidated					
	Commercial Banking	Investment Banking	Private Banking	Others	Eliminations	Consolidated
December 31, 2005						
Interest Income						
External	P 13,612,319	P 69,804	P 885,000	P 217,683	P -	P 14,784,806
Inter-segment	56,321	917	948	7,323	(65,509)	-
Total interest income	13,668,640	70,721	885,948	225,006	(65,509)	14,784,806
Interest Expense						
External	7,458,072	-	371,665	112,361	-	7,942,098
Inter-segment	8,428	2,535	40,113	14,433	(65,509)	-
Total interest expense	7,466,500	2,535	411,778	126,794	(65,509)	7,942,098
Net Interest Income	P 6,202,140	P 68,186	P 474,170	P 98,212	P -	P 6,842,708
Profit for the Year	P 2,470,362	P 106,287	P 477,611	(P 103,524)	(P 407,219)	P 2,543,517
Statement of Condition						
Total resources	P 215,772,422	P 1,207,216	P 15,339,287	P 10,838,472	(P 9,392,611)	P233,764,786
Total liabilities	P 197,040,259	P 118,571	P 11,931,605	P 10,814,221	(P 6,374,175)	P213,530,481
December 31, 2004						
Interest Income						
External	P 10,422,044	P 88,662	P 581,219	P 55,647	P -	P 11,147,572
Inter-segment	33,792	6,481	306	790	(41,369)	-
Total interest income	10,455,836	95,143	581,525	56,437	(41,369)	11,147,572
Interest Expense						
External	6,001,935	3,431	156,080	25,112	-	6,186,558
Inter-segment	7,150	-	32,747	1,472	(41,369)	-
Total interest expense	6,009,085	3,431	188,827	26,584	(41,369)	6,186,558
Net Interest Income	P 4,446,751	P 91,712	P 392,698	P 29,853	P -	P 4,961,014
Profit for the Year	P 1,514,661	P 100,916	P 352,555	(P 123,431)	P 127,933	P 1,972,634
Statement of Condition						
Total resources	P 173,484,766	P 1,370,602	P 9,304,366	P 813,574	(P5,349,207)	P179,624,101
Total liabilities	P 157,310,417	P 68,664	P 6,284,139	P 5,991,905	(P6,689,194)	P162,965,931

5. CASH AND BALANCES WITH THE BSP

These accounts are composed of the following:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Cash and other cash items	**P 6,621,220**	P 5,627,066	**P 6,620,667**	P 5,626,974
Due from BSP				
Mandatory reserves	**2,329,825**	1,606,534	**1,329,113**	135,015
Other than mandatory reserves	**1,941,681**	364,789	**2,329,824**	1,606,534
	4,271,506	1,971,323	**3,658,937**	1,741,549
	P 10,892,726	P 7,598,389	**P 10,279,604**	P 7,368,523

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 rate of 4% for 2005 and 2004. Total interest income earned amounted to P118,793 and P85,431 for 2005 and 2004, respectively, both in parent company and consolidated financial statements.

6. DUE FROM OTHER BANKS

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Local banks	**P 1,606,680**	P 1,564,405	**P 1,518,868**	P 1,464,918
Foreign banks	**3,527,659**	2,676,861	**2,346,326**	1,632,321
	P 5,134,339	P 4,241,266	**P 3,865,194**	P 3,097,239

The breakdown of the account as to currency is as follows:

	Consolidated		Parent	
	2005	2004	**2005**	2004
United States (U.S.) Dollar	**P 4,284,958**	P 3,241,723	**P 2,989,910**	P 2,104,865
Peso	**518,843**	378,704	**572,380**	396,942
Other currencies	**330,538**	620,839	**302,904**	595,432
	P 5,134,339	P 4,241,266	**P 3,865,194**	P 3,097,239

Interest rates on these deposits range from 1% to 4% per annum in 2005 and 1% to 2.125% per annum in 2004 in the parent company financial statements and 1% to 6% per annum in 2005 and 1% to 6.4% per annum in 2004 in the consolidated financial statements.

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account, stated at market value, is composed of the following:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Government bonds	**P 5,988,305**	P 13,336,464	**P 5,004,550**	P 12,105,666
Derivative financial assets	**1,513,508**	336,143	**1,240,982**	105,814
Other debt securities	**742**	294,513	**-**	-
	P 7,502,555	P 13,967,120	**P 6,245,532**	P 12,211,480

All financial assets at fair value through profit or loss are held for trading. For government bonds and other debt securities, the amounts presented have been determined directly by reference to published price quoted in an active market. On the other hand, the fair value of derivative financial assets is determined through valuation technique using net present value of future cash flows method. The Group recognized fair value gain on financial assets at fair value through profit or loss amounting to P169,019 and P59,266 in 2005 and 2004, respectively, in the parent company financial statements and P174,326 and P120,742 in 2005 and 2004, respectively, in the consolidated financial statements which were included as part of Trading Gain in the statements of income.

Foreign currency denominated securities amounted to P1,420,631 in 2005 and P629,139 in 2004 in the parent company financial statements and P1,513,242 in 2005 and P774,439 in 2004 in the consolidated financial statements.

Derivative instruments used by the Group include foreign currency and interest rate forwards/futures, foreign currency and interest rate swaps, and embedded credit default swaps bifurcated from credit-linked notes or deposits. 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 set out below:

<u>Consolidated</u>

	Notional Amount	Fair Values	
		Assets	Liabilities
<u>December 31, 2005:</u>			
Currency forwards/futures	P 18,876,345	P 287,764	P 348,124
Credit linked notes (see Note 8)	18,751,861	218,286	82,372
Credit linked deposits (see Note 10)	3,098,657	21,843	-
Currency swaps	2,328,953	398,241	127,104
Interest rate swaps	1,602,100	567,036	567,204
Credit default swaps	1,592,700	20,217	33,408
Currency spot	253,984	121	105
	P 46,504,600	P 1,513,508	P 1,158,317

Consolidated

		Notional Amount		Fair Values Assets		Fair Values Liabilities
December 31, 2004:						
Currency forwards/futures	P	24,035,430	P	170,240	P	436,139
Currency spot		2,253,216		179		530
Credit default swaps		1,690,200		-		16,290
Currency swaps		1,126,534		159,356		163,434
Interest rate swaps		6,369		6,368		-
	P	29,111,749	P	336,143	P	616,393

Parent Company

		Notional Amount		Fair Values Assets		Fair Values Liabilities
December 31, 2005:						
Currency forwards/futures	P	18,881,751	P	224,705	P	285,768
Currency swaps		2,273,814		260,286		59,387
Credit linked notes (see Note 7)		18,751,861		218,286		82,372
Credit linked deposits (see Note 9)		3,098,657		21,843		-
Interest rate swaps		1,602,100		515,742		567,204
Currency spot		253,984		120		105
	P	44,862,167	P	1,240,982	P	994,836
December 31, 2004:						
Currency forwards/futures	P	24,046,911	P	98,864	P	220,262
Currency swaps		1,140,457		6,771		111,765
Currency spot		2,253,216		179		530
	P	27,440,584	P	105,814	P	332,557

The fair value gain or loss recognized in the statements of income determined using valuation technique amounted to P472,889 gain and P226,743 loss in 2005 and 2004, respectively, in the parent company financial statements and P635,441 gain and P280,250 loss in 2005 and 2004, respectively, in the consolidated financial statements representing the derivative financial assets owned by the Group.

8. AVAILABLE-FOR-SALE SECURITIES

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

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Government debt securities	**P 27,299,933**	P 17,145,777	**P 23,912,239**	P 16,391,468
Other debt securities				
Quoted	**19,490,524**	19,573,229	**19,490,524**	17,773,862
Not Quoted	**1,939,256**	10,359	**-**	-
Equity shares				
Quoted	**552,617**	81,519	**60,750**	28,125
Not Quoted	**349,157**	341,391	**39,672**	30,450
	49,631,487	37,152,275	**43,503,185**	34,223,905
Allowance for impairment losses	**(111,350)**	-	**(111,350)**	-
Net	**P 49,520,137**	P 37,152,275	**P 43,391,835**	P 34,223,905

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

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Foreign currency	**P 39,624,443**	P 31,321,067	**P 8,290,306**	P 5,188,606
Peso	**9,895,694**	5,831,208	**35,101,529**	29,035,299
	P 49,520,137	P 37,152,275	**P 43,391,835**	P 34,223,905

Government and other debt securities issued by resident and non-resident corporations earn interest at 5.44% to 16.00% per annum in 2005 and 7.56% to 20.50% per annum in 2004 in the parent company financial statements and 3.1% to 16.50% per annum in 2005 and 2.94% to 20.5% per annum in 2004 in the consolidated financial statements.

Other debt securities include the host contract of credit-linked notes (CLN) while the embedded derivatives were bifurcated and presented separately from the CLN (see Note 7). A CLN is an instrument under which the issuer issues a note to the investor wherein both parties agreed that in 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.

The fair values of government debt and quoted available-for-sale securities have been determined directly by reference to published price generated in an active market. For unquoted available-for-sale securities, fair value is determined by reference to similar financial instruments or through valuation technique using the net present value of the future cash flows.

9. HELD-TO-MATURITY INVESTMENTS

The balance of this account is composed of the following:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Government debt securities	**P 29,277,060**	P 18,231,423	**P 26,642,804**	P 16,124,016
Other debt securities:				
Quoted	**2,373,208**	8,556,619	**2,373,208**	8,556,619
Not quoted	**199,860**	154,782	**199,860**	154,781
Total	**31,850,128**	26,942,824	**29,215,872**	24,835,416
Allowance for impairment losses	**(808,486)**	(757,156)	**(808,486)**	(757,156)
Net	**P 31,041,642**	P 26,185,668	**P 28,407,386**	P 24,078,260

Other debt securities include investments of a sinking fund setup by the Bank as required by BSP in connection with the Banks' 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, 2005 amounts to P570,008 both in the parent company and consolidated financial statements.

Also, certain government securities are deposited with BSP as security for the Bank's faithful compliance of its fiduciary obligations in connection with the Bank's trust operations (see Note 22).

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Peso	**P 20,416,290**	P 18,737,131	**P 19,402,444**	P 17,800,443
Foreign currency	**10,625,352**	7,448,537	**9,004,942**	6,277,817
	P 31,041,642	P 26,185,668	**P 28,407,386**	P 24,078,260

The maturity profile of this account is presented below:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Less than one year	**P 11,186,949**	P 7,671,210	**P 10,766,269**	P 7,315,079
One to five years	**13,463,733**	8,477,782	**12,221,098**	6,999,989
Beyond five years	**6,390,960**	10,036,676	**5,420,019**	9,763,192
	P 31,041,642	P 26,185,668	**P 28,407,386**	P 24,078,260

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

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Balance at beginning of year	**P 26,185,668**	P 43,569,302	**P 24,078,260**	P 41,025,729
Additions	**95,241,443**	31,194,832	**91,775,399**	29,507,430
Maturity	**(89,746,344)**	(48,597,181)	**(86,832,687)**	(46,449,617)
Foreign currency revaluation	**(587,795)**	621,090	**(562,256)**	597,092
Impairment during the year	**(51,330)**	(602,375)	**(51,330)**	(602,374)
Balance at end of year	**P 31,041,642**	P 26,185,668	**P 28,407,386**	P 24,078,260

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

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Government debt securities	**P 30,658,079**	P 17,969,644	**P 27,976,020**	P 15,934,141
Other debt securities	**2,044,255**	6,180,189	**2,044,255**	6,180,189
	P 32,702,334	P 24,149,833	**P 30,020,275**	P 22,114,330

The fair value is determined through valuation techniques by determining the net present value of estimated future cash flows. Interest rates on these investments range from 4% to 16.50% per annum in 2005 and 3.44% to 18% per annum in 2004.

10. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Receivables from customers:				
Loans and discounts	**P 69,360,516**	P 53,938,850	**P 73,674,314**	P 53,941,594
Customers' liabilities under letters of credit and trust receipts	**10,047,366**	7,422,671	**10,047,367**	7,422,670
Bills purchased	**1,893,204**	1,958,434	**1,893,204**	1,958,434
Others	**1,523,459**	565,545	**-**	-
	82,824,545	63,885,500	**85,614,885**	63,322,698
Allowance for impairment losses	**(4,337,917)**	(3,605,076)	**(4,279,222)**	(3,590,435)
Net	**78,486,628**	60,280,424	**81,335,663**	59,732,263
Other receivables:				
Interbank loans receivables	**17,237,492**	9,153,376	**18,299,086**	10,279,978
Securities purchased under reverse repurchase agreements	**4,325,000**	2,396,000	**975,000**	1,100,000
Accrued interest receivable	**2,893,241**	2,431,155	**2,585,330**	2,431,155
Accounts receivable	**1,383,885**	2,167,185	**1,353,661**	1,613,610
Sales contract receivables	**352,311**	483,461	**352,321**	483,463
	26,191,929	16,631,177	**23,565,398**	15,908,206
Allowance for impairment losses	**(563,680)**	(370,804)	**(563,679)**	(370,804)
Net	**25,628,249**	16,260,373	**23,001,719**	15,537,402
	P 104,114,877	P 76,540,797	**P 104,337,382**	P 75,269,665

Interbank loans receivables include the host contract of credit-linked deposits (CLD) while the embedded credit default swaps were bifurcated and presented separately from the CLD (see Note 7). A CLD is an instrument under which the issuer/deposit-taker issues a certificate of deposit to the investor wherein both parties agreed that in the occurrence of a credit event in relation to the reference entity, the CLD accelerates and the depositor 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.

Included in these accounts are nonaccruing loans amounting to P4,446,947 in 2005 and P4,339,819 in 2004 in the parent company financial statements and P4,506,095 in 2005 and P4,350,336 in 2004 in the consolidated financial statements.

The net carrying amount of these financial assets is a reasonable approximation of their fair value.

The Bank's loan concentration of credit as to industry follows:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Manufacturing (various industries)	**P 21,212,792**	P 16,980,833	**P 20,727,072**	P 16,576,884
Wholesale and retail trade	**17,118,245**	9,882,035	**17,118,245**	9,882,035
Financial intermediaries	**11,862,097**	11,018,011	**16,732,476**	11,468,974
Real estate, renting and other related activities	**8,871,594**	8,660,962	**8,863,572**	8,660,962
Other community, social and personal activities	**7,551,740**	5,510,556	**7,551,740**	5,510,556
Transportation and communication	**2,887,583**	2,337,976	**2,887,583**	2,337,976
Agriculture, fishing and forestry	**1,033,923**	1,303,534	**1,033,923**	1,303,534
Others	**12,286,571**	8,191,593	**10,700,274**	7,581,777
	P 82,824,545	P 63,885,500	**P 85,614,885**	P 63,322,698

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Secured:				
Real estate mortgage	**P 21,010,219**	P 17,771,033	**P 20,981,016**	P 17,748,965
Chattel mortgage	**3,603,669**	2,365,171	**3,589,228**	2,354,310
Other securities	**19,172,988**	15,288,049	**19,153,797**	15,288,049
	43,786,876	35,424,253	**43,724,041**	35,391,324
Unsecured	**39,037,669**	28,461,247	**41,890,844**	27,931,374
	P 82,824,545	P 63,885,500	**P 85,614,885**	P 63,322,698

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Variable interest rates	**P 62,349,694**	P 53,661,951	**P 67,172,293**	P 53,661,951
Fixed interest rates	**20,474,851**	10,223,549	**18,442,592**	9,660,747
	P 82,824,545	P 63,885,500	**P 85,614,885**	P 63,322,698

The changes in the allowance for impairment losses of loans are summarized below:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Balance at beginning of year	**P 3,605,076**	P 2,925,794	**P 3,590,435**	P 2,925,794
Provisions during the year	**1,035,576**	948,411	**991,522**	395,670
Reversal/reclassification	**(298,084)**	(269,050)	**(298,084)**	269,050
Accounts written off	**(4,651)**	(79)	**(4,651)**	(79)
Balance at end of year	**P 4,337,917**	P 3,605,076	**P 4,279,222**	P 3,590,435

11. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

A reconciliation of the carrying amounts at the beginning and end of 2005 and 2004, and the gross carrying amounts and the accumulated depreciation and amortization of bank premises, furniture, fixtures and equipment are shown below:

Consolidated

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2005, net of accumulated depreciation and amortization	P 334,331	P 80,869	P 170,683	P 583,310	P 1,169,193
Additions	142,917	58,398	83,852	530,127	815,294
Disposals	-	-	-	(816)	(816)
Depreciation and amortization charge for the year	-	(18,469)	(52,079)	(189,352)	(259,900)
Balance at December 31, 2005, net of accumulated depreciation and amortization	**P 477,248**	**P 120,798**	**P 202,456**	**P 923,269**	**P 1,723,771**
December 31, 2005					
Cost	P 477,248	P 186,411	P 208,514	P 2,112,097	P 2,984,270
Accumulated depreciation and amortization	-	(65,613)	(6,058)	(1,188,828)	(1,260,499)
Net carrying amount	**P 477,248**	**P 120,798**	**P 202,456**	**P 923,269**	**P 1,723,771**
Balance at January 1, 2004, net of accumulated depreciation and amortization	P 318,767	P 88,268	P 128,739	P 438,930	P 974,704
Additions	15,564	1,582	77,785	311,804	406,735
Disposals	-	(705)	(281)	(3,662)	(4,648)
Depreciation and amortization charge for the year	-	(8,276)	(35,560)	(163,762)	(207,598)
Balance at December 31, 2004, net of accumulated depreciation and amortization	P 334,331	P 80,869	P 170,683	P 583,310	P 1,169,193
December 31, 2004					
Cost	P 334,331	P 128,013	P 170,683	P 1,582,786	P 2,215,813
Accumulated Depreciation and amortization	-	(47,144)	-	(999,476)	(1,046,620)
Net carrying amount	P 334,331	P 80,869	P 170,683	P 583,310	P 1,169,193

Parent

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2005, net of accumulated depreciation and amortization	P 334,331	P 80,869	P 163,108	P 527,955	P 1,106,263
Additions	142,917	58,409	57,758	552,312	811,396
Disposals	-	-	-	(10,359)	(10,359)
Depreciation and amortization for the year	-	(18,480)	(49,031)	(207,020)	(274,531)
Balance at December 31, 2005 net of accumulated depreciation and amortization	**P 477,248**	**P 120,798**	**P 171,835**	**P 862,888**	**P 1,632,769**
December 31, 2005					
Cost	P 477,248	P 186,411	P 171,835	P 1,939,130	P 2,774,624
Accumulated depreciation and amortization	-	(65,613)	-	(1,076,242)	(1,141,855)
Net carrying amount	**P 477,248**	**P 120,798**	**P 171,835**	**P 862,888**	**P 1,632,769**

Parent

	Land	Buildings	Leasehold Rights and Improvements	Furniture, Fixtures and Equipment	Total
Balance at January 1, 2004, net of accumulated depreciation and amortization	P 318,767	P 88,267	P 123,260	P 374,975	P 905,269
Additions	15,564	1,583	73,467	297,232	387,846
Disposals	-	(705)	-	(214)	(919)
Depreciation and amortization for the year	-	(8,276)	(33,619)	(144,038)	(185,933)
Balance at December 31, 2004, net of accumulated depreciation and amortization	P 334,331	P 80,869	P 163,108	P 527,955	P 1,106,263
December 31, 2004					
Cost	P 334,331	P 128,013	P 163,108	P 1,436,792	P 2,062,244
Accumulated depreciation and amortization	-	(47,144)	-	(908,837)	(955,981)
Net carrying amount	P 334,331	P 80,869	P 163,108	P 527,955	P 1,106,263

Under BSP rules, investments in fixed assets should not exceed 50% of a bank's unimpaired capital. As of December 31, 2005 and 2004, the Bank has satisfactorily complied with this BSP requirement.

12. EQUITY INVESTMENTS

Equity investments consist of the following:

	Consolidated			Parent		
	% Interest Held	**2005**	2004	% Interest Held	**2005**	2004
Subsidiaries:						
BDO Private Bank		**P -**	P -	100%	**P 2,579,460**	P 2,579,460
BDO Capital		**-**	-	100%	**300,000**	300,000
BDO Financial		**-**	-	100%	**100,000**	50,000
BDO Card		**-**	-	60%	**59,999**	59,999
BDO Realty		**-**	-	100%	**40,000**	40,000
BDO Insurance		**-**	-	100%	**9,999**	9,999
Onshore Strategic Assets, Inc. (see Note 22)		**-**	-	100%	**1,000**	-
Associates:						
SM Keppel Land, Inc.	50%	**1,294,044**	1,294,044	50%	**1,294,044**	1,294,044
Generali Pilipinas Holdings, Inc.	40%	**446,192**	398,192	30%	**378,000**	330,000
Redfort Assets, Ltd.	25%	**29,199**	30,988		**-**	-
		1,769,435	1,723,224		**4,762,502**	4,663,502
Accumulated equity in net losses:						
Balance at beginning of year		**(142,557)**	(90,644)		**-**	-
Equity in net losses during the year		**(96,619)**	(51,913)		**-**	-
Balance at end of year		**(239,176)**	(142,557)		**-**	-
Total at equity		**1,530,259**	1,580,667		**-**	-
At cost:						
Equitable PCI Bank (EPCIB)	3.4%	**1,400,000**	-	3%	**1,399,999**	-
Equitable Card Network, Inc. (ECNI)	10%	**600,000**	-	10%	**600,000**	-
Various investments		**21,677**	21,645		**21,638**	21,638
Total at cost		**2,021,677**	21,645		**2,021,637**	21,638
Allowance for impairment		**-**	-		**(334,514)**	(207,187)
		P 3,551,936	P 1,602,312		**P 6,449,625**	P 4,477,953

The Group's subsidiaries and associates are all incorporated in the Philippines, except for BDO Remittance, an indirectly owned subsidiary which is incorporated in Hongkong and Redfort Assets, Ltd. which was incorporated in the British Virgin Islands.

On August 5, 2005, the Bank, jointly with a related party, acquired shares of EPCIB and ECNI equivalent to a total of 24.8% of the total outstanding shares of EPCIB and a 10% interest in ECNI. The Bank's acquisition cost of the shares of stock of EPCIB amounted to P1,400,000 representing 3.4% of EPCIB's total outstanding shares while the acquisition cost for the shares of stock of ECNI amounted to P600,000, representing 10% of ECNI's total outstanding shares. Together with other related parties, the total combined ownership of the Group in EPCIB amounts to 29.7% of EPCIB's total outstanding shares as of December 31, 2005. On January 6, 2006, the Bank submitted an offer letter, which was valid until January 31, 2006, to the Board of Directors (BOD) of EPCIB proposing a merger of equals between the Bank and EPCIB with the Bank as the surviving entity.

The merger is proposed to be effected by a swap of shares with the ratio of the swap, determined at the option of the BOD of EPCIB, at: (a) 1.6 shares for each share of EPCIB or (b) based on the relative book values of both banks adjusted for comparability as determined by an independent accounting firm using PFRS.

As of December 31, 2005, the Bank's investment in the shares of stock of EPCIB and ECNI is carried at cost. The fair value of the shares of stock of EPCIB amounted to P1,449,558 as of December 31, 2005. The fair value of other equity investments is not reliably determinable either by reference to similar instruments or through valuation techniques.

13. INVESTMENT PROPERTIES

Investment properties include land and buildings held for capital appreciation.

A reconciliation of the carrying amounts at the beginning and end of 2005 and 2004, and the gross carrying amounts and the accumulated depreciation of investment properties in the parent company and consolidated financial statements, are shown below:

	Land	Buildings	Total
Balance at January 1, 2005, net of accumulated depreciation	P 4,165,392	P 804,722	P 4,970,114
Additions	820,024	14,538	834,562
Reclassification to non-current assets held for sale	(3,566,595)	(660,109)	(4,226,704)
Depreciation for the year	-	(20,935)	(20,935)
Impairment for the year	(65,405)	(95,327)	(160,732)
Balance at December 31, 2005, net of accumulated depreciation	**P 1,353,416**	**P 42,889**	**P 1,396,305**
December 31, 2005			
Cost	P 1,537,280	P 209,345	P 1,746,625
Accumulated depreciation	-	(85,666)	(85,666)
Accumulated impairment	(183,864)	(80,790)	(264,654)
Net carrying amount	**P 1,353,416**	**P 42,889**	**P 1,396,305**
Balance at January 1, 2004, net of accumulated depreciation	P 4,354,148	P 1,036,205	P 5,390,353
Depreciation for the year	-	(91,099)	(91,099)
Impairment during the year	(188,756)	(140,384)	(329,140)
Balance at December 31, 2004, net of accumulated depreciation	P 4,165,392	P 804,722	P 4,970,114
December 31, 2004			
Cost	P 4,354,148	P 1,210,649	P 5,564,797
Accumulated depreciation	-	(265,543)	(265,543)
Accumulated impairment	(188,756)	(140,384)	(329,140)
Net carrying amount	P 4,165,392	P 804,722	P 4,970,114

14. OTHER RESOURCES

Other resources consist of the following:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Noncurrent assets held by Onshore (see Note 23)	**P 8,931,622**	P -	**P -**	P -
Deposits under escrow (see Note 23)	**2,931,054**	2,931,400	**2,931,054**	2,931,400
Deferred tax assets (see Note 21)	**1,414,276**	1,609,933	**1,388,425**	1,559,217
Foreign currency notes and coins on hand	**715,093**	834,345	**715,093**	834,345
Goodwill (see Note 23)	**600,000**	-	**600,000**	-
Retirement benefit asset (see Note 20)	**185,232**	22,967	**166,103**	4,198
Deferred charges - net of amortization	**183,664**	261,561	**170,487**	246,962
Documentary stamps tax	**122,521**	52,438	**122,521**	52,438
Returned checks and other cash items	**84,915**	88,010	**84,915**	88,010
Others	**263,124**	256,338	**133,194**	212,535
	P 15,431,501	P 6,056,992	**P 6,311,792**	P 5,929,105

In the consolidated financial statements, non-current assets held by Onshore pertain to non-performing assets acquired by Onshore from United Overseas Bank of the Philippines (UOBP) in relation to the Group's acquisition of certain assets and branch licenses and assumption of certain liabilities of UOBP (see Note 23). This is presented under Other Resources as approved by the BSP.

Deposits under escrow amounting to P2,931,054 and P2,931,400 as of December 31, 2005 and 2004, respectively, pertain to the portion of the cash received by the Bank in consideration for its assumption of First e-Bank Corporation's deposits and other liabilities (see Note 23).

Amortization expense on deferred charges (mostly branch licenses and computer software) amounted to P5,286 in 2005 and P54,431 and are included in Other Expenses in the statements of income (see Note 18).

15. DEPOSIT LIABILITIES

This account is composed of the following:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Due to banks:				
Demand	**P 758,533**	P 594,765	**P 106,959**	P 80,615
Savings	**346,820**	255,591	**427,392**	255,591
Time	**4,306,829**	2,457,625	**1,064,778**	1,665
	5,412,182	3,307,981	**1,599,129**	337,871
Due to customers:				
Demand	**3,968,303**	3,025,878	**4,012,925**	3,046,733
Savings	**98,936,278**	77,419,782	**99,207,221**	77,600,767
Time	**51,349,360**	44,893,677	**51,372,261**	44,894,579
	154,253,941	125,339,337	**154,592,407**	125,542,079
Total	**P 159,666,123**	P 128,647,318	**P 156,191,536**	P 125,879,950

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Foreign currency	**P 61,648,890**	P 54,960,183	**P 59,192,904**	P 53,140,100
Peso	**98,017,233**	73,687,135	**96,998,632**	72,739,850
	P 159,666,123	P 128,647,318	**P 156,191,536**	P 125,879,950

The maturity profile of this account is presented below:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Less than one year	**P 125,568,448**	P 102,465,903	**P 124,611,812**	P 101,072,165
One to five years	**18,116,755**	13,486,664	**15,598,804**	12,113,034
Beyond five years	**15,980,920**	12,694,751	**15,980,920**	12,694,751
	P 159,666,123	P 128,647,318	**P 156,191,536**	P 125,879,950

Deposit liabilities are in the form of demand, savings and time deposit accounts bearing interest rates of 3.0% to 9.73% per annum in 2005 and 1.0% to 7.25% per annum in 2004. Demand and savings deposits usually have both fixed and variable interest rates while time deposit has fixed interest rates except for the peso-denominated long-term negotiable certificates of deposits which are repriced every quarter.

On December 23, 2004, BSP approved the Bank's application to issue in two or more tranches of up to P5,000,000 worth of peso-denominated long-term negotiable certificates of deposits within one year from date of approval. The first tranche amounting to P2,100,000 was issued on June 1, 2005 and will mature on June 2, 2010 and the second tranche amounting to P2,900,000 was issued on November 23, 2005 and will mature on November 24, 2010. This is presented as part of the Time Deposit account in the 2005 statement of condition.

16. BILLS PAYABLE

This account is composed of the following:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Local banks	**P 14,657,038**	P 5,857,480	**P 4,911,639**	P 3,457,283
Foreign banks	**14,743,834**	8,958,350	**12,637,806**	8,958,350
Senior notes	**8,038,431**	8,565,593	**8,038,431**	8,565,593
Philippine Deposit Insurance Corporation (PDIC) (see Note 23)	**4,426,225**	-	**4,426,225**	-
SMPHI (Preferred shares)	**2,776,718**	2,855,639	**2,776,718**	2,855,639
International Finance Corporation (IFC)	**532,754**	1,116,894	**532,754**	1,116,894
BSP	**170,351**	79,266	**170,351**	79,266
Others	**500,000**	1,174,077	**-**	1,174,077
	P 45,845,351	P 28,607,299	**P 33,493,924**	P 26,207,102

The breakdown of this account, as to currency follows:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Foreign currency	**P 27,265,482**	P 23,509,485	**P 24,036,164**	P 22,090,342
Peso	**18,579,869**	5,097,814	**9,457,760**	4,116,760
	P 45,845,351	P 28,607,299	**P 33,493,924**	P 26,207,102

The maturity profile of this account is presented below:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Less than one year	**P 25,905,879**	P 20,458,036	**P 14,107,201**	P 18,064,958
One to five years	**14,516,155**	7,389,766	**13,963,407**	7,382,647
Beyond five years	**5,423,317**	759,497	**5,423,316**	759,497
	P 45,845,351	P 28,607,299	**P 33,493,924**	P 26,207,102

Bills payable bears interest rates of 3.9% to 13.70% per annum in 2005 and 1.89% to 13.70% per annum in 2004.

On October 16, 2003, the Bank listed 6.5% US$150,000 senior notes in the Singapore Stock Exchange which will mature on October 16, 2008. The net proceeds from the issuance of the senior notes amounted to US$146,621 or about P8,890,000. Interest expense incurred by the Bank on these senior notes amounted to P538,975 in 2005 and P546,841 in 2004 (shown under Interest Expense on Bills Payable and Other Borrowings in the statements of income).

As required under PAS 32, *Financial Instruments: Disclosures and Presentation,* the 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$50,000. 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 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 Bank setup a sinking fund on October 17, 2005 for the redemption of the preferred shares. The balance of the sinking fund as of December 31, 2005 amounts to P570,008 and is invested in debt securities, shown as part of Held-to-Maturity Investments in the statements of condition (see Note 9). Dividends in arrears (recognized as interest expense) as of December 31, 2005 and 2004 amounted to P122,218 and P37,589 computed using the exchange rate at year end and are presented as part of Bills Payable account in the statements of condition.

On June 27, 2002, the Bank entered into a US$20,000 convertible loan agreement with IFC. IFC has the option to convert a portion of the loan into common shares of the Bank commencing two years after the date of the agreement for P16.70 per share. Total proceeds of the loan amounted to P1,111,720. In compliance with PAS 32, *Financial Instruments: Disclosure and Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, the Bank separated the equity component of the conversion option and unsecured loan with IFC. The balance of common stock option outstanding as of December 31, 2005 and 2004 amounted to P13,634 and P27,268, respectively. The loan bears interest at a rate of 4.03% per annum and will mature in 2008. Total interest paid by the Bank amounted to P31,710 in 2005 and P20,490 in 2004, of which P30,896 and P19,964, respectively, are charged to income and shown under Interest Expense on Bills Payable and Other Borrowings in the statements of income while P814 and P526, respectively, are recognized as dividends which were directly charged to capital funds.

Upon approval by the Bank's Board of Directors on February 11, 2005, the Bank converted US$10,000 convertible loan from IFC, qualified as Tier 2 capital, and issued 31,403,592 common shares of the Bank based on the conversion price of P16.70 per share and exchange rate of P52.44 to a dollar. The BSP subsequently approved the conversion on May 3, 2005.

17. OTHER LIABILITIES

Other liabilities consist of the following:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Accounts payable	**P 1,857,805**	P 808,144	**P 1,673,718**	P 744,590
Sundry credits	**1,756,415**	1,846,057	**1,756,415**	1,846,057
Due to UOBP (see Note 23)	**600,000**	-	**600,000**	-
Outstanding acceptances payable	**525,093**	557,961	**525,093**	557,961
Manager's checks	**469,268**	365,437	**469,269**	365,438
Accrued other taxes and licenses	**254,488**	244,159	**250,639**	241,950
Capitalized interest and other charges	**179,022**	126,817	**119,012**	126,817
Due to BSP	**110,553**	87,984	**110,553**	87,984
Due to insurance companies/Treasurer of the Philippines	**38,747**	45,993	**68,115**	17,697
Others	**1,069,299**	1,012,369	**749,559**	902,314
	P 6,860,690	P 5,094,921	**P 6,322,373**	P 4,890,808

Sundry credits pertain to bills purchase line availments which are settled on the third day from the transaction date.

Capitalized interests and other charges represent interest on restructured receivables from customers. These are recognized as income only upon collection.

18. CAPITAL FUNDS

18.1 Issuance of Global Depositary Receipts by Primebridge

On January 25, 2006 and February 14, 2006, Primebridge Holdings, Inc. (Primebridge), a stockholder owning 22.08% of the Bank's total outstanding shares as of December 31, 2005, offered and sold 9,056,000 global depositary receipts (GDRs) each representing 20 shares of the Bank's common stock with a par value of P10 per share. The GDRs constitute an offering in the United States only to qualified institutional buyers in reliance on Rule 144A under the U.S. Securities Act of 1993 (the "Securities Act") and an offering outside the United States in reliance on Regulation S under the Securities Act. The offered price for each GDR is US$12.70.

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

18.2 Surplus Free

On April 30, 2005, the BOD approved the declaration of cash dividend amounting to P0.65 per share or a total of P610,735 payable to stockholders on record as of July 11, 2005. The cash dividend was approved by the BSP on June 17, 2005 and was paid by the Bank on July 29, 2005.

On June 21, 2004, the BOD approved the declaration of cash dividend amounting to P0.50 per share or a total of P454,095, payable to common stockholders on record as of September 15, 2004. The cash dividend was approved by the BSP on August 17, 2004 and was paid by the Bank on September 27, 2004.

Dividends also include the portion of interest expense paid by the Bank to IFC attributable to the equity component (see Note 16). Total amount of dividends allocated to the equity component amounted to P814 and P526, respectively.

18.3 Qualifying Capital

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 Bank for purposes of determining the capital-to-risk assets ratio is total capital funds 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 Monetary Board 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.

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

18.4 Minimum Capital Requirement

Under an existing BSP circular, expanded commercial banks are required to comply with the minimum capital requirement of P4,950,000.

As of the dates of the statements of condition, the Bank has complied with the above capitalization requirement.

19. MISCELLANEOUS INCOME AND OTHER OPERATING EXPENSES

Miscellaneous income is composed of the following:

	Consolidated				Parent			
		2005		2004		**2005**		2004
Income from assets acquired	**P**	**41,778**	P	38,522	**P**	**41,778**	P	38,522
Miscellaneous - net		**6,975**		63		**89,938**		32,744
	P	**48,753**	P	38,585	**P**	**131,716**	P	71,266

Other operating expenses consist of the following:

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Advertising	**P 269,074**	P 87,000	**P 157,868**	P 29,982
Representation and entertainment	**190,483**	159,470	**150,928**	134,741
Management and other professional fees	**134,114**	46,508	**123,682**	32,669
Repairs and maintenance	**133,045**	130,761	**123,222**	117,995
Power, light and water	**116,616**	93,481	**91,437**	72,624
Banking fees	**106,504**	88,000	**102,000**	88,000
Travelling	**100,928**	79,923	**91,443**	72,413
Supplies	**94,966**	94,387	**71,222**	66,298
Amortization of deferred charges	**5,286**	54,431	**5,286**	54,431
Miscellaneous	**608,397**	225,368	**478,355**	202,763
	P 1,759,413	P 1,059,329	**P 1,395,443**	P 871,916

20. EMPLOYEES BENEFITS

Expenses recognized for employee benefits are presented below:

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Salaries and wages	**P 1,505,471**	P 1,193,265	**P 1,363,928**	P 1,079,829
Bonuses	**384,066**	311,539	**371,329**	303,745
Retirement - defined benefit plan	**70,846**	66,608	**66,958**	61,611
Social security costs	**58,728**	46,033	**56,545**	44,471
Other benefits	**89,864**	62,563	**75,729**	51,549
	P 2,108,975	P 1,680,008	**P 1,934,489**	P 1,541,205

The Group maintains a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all regular full-time employees.

The Group obtained an updated actuarial valuation as of January 1, 2004 to ascertain its transitional liability as of that date in accordance with PAS 19, *Employee Benefits*. The Group's transition to PAS 19 is discussed in Note 2. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit asset recognized and recorded as part of Other Resources account in the statements of condition are determined as follows:

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Present value of the obligation	**(P 645,394)**	(P 473,755)	**(P 607,021)**	(P 450,205)
Fair value of plan assets	**796,356**	510,203	**750,005**	471,177
Excess of plan assets	**150,962**	36,448	**142,984**	20,972
Unrecognized actuarial losses (gains)	**34,270**	(13,481)	**23,119**	(16,774)
Retirement benefit asset	**P 185,232**	P 22,967	**P 166,103**	P 4,198

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

	Consolidated 2005	Consolidated 2004	Parent 2005	Parent 2004
Current service costs	**P 53,499**	P 53,306	**P 49,246**	P 50,181
Interest costs	**68,220**	51,666	**64,830**	49,794
Expected return on plan assets	**(51,020)**	(38,364)	**(47,118)**	(38,364)
Net actuarial losses recognized	**147**	-	**-**	-
Retirement benefits	**P 70,846**	P 66,608	**P 66,958**	P 61,611

The movements in the retirement benefit assets recognized in the books are as follows:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Balance at beginning of year	**P 22,967**	(P 36,407)	**P 4,198**	(P 21,191)
Expense recognized	**(70,846)**	(66,608)	**(66,958)**	(61,611)
Contributions paid	**233,111**	125,982	**228,863**	87,000
Balance at end of year	**P 185,232**	P 22,967	**P 166,103**	P 4,198

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Discount rates	**12%**	14%	**12%**	14%
Expected rate of return on plan assets	**10%**	10%	**10%**	10%
Expected rate of salary increases	**10%**	10%	**10%**	10%

21. TAXATION

21.1 Current and Deferred Taxes

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Statements of income:				
Current tax expense:				
Regular corporate income tax (RCIT) (at 35% in 2005 and 32% in 2004)	**P 46,856**	P 8,167	**P -**	P -
Minimum corporate income tax (MCIT) (at 2%)	**29,111**	37,454	**29,111**	28,433
Final tax: At 20%, 15%, 10% and 7.5%	**265,579**	202,923	**234,856**	167,472
	341,546	248,544	**263,967**	195,905
Deferred tax expense (income) relating to origination and reversal of temporary differences	**189,741**	(287,674)	**170,792**	(286,021)
Tax expense (income) reported in the statements of income	**P 531,287**	(P 39,130)	**P 434,759**	(P 90,116)

	Consolidated		Parent	
	2005	2004	**2005**	2004
Statements of changes in capital funds:				
Deferred tax relating to fair value gain on available-for-sale financial assets	**P 5,916**	P 1,225	**P -**	P -
Tax income reported in the statements of changes in capital funds	**P 5,916**	P 1,225	**P -**	P -

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Tax on pretax income (at 35% in 2005 and 32% in 2004)	**P 1,076,181**	P 618,721	**P 1,016,792**	P 455,854
Adjustment for income subjected to lower income tax rates	**(235,518)**	(229,795)	**(260,112)**	(120,398)
Tax effects of:				
NOLCO not recognized	**474,522**	169,545	**451,276**	130,422
Non-deductible expenses	**442,577**	189,608	**313,667**	161,685
Deductible temporary differences not recognized	**190,442**	29,135	**224,992**	25,939
Impairment loss on investment in a subsidiary	**2,394**	5,312	**-**	-
Interest expense on convertible loan	**(285)**	-	**(285)**	-
Benefit from utilization of unrecognized MCIT	**(3,085)**	-	**-**	-
Dividend income not subject to tax	**-**	-	**(128,774)**	(2,948)
Application of unrecognized NOLCO	**(18,540)**	-	**-**	-
Income exempted from tax	**(626,359)**	(339,804)	**(446,345)**	(299,105)
Tax-exempt income of foreign currency deposit units (FCDU)	**(771,042)**	(481,852)	**(736,452)**	(441,565)
Tax expense (income) reported in the statements of income	**P 531,287**	(P 39,130)	**P 434,759**	(P 90,116)

The components of the deferred tax assets (shown under Other Resources account) as of December 31, 2005 and 2004 are as follows:

	Statement of Condition			
	Consolidated		Parent	
	2005	2004	**2005**	2004
Deferred tax assets:				
Allowance for probable losses	**P 1,307,951**	P 1,413,199	**P 1,307,951**	P 1,412,928
Unamortized past service cost	**84,311**	83,865	**80,474**	79,809
Unrealized loss on asset conversion	**14,565**	13,317	**-**	-
Unrealized loss on trading securities	**12,122**	22,743	**-**	-
Accrual of expenses	**2,445**	17,442	**-**	15,394
Prepaid MCIT	**33**	60,182	**-**	51,086
NOLCO	**-**	420	**-**	-
Sub total	**1,421,427**	1,611,168	**1,388,425**	1,559,217
Deferred tax liabilities:				
Changes in fair values of available-for-sale financial assets	**(7,151)**	(1,235)	**-**	-
Net Deferred Tax Assets	**P 1,414,276**	P 1,609,933	**P 1,388,425**	P 1, 559,217

	Statement of Income			
	Consolidated		Parent	
	2005	2004	**2005**	2004
Unamortized past service cost	**(P 446)**	(P 26,138)	**(P 665)**	(P 29,157)
Unrealized gain on trading securities	**10,621**	(5,219)	**-**	-
Accrual of expenses	**14,997**	(9,165)	**15,394**	-
Unrealized loss on asset conversion	**(1,248)**	-	**-**	-
Prepaid MCIT	**60,149**	9,021	**51,086**	-
Allowance for probable losses	**105,248**	(256,593)	**104,977**	(256,864)
NOLCO	**420**	420	**-**	-
Deferred Tax Expense (Income)	**P 189,741**	(P 287,674)	**P 170,792**	(P 286,021)

	Consolidated Statements of Changes in Capital Funds	
	2005	2004
Changes in fair values of available-for-sale financial assets	**P 5,916**	P 1,225
Deferred Tax Income	**P 5,916**	P 1,225

The Group has a NOLCO of P2,246,592 and P2,877,997 in the parent company and consolidated financial statements, respectively, as of December 31, 2005 that can be claimed as deduction against taxable income for the next three consecutive years after the NOLCO was incurred.

The breakdown of NOLCO with the corresponding validity periods follow:

Year	Consolidated	Parent	Valid Until
2005	P 1,384,876	P 1,289,362	2008
2004	859,635	407,569	2007
2003	633,486	549,661	2006

In the parent company and consolidated financial statements, the deferred tax asset arising from the 2002 NOLCO amounting to P558,964 and P563,816, respectively, expired in 2005.

As of December 31, 2005, the Group has MCIT totaling P77,812 and P84,361 in the parent company and consolidated financial statements, respectively, that can be applied against regular corporate income tax for the next three consecutive years after the MCIT was incurred. The breakdown of MCIT with the corresponding validity periods follow:

Year	Consolidated	Parent	Valid Until
2005	P 29,111	P 29,111	2008
2004	31,760	28,433	2007
2003	23,490	20,268	2006

In the parent company and consolidated financial statements, the deferred tax asset arising from the 2002 MCIT amounting to P2,385 expired in 2005.

21.2 Relevant Tax Regulations

Among the significant provisions of the National Internal Revenue Code (NIRC) that apply to the Group are the following:

a. The regular corporate income tax of 32% (35% starting November 1, 2005) is imposed on taxable income net of applicable deductions;

b. Fringe benefits tax (same rate as the 32% corporate income tax) is imposed on the grossed-up value of the benefits given by employers to their managerial and supervisory employees (this is a final tax to be paid by the employer);

c. MCIT of 2% based on gross income, as defined under the Tax Code, is required to be paid at the end of the year starting on the fourth year from the date of registration with the Bureau of Internal Revenue (BIR) whenever the RCIT is lower than the MCIT;

d. NOLCO can be claimed as deduction against taxable income within three years after NOLCO is incurred;

e. The amount of interest expense allowed as income tax deduction is reduced by an amount equal to 38% of the interest income subjected to final tax;

f. FCDU transactions with non-residents of the Philippines and other offshore banking units (offshore income) are tax-exempt;

g. Foreign currency transactions with foreign currency deposit units, local commercial banks, and branches of foreign banks are subject to 10% withholding tax; and,

h. Withholding tax of 7.5% is imposed on interest earned by residents under the expanded foreign currency deposit system.

21.3 New Tax Regulations

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

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

b. 10% VAT will remain unchanged, with the President having a stand-by authority effective January 1, 2006 to increase the VAT rate to 12% under certain conditions (the rate was increased by the President to 12% effective February 1, 2006);

c. 10% (12% starting February 1, 2006) VAT will now be imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

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

e. Creditable input VAT is capped by a maximum of 70% of output VAT per quarter.

21.4 Gross Receipts Tax (GRT)/Value Added Tax (VAT)

Beginning January 1, 2003, the imposition of VAT on banks and financial institutions became effective pursuant to the provisions of Republic Act 9010. The Bank and BDO Private Bank became subject to the VAT of 10% based on their gross receipts, in lieu of the GRT under Sections 121 and 122 of the Tax Code which was imposed on banks, non-banks financial intermediaries and finance companies in prior years.

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

On May 24, 2005, the amendments on RA 9337 was approved amending, among others, the gross receipts tax on royalties, rentals of property, real or personal, profits from exchange and on net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments from 5% to 7% effective November 1, 2005.

21.5 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 P1.00 on each P200 or fractional part thereof of the issue price of any such debt instrument. Provided, that for such debt instruments with terms of less than one year, the DST to be collected shall be of a proportional amount in accordance with the ratio of its term in number of days to 365 days. Provided further that only one DST shall be imposed on either loan agreement or promissory notes to secure such loan.

b. On all sales or transfer of shares or certificates of stock in any corporation, there shall be collected a DST of P0.75 on each P200, or fractional part thereof, of the par value of such stock.

c. On all bills of exchange or drafts, there shall be collected a DST of P0.30 on each P200, or fractional part thereof, of the face value of any such bill of exchange or draft.

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

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed P250,000 or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of R.A. 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.

22. TRUST OPERATIONS

The following securities and other properties held by the Bank in fiduciary or agency capacity (for a fee) for its customers are not included in the accompanying statements of condition since these are not properties of the Bank (see Note 27).

	Consolidated		Parent	
	2005	2004	**2005**	2004
Investments	**P 89,485,077**	P 69,380,206	**P 89,485,077**	P 69,380,206
Others	**22,298,065**	19,085,798	**22,297,995**	19,085,798
	P 111,783,142	P 88,466,004	**P 111,783,072**	P 88,466,004

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 P889,400 as of December 31, 2005 and P837,310 as of December 31, 2004 are deposited with BSP as security for the Bank's faithful compliance with its fiduciary obligations (see Note 9); and

b. A certain percentage of the Bank's trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. As of December 31, 2005, the reserve for trust functions amounted to P135,725 and is shown as Surplus Reserves in the statements of changes in capital funds.

Income from trust operations is reported net of the related expenses and amounted to P422,777 and P375,516 for the years ended December 31, 2005 and 2004, respectively, and shown under Trust Fees in the statements of income.

23. MERGERS AND ACQUISITIONS

23.1 United Overseas Bank Philippines

On May 6, 2005, the Bank and United Overseas Bank Philippines (UOBP) and United Overseas Bank Limited (UOBL) signed a Memorandum of Agreement (MOA) whereby the Bank acquired the 66 branches of UOBP for a total cash consideration of P600,000. As part of the MOA, the Bank assumed the deposit liabilities of UOBP in consideration of an equivalent amount of related assets of UOBP, including cash payment in case the assets would be lower than the assumed liabilities. Also under the MOA, the P600,000 payment of the Bank will be used by UOBL to subscribe for the Bank's shares of common stock valued at P26.75 per share, or equivalent to 22,429,906 shares. On December 19, 2005, the transfer of the assets including cash payment made by UOBP to fully offset the assumed liabilities by the Bank was carried out.

The accounts assumed by the Bank and the resulting goodwill are determined as follows:

Cash consideration	P 600,000
Assets acquired and liabilities assumed:	
Assets acquired:	
Cash	279,960
Due from other banks	10,649
Held-to-maturity investments	693,768
Loans and receivables	5,418,411
Bank premises, furniture, fixtures and equipment	209,400
Other resources	1,857,222
Total assets acquired	8,469,410
Liabilities assumed:	
Deposit liabilities	8,414,278
Other liabilities	55,132
Total liabilities assumed	8,469,410
Net assets acquired over liabilities assumed	-
Goodwill	P 600,000

The goodwill amounting to P600,000 is presented as part of Other Resources in the 2005 statement of condition (see Note 14) while the Bank's liability to UOBL relating to the acquisition amounting to P600,000 is presented as part of Other Liabilities in the 2005 statement of condition (see Note 17).

The UOBP acquisition was approved by the BSP on September 8, 2005 while the shares to be subscribed by UOBL were subsequently issued in February 2006.

As part of the MOA, a special purpose entity is created to acquire the non-performing assets (loans and real and other properties acquired) of UOBP (excluded in the net assets acquired by the Bank above). Accordingly, on November 21, 2005, Onshore, a wholly-owned subsidiary of the Bank, was incorporated to acquire and subsequently dispose of the non-performing assets of UOBP (see Note 14). To effect the acquisition of Onshore of the non-performing assets of UOBP, the Bank and UOBL provided a loan to Onshore amounting to P4,822,598 and P3,955,845, respectively. Moreover, UOBL guaranteed to compensate any losses incurred by Onshore including the satisfaction of Bank's loan to Onshore.

Also as part of the MOA, the Bank received financial assistance from Philippine Deposit Insurance Corporation (PDIC) amounting to P4,420,000 (see Note 16). The financial assistance which is recorded as part of Bills Payable in the 2005 statement of condition will mature on December 19, 2012 and bears annual interest rate of 3.90%. The related interest expense amounted to P6,225 in 2005 is shown as part of Interest Expense in the 2005 consolidated statement of income. As of December 31, 2005, the proceeds of the financial assistance from PDIC are invested in government securities as provided for in the MOA.

23.2 BDO Private Bank

On July 14, 2003, the Bank acquired 100% of the shares of stock of Banco Santander Philippines, Inc. (BSPI) from Santander Central Hispano, S.A. (BSCH) and certain minority shareholders at P2,579,460 representing BSPI's adjusted net book value as of July 31, 2003. The total assets and total liabilities of BDO Private Bank as of July 31, 2003 amounted to P5,038,599 and P2,459,139, respectively.

Simultaneous with the acquisition, the Bank executed an Escrow Agreement with BSCH whereby 10% of the purchase price and 10% of BSPI's shares were held by an escrow agent to be acquired by the Bank on a date mutually agreed upon by and between the Bank and BSCH which shall not exceed a period of nine months from the first closing date.

The amount and the 10% BSPI shares were subsequently released from escrow on February 26, 2004.

The change in the name of BSPI to BDO Private Bank was approved by the SEC on February 27, 2004.

23.3 First e-Bank

In a Memorandum of Agreement (MOA) dated October 22, 2002, the Bank assumed the deposit and other liabilities of First e-Bank Corporation (1st e-Bank), up to a maximum of P10,000,000 effective October 23, 2002. The breakdown of these liabilities follows:

Deposit liabilities	P 9,010,000
Bills payable	203,000
Overnight clearing line	779,000
Other liabilities	8,000
	P 10,000,000

In consideration for the assumption of 1st e-Bank's deposit and other liabilities, the Bank received from the former P10,000,000 in October 2002; of this amount, P2,931,054 and P2,931,400 remains in escrow as of December 31, 2005 and 2004, respectively, pending compliance by the Bank with certain terms and conditions as stipulated in the MOA (see Note 14).

24. RELATED PARTY TRANSACTIONS

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

a. Under existing policies of the Group, these loans are made on substantially the same terms as loans granted to other individuals and businesses of comparable risks. The General Banking Act and BSP regulations limit the amount of the loans granted by a Group to a single borrower to 25% of capital funds. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of the deposit and book value of their investment in the Group. In the aggregate, loans to DOSRI generally should not exceed the total capital funds or 15% of the total loan portfolio of the Group, whichever is lower.

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Total outstanding DOSRI loans	**P 7,200,342**	P 7,748,643	**P 7,179,460**	P 7,721,419
Unsecured DOSRI loans	**P 20,846**	P 39,004	**P 20,256**	P 38,133
% to total loan portfolio	**8.69%**	12.13%	**8.39%**	12.19%
% of unsecured DOSRI loans to total DOSRI loans	**0.29%**	0.5%	**0.28%**	0.5%

   In the parent company financial statements, the Bank extended a single purpose accommodation of P4,822,598 to Onshore as a requisite to completing its acquisition of the sixty-six (66) branches of UOBP and their corresponding deposit liabilities. The Bank submitted to the BSP its Memorandum of Agreement dated May 6, 2005 with UOBP and UOBL covering said branch network acquisition, including exemption of the aforesaid accommodation from the Bank's DOSRI limits.

In 2005, the Group has a past due DOSRI loan amounting to P4,437 (P4,439 in 2004) which represents 0.06% of the total DOSRI loans as of December 31, 2005 both in the parent company and consolidated financial statements.

b. As of December 31, 2005 and 2004, total deposit made by the related parties to the Group amounted to P137,696,576 and P14,852,118, respectively. The related interest expense from deposits amounted to P123,717 and P3,280 in 2005 and 2004, respectively.

c. The Group leased from related parties space for its branch operations. For the years ended December 31, 2005 and 2004, total rent expense paid to related parties amounted to P137,918 and P120,204, respectively, and is included as part of Occupancy in the statements of income.

d. The salaries and other compensation given to the Group's key management personnel amounted to P109,092 and P79,623 in 2005 and 2004, respectively, in the parent company financial statements and P164,863 and P132,936 in 2005 and 2004, respectively, in the consolidated financial statements.

25. EARNINGS PER SHARE

Basic earnings per share were computed as follows:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Net income attributable to equity holders of the parent	**P 2,586,191**	P 2,021,038	**P 2,470,362**	P 1,514,661
Divided by the weighted average number of outstanding common shares (in thousands)	**935,808**	908,189	**935,808**	908,189
Basic earnings per share	**P 2.76**	P 2.23	**P 2.64**	P 1.67

Diluted earnings per share is computed as follows:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Net income attributable to equity holders of the parent	**P 2,586,191**	P 2,021,038	**P 2,470,362**	P 1,514,661
Interest expense on convertible loan, net of tax	**20,854**	13,575	**20,854**	13,575
Total diluted net income	**2,607,045**	2,034,613	**2,491,216**	1,528,236
Divided by the weighted average number of outstanding common shares (in thousands):				
Outstanding common shares	**935,808**	908,189	**935,808**	908,189
Potential common shares from assumed conversion of convertible loans	**31,407**	34,010	**31,407**	34,010
Total weighted average common shares after conversion	**967,215**	942,199	**967,215**	942,199
Diluted earnings per share	**P 2.70**	P 2.16	**P 2.58**	P 1.62

26. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some measures of the Group and the Bank's financial performance:

	Consolidated		Parent	
	2005	2004	**2005**	2004
Return on average equity:				
$\frac{\text{Net income}}{\text{Average total capital accounts}}$	**13.9%**	12.9%	**13.6%**	12.9%
Return on average assets:				
$\frac{\text{Net income}}{\text{Average total assets}}$	**1.2%**	1.2%	**1.3%**	1.3%
Net interest margin:				
$\frac{\text{Net interest income}}{\text{Average interest earning assets}}$	**3.8%**	3.5%	**3.6%**	3.3%
Capital to risk assets ratio:				
$\frac{\text{Total capital}}{\text{Risk assets}}$	**18.3%**	24.5%	**15.4%**	20.8%

	Consolidated		Parent	
	2005	2004	**2005**	2004
b. Secured Liabilities and Assets Pledged as Security				
Aggregate amount of secured liabilities	**P 10,755,711**	P 1,504,259	**P 10,755,711**	P 1,504,259
Aggregate amount of assets pledged as security	**P 12,527,906**	P 5,107,256	**P 12,527,906**	P 5,107,256

Government securities purchased amounting to P2,932,493 in 2004 (shown as part of Financial Assets at Fair Value Through Profit or Loss account in the 2004 statement of condition) were pledged as security to EPCIB for the loans granted to SMIC, a stockholder. On April 20, 2005, said loans with EPCIB matured and a notice of release of the government securities pledged was issued by EPCIB.

27. COMMITMENTS AND CONTINGENT LIABILITIES

27.1 Agreement with Social Security System (SSS)

The Bank signed a letter agreement dated December 30, 2003 with SSS regarding the sale of the latter's investment in 187,847,891 common shares of stock in Equitable PCI Bank, Inc. (EPCI), a local universal bank, with a par value of P10 per share constituting approximately 25.8% ownership in EPCI. The stated consideration consists of (a) 6 1/2 year, zero-coupon, non-amortizing note to be issued by the Bank with a face value of P12,935,842 and (b) a cash payment of P1,000,000. The market value of EPCI's shares as of December 31, 2003 amounted to P33.50 per share. The note shall be secured by any combination of the following: (a) cash, (b) Philippine Government Securities, (c) mutually acceptable securities of highly-rated Philippine corporations, (d) shares at 90% valuation at market, and (e) any other mutually acceptable securities.

The Bank and SSS committed to execute a final Purchase Agreement under which the Bank will issue the note and remit the cash payment and SSS will transfer all the rights, title and interest in and to the shares to the Bank on or before September 30, 2004. The SSS failed to execute the Share Purchase Agreement within the prescribed period and the Bank has filed an action for specific performance with the Regional Trial Court of Mandaluyong to compel SSS to comply with its obligations under the letter agreement with the Bank dated December 30, 2003.

SSS announced that the EPCI shares would be subjected to a public auction scheduled on October 30, 2004 under the terms of a Swiss Challenge whereby the Bank will be given the right to match the highest bid price. The auction has been put on hold by the Supreme Court following a petition by certain parties.

As of December 31, 2005, the Bank has not issued a note nor remitted cash payment to SSS.

27.2 Leases

The Group leases the premises for its head office and most of its branch offices for periods ranging from 1 to 15 years from the date of the contracts, which terms are renewable upon the mutual agreement of the parties. Rent expense amounted to P339,273 in 2005 and P294,555 in 2004 in the parent company financial statements and P365,738 in 2005 and P318,023 in 2004 in the consolidated financial statements (included under Occupancy account in the statements of income).

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

	Consolidated	Parent
2006	P 397,423	P 368,320
2007	448,983	416,960
2008	505,688	470,463
2009	568,065	529,317
2010	636,678	594,056

27.3 Others

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2005, no additional material losses or liabilities are required to be recognized in the accompanying financial statements as a result of the above commitments and transactions.

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

	Consolidated		Parent	
	2005	2004	**2005**	2004
Trust department accounts (see Note 22)	**P 111,783,142**	P 88,466,004	**P 111,783,072**	P 88,466,004
Unused commercial letters of credit	**6,576,081**	5,812,902	**6,576,081**	5,812,902
Bills for collection	**1,669,243**	886,813	**1,669,243**	886,813
Outstanding guarantees issued	**849,335**	3,255,702	**849,335**	3,255,702
Late deposits/payments received	**501,330**	515,857	**501,330**	515,857
Others	**19,099,537**	11,185,687	**5,743,124**	2,827,247

The Group, together with a number of other banks in the Philippines, has been challenged by the BIR with respect to its practice of accepting passbook deposits for higher interest rate fixed-term deposits and its FCDU transactions. The BIR claims that documentary stamps tax is payable upon the opening or acceptance of such passbook deposits and has claimed up to P308,290 in taxes from the Group in respect of the past ten years. The Group has filed a protest against these claims, and the Group believes that it has a valid defense against these proceedings. The BIR also claims that GRT, DST and VAT are due on the FCDU transactions of the Bank and BDO Private, and a majority of the banks operating in the Philippines.

The Group is also a defendant in various cases pending in courts for alleged claims against the Group, the outcome of which are not fully determinable at present. As of December 31, 2005, management believes that, liabilities or losses, if any, arising from these claims would not have a material effect on the financial position and results of operations of the Group.

Management Directory
As of December 31,2005

Chairman Emeritus
Henry Sy, Sr.

BOARD OF DIRECTORS

Chairman (until August 5, 2005)
Teresita T. Sy

Vice-Chairman
Jesus A. Jacinto, Jr.

President
Nestor V. Tan

MEMBERS
Ismael M. Estella
Violeta O. LuYm
Antonio C. Pacis
(Corporate Secretary)
Senen T. Mendiola
Teodoro B. Montecillo
(Independent Director)
Nestor V. Tan
Jimmy T. Tang
(Independent Director)
Christopher A. Bell-Knight
(Independent Director)
Josefina N. Tan
(until August 27, 2005)

BOARD ADVISORS
Teresita T. Sy
Josefina N. Tan
Jose T. Sio

LIST OF OFFICERS

AFD & HRM
Senior Vice President
Perla F. Toledo

Vice Presidents
Francisco T. Gaspar
Yolanda M. Go
Aurea Imelda S. Montejo

Senior Asst. Vice Presidents
Eugenio D. Chua
Rosemarie M. Espinosa

Asst. Vice President
Emilio B. Naraval III

BRANCH BANKING GROUP
Executive Vice President
Jaime C. Yu

Senior Vice Presidents
Beatriz L. Bagsit
Geronimo D. Diaz
Ruby G. Lim
Maria Corazon A. Mallillin
Ramon T. Militar

First Vice President
Lorna A. Tan

Vice Presidents
Lily C. Huang
Yolanda A. Pilapil
Judy C. Tan

Senior Asst. Vice Presidents
Wilma N. Berioso
Eugenio R. Concepcion
Cezar G. Domingo
Crispin G. Domingo
Emmanuel Antonio R. Gomez
Benjamin A. Larin, Jr.
Ma. Dolores A. Liwanag
Wilhelmino R. Mendoza
Felicitas C. Nonato
Rita Y. Poa
Ester A. Recio
Teresita C. Siy
Wendeline Therese M. Tumolva
Maria Dolores C. Uyliapco
Dandy T. Yap

Asst. Vice Presidents
Jocelyn A. Ang
Felina M. Arellano
Jimmy A. Belarmino
Rose R. Beltran
Regina G. Caynap
Pacita O. Cham
Iris Susan F. De Guzman
Priscilla R. De Villa
Ma. Juanita B. Delos Santos
Fe R. Felix
Florencio Aquillo V. Florendo
Perlita S. Flores
Ma. Dolores P. Magsalin
Gaudencio F. Mendoza
Christina T. Nakanishi
Edna T. Rogando
Merlita T. Rubio
Ma. Margaret N. Tan
Zenaida A. Triunfante

CARD PRODUCTION CENTER
Senior Asst. Vice President
Lolita A. Valdez

COMMERCIAL BANKING GROUP
Senior Vice Presidents
Julie Y. Chua
Ernesto T. Uy

Vice President
Susan C. Ong

Senior Asst. Vice Presidents
Edelwina Victoria E. Millan
Agnes C. Tuason

Asst. Vice Presidents
Dory C. Apacible
Helen T. Chua
Jane N. Cua
John Emmanuel M. Lizares
Emily T. Oquias

COMPLIANCE
Vice President
Mario D. Rabanal

COMPTROLLERSHIP
Senior Vice President
Lucy C. Dy

Vice President
Ma. Lucila C. Cruz

Senior Asst. Vice Presidents
Victoriano F. Inocentes, Jr.
Cristina G. Ngo
Larry G. Ong

Asst. Vice Presidents
Lolita L. Damasco
Normita DJ. Lising
Edilberto A. Malapitan
Thelma DR. Mazo
Anita U. Mustera
Nelia T. Resol
Ma. Theresa F. Rosales
Aniana A. Timbre

CONSUMER LENDING GROUP
Executive Vice President
Rolando C. Tanchanco

Vice Presidents
Antonio O. Peña
Anna Lissa U. Yap

Senior Asst. Vice President
Dulce Amor E. Alimbuyuguen

Asst. Vice Presidents
Angela Juvy C. Bandong
Gwyneth M. Entao
Grace G. Lastimosa

CORPORATE BANKING
Senior Vice President
Edmundo S. Soriano

First Vice President
Raymundo Martin M. Escalona

Vice Presidents
Jose O. Garcia
Manuel Z. Locsin, Jr.
Charles M. Rodriguez
Reynaldo A. Tanjangco, Jr.

Asst. Vice Presidents
Anna Marie M. Benipayo
Joseph Rhoderick B. Lledo
Carla Sherrylyn C. Papa
Maria Natividad A. Pobre
Albert Henry G. Rios

CREDIT & RISK MANAGEMENT
Executive Vice President
Evelyn L. Villanueva

First Vice President
Lilia E. Lising

Vice Presidents
Amelia Caridad C. Castelo
Maria Pia L. Maceda
Jesus A. Mañego, Jr.

Senior Asst. Vice Presidents
Maria Cecilia M. Avila
Rodolfo M. Carlos, Jr.
David M. Dela Cruz
Ma. Martha B. Roxas

Asst. Vice Presidents
Peter Blair S. Agustin
Ma. Teresa E. Flores
Milton Joseph C. Tiburcio, Jr.

INTERNATIONAL BANKING UNIT
First Vice President
Lilia B. Palines

Asst. Vice Presidents
Rolando S. San Diego
Marissa F. Tomas

INTERNAL AUDIT
Senior Vice President
Shirley M. Sangalang

Senior Asst. Vice President
Ronald M. Manalastas

Asst. Vice Presidents
Giovanni M. Bautista
Janet S. Cahilig
Manuel S. Lim, Jr.
Raul N. Natividad

INVESTOR RELATIONS & CORPORATE PLANNING
Senior Vice President
Luis S. Reyes, Jr.

First Vice President
Rosalina J. Pascual

Senior Asst. Vice President
Anthony R. Milan

INFORMATION TECHNOLOGY GROUP
Senior Vice President
Judy S. Tan

First Vice Presidents
Lydia C. King
Arthur L. Tan

Vice President
Bernardina T. Chiu

Asst. Vice Presidents
Ponciano D. Adriano, Jr.
Rolino C. Bucao, Jr.
Rommel L. Parong
Fernando P. Rima, Jr.
Isidro G. Sanvictores, Jr.

LEGAL DEPARTMENT
Asst. Vice President
Irene C. Ishiwata

MARKETING COMMUNICATIONS GROUP
Vice President
Edith D. Dychiao

OFFICE OF THE PRESIDENT
First Vice President
Angelita O. Cortez

PROPERTY MANAGEMENT DEPARTMENT
Senior Asst. Vice President
Ma. Victoria F. Dela Cruz

Asst. Vice President
Mary C. Go

SYSTEMS & METHODS
Senior Asst. Vice President
Peter S. Lo, Jr.

TRANSACTION BANKING GROUP
Senior Vice President
Ismael G. Estela, Jr.

First Vice Presidents
Jaime M. Nasol
Ophelia S. Salva

Vice President
Jonathan C. Diokno

Senior Asst. Vice President
Ma. Mercedes P. Tioseco

Asst. Vice Presidents
Ma. Dina B. Desembrana
Edith T. Lee
Tomas Victor A. Mendoza
Leocente G. Reyes

TREASURY GROUP
Executive Vice President
Pedro M. Florescio III

Senior Vice President
Marilyn K. Go

First Vice President
Montiel H. Delos Santos

Vice Presidents
Ruby A. Chua
Lilian T. Khu
Luisito S. Salazar
Noel B. Sugay

Senior Asst. Vice Presidents
Bernard M. Florencio
Geneva T. Gloria
Eduardo C. Ramos
Jonathan L. Ravelas
Marylou D. Sonkengpo
Edna R. Tarroza
Alice O. Teh

Asst. Vice Presidents
Ma. Ana Elena R. Reyes
Maria Teresa C. Velasco
Jay S. Wong

TRUST BANKING
Executive Vice Presidents
Ador A. Abrogena

First Vice President
Ma. Lourdes T. De Vera

Vice President
Noel L. Andrada

Senior Asst. Vice President
Proceso Z. Mendoza, Jr.

Asst. Vice Presidents
Armina C. Empeño
Florencia Ma. Carina P. Esguerra
Sharon Mae S. Vicente

BDO Subsidiaries
As of December 31,2005

BDO CAPITAL & INVESTMENT CORP.
President
Rogelio R. Cabuñag

Executive Vice President
Eduardo V. Francisco

First Vice Presidents
Lynette O. De Leon
Lazaro Jerome C. Guevarra

Asst. Vice President
Michael R. Cahigas

BDO CARD CORPORATION
Vice Presidents
Susan Audrey C. Punsalang
Maria Nannette R. Regala

Senior Asst. Vice Presidents
Sarah Jessica M. Navarro
Myla R. Untalan

BDO PRIVATE BANK, INC.
President
Josefina N. Tan

Executive Vice President
Andrew D. Alcid

Senior Vice President
Jose Emmanuel U. Hilado

First Vice President
Stella L. Cabalatungan

Vice Presidents
Gamalielh Ariel O. Benavides
Martin B. Ordoñez
Agnes B. Santos
Federico P. Tancongco

Senior Asst. Vice Presidents
Rita V. Coronel
Enrico R. Hernandez
Ma. Remedios B. Lapuz
Juan Sabino P. Lizares

Asst. Vice Presidents
Manuel R. Bengson, Jr.
Cheryll B. Gaviño
Paul Alexis T. Golez
Mary Grace O. Lojo
Ma. Ramona T. Torres
Beatriz Y. Zalazar

BDO REALTY CORP.
President
Danilo A. Antonio

Vice President
Joseph Ramil B. Lombos

Senior Asst. Vice President
Mary Ann C. Guerra

Asst. Vice President
Antonio M. Cruz

BDO SECURITIES CORP.
President
Eduardo V. Francisco

Vice Presidents
Jonathan T. Cua
Jose Noel M. Mendoza

Asst. Vice President
Jose Rene C. Carlos

BDO FINANCIAL SERVICES, INC.
President
Virginia A. Yap

Vice President
Imelda I. Elido

Asst. Vice President
Dennis Anthony B. Zamora

BDO REMITTANCE LTD.
Directors
Marilyn K. Go
Lucy C. Dy

Managing Director
Geneva T. Gloria

BDO INSURANCE BROKERS, INC.
President
Jesus A. Jacinto, Jr.

Senior Vice President
Peter Roy R. Locsin

Senior Asst. Vice President
Laarni C. Santos

Asst. Vice Presidents
Helen L. Gochuico
Racquel Lourdes L. Mendoza
Ana Liza C. Tan

Bank Committees

MEMBERSHIP OF THE BOARD COMMITTEES
Executive Committee
Jesus A. Jacinto, Jr.
Nestor V. Tan

AUDIT COMMITTEE
Teodoro B. Montecillo - *Chairman*
(Independent Director)
Violeta O. LuYm
Ismael M. Estella
Antonio C. Pacis
Christopher Bell-Knight
(Independent Director)

RISK MANAGEMENT COMMITTEE
Nestor V. Tan - *Chairman*
Teodoro B. Montecillo
(Independent Director)
Antonio C. Pacis
Christopher Bell-Knight
(Independent Director)

CORPORATE GOVERNANCE COMMITTEE
Teodoro B. Montecillo - *Chairman*
(Independent Director)
Jesus A. Jacinto, Jr.
Violeta O. LuYm
Christopher Bell-Knight
(Independent Director)

TRUST COMMITTEE
Jesus A. Jacinto, Jr.
Nestor V. Tan
Ador A. Abrogena

NOMINATIONS COMMITTEE
Violeta O. LuYm
Ismael M. Estella

COMPENSATION COMMITTEE
Violeta O. LuYm
Antonio C. Pacis

OTHER BOARD CREATED COMMITTEES

CREDIT COMMITTEE
Jesus A. Jacinto, Jr. - *Chairman*
Nestor V. Tan
Evelyn L. Villanueva
Teodoro B. Montecillo - *Chairman*
Ismael M. Estella

MANAGEMENT COMMITTEE
Nestor V. Tan - *Chairman*
Business Unit Heads
Service Unit Heads

ANTI-MONEY LAUNDERING COMMITTEE
Jesus A. Jacinto, Jr. - *Chairman*
Jaime C. Yu
Evelyn L. Villanueva
Lucy C. Dy
Shirley M. Sangalang
Mario D. Rabanal
Atty. Ray Gatmaytan

Products and Services

1 PESO DEPOSITS
Regular Checking Account
Checking Account with ATF
Savings Account with ATF
Smart Checking
Super Check
Regular Savings Account
Mega Savings Account
Super Savings
Junior Savers Club Account
Power Teens Club Account
Club 60 Account
Time Deposit Account
Super Savings

2 FOREIGN CURRENCY DEPOSITS
Dollar Savings Account
Dollar Time Deposit
Dollar Super Saver
Third Currency Deposit
Club 60 Dollar

3 DEPOSIT-RELATED SERVICES
Manager's Checks
Gift Checks
Customized Checks
Demand Drafts
Interbranch Deposits
Deposit Pick-Up Service
Night Depository Service
Payroll Services
Safe Deposit Box
Telegraphic Transfer
Deposit Gift Package

4 REMITTANCE SERVICES
Credit to BDO Account
Cash Pick Up
BDO Remit Cash Card
Gintong Yaman Savings Account
(USD or PHP)
Gintong Yaman Time Deposit Account
Other Services
Credit to Other Local Bank
Cash Door-to-Door
Money Transfers

5 TRUST SERVICES
Investment Services
Common Trust funds
Unit Investment Trust Funds
Investment Management Services
Agency Services
Custodianship
Escrow
Loan Agency
Property Administration
Transfer & Paying Agency
Trusteeship
Retirement Funds
Pre-Need Trust Funds
Institutional Trust Funds
Mortgage Trust Indentures
Living Trust
Life Insurance Trust
Estate Planning

6 TREASURY DEALERSHIP SERVICES
Treasury Bills
Treasury Bonds
Dollar and Pesos Bonds

7 TRANSACTION BANKING
Cash Management Services
Integrated Collection Solutions
Bills Payment
Institutional Payment Collection
(Corporate Collection)
Postdated Check Warehousing
Armored Car Cash Deposit Pick-Up
Motorized Check Pick-Up
Auto Debit Arrangement

Integrated Disbursement Solutions
Direct Credit
Check Printing
Payables Warehousing
Regular Payroll
Cash Card Payroll
Check Disburse
Government Collections
BIR e-Payment
SSS net
Liquidity Management
Account Sweeping Facility
Supply Chain Financing
(Discounting Facility)
Account & Information Services
Infolink
BDO eStatement

Retail Market Products
ATM
BDO Cash Card
MasterCard / Cirrus Acquiring
Internet and Phone Banking

BDO Cash Card

Smart Money

8 CARD PRODUCTS
Smarteller ATM Card
Guarantor Money Maker Accounts
American Express Card
BDO Cash Cards
BDO Gift Cards
BDO International ATM Card
Smart Money
SM Gift Cards

9 CONSUMER LOANS
BDO Home Mortgage
BDO Home Equity Loans
Auto Financing
Multi-purpose Personal Loans
Credit Cards

10 COMMERCIAL & INDUSTRIAL LOANS
Credit Lines
Bills Purchase Lines
Check Discounting Lines
Term Loans
Trust Loans
US Dollar Denominated Loans
LC / TR Financing
Stand-by LC
CTS Financing
Export Bills Purchase
Export Packing Credit

11 SPECIALS LOANS & GUARANTEE FACILITIES
Countryside Loan Fund I, II, III (CLF I, II, III)
LBP Short-Term Loan Line
Industrial Guarantee & Loan Fund (IGLF)
Sustainable Logistic Development Program (SLDP)
Industrial & Support Services Expansion Program II (ISSEP 2)
JBIC Information Technology (IT) & Industry Support Loan (JBIC)
Domestic Shipping Modernization Program II (DSMP II)
Environmental Infrastructure Support Credit Program (EISCP II)
BSP Export Rediscounting Facility
SME Funding for Investments in Regional Markets (FIRM)
SME Funding Access for Short-Term Loans (FAST)
Guarantee for Enterprises in Manufacturing & Services (GEMS)
Guarantee Resources for Agribusiness Investments (GRAIN)
Guarantee Lines for Anchor Industries (GLAD)
Pre-Shipment & Post-Shipment Export Finance Gty Program
Automatic Guarantee Line [AGL]
Export Finance Guarantee
Term Loan Guarantee Program (TLGP)
General Facility Program (GFP)
Omnibus Guarantee Line Under the General Facility Program (OL-GFP)

12 FOREIGN EXCHANGE
Over-the-Counter Purchase / sale of FX
Purchase / Sale of Traveller's Checks
FX Forwards and Swaps

13 BDO CAPITAL & INVESTMENT CORP.
Debt Underwriting & Distribution
Loan Syndication
Equity Underwriting & Distribution
Financial Advisory
Mergers & Acquisitions
Project Financing
Trading & Portfolio Management

14 BDO INSURANCE BROKERS, INC.
Whole / Group Life / Individual Life Insurance
Mortgage Redemption Insurance
Personal / Group Accident Insurance
Travel Accident Insurance
Industrial / Commercial All Risks Insurance
Bonds / Surety (Construction Bonds, Heirs Bond, etc.)
Fire & Lighting with Allied Perils (Residential / Commercial)
Engineering Insurance
Motor Vehicle Insurance - Electronic
Equipment Insurance
Business Interruption Insurance
Marine Cargo Insurance / Marine Hull / Aviation
Liability Insurance (Personal / Comprehensive / General Product)
Group Health/Hospitalization / HMO
Money Insurance (Fidelity Guarantee, MSPR, BBB)

15 INTERNATIONAL BANKING
Import / Export Letters of Credit
Domestic Letters of Credit
Standby Letters of Credit
Documents Against Payment
Documents Against Acceptance
Open Account Arrangements
Export Negotiations
Shipping Guarantee
Trust Receipt
Inward Remittance
Outward Remittance

16 BDO PRIVATE BANK
Wealth Management
Asset Management
Trust Services

17 BDO SECURITIES
Equity and Fixed Income Securities Dealership & Brokering

18 MISCELLANEOUS SERVICES
Collections
Aboitiz
AIG
AMEX
Asianlife General & Assurance Corp.
Bankard
Bayantel
BDO Credit Card
BDO Insurance
BIR (Over-the Counter or Electronic Payment)
Bisaya Cable TV, Inc.
Bonifacio Cable
Bonifacio Gas
CHC Dev't Consortium Inc.
Caritas Health Shield
Cebu Cable TV, Inc.
Central CATV
Central Water System
Citibank
Citifinancial
Davao Cableworld Network, Inc.
Directory Philippines Corp.
East-West Bank
EDSA Mail
Fort Bonifacio Devt. Corp.
G-Exchange
Generali Pilipinas Insurance
Globe
HSBC
Ideal Optical
Infocom
Innove
Mactan Cable TV, Inc.
Manila North Tollways Corp.
Mega Cellular
Meralco
Meridian
Moonsat Cable TV, Inc.
Pacific CATV, Inc.
Pacific Internet
PDIC
Phil. Home Cable Holdings, Inc.
Philam
Pilipino Cable
Pioneer Life
PLDT
Prudentialife
QC Sports Club
SCA Hygience Prod.
San Bruno
San Fernando Electric Light & Power Corp.
Singer Philippines
SM Bills Payment
Smart
SSS Net
Standard Chartered
Sun Cable Systems Davao, Inc.
Tagaytay Country Club at Tagaytay Highlands
Tagaytay Highlands International Golf Club, Inc.
Tagaytay Midlands Gold Club, Inc.
The Highland Prime Community Condo
Toyota Financial Services
Tri-Sys Internet

Branch Directory

AIRPORT ROAD
G/F Velasco Bldg.
Airport Road corner Quirino Ave.
Parañaque
854-1898; 854-5285

ALABANG
387 East Service Road
South Super Highway
Alabang, Muntinlupa
850-1338; 850-1565;
850-1339; 850-6905

ALFARO
G/F PDCP Bank Center
LP Leviste corner Herrera Sts.
Salcedo Village, Makati City
815-1217; 815-1228; 815-1216

AMORSOLO
G/F Queensway Bldg.
No. 118 Amorsolo St., Legaspi Village
Makati City
819-2984; 810-2202

ANONAS
Manahan Bldg., Aurora Blvd.
corner Anonas Ave., Quezon City
421-3814; 421-3816

ANTIPOLO MASINAG
Tripolee Bldg., Marcos Highway near corner
Sumulong Highway, Mayamot, Antipolo
645-6041; 682-4654

ANTIPOLO PLAZA
Gatsby Bldg. II, M.L. Quezon St.
Antipolo
650-8233; 696-0021

ARRANQUE
1359-1361 Soler St.
Sta. Cruz, Manila
734-2550; 733-0934;
733-3538; 733-0916

AURORA BLVD.
Aurora Blvd. corner Yale St.
Cubao, Quezon City
912-2720; 912-2715; 438-6505

AYALA-ALABANG
G/F Cond. C Unioil Center Bldg.
Acacia Ave. corner Commerce Ave.
Ayala Alabang, Muntinlupa
772-2722; 772-2919; 772-2932; 772-2893

AYALA AVE.
G/F People Support Center Amorsolo St.
corner Ayala Avenue, Makati City
889-7552; 889-7554

BACLARAN
2987 Taft Ave. Ext., Pasay City
854-5401; 832-5030

BACOLOD ARANETA
Cineplex Complex, Araneta St.
Bacolod City
(034) 433-5754; 433-5610; 432-0978

BACOLOD GONZAGA
Gonzaga-Lopez Ent. Bldg.
Gonzaga Street, Bacolod City
(034) 434-4964; 433-7910

BACOLOD-LOCSIN
Locsin St., Bacolod City
(034) 434-5216; 434-2372

BACOOR
FRC Mall, Gen. Evangelista St. near corner Zapote
Rotonda, Bacoor, Cavite
(046) 417-3446; 417-3496; 417-3314

BAGUIO
Luneta Drive corner Gov. Pack Road
Baguio City
(074) 442-2889; 442-8250; 442-825
442-8252

BAGUIO-SESSION ROAD
Puso ng Baguio Bldg.
Session Road, Baguio City
(074) 442-4063; 443-8720; 442-5638

BALIUAG
Corner Rizal and Tagle St.,
Baliuag, Bulacan
(044) 673-0063; 766-1423

BANAWE
G/F SKS Bldg.
647 Banawe St., Quezon City
743-4952; 741-0114; 741-0015

BANAWE-AGNO
G/F Prosperity Bldg., 395 Banawe St.
Sta. Mesa Heights, Quezon City
743-7570; 743-7571

BANAWE-KITANLAD
2321 Banawe corner Kitanlad
Quezon City
740-3285; 732-9620

BATANGAS-P. BURGOS
CM Ilagan Bldg., P. Burgos St.
Batangas City
(043) 723-1408; 723-3138

BEL-AIR
G/F Executive Building Center
Sen. Gil Puyat Avenue, Makati City
895-1512; 895-1579; 895-1428
896-8245; 899-4087

BIÑAN
A. Bonifacio St.
Bo. Canlalay, Biñan, Laguna
(049) 411-4030; 411-4031

BINONDO
411 Quintin Paredes St.
Binondo, Manila
241-3055; 247-4278

BLUMENTRITT
2325 Rizal Avenue corner Antipolo St.
Sta. Cruz, Manila
254-1945; 251-8135; 255-6260; 256-5009

BONI AVENUE
74 Maysilo Circle corner Boni Ave.
Mandaluyong City
531-3694; 532-5206

BONIFACIO GLOBAL CITY
Space No. 101, Market Market
Bonifacio Global City, Fort Bonifacio
Taguig, Metro Manila
886-6476; 886-6477; 886-6479; 886-6480

BUENDIA
317 Sen. Gil Puyat Ave., Pasay City
831-9334; 551-0243

BUTUAN
D & V Plaza II Bldg., J. C. Aquino Ave.
Butuan City
(085) 815-1303; 225-6192

C.M. RECTO
C.M. Recto Ave.
corner Nicanor Reyes St., Manila
735-2554; 735-5686

CABANATUAN
Melencio corner Paco Roman Sts.
Cabanatuan City
(044) 463-0476; 600-2581

CAGAYAN DE ORO-COGON
J.R. Borja St., Cogon
Cagayan de Oro City
(088) 857-7960 to 62
(08822) 725-203; 725-269; 725-249

CAGAYAN DE ORO-XAVIER
Library Annex Bldg., Corrales Ave.
Cagayan de Oro City
(08822) 722-544; 729-423; 725-471
(088) 857-3796; 857-4108

CAINTA
Hipolito Bldg. Ortigas Ave. Ext.
Cainta Junction, Cainta, Rizal
655-8022; 240-3145; 240-3182

CALAMBA
J.Alcasid Business Center Bldg.
National Highway Crossing
Barrio Real, Calamba, Laguna
(049) 545-7214

CALAMBA-PARIAN
Old National Highway, Sta. Cecilia Village
Parian, Calamba
(049) 545-2171; 545-2177

CALOOCAN
G/F Victoria Bldg., 538 Rizal Ave. Ext.
corner E.de Mazenod St., Caloocan City
366-0948; 366-0949; 363-7402
364-3749; 365-5184

CALOOCAN-A. MABINI
A. Mabini St., Poblacion, Caloocan City
285-4364; 287-4208

CARMEN PLANAS
812 O'Racca Bldg., Carmen Planas St.
Divisoria, Manila
242-6712; 242-6704

CEBU-A. S. FORTUNA
G/F, Tanaka Bldg., 869 A. S. Fortuna St.
Banilad, Mandaue City, Cebu
(032) 343-3497 to 98

CEBU CUENCO
NSLC Bldg., M. J. Cuenco Ave., Cebu City
(032) 256-2474; 256-2469

CEBU ELIZABETH MALL
GF Elizabeth Mall, Leon Kilat
corner South Expressway, Cebu City
(032) 255-9769; 255-9971
417-7900; 255-9970

CEBU ESCARIO
BF Bldg., Escario St., Cebu City
(032) 254-0482; 254-0408

CEBU-FUENTE
J. Rodriguez St., Fuente Osmena Rotonda
Cebu City
(032)253-5686; 253-8920

CEBU GULLAS
Magallanes corner Gullas Sts., Cebu City
(032) 254-6723; 254-5601; 254-6721

CEBU LEGASPI
Legaspi corner Zamora St., Cebu City
(032) 256-2709; 256-2507

CEBU MAGALLANES
Plaridel St. corner Magallanes St.
Cebu City
(032) 255-6792; 256-1200; 253-0486

CEBU MANDAUE
Dayzon Bldg., PSO 246
(490) Lopez Jaena St., Mandaue City
(032) 343-6531; 343-6535

CEBU OSMENA
Osmena Blvd. corner Urgello St., Cebu City
(032) 253-5277; 253-8052
254-5041; 253-3250

CEBU TABUNOK
PBS Bldg., 2688 National Highway Tabunok
Talisay, Cebu City
(032) 273-6643; 273-6644; 273-7732

COMMONWEALTH
G/F Teresita Bldg., Holy Spirit Dr.
Don Antonio Heights, Quezon City
932-4717; 932-8764

CONGRESSIONAL AVENUE
The Excelland System I
Congressional Ave., Quezon City
920-5613; 454-9560

CUBAO SM
Shoemart Arcade, Cubao, Quezon City
911-0558; 911-3538; 912-6687
911-8410; 912-5632; 912-6687

DAGUPAN
386 Perez Blvd., Dagupan City
(075) 523-4002; 522-2055

DASMARINAS-CAVITE
E.L. Toledo Bldg., Sampaloc I
Dasmarinas, Cavite
(046) 416-0954; 416-0955

DAVAO JP LAUREL
Landco-PDCP Corporate Center
JP Laurel Ave., Bajada, Davao City
(082) 221-4553; 221-4556

DAVAO MAGSAYSAY
R. Magsaysay Ave. Davao City
(082) 221-6964

DAVAO-MONTEVERDE
GF Sequoia Inn, Monteverde Ave., Davao City
(082) 225-4345; 225-4346; 225-4348

DEL MONTE AVE.
420 Del Monte Ave., Quezon City
749-1711; 749-1678; 749-1651

DIVISORIA
744-746 Ylaya St., Tondo, Manila
241-8607; 241-4158; 241-8617

DR. A. SANTOS AVE.
LT Bldg., Dr. A. Santos Ave., Parañaque
825-1381; 820-6792; 820-1855; 820-6439

E. RODRIGUEZ
1162 E. Rodriguez Sr. Blvd., Quezon City
724-4203; 724-3977; 722-1009; 725-2408

ECHAGUE
G/F Manila Royal Bldg. C. Palanca
corner Hidalgo St., Quiapo, Manila
733-7436; 733-7437; 733-7434

EDSA CUBAO
596 Simeon Medalla Bldg. corner
Gen. McArthur Ave., EDSA, Quezon City
911-1235; 912-1750

EDSA-TAFT
EDSA corner Zamora St., Pasay City
833-1505; 833-0996

EDSA-MONUMENTO
Near General Tinio St. corner EDSA
Caloocan City
364-1208; 367-5745

ELCANO
SHC Tower, 619 Elcano St.
San Nicolas, Manila
247-1958; 247-1960

EMERALD AVE.
G/F Unit 101 Taipan Place
Emerald Ave., Ortigas Center, Pasig
914-3544; 637-7329

ESPAÑA
Carmen Bldg. España corner
G. Tolentino St., Sampaloc, Manila
735-6698; 735-6573

ESPAÑA-INSTRUCCION
España corner Instruccion St.
Sampaloc, Manila
741-7869

FAIRVIEW
Don Mariano Marcos Ave.
Fairview, Quezon City
427-8289; 938-2503; 938-2712; 937-8436

GANDARA
811-813 Gandara St., Sta. Cruz, Manila
733-1342 734-3255; 734-4574
733-3705; 733-8079

GEN. LUIS
297 Gen. Luis St., Bo. Kaybiga, Caloocan
937-3355

GEN. SANTOS
Santiago Blvd. corner JP Laurel St.
Gen. Santos City
(083) 553-3874; 553-3875

GIL J. PUYAT
Union Ajinomoto Bldg.
Sen. Gil Puyat Ave. Makati Ave.
890-6546; 895-0471

GRACE PARK
G/F A&R Bldg., 213 Rizal Ave. Ext.
Grace Park, Caloocan City
365-5805; 364-6125; 365-5166

GREENHILLS
Greenhills Shopping Complex
Ortigas Ave., San Juan
721-4211; 721-2750; 721-2761

GREENHILLS-WEST
101 Limketkai Bldg., Ortigas Ave.
San Juan, Metro Manila
721-4414; 726-3660

HARRISON PLAZA
Unit R-5 URDI Bldg.
Harrison Plaza Shopping Complex
F.B. Harrison, Malate, Manila
524-4308; 525-2954; 524-6533

HEAD OFFICE
12 ADB Ave., Ortigas Center
Mandaluyong City
702-6000 loc. 5276; 5277; 5278
702-6276; 702-6277; 702-6278

HERRERA
G/F YL Bldg., V.A. Rufino corner
Sotto St., Legaspi Village, Makati City
812-3074; 810-0303; 812-7054

ILAYA
1049-1051 Ilaya St., Divisoria, Manila
245-5508; 245-5510; 242-1686

ILIGAN
Quezon Ave., Iligan City
Tel. Nos. (063) 221-2781; 221-5108

ILOILO- JM BASA
J.M. Basa St., Iloilo City
(033) 335-0967; 337-8382

ILOILO-LEDESMA
G/F Esther Bldg., Ledesma St., Iloilo City
(033) 337-8244; 335-0866

IMUS
Gen. Aguinaldo corner Ambrosia Road
Anabu I, Imus, Cavite
(046) 515-9950; 515-9951; 529-8612

IMUS-NUENO AVE.
358 Exodus Bldg., Nueno Ave., Imus, Cavite
(046) 970-8733; 471-4065

IZNART
John A. Tan Bldg., Iznart St., Iloilo City
(033) 337-5584; 337-5585

JOSE ABAD SANTOS
G/F Ching Leong Temple
J. Abad Santos Avenue, Tondo, Manila
252-2140; 252-2141

JARO-ILOILO
NB Bldg., Lopez Jaena St., Jaro, Iloilo
(033) 329-2132; 329-6971

JAS-ANTIPOLO
G/F Intercast Corp. Tower
J.A.Santos Ave., Tondo, Manila
253-6544; 253-6566; 256-6606

JAS - RECTO
1174 J. Abad Santos Ave., Tondo, Manila
251-7584; 256-6572

J.P. RIZAL
872 J.P. Rizal St., Barangay Poblacion
Makati City
899-8690; 899-8673

JULIA VARGAS
IBP Bldg., Julia Vargas Ave.
Ortigas, Pasig City
638-7770; 914-8762

KALENTONG
MRDC Bldg., Shaw Blvd.
corner Gen. Kalentong St., Mandaluyong City
531-6984; 531-9146; 532-8953

KALOOKAN-10TH AVE.
371 Rizal Ave. Ext., Caloocan City
361-1074; 361-1272; 361-1249

KAMAGONG
2567 P. Ocampo (Vito Cruz Ext.)
corner Madre Perla St., Manila
563-0504; 563-2736; 563-1895; 564-2870

KATIPUNAN
G/F Olalia Bldg.
No. 327 Katipunan Ave. corner
F. dela Rosa St., Loyola Heights
Quezon City
928-2713; 928-2715

LA UNION
Rizal Ave. corner Ortega St.
San Fernando, La Union
(072) 888-3316

LAOAG
Rizal St. corner Abadilla St.
Laoag City
(077) 771-4032

LAVEZARES
321-325 Garden City Condominium
corner Lavezares & Camba Sts.
San Nicolas, Manila
242-4244; 242-4249;242-4250; 242-4251

LEGASPI CITY
Rizal corner Gov. Imperial Sts., Legaspi City
(052) 481-4481; 481-4482

LEGASPI VILLAGE
Golden Rock Bldg., 168 Salcedo St. Legaspi Village,
Makati City
816-1467; 816-1478; 816-1489

LIBIS
Magnitude Commercial Arcade
E. Rodriguez Jr. Ave., Bagumbayan
Quezon City
421-6914; 421-6915

LIPA
Casa Esperanza Bldg.
Pres. J.P. Laurel Highway
Brgy. Mataas na Lupa, Lipa City
(043) 757-3981 to 84

LUCENA
Merchan St. corner San Fernando St.
Lucena City
(042) 660-3760; 373-4927

MABINI
A. Mabini corner Soldado Sts.
Ermita, Manila
524-6001; 450-1693

MAGALLANES VILLAGE
Unit 104, The Gateway Centre
Paseo de Magallanes Vill., Makati City
852-9640; 852-9643; 853-4620

MAKATI AVE.
Unit 191 Shangri-la Hotel Manila
Ayala Center, Makati City
813-5004 to 07; 813-4788; 817-0295

MAKATI SM
SM Annex Bldg., Ayala Center
Makati City
893-3241; 813-3975; 812-6838; 817-0856

MAKRO-CUBAO
EDSA corner Main Street, Cubao
Quezon City
912-6173; 421-1689

MALABON
685 J.P. Rizal St., Malabon
281-9254; 281-9252; 281-5603

MALOLOS
570 Paseo del Congreso St.
Liang, Malolos, Bulacan
(044) 791-3125; 662-3363; 791-3123
(02) 732-6839

MANGGAHAN
Amang Rodriguez Ave.
Manggahan, Pasig City
646-3177; 681-1842

MARCOS HIGHWAY
Town & Country Commercial Arcade
Marcos Highway corner Narra St.
Cainta, Rizal
668-1197; 668-1199; 668-123
668-1983; 668-1976

MARCOS HIGHWAY-STA. LUCIA
Sta. Lucia East Grand Mall, Marcos Highway corner
Felix Avenue, Cainta, Rizal
681-7328; 681-5287

MARIKINA
17 Bayan-Bayanan Ave.
Concepcion, Marikina
933-6395; 941-1888; 941-5851

MARIKINA-STA. ELENA
314 J.P. Rizal St., Sta. Elena, Marikina City
646-1793; 681-1672

MASANGKAY
Lun Hong Townmates Association Bldg.
1226 Masangkay St., Sta. Cruz, Manila
255-2002; 255-2065; 255-2080

MAYON
G/F Alpha Bldg., 174 Mayon St.
La Loma, Quezon City
414-3606; 414-3607; 740-9164
742-7679; 742-7675

METROPOLITAN AVE.
G/F, Metropolitan Terraces Condominium
Metropolitan Ave. corner
Sacred Heart St., Makati City
899-6618; 899-6693; 899-6631; 890-5437

MEYCAUAYAN
Liberty Bldg., MacArthur Highway Calvario
Meycauayan, Bulacan
(044) 721-0820; 443-7323

MOLO-ILOILO
Escoto-Natividad Bldg. M.H. del Pilar St. corner Lopez
Jaena St., Molo, Iloilo
(033) 336-8950; 336-8951

MONUMENTO
MacArthur Highway
corner Calle Uno, Caloocan City
362-0295; 330-5683; 365-5470

NAGA
Brgy. San Francisco
Peñafrancia Ave., Naga City
(054) 472-6602; 811-8861

NAIA
Ninoy Aquino, International Airport
Arrival Lobby, Pasay City
879-5195; 877-3568

NOVALICHES-BAYAN
233 Karen Bldg., General Luis St.
Novaliches, Quezon City
938-2432; 938-8082

NAVOTAS
Seafront Commercial Center
North Bay Blvd., Navotas
282-7369; 282-7368; 283-8352

NOVALICHES
1016 Quirino Hi-way Town Proper
Bgy. Monica, Novaliches, Quezon City
939-8468; 939-8590; 938-0225

ONGPIN
Unit ABC Imperial Sky Garden Ongpin St. corner T.
Pinpin St., Binondo, Manila
244-3738; 243-5516

ONGPIN-TOMAS MAPUA
1004-1006 Ongpin St.
Sta. Cruz, Manila
734-2944; 734-2524

ORTIGAS AVE.
209 Ortigas Ave., Greenhills, San Juan
724-7114; 724-7091; 724-9156

PACO
1050 Pedro Gil St., Paco, Manila
536-6448; 536-6449

PADRE RADA
Gosiupo Bldg., 480-482 Padre Rada
corner Elcano Sts. Tondo, Manila
245-0176; 245-0249

PAMPLONA
Zapote Alabang Rd.
Pamplona, Las Piñas
872-2563; 872-0824

PASAY ROAD
Unit 102, 845 One Corporate Plaza Condominium
Antonio S. Arnaiz Ave. (formerly Pasay Road)
Makati City
894-1732; 817-6113; 810-9382; 818-1783

PASAY
Libertad corner Colayco St.
Pasay City
831-0593; 551-2513;551-6876; 551-6877

PASEO DE ROXAS
G/F Philcom Bldg.
Paseo de Roxas, Makati City
843-4421; 843-5464; 815-2204

PASEO DE ROXAS 2
8737 Paseo de Roxas St. ,Makati City
818-3587; 892-7333; 892- 5703; 840-3633
840-3366; 892-9796 818-3527

PASIG
Mariposa Arcade
A. Mabini corner Dr. Pilapil St., Pasig
641-0557; 640-1633; 640-1643

PASIG-KAPITOLYO
A.B. Sandoval Bldg.
corner Oranbo Drive, Pasig City
638-2129; 638-2132

PATEROS
East Mansion Homes, Phase I, Elisco Road
Sto. Rosario East, Pateros, Metro Manila
641-4729; 641-3542

POTRERO
110 MacArthur Highway
corner Riverside St., Potrero, Malabon
447-4554; 447-4555; 367-9806

QUEZON AVE.-ROCES
DNE Bldg., 1050 Quezon Ave.
near corner Roces Ave., Quezon City
374-6836; 374-6834

QUEZON AVE.
103 Aries Bldg., Quezon Ave.
Quezon City
712-3411; 731-2354; 410-2884

QUINTIN PAREDES
524 Enterprise Bldg., Quintin Paredes St.
corner Carvajal St., Binondo, Manila
243-9689; 243-9687; 243-4041 to 44
245-5948

QUIRINO PACO
CRS Tower, Pres. Quirino Ave.
corner Perdigon St., Paco, Manila
561-7305; 562-2153

RIZAL AVENUE
2502-2504 Rizal Ave. corner Cavite St.
Sta. Cruz, Manila
781-9976; 732-7483; 732-7451; 732-9848

ROCKWELL
G/F Power Plant Mall, Rockwell Center
Amapola cor. Estrella S., Makati City
899-1488; 899-1250

ROOSEVELT-MANGA
325 Roosevelt Ave. corner Manga St.
Quezon City
373-9691; 414-3092

SALCEDO
3 Salcedo Place, Tordesillas St.
Salcedo Village, Makati City
751-6087; 887-7734

SAMSON ROAD
G/F Ma.Cristina Bldg.
Samson Road corner UE Tech., Caloocan City
362-8140; 361-0602; 361-2538

SAN ANDRES
San Andres corner Linao Sts., Malate, Manila
525-6658; 525-6633

SAN JOSE-NUEVA ECIJA
Mokara Bldg., Maharlika Highway, Abar 1st
San Jose City, Nueva Ecija
(044) 947-0457; 947-0458

SAN JUAN
88 N. Domingo Street, San Juan
725-5019; 724-8036

SAN FERNANDO-PAMPANGA
Gen. Hizon Extension
San FernandoPampanga
(045) 860-6379; 961-5196

SAN PABLO
Mary Grace Bldg., Colago Ave.
corner M.L. Quezon St., San Pablo City
(049) 562-1026; 562-1027; 800-0322

SAN PEDRO
Tayao Bus.Ctr. Bldg., A. Mabini St.
San Pedro, Laguna
868-0352; 868-0353; 847-3699; 847-2688

SAN PEDRO-NATIONAL HIGHWAY
Tayao Business Center Bldg, A. Mabini St.
San Pedro, Laguna
868-0353; 868-0352

SHAW BLVD.
555 Shaw Blvd., Mandaluyong City
722-7572; 722-6677; 722-7584

SHAW BLVD.-YULO
285 A. Shaw Blvd. corner L. Cruz St.
Mandaluyong City
533-6518; 533-5424

SM CITY BACOOR
UGF SM Bacoor, Gen. Aguinaldo Hi-way corner
Tirona Hi-way, Bacoor, Cavite
(046) 970-5700; 970-5701; 417-7719
(02) 886-4668

SM CITY BAGUIO
UGF SM City Baguio
Upper Session Road, Baguio City
(074) 619-7625 to 28; 619-7623

SM CITY BATANGAS
GF SM City Batangas
Brgy. Paloocan West, Batangas City
(043) 722-2556, 722-2557

SM CITY BICUTAN
LGF SM City Bicutan Doña Soledad Ave.
corner West Service Road, Parañaque City
777-9262; 777-9263; 777-9264

SM CITY CAGAYAN DE ORO
G/F SM City Cagayan de Oro
Pueblo de Oro Business Park
Upper Canituan, Cagayan de Oro
Misamis Oriental
(088) 859-2633; 859-2632

SM CITY CEBU
SM City Cebu
North Reclamation Area, Cebu City
(032) 232-0774; 231-2082; 231-4053

SM CITY DASMARIÑAS
SM City Dasmariñas, Barrio Pala-Pala
Dasmariñas, Cavite
(046) 432-3020; 432-3080; 432-3040

SM CITY DAVAO
UGF SM City Davao, Brgy. Matina Davao City
(082) 297-4371; 299-2618
297-4341; 299-2921

SM CITY I
SM City Annex Bldg., EDSA corner
North Ave., Quezon City
928-4329; 928-3243; 929-2173

SM CITY II
EDSA corner North Ave., Quezon City
426-3909; 456-6580; 925-5604

SM CITY ILOILO
UGF SM City Iloilo, Benigno Aquino Ave.
Mandurriao, Iloilo
(033) 320-9465; 320-9470
320-9490; 320-9433

SM CITY LUCENA
G/F SM City Lucena
Pagbilao National Road, Lucena City
(042) 710-6108; 710-6723; 710-7296
(02) 889-6790

SM CITY MANILA
LGF SM City Manila Concepcion corner Arroceros
and San Marcelino Sts., Manila
524-7788; 524-7787; 524-7978; 524-7801

SM CITY MARILAO
GF SM City Marilao, McArthur Highway
Marilao, Bulacan
(044) 238-8001; 933-2002 to 04; 299-6835

SM CITY PAMPANGA
GF SM City Pampanga
San Fernando, Mexico, Pampanga
(045) 921-2236; 961-2304
961-2327; 875-1877

SM CORPORATE OFFICES
Bldg. 104 Bay Boulevard
SM Central Business Park, Bay City, Pasay
833-6710; 833-7378; 833-8702

SM DELGADO
G/F SM Delgado, Valeria corner Delgado Sts.
Iloilo City
(033) 337-8973; 337-0854
337-4931; 337-4925

SM CITY FAIRVIEW
Quirino Highway corner Regalado St.
Fairview, Quezon City
935-0042; 939-5015; 937-8925

SM CITY SAN LAZARO
Felix Huertas corner A.H. Lacson St.
Sta. Cruz, Manila
741-5603; 731-5682

SM CITY STA. ROSA
G/F SM City Sta. Rosa, Barrio Tagapo
Sta. Rosa, Laguna
(049) 534-9824; 534-9823

SM CITY SUCAT A
G/F SM Supercenter Sucat, Parañaque City
825-6224; 825-6862

SM CITY SUCAT B
G/F Annex Bldg. B, SM City Sucat
Dr. A. Santos Ave., Parañaque City
820-6737; 825-3739

SM CITY VALENZUELA
G/F SM City Valenzuela, McArthur Highway
Valenzuela City
292-4354; 292-9704

SM MEGAMALL A
G/F SM Megamall Bldg. A
Ortigas Center, Mandaluyong City
633-1785; 633-1786; 635-2358; 631-9813

SM MEGAMALL B
Upper & Lower Grd. Flrs.
SM Megamall Bldg. B, Julia Vargas
corner EDSA, Ortigas Center, Mandaluyong City
632-7425; 631-2956; 631-9843
631-9806; 633-4969

STA. MESA SM
SM Centerpoint Annex Bldg.
Aurora Blvd., Quezon City
715-0537; 715-0547; 715-0559
716-0343; 716-0344; 716-0619

SM SUPERCENTER MOLINO
G/F SM Supercenter Molino, Molino Road
Bacoor, Cavite
(046) 474-3041; 474-3042

SOLER
G/F Gracetown Bldg.
1120 Soler St., Binondo, Manila
243-7819; 243-6915

SOUTHMALL I
UGF SM Southmall, Alabang-Zapote Road
Las Piñas City
800-0471; 806-4383; 806-4389; 800-1648

SOUTHMALL 2
UGF SM Southmall, Alabang-Zapote Road
Las Piñas City
800-6798; 800-9122; 800-0590

STO. CRISTO
Kim Siu Ching Foundation Bldg.
Sto. Cristo St., Binondo, Manila
242-4247; 242-2589; 242-2687; 242-0498

STO. CRISTO-COMMERCIO
686 Sto. Cristo St., Binondo, Manila
242-5380; 242-5383

STO. DOMINGO
6 Sto. Domingo Ave., Quezon City
732-2934; 732-6219; 742-6448; 732-2917

SUCAT
8260 Dr. A. Santos Ave., Parañaque
829-1630; 825-6861; 825-5374

SUMULONG HIGHWAY
39 Sumulong Highway
Brgy. Sto. Nino, Markina City
948-4200; 941-3044; 948-4500

TABORA
859-861 L&J Bldg., Tabora St.
Divisoria, Manila
243-2148; 243-0419; 241-9441

TACLOBAN
Chan Bldg. P. Zamora St.
Tacloban City
(053) 321-2881; 325-9967

TAFT AVE.- J. NAKPIL
1747 Taft Ave. corner J. Nakpil St., Manila
521-1226; 522-0902

TALON, LAS PIÑAS
G/F Motiontrade Bldg., Alabang-Zapote Road
Talon, Las Piñas City
800-9559; 805-1922

TANDANG SORA
G/F FB Bldg., 13 Tandang Sora Ave.
Quezon City
938-7786; 456-3724

TARLAC
27F Tanedo St., Tarlac City
(045) 982-3826; 982-0056

TAYUMAN
G/F Delton Bldg., 1808 Rizal Ave.
Sta. Cruz, Manila
732-9052; 749-5078; 732-9866

TIMOG
26 Cedar Executive Bldg., Timog Ave.
corner Sct. Tobias St., Quezon City
372-6648; 414-8347

TIMOG-ROTONDA
Store 102 Imperial Palace Suites
Tomas Morato corner Timog Ave.
Quezon City
928-3168; 920-7875

TOMAS MORATO
17 Atherton Place, Tomas Morato Ave.
corner Roces Ave., Quezon City
371-8601; 410-3751; 410-3752

TUTUBAN
DS 17-18 Tutuban Prime Block
Tutuban Center, CM Recto, Manila
254-0768; 251-1601; 254-3404
251-1676; 251-1602

UN AVENUE
Puso ng Maynila Bldg., UN Ave.
corner A. Mabini St., Ermita, Manila
524-1734; 524-1783; 524-0306

URDANETA
182 LIS Bldg., McArthur Highway
San Vicente, Urdaneta
(075) 568-4225

VALENZUELA
Km.15 MacArthur Highway
Dalandanan, Valenzuela
292-1959; 292-3974

VALERO
G/F Pearl Center, 146 Valero St.
Salcedo Village, Makati City
817-9675; 817-9586; 817-9678

VIGAN
Quezon Ave., Vigan, Ilocos Sur
(077) 722-2057

VISAYAS AVE.
M & L Bldg. Visayas Ave. corner
Road 1, Brgy. Vasra, Quezon City
927-6151; 453-6173
426-7701; 926-9302

V-MALL
G/F New V-Mall, Greenhills Shopping Center
San Juan, Metro Manila
725-9085; 726-6752

WEST AVE.-EAST MAYA
160 West Ave. corner East Maya Drive
Quezon City
410-7611; 411-5426

WEST AVE.
68 Carbal Bldg., West Ave., Quezon City
371-4689; 412-1063; 371-8786

WEST AVE.-BALER
118 Jafer Bldg., West Ave., Quezon City
928-7286; 928-3626

ZAMBOANGA
Gov. Lim Ave. corner Saavedra St.
Zamboanga
(062) 991-1542; 992-0341

ZURBARAN
Rizal Ave. cor. Fugoso St., Sta. Cruz, Manila
734-1544; 734-1563

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