CHINABANK

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Since 1920

ANNUAL REPORT 2005

Innovation Built on 85 Years of
Strength and Customer Service

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CORPORATE PROFILE

China Bank was incorporated on July 20, 1920 and commenced business on August 16 of the same year as the first privately owned local commercial bank in the Philippines. China Bank was listed on the local stock exchange in 1965 and became the first bank in Southeast Asia to process deposit accounts on-line in 1969 and the first Philippine bank to offer phone banking in 1988. The Bank acquired its universal banking license in 1991. China Bank provides a wide range of domestic and international banking services, and is one of the largest commercial banks in the country in terms of assets and capital.

ABOUT THE COVER

The rock, taken from the historic island of Corregidor, is an apt symbol for the 85 years of the China Bank legacy of stability, strength and performance. The Bank has served as a pillar of strength for businesses, an anchor for growth for generations of entrepreneurs, and a beacon of confidence among its clients. China Bank's solid business foundation, financial strength, and recent performance make it well positioned to take its legacy to the next level—a promising future of stronger and more competitive organization, sharply focused on the customer, and delivering value to shareholders.

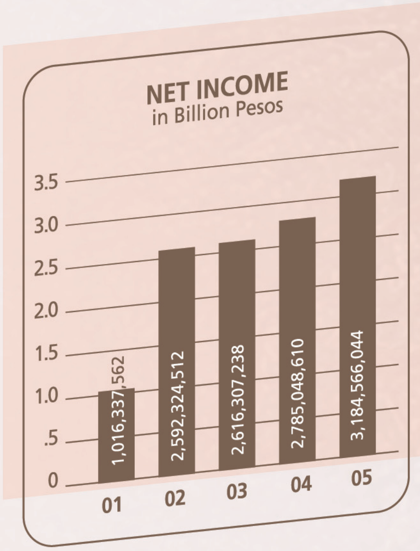
MISSION STATEMENT

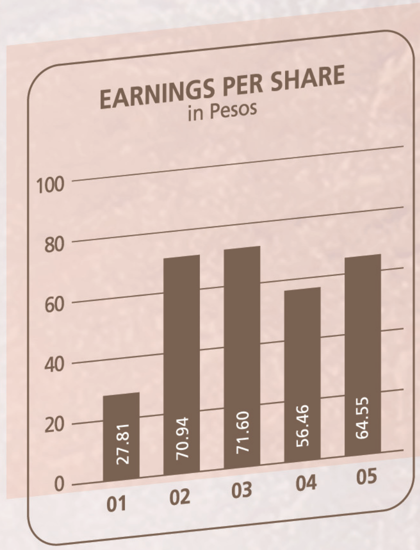
We will be a leading provider of quality services consistently delivered to institutions, entrepreneurs and individuals here and abroad, to meet their financial needs and exceed their rising expectations.

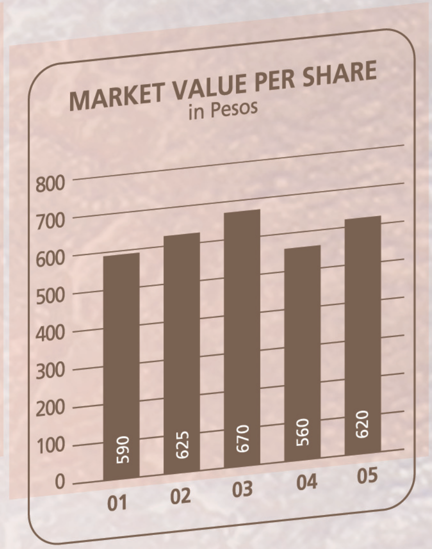
We will be a primary catalyst in the creation of wealth for our customers, driven by a desire to help them succeed, through a highly motivated team of competent and empowered professionals, guided by in-depth knowledge of their needs and supported by leading-edge technology.

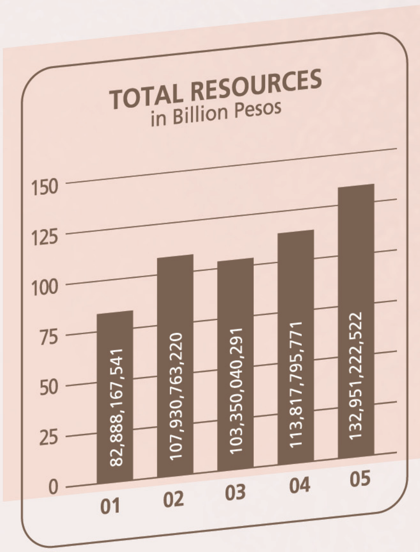
We will maintain the highest ethical standards, sense of responsibility and fairness with respect to our customers, employees, shareholders, and the communities we serve.

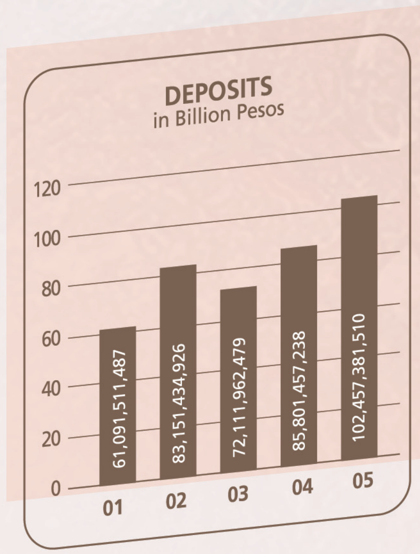
FINANCIAL REVIEW

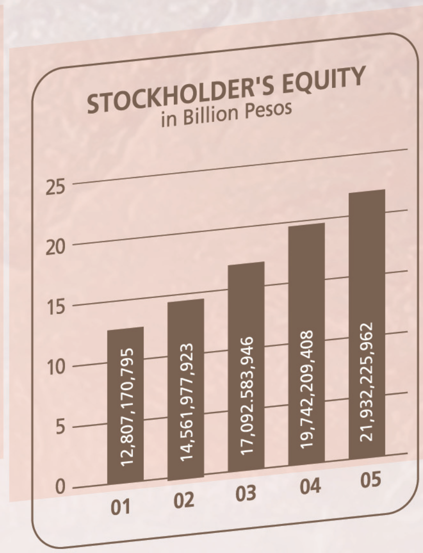




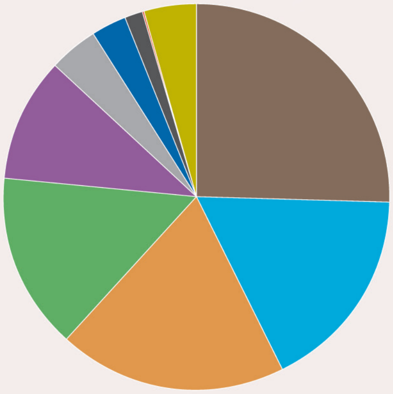




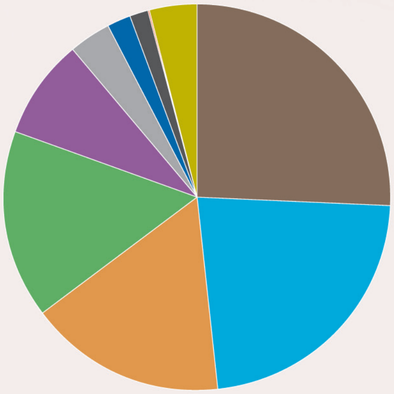




LOAN PORTFOLIO INDUSTRY EXPOSURE



2004



2005

2004	2005	
25.45%	25.70%	Manufacturing
17.21%	22.59%	Financial Intermediaries
19.10%	16.46%	Wholesale & Retail Trade
14.77%	15.76%	Real Estate, Renting & Business Services
10.38%	8.36%	Electricity, Gas & Water
4.11%	3.51%	Transportation, Storage & Communication
2.94%	1.97%	Construction
1.51%	1.55%	Agriculture
0.13%	0.11%	Mining & Quarrying
0.01%	0.01%	Public Administration & Defense
4.39%	3.98%	Others
100%	100%	

PERFORMANCE HIGHLIGHTS

	2004	**2005**
For the Year (In Pesos)		
Gross Revenues	10,847,678,208	**13,260,243,252**
Gross Expenses	8,062,629,598	**10,075,677,208**
Net Income	2,785,048,610	**3,184,566,044**
At Year End (In Pesos)		
Total Resources	113,817,795,771	**132,951,222,522**
Loan Portfolio (Net)	48,457,790,936	**59,752,732,823**
Total Deposits	85,801,457,238	**102,457,381,510**
Stockholders' Equity	19,742,209,408	**21,932,225,962**
Number of Branches	141	**141**
Number of ATMs	188	**204**
Number of Employees	2,738	**2,886**
Key Performance Ratios (in %)		
Return on Average Equity	15.12	**15.28**
Return on Average Assets	2.56	**2.58**
Capital Adequacy Ratio	31.52	**28.17**
Stockholders' Data (In Pesos)		
Earnings Per Share	56.46	**64.55**
Cash Dividends Paid	152,263,380	**1,278,987,920**
Cash Dividends Per Share	5	**35**
Stock Dividends Paid	608,983,600	**1,278,903,800**
Stock Dividends Per Share (in %)	20	**35**
Book Value Per Share	400.19	**444.59**
Market Value Per Share	560.00	**620.00**

LETTER TO STOCKHOLDERS

China Bank celebrated 85 years of service to the country and the business community with another record performance, despite challenging times and an unsettling political climate. The year solidified a legacy of four score and five years which covered four generations and a storied history which spans a world war, booms and busts, and cataclysmic changes in the political and economic landscape.

The global and domestic economic scenario was not particularly auspicious, though with some notable positives. Record-level oil prices and tightening US monetary policy dampened global economic growth, which fell 0.6%. Asia continued to be a growth area, led of course by red-hot China and with ASEAN posting 7.8%.

In contrast, Philippine GDP growth decelerated to 5.1% from 6% in 2004 from weaker exports and agricultural output. Aside from the political issues, the year was dominated by the critical issues of fiscal deficit and public debt. The protracted effort to address these issues culminated in the implementation of the expanded value added tax (E-VAT), signaling a serious effort at fiscal discipline. The budget deficit at ₱146.5 billion was 22% lower than the previous year and 18.6% below target, leading to a turnaround in investor sentiment and an upgrade in credit rating outlook, which partly accounted for the improvement in the peso exchange rate and the rise local stock market towards the latter part of the year and spilled over into the following year. The Supreme Court ruling to uphold the constitutionality of the 1994 Mining Act was welcomed by the business community and helped spur a 9.5% growth in the mining sector, aided by the global rise in commodity prices.

In the face of restrained lending activity and declining interest rates driven by market liquidity, the financial services sector still managed to expand by 14.2%. The banking industry faced a more demanding environment calling for adherence to higher standards of corporate governance and observance of best practice in risk management and greater transparency in reporting and disclosures. This framework provides the new ground rules for more intense competition and clearer parameters for generating shareholder value.

Despite these challenges, China Bank marked its 85 years of banking by crossing a critical threshold—our coming of age to become a leading industry performer. Our record net income of ₱3.18 billion capped four years of sustained profitability for a cumulative ₱11.18 billion during that period. The sterling performance is best summed up in the industry-best performance in key measures:

- return on equity of 15.28%
- return on assets of 2.58%
- capital adequacy ratio of 28.17%
- cost efficiency ratio of 46.13%

Gilbert U. Dee
Chairman of the Board

Hans T. Sy
Vice Chairman and
Chairman of the Executive Committee

Peter S. Dee
President and
Chief Executive Officer

For 2005, substantial gains from government securities trading, robust growth in our loan and investment portfolio, and our firm grip on overhead costs resulted in the 14.3% profit expansion.

- Government securities trading both for position-taking and fund deployment remained a major component of non-interest revenues, as seen in the 303.1% surge in trading profits to ₱1.2 billion. Revenues from our substantial peso- and dollar-denominated hold-to-maturity portfolio likewise rose by 11%.
- Balance sheet strength continued to improve, with ₱822 million in additional provisions for probable losses provided during the year. Even as gross loan portfolio grew ₱10.7 billion, loan loss coverage even improved to 94.64%, much higher than industry average. Meantime, NPL ratio fell to 7.92% from 11.4% in 2004, from our more rigorous approach to credit risk management.
- Low-cost funds base climbed by an unprecedented ₱3.79 billion from the implementation of the branch-based marketing program and the *Grateful at 85* promotions. More than at any other time, these results clearly established that the strength of China Bank's 85-year franchise was an important factor in our ability to continuously attract low-cost deposits from a highly demanding customer base and steadily grow our total funding base at lower cost than other major competitors. This enabled us to offer competitively priced loan packages especially in the consumer sector, while preserving our net interest margins.
- The combination of above–industry performance in various indicators led to a credit rating upgrade to BB+ from BB by Capital Intelligence, and the retention of our C/D financial strength rating by Fitch Ratings.

In terms of banking services, the year saw the launching of our cutting-edge electronic banking service China Bank ONLINE, giving our retail depositors and corporate customers a foretaste of what on-line and mobile banking could become in the future. Our tie-up with Starbucks Coffee for our first bank-based cyber café underscored the Bank's thrust for technology-driven banking services. Similarly, China Bank's entry into the remittance business was auspiciously marked by the alliance with the East-West Bank of California. Under this partnership, Philippine-bound remittances would be channeled to China Bank through East-West Bank's U.S. network of 56 branches in Southern California.

We continued to broaden our suite of wealth management products by introducing high-yielding peso-denominated government securities Trust fund as well as the dollar-denominated unit investment trust fund. Our Treasury Group continued to be among the most active participants in the securities trading business, giving our customers the benefit of even greater investment options. These investment initiatives were in turn repackaged for top-tier clients by our Private Banking unit.

On the transactional banking side, the Bank substantially grew market volume for cash management services (CMS), covering the whole range of collections, disbursements and liquidity management services. Our Cash Management Services unit supported relationship managers in pushing for the migration of client transactions to electronic channels to decongest the branches while seeking to capture greater value from existing branch client relationships. To further enhance our customers' banking experience, our product development & marketing groups worked closely with the branches to fulfill the promise of seamless customer convenience across channels.

On the labor front, the 2005 CBA negotiations were peacefully concluded, giving our rank and file employees one of the best packages for salary increase and benefits in the industry. To prepare for future growth, we accelerated the training for officers, supervisors and staff. Apart from deepening the management bench and developing future leaders, these programs ensured the continuity of the China Bank culture in work ethic and commitment to customer service.

Having emerged as a formidable competitor in the industry, we face the new challenge of not only sustaining such performance, but bringing the Bank to a new level. In the next three years, we aim to strengthen China Bank's position as a top tier player—a highly efficient and productive organization, strongly competitive in its chosen markets, sharply focused on the customer, with a diversified revenue base, broader distribution network, and strong portfolio quality. All these elements form the critical blocks for delivering strong shareholder value. The goals call for a broad-based set of initiatives anchored on strengthening core competencies and developing new ones. With our treasured legacy of banking on principles, impressive financials, and solid capital base, we are in a formidable position of having the capacity to grow with our customers and their businesses, expand our strategic franchise and take advantage of new opportunities.

We warmly welcome our newest Board Member, Mr. Robert Kuan, who brings with him a wealth of experience both as an entrepreneur and independent director. We continue to gratefully acknowledge the role of our Board of Directors and Management in successfully guiding China Bank towards its enviable accomplishments, and for the boldness of vision in taking the Bank to the next level during a period of radical change and economic uncertainty. It is to their credit that we ended the year with a stronger bottom line, strong balance sheet, solid capital adequacy and reputable business franchise. Their vision of a competitive, customer-focused and growth-oriented universal bank is our blueprint for the future. Behind our success for the last 85 years has been the success of our customers, and their continuing loyalty to our Bank will be the hallmark of a great and enduring institution.

GILBERT U. DEE Chairman	**HANS T. SY** Vice Chairman and Chairman of the Executive Committee	**PETER S. DEE** President and Chief Executive Officer

Behind the China Bank commitment of "Your success is our business" is a wide array of products and services to suit every banking need—to make dreams come true, businesses grow, and futures brighter.

OPERATING HIGHLIGHTS

At 85 years, China Bank showed renewed strength and continued to improve in all areas of operations—evolving with the times to keep pace with the changing banking needs and demands of its customers.

The year 2005 saw many dynamic changes in China Bank: new products and services were introduced, business practices were updated, systems and procedures were generally enhanced and streamlined. Hiring of key talent, training and development coupled with innovative marketing enabled the achievement of new milestones in business results.

TREASURY

The Treasury Group sustained its significant contribution to the Bank's revenues and profitability even as the new IAS 39 rules—calling for strict segregation between tradable securities and securities to be held to maturity—triggered an industry-wide realignment in the securities portfolio of the balance sheet in January. The continuing decline in interest rates again confounded expectations, presenting renewed challenges for the interest-spread business but provided opportunities for the trading side. For the fourth consecutive year, Treasury anchored the Bank's record-level income.

The Group maintained its strong presence in the primary auction and secondary markets, earning recognition from the Bureau of Treasury (BTr) as one of the Top Ten Best Performing Government Securities Eligible Dealers (GSED) for the secondary bond market. To complement the core offerings of Peso and Dollar government securities, initial public offering (IPOs) of selected equity issues, foreign-denominated sovereign issues and loans were also distributed to an expanded customer base. The Group also started to invest in structured deposit products to diversity the portfolio, enhance the yields, and manage earnings volatility.

More effective liquidity and reserve management reduced intermediation cost, by maximizing earnings of reserve-eligible investments and minimizing non-earning assets used for regulatory compliance. Meanwhile, the migration of government securities to BTr's Registry of Scripless Securities-Client Interface System (ROSSCIS) was successfully implemented. Treasury Group will continue to closely coordinate with the other units of the Bank for better management of liquidity and to find alternative outlets to maximize returns on short-term assets and improve tax management.

ACCOUNT MANAGEMENT

With the general improvement of the Philippine economy in 2005, the Account Management Group (AMG) continued to intensify its lending activities to existing as well as newly-acquired clients. Loans to select corporate and middle market accounts grew significantly by 18%, as the Group's loan portfolio reached ₱33.0 billion. This marked the second year of significant growth in the gross loan portfolio as part of the corporate strategy to generate more core banking earnings and reduce reliance on securities-related revenue streams. The beneficiaries of this loan growth were the food manufacturing, real estate, tobacco processing, alcohol and beverages, electronics, agri-business, pharmaceuticals, wholesale and distribution sectors. This was accompanied by the rise in export volume and remittances by 54% and 21%, respectively together with a 44% increase in domestic LC business. AMG also actively participated in the Specialized Lending Programs offered by the Development Bank of the Philippines (DBP) and the Land Bank of the Philippines (LBP) and other funding agencies. The Group likewise co-underwrote the IPO of Manila Water Corp. and SM Investments, Inc.

Continuing efforts in collection and restructuring led to further improvements in loan portfolio asset quality, with the continued decline in non-performing loans and corresponding NPL ratio.

The Group also focused on total customer relationship management by cross-selling the full range of products and services—cash management services such as SSSNet, BIR tax payments, payroll services, insurance, consumer loans, Trust and investments—as part of the overall thrust to strengthen client relationships. These efforts helped grow Group's deposits and placements volume.

BRANCH / RETAIL BANKING

The Branch Banking Group (BBG) remained at the forefront of low-cost deposit generation and overall funding. To sustain its performance, BBG continued to implement and enhance time-tested strategies. In 2005, with the Sales Management System in full swing, over 30 branch-based marketing activities were launched. These branch-based efforts complemented the Bank's major promotional programs such as the Chinese New Year and the *Grateful at 85* raffle promo and helped push CASA growth to record levels. BBG likewise intensified efforts to market the new products and services launched by Treasury Group, Trust Group, Product Development and Cash Management Services. Key elements of the Sales Management System to motivate branch personnel to work as sales teams were implemented—the regular area-level meetings, pep rallies, and recognition and substantial rewards for the top performing branches in the Annual BBG Sales Convention. Training programs were likewise conducted to enhance the front liners' job knowledge, product mastery and customer service skills. "Project Smile" was also relaunched to improve customer service in the branches.

BBG likewise focused on improving the branches' accessibility to serve clients better. While awaiting approval from BSP for branch network expansion, BBG continued to look for strategic locations and relocated some branches to bigger and better sites. To expand network reach, 16 new ATMs were installed in high-traffic areas such as malls, schools, and MRT/LRT stations—bringing China Bank's network of ATMs to 204 nationwide (137 in-branch and 67 off-branch sites) by year-end. On the other hand, an improved batch of new TellerCard ATM cards were also released with HICO magnetic stripes that are far more resistant to stray magnetic fields and therefore much less susceptible to data loss. New enhancements and features were also done on the ATM, TellerPhone, China Bank Online and BancNet Online such as the addition of twenty-two new billers and a fast cash withdrawal option of up to ₱10,000.00 in a single transaction.

BINONDO BUSINESS CENTER

As China Bank celebrated its 85th anniversary, the Binondo Business Center (BBC) intensified its focus on the bank's original Chinatown "home market," where it all started. Since the bank's pioneering years in the area, BBC has been at the forefront of serving the banking needs of the Filipino-Chinese business community, and establishing China Bank as their bank of choice. Though 2005 was a tough and highly competitive year for the whole business community in general, the previous initiatives of reorganization and implementation of sales management program produced encouraging results. BBC's total peso fund level reached ₱10.83 billion, up by 6%, while total dollar funds increased by 10% to US$138.43 million. Total loan portfolio expanded significantly by 26% to ₱2.39 billion, as business from new clients complemented the higher line utilization of existing relationships.

Our goals over the next three years call for further strengthening our competitive position vis-à-vis the bigger players in this highly unique and competitive market. BBC will continue to build up the CASA funds base and cross-sell our full range of products and services, particularly trade financing. Total customer relationship approach will be pursued with the continued beefing up of the sales staff, and setting up of a retail loan desk. Competitive pricing remains a vital factor in attracting and sustaining business growth.

CONSUMER BANKING

Amidst fierce competition and despite the relatively low loan demand in 2005, the Consumer Banking Group (CBG) emerged as a full-fledged contributor to the corporate bottom line. Despite the high attrition ratios in its portfolio compared to the rest of the bank, CBG loan portfolio grew by a hefty 60% and sustaining its performance as the fastest growing segment of the lending business. The growth was broadly-based: HomePlus real estate loan rose 43%, while AutoPlus car loans grew 37%, while the year saw the substantial contribution from Contract to Sell (CTS) and Receivable Financing which grew sharply by 241%. CTS financing accounted for one-fifth of the CBG portfolio.

The robust growth was driven by targeted business development, marketing initiatives and continued promotional efforts. The base of accredited reputable developers tripled during the year, leading to the tremendous volume increase. China Bank led the market in price competitiveness in the latter part of the year—the interest rate for one year fixing of 9.75% p.a. was the lowest in the market—supported by continued print and radio ad campaign of HomePlus Loans. HomePlus borrowers were also included in the highly successful *Grateful at 85* raffle promo. The success of HomePlus was recognized by several award-giving bodies as the *"Most Outstanding Real Estate Financing Product."*

The growth in AutoPlus loans was accomplished despite minimal advertising efforts. Tie ups with leading corporations, auto manufacturers and dealers broadened

the customer base, while auto loan credit parameters were made more competitive. The Consumer loan portfolio is projected to further increase its share to the total portfolio in the next three years. Achievement of the goals calls for the expansion of business centers, broader alliances and partnerships, and sustained contributions from the branch network through continued road shows and product briefings. This accelerated business growth will be supported by streamlined credit processes which would include a credit–scoring system, and processed on a robust loans origination platform.

CREDIT MANAGEMENT

The Credit Management Group (CMG) strengthened its vital role in providing essential credit support to the Bank's various lending activities in the light of Basle 2-driven regulatory requirements. Reorganizing efforts in 2005 led to the creation of three divisions to manage credit evaluation, credit investigation and appraisal, and credit risk management. Beyond mere compliance with the new business rules, CMG took even broader steps and implemented measures to further strengthen the Bank's credit culture. At the heart of this effort is the implementation of an improved risk rating framework as an integral part of the credit-granting process. This Internal Credit Risk Rating System (ICRRS) calls for separate risk rating for the borrower and the transaction. In turn, rating of the borrower is further drilled down to components of industry prospects, financials which are now required to be prepared by SEC-accredited auditors and management.

The transition to a more rigorous credit process and culture calls for the establishment of a data base with information on the condition of the loan portfolio, a built-in loan grading and classification system to effectively monitor credit relationships, and a continuing industry scan as basis for defining the Bank's risk appetite for various industries and sectors. CMG also initiated a credit review program to assess portfolio quality and adequacy of loss provisions and reserves. It also finalized the specifications and desired functionalities for a risk management system to better monitor credit risk exposure.

CMG's manpower complement was strengthened with the hiring of experienced middle to senior level officers, and highly qualified staff. Technology and system upgrades likewise received a major portion of the Group's capital spending. More initiatives are lined up for 2006 to align with the Bank's objective to grow a high-quality loan portfolio.

CASH MANAGEMENT SERVICES

Cash Management Services continued to be one of the Bank's key drivers in the generation of fee-based income and incremental low-cost funds. Standard products such as BIR Electronic Filing and Payments System (eFPS), SSSNet and SMEC became major offerings of the various marketing units, resulting in a significant increase in transaction volume and values. BIR eFPS, for instance, saw a huge 172% increase in transaction value from 2004, resulting in a 130% rise in net income contribution for 2005. SSSNet and SMEC revenues also continued to grow.

With the full launch of China Bank Online in 2005, the Group undertook an aggressive program of getting the merchants of BancNet to become corporate billers of the Bank's Internet banking system. As of end 2005, 29 corporate billers have been successfully migrated to China Bank Online's bills payment list, contributing a significant 40% share of the total value of financial transactions done online. The inclusion of major utilities such as Meralco, PLDT and Manila Water as proprietary billers aims to complete the basket of the most commonly-paid billers for the typical customer, and strengthen the seamless customer experience across traditional electronic channels.

Looking ahead, Cash Management Services will continue to expand and strengthen their suite of product offerings to the Bank's corporate clients. The launch of the Internet-based Corporate and Cash Management eBanking Modules will complement the highly successful launch of the Retail banking service of China Bank Online. Developed by Infosys, a leading India-based technology provider of e-banking systems, these Cash Management modules include Sweeping, Upload, MIS Recon, Check Warehousing, Check Printing, Collections and Charging

Through the years, China Bank has anchored its operations on sound banking practice, prudent management and excellent service. The recognition and accolades from customers, industry peers, and award-giving bodies affirm and inspire us to do even better.

Modules. These will provide corporate clients with secure, convenient, end-to-end products and services designed to simplify and improve corporate collections, liquidity management and disbursement requirements.

CHINA BANK ONLINE

China Bank Online, the Bank's Internet and mobile banking platform, was soft-launched internally in May 2005, and publicly in October. Developed by Infosys, China Bank Online is powerful and distinctive in many ways—it is the only Internet banking facility that requires separate passwords for logging in and transacting for extra security, and it has a unique "alerts" function that notifies clients via email or text about any account movement. Likewise, the mobile banking platform is the most flexible as it is the only one that caters to all three telco service providers—Globe, Smart and Sun Cellular.

To provide a venue for a relaxing and enjoyable e-banking experience, the China Bank Online Center, the country's first Internet banking café, was opened at the Makati head office in November 2005. The China Bank Online Center is a wi-fi spot and is equipped with state-of-the-art computers that clients can use for free to access China Bank Online. Operating within the Center is Starbucks. The opening of China Bank Online Center redefined the meaning of "coffee break banking."

Following an aggressive print advertising and branch merchandising campaign, complemented by a press conference and other marketing activities, 5,014 clients became online banking customers as of year-end 2005, a significant achievement considering that other banks who launched years ahead only boast of 8,000 to 12,000 current online banking users. The number of active China Bank Online users is expected to double by the end of 2006. Marketing programs, which include the deployment of Multi-Channel Specialists at the branches, will be sustained. Multi-Channel Specialists are specially trained bank personnel who act as "sales agents" for China Bank Online as their main task is to encourage existing customers to enroll in China Bank Online and provide customer support for inquiries about online banking.

One of the strongest features of China Bank Online is convenient and secure bills payment. As such, the bills payment list was beefed up to include 29 corporate billers as of end 2005, contributing a significant 40% share of the total value of financial transactions done online. The inclusion of major utilities such as Meralco, PLDT and Manila Water as proprietary merchants aims to complete the basket of the most commonly-paid billers for the typical customer, and strengthen the seamless client experience across traditional electronic channels.

CENTRALIZED OPERATIONS / INTERNATIONAL BANKING / CORRESPONDENT BANKING

2005 was a year of dynamic development for Centralized Operations. Operational procedures were reengineered towards customer satisfaction, competent and timely product delivery, increased productivity, and efficient cost control. Officers and staff were further trained to adapt the best practices for improved efficiency and customer service, while pricing concepts were reviewed and aligned to be more competitive.

The Group has been operating smoothly with a new Trade Finance automated system that also covers TR loans and remittance fund transfers, and expected to provide a secure, reliable electronic platform for customer-friendly transactions. On the other hand, the existing automated systems for the Treasury and Loans Departments were also upgraded and should result in productivity gains starting 2006.

The Foreign Currency Deposit Unit saw a significant increase in US dollar deposit volumes despite relatively stable rates and fierce pricing competition. This was achieved largely because of the Bank's very personalized handling of accounts. Meanwhile, Correspondent Banking Unit continued to develop strong relationships with the biggest foreign banks in the USA, Europe, Asia, and other parts of the world as China Bank maintained its preferred local bank partner status.

REMITTANCE BUSINESS

The new remittance business, China Bank On-Time Remittance, is gaining momentum. A solid partnership with a leading bank in southern California—East West Bank of USA (no relation to East West Bank in the Philippines), was successfully established making China Bank's remittance service available in all 56 of East West Bank's strategically located branches in California. Negotiations with other remittance partners are underway.

Soon, China Bank On-Time Remittance will be available in the Middle East, other parts of the US, Asia and Europe. Apart from establishing alliances in key markets for substantial geographical coverage, a key goal is to offer fast, secure and convenient handling of remittances at affordable terms for the remitters and beneficiaries. Transactions will be handled on electronic systems that will enable such transactions to be conducted without the cost burdens of the older infrastructures.

TRUST BANKING

The Trust Group sustained their momentum in 2005 maintaining its position as the 6th largest in the industry in terms of total assets held under management. This performance was achieved against the backdrop of new Bangko Sentral ng Pilipinas (BSP) regulations phasing out common trust funds to pave the way for Unit Investment Trust Funds (UITFs). To comply with BSP requirements and international best practices, the China Bank Dollar Fund was re-launched in September 2005 as a UITF. As market liquidity and lower interest rates drive down yields on the traditional investment instruments, UITFs rapidly gained market acceptance as an alternative investment opportunity. The Trust Group will offer a wider set of UITF product offerings, which includes the peso-denominated China Bank GS Fund, a fixed-income type of UITF to be invested mainly in government securities. With other promising market segments in mind, the Group is set to launch additional UITF variants such as the Fixed-Income Fund, the Money Market Fund and the Balanced Fund which would partly invest in equities.

The Group likewise strengthened its Business Development Unit to expand market coverage for fund management and trusteeship more aggressively, leading to improved client acquisition. Contributions came from referrals of relationship officers and branch managers, focus on top 1,000 corporations and participation in relevant industry activities. Customer relationships were enhanced with private briefings, access to market information and advisories and regular client calls.

Given the sizeable portfolio and substantial increases expected, Trust strengthened its portfolio management capability by hiring experienced portfolio managers and providing experiential and certification-type training. Closer coordination with Treasury leveraged the combined institutional bargaining position in negotiating for volume, rates and fees. The Group continued to enhance yields on client investments thru close monitoring of portfolios. This involved being on top of fast-changing developments in the financial markets, with information tools such as Bloomberg proving to be invaluable in reading the market more accurately and in timing investment actions to take advantage of market opportunities.

To improve service level standards, keep pace with technological advances, and comply with recent changes in regulatory and reportorial requirements, the Group has been converting an increasing volume of their accounts to the integrated automated platform under SunGard Total Accounting and Portfolio Management Solution (TAPS).

PRIVATE BANKING

Private Banking Group continued to provide a wide range of investment options for the Bank's high net-worth clients. Aside from personalized service which has become the hallmark of the China Bank experience, valuable and insightful financial information and advice were made available to key clients through publications and seminars to help them make the right investment moves. Complementing the regular Quarterly Investment Reports issued by Private Banking, (summary of client's transactions, commentaries on significant market events, investment outlook and recommendations), the "China Bank Adviser," which contained market news and information, investment and financial advice, was distributed electronically to clients and relationship officers. A total of 185 Daily Advisers and 43 Weekly Advisers were sent in 2005. In addition, A Wealth Planning Seminar on "The Law on Family Relations" with Atty. Danilo Concepcion as speaker was also conducted. These resulted in a stronger relationship with existing clients, and an increase in the total client base and business volumes.

CHINA BANK INSURANCE BROKERS, INC.

China Bank Insurance Brokers sustained its growth momentum in 2005 posting an 11% improvement in revenue and 14% improvement in pre-tax income. More aggressive collection efforts resulted in one of the lowest

receivable turnover in the industry. Marketing efforts in partnership with the Bank's Account Management Group resulted in a substantial increase in new business while keeping renewal rates at a high 82%.

To improve its performance and competitive edge, two new direct marketing products (*Extended Hospital Income Plan* and *My Great Life Dollar Plan*) contributed significantly to the retail business. An established relationship with foreign brokers has enabled assessment of local premium prices with global benchmarks. The Group also increased its sub-agents for motor car insurance which resulted in a 23% increase in non-China Bank motor insurance business. To expand operating capacity to handle the expected increase in business volumes, a new application system for insurance brokerage has been implemented.

TECHNOLOGY

The Technology Group continued to enhance and upgrade the Bank's technology infrastructure to handle the growing business volume and greater customer demand. The Group focused on improving network security and providing reliable and uninterrupted service across all banking channels.

In 2005, China Bank Online, the Bank's powerful Internet and mobile banking platform was launched, completing China Bank's suite of electronic banking channels. The Group likewise completed the second to the last batch of conversion of tellering terminals to Mosaic NT, allowing branch servers to accommodate more online enhancements for faster product roll-outs and more efficient service. On the other hand, Wireless Fidelity (WiFi) routers were installed at the executive office, computer center and the China Bank Online Center to provide wireless Internet service to customers with the provision of Voice over Internet Protocol (VoIP). New security policies and procedures were also implemented to strengthen the Bank's online security and enhance protection against intrusion.

A key area focused on improving disaster preparedness and ensuring business continuity. The Group upgraded the fire suppression system in the main computer room using state-of-the-art VESTA system, which can detect minute smoke particles and provide early warning in case of fire. The Group also set up a Disaster Recovery Center (DRC) at TIM Alabang which will serve as the Bank's alternate processing center should disaster strike at the primary site.

HUMAN RESOURCES

Recruitment and manpower development continued to be critical to the Bank's reorganization and expansion in 2005. Human Resources Division (HRD) focused on hiring the best people for new officer and technical positions to supplement the Bank's existing workforce. At the same time, HRD intensified their training programs, and improved the salary and benefits package of employees. By the end of 2005, the Bank's total manpower complement reached 2,887. Of the new hires for the year, 46 are new officers for marketing and technical positions while 397 are rank and file employees, mostly to replace resigned staff. Additional management trainees were also hired. Retention rate improved as a result of additional efforts taken by HRD to enhance integration activities and employee relations. To facilitate the hiring of qualified candidates, HRD increased the hiring rates to attract good candidates from other companies.

Training continued to be a major initiative. New courses were designed while management development courses were strengthened and updated. Training in customer service and marketing/sales continued. Several product briefings were conducted to update the employees' product knowledge. For 2005, HRD offered a total of 128 in-house seminars. To supplement the Bank's training programs, HRD continued to send employees to external seminars, mostly technical courses.

2005 was also a collective bargaining year. A new two-year CBA package was signed in early December by both management and union panels after a relatively peaceful negotiation process. The Bank gave a salary increase and benefits package that was higher than the industry average.

CORPORATE GOVERNANCE

China Bank's long history has been characterized by prudence and conservatism, as well as the values of banking with principle. The Bank's founders, Don Albino Z. Sycip and Dee C. Chuan, have laid the foundations for China Bank's business philosophy of commitment to client satisfaction, accountability to shareholders and stakeholders, and respect for people, the community, and the environment. Through the years, China Bank has anchored its business on integrity, honesty, and professionalism.

China Bank, in a sense, has indeed been practicing good corporate governance long before it became a mandate in today's corporate world. The Bank has a Manual on Corporate Governance, duly approved by the Board of Directors in 2002 to comply with the Securities and Exchange Commission's Memorandum Circular No. 2 dated April 5, 2002. The Manual contains the principles of good corporate governance and best practices and is kept updated with the new governance-related regulatory issuances. To enjoin bank-wide compliance, a copy of the Bank's Corporate Governance Manual is made available to all employees.

China Bank's governance structure seeks to align the interests of executives and all shareholders, make its policies and processes consistent with relevant laws, increase transparency, enforce a clear-cut accountability for results, and set standards for compliance and risk management.

BOARD OF DIRECTORS

The China Bank Board of Directors is a critical corporate governance mechanism. It represents the shareholders of the Bank and guides the Bank's overall philosophy and strategic direction—setting the framework for the Bank's current operations and future developments. All the members of the Board have been issued their general and specific duties and responsibilities as prescribed in the Manual of Regulations for Banks.

The primary mandate of the Board of Directors is to enhance the long-term shareholder value of China Bank and ensure its profitability. The Board likewise reviews and evaluates opportunities, threats, and risks; determines business strategies and plans; selects the senior management team which is charged with the conduct of the Bank's business; and acts as an advisor and counselor to senior management and ultimately monitors its performance.

The Board carries out its duties and responsibilities through the Executive Committee and other sub-committees for specific functions. The Executive Committee handles the approval of all major credit risks and oversees and reviews the activities of the sub-committees which are: the Audit Committee, the Corporate Governance Committee, the Risk Management Committee, the Compensation Committee, the Compliance Committee, the Trust Investment Committee, and the Board of Trustees of China Banking Corporation Employees' Retirement Plan.

Significant Board Practices:

- China Bank's Board of Directors is composed of 11 highly qualified and experienced business professionals with high moral and ethical character. Candidates are selected for, among other things, their integrity, independence, leadership, their ability to exercise sound judgment, and their experience at policy-making levels involving issues affecting business, government, as well as areas relevant to the Bank's operations. Final approval of a candidate is determined by the full Board. The Directors are elected by the shareholders annually during the Stockholders' Meeting.
- The Bank currently has three independent Directors.
- There is no limit on the number of years that Directors can serve and there is no mandatory retirement age. The Board self-evaluation process is an important determinant for continuing service.
- The Bank has in place an evaluation system for the Board of Directors and for the Individual Directors. In 2005, an evaluation system for the different Board Committees was implemented.
- The Board of Directors meets every first Wednesday of each month. In a year, the Board has an average of 12 scheduled meetings.
- At the invitation of the Board, members of senior management attend Board meetings or portions thereof to participate in discussions. Generally, presentations of matters to be considered by the Board are made by the Bank Officer responsible for that area of the Bank's operations.
- The Directors are provided Board materials related to the agenda sufficiently in advance of Board meetings to allow them to prepare for discussion of the items at the meeting.
- China Bank has a full orientation and continuing education process for Board members that includes extensive materials, meetings with key management and visits to branches.

RISK MANAGEMENT

The Risk Management Unit (RMU) ensures that the different risks arising from China Bank's business activities are independently identified, monitored, and managed. The Group systematically categorizes all risks into one of three strategic categories: market risk, credit risk, and operational risk. Senior Management is given periodic reports on potential mark-to-market swings in profits, Value-at-Risk (VaR), and factor sensitivities. VaR is a probabilistic measure of losses over a specified time period, with a specified probability, given a historical set of data.

In 2005, RMU began a program for the steady incremental upgrading of risk reports with the objective of improving Senior Management's ability to choose which risks should be reduced and which risks should be increased. Risk management is more about ensuring adequate compensation for risk, and less about risk avoidance. In keeping with this, RMU also began work on creating incentives for profitable risk-taking by business units.

RMU progressively improved liquidity risk management. Building on the groundwork put in place in 2004 for the control of liquidity risk, RMU began producing monthly reports on China Bank's Maximum Cumulative Outflow (MCO), while work is already underway on an expanded Earnings-at-Risk (EaR) report.

In the latter part of the year, China Bank significantly expanded its electronic banking products. While not creating inherently new risks, several characteristics of electronic banking products contribute additional risks including the ubiquitous nature of electronic networks, the integration of electronic banking applications with legacy computer systems and the increasing dependence of banks on third parties that provide the necessary technology. RMU recognized these risks and managed them in a prudent manner according to the fundamental aspects of electronic banking.

RMU does not view regulatory requirements as the only requirements or even best practice. Rather, RMU understands that China Bank's risk profile is unique and requires a tailored risk management approach instead of a "one size fits all" approach. RMU considers the materiality of the risks taken, and the willingness and ability of China Bank to manage these risks.

RMU understands that while past and present risk management principles remain applicable, such principles must be amended or expanded to address the risk management challenges created by the continuing changes in banking activities. The Board of Directors and Senior Management are committed to creating a more independent and more systematic method of risk management.

INTERNAL AUDIT

Internal Audit is an independent, objective assurance and consulting function established to examine, evaluate and improve the effectiveness of risk management, internal control and governance processes of the Bank. This is done through risk-based audits of head office, branches and subsidiaries. The Internal Auditor reports directly to the Audit Committee of the Board. The Auditor meets with the committee regularly to discuss the audit plan, the audit reports and actions taken by the management and units concerned.

COMPLIANCE

As an independent body that oversees and coordinates the implementation of the Bank's Compliance System, the Compliance Office identifies, assesses, monitors and reports on the Bank's compliance risks. It also closely monitors, the Bank's compliance with laws and regulations as well as the Bank's Manual on Corporate Governance. The Compliance Office acts as liaison for the Board and Management on regulatory compliance matters with the regulatory agencies, and provides timely assistance to concerned departments on the various requirements of the regulators and counterparties.

In 2005, Compliance Office continued to update the Compliance Program and Plan and coordinated and implemented these in all business units. To promote compliance awareness among all employees, periodic lectures and briefings about the Compliance System, Anti-Money Laundering Law, Corporate Governance, various bank regulations, regulatory changes and other compliance-related issues were conducted. These efforts improved the Bank's institutional ability to respond to changes and encouraged conscious efforts from the officers and staff to effectively comply with laws and regulations.

STATEMENT OF MANAGEMENT'S RESPONSIBILITY

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong City

The management of China Banking Corporation is responsible for all information and representations contained in the financial statements as of 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 best estimates and informed judgement of management with an appropriate consideration to materiality.

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

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

Sycip, Gorres, Velayo and Co., the independent auditors appointed by the stockholders, have examined the consolidated financial statements of the Company in accordance with generally accepted auditing standards and have expressed their opinion on the fairness of presentation upon completion of such examination, in their report to Stockholders and the Board of Directors.

GILBERT U. DEE
Chairman of the Board

PETER S. DEE
President and Chief Executive Officer

RICARDO R. CHUA
Executive Vice President and
Chief Operating Officer

SUBSCRIBED AND SWORN to before me this 23rd day of March 2006, affiants exhibiting to me their Community Tax Certificate Nos. as follows:

Name	Community Tax Certificate No.	Date and Place of Issue
GILBERT U. DEE	16867688	February 7, 2006, Manila
PETER S. DEE	16853737	January 30, 2006, Manila
RICARDO R. CHUA	01332441	January 12, 2006, Manila

BELENETTE Y. CHING-TAN
Notary Public for Makati City
Appt. No. M-144 until December 31, 2007
11/F, China Bank Building
Paseo de Roxas corner Villar Streets, Makati City
PTR No. 4184129 ; 01-04-06 ; Makati City
IBP No. 662757 ; 01-03-06 ; Makati City
Roll of Attorneys No. 37110

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REPORT OF INDEPENDENT AUDITORS

SGV & Co

The Stockholders and the Board of Directors
China Banking Corporation
8745 Paseo de Roxas corner Villar Streets
Makati City

We have audited the accompanying statements of condition of China Banking Corporation and Subsidiaries (the Group) and China Banking Corporation (the Parent Company) 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 Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted 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 financial position of the Group and the Parent Company as of December 31, 2005 and 2004, the results of their operations and their cash flows for the years then ended, in conformity with accounting principles generally accepted in the Philippines.

SYCIP GORRES VELAYO & CO.

Wilson P. Tan

WILSON P. TAN
Partner
CPA Certificate No. 76737
SEC Accreditation No. 0100-A
Tax Identification No. 102-098-469
PTR No. 4181277, January 2, 2006, Makati City

April 5, 2006

BOARD OF DIRECTORS

GILBERT U. DEE
Chairman of the Board

Member:
Executive Committee
Board of Trustees of China Banking Corporation Employees' Retirement Plan
Risk Management Committee
Compensation Committee
Management Committee

HANS T. SY
Vice Chairman of the Board and Chairman of the Executive Committee

Chairman:
Risk Management Committee
Compensation Committee

Member:
Nominations Committee
Corporate Governance Committee
Compliance Committee

PETER S. DEE
President and Chief Executive Officer

Member:
Executive Committee
Board of Trustees of China Banking Corporation Employees' Retirement Plan
Trust Investment Committee
Risk Management Committee
Compensation Committee
Management Committee

HENRY T. SY, JR.
Director

JOAQUIN T. DEE
Chairman:
Compliance Committee
Corporate Governance Committee

Member:
Executive Committee
Audit Committee
Nominations Committee
Risk Management Committee
Compensation Committee

ROBERT F. KUAN
Director

Member:
Corporate Governance Committee
Audit Committee

DY TIONG
Chairman of the Nominations Committee

Member:
Executive Committee
Trust Investment Committee
Compliance Committee
Risk Management Committee
Compensation Committee
Corporate Governance Committee

HERBERT T. SY
Chairman of the Trust Investment Committee

ALBERTO S. YAO
Chairman of the Audit Committee

Member:
Corporate Governance Committee

PILAR N. LIAO
Director

Member:
Compensation Committee

HARLEY T. SY
Director

Member:
Trust Investment Committee

ADVISORS TO THE BOARD

HENRY SY, SR.

DANILO A. ALCOSEBA

EXECUTIVE OFFICERS

MANAGEMENT COMMITTEE

Seated from left: Gilbert U. Dee, Ricardo R. Chua (Committee Chairman), Nancy D. Yang, Peter S. Dee
Standing from left: Margarita L. San Juan, Rene J. Sarmiento, Samuel L. Chiong, Ramon R. Zamora, Antonio S. Espedido, Jr., Rhodora Z. Canto, Reynaldo L. Lao, Alexander C. Escucha

VICE PRESIDENTS

From left:
Philip S.L. Tsai
Phillip M. Tan
Remedios C. Cruz
Roberto C. Uyquiengco
Lilibeth R. Cariño
Ben R. Marquez, Jr.
Arsenio L. Lim, Jr.

From left:
Gerard T. Dee
Patrick U. Go
Rosemarie C. Gan
Gerard E. Reonisto
Omar D. Vigilia
Zacarias B. Antonio
Amelia S. Amparado
Elizer P. Rivera

VICE PRESIDENTS

MANAGEMENT DIRECTORY

Chairman of the Board
Gilbert U. Dee

President and Chief Executive Officer
Peter S. Dee

Executive Vice President and Chief Operating Officer
Ricardo R. Chua

Senior Vice Presidents
Samuel L. Chiong
Antonio S. Espedido, Jr.
Reynaldo L. Lao
Nancy D. Yang
Ramon R. Zamora

First Vice Presidents
Rhodora Z. Canto
Alexander C. Escucha
Margarita L. San Juan
Rene J. Sarmiento

Vice Presidents
Amelia S. Amparado
Zacarias B. Antonio
Lilibeth R. Cariño
Remedios C. Cruz
Gerard T. Dee
Rosemarie C. Gan
Patrick U. Go
Arsenio L. Lim, Jr.
Ben R. Marquez, Jr.
Alberto Emilio V. Ramos
Elizer P. Rivera
Philip S. L. Tsai
Roberto C. Uyquiengco
Omar D. Vigilia

Senior Assistant Vice Presidents
Albert V. Alcala
Jenny R. Amisola
Maria Teresita R. Dean
Bienvenido C. Hidalgo
Delia Marquez
Danilo V. Ochengco
Elaine Marisa L. Ong
Vichelli Churchill T. Say
Henry D. Sia
Celso M. Sy
Lydia Y. Yu

Assistant Vice Presidents
Jose Francisco Q. Cifra
Melissa F. Corpus
Angela D. Cruz
Edgar D. Dumlao
Caezar P. Evangelista
Raul C. Gamboa
Jose Leslie P. Javier
Shew Kou Y. Lee
Gloria T. Ong
Lily I. Reyes-Lao
Elizabeth C. Say
Wilfredo L. Sy
Shirley G. K. T. Tan
Thaddeus Anthony L. Tan
Emmanuel V. Tandoc
Manuel M. Te
Marisol M. Teodoro
Noemi L. Uy
Norberto L. Uy

Senior Managers
Evelyn T. Alameda
Patrick Y. Ang
Marie Carolina L. Chua
Mary Evangeline A. Cruz
Reynaldo P. Del Rosario, Jr.
Cristina F. Gotuaco
Melecio C. Labalan, Jr.
Shirley C. Lee
Rolando M. Llanto
Dorothy T. Maceda
Diolan M. Monteleyola
Ma. Corazon M. Ordoñez
Teresita J. Ortega
Wilfredo A. Quijencio
Estefania A. Santos
Julieta C. Tan
Elizabeth Q. Tee
Lauro C. Valera
Sandra Mae Y. Yao
George C. Yap
Marilyn G. Yuchenkang

Deputy Senior Managers
Freddie S. Bandong
Ma. Luisa O. Baylosis
Jonnalyn B. Bolima
Julie C. Capalongan
Nolan C. Casiding
Michael Joseph M. Delfino
Ma. Estela R. Dizon
Alexander V. Gaite
Marijune T. Guarin
Antonette F. Justiniano
Eric Y. Lee
Carina V. Legaspi
Jocelyn A. Manga
Ordon P. Maningding
Maria Tanya T. Medina
Remberto D. Orcullo
Rafael Jose O. Orencia
Josephine D. Paredes
Roque A. Secretaria, Jr.
Belenette C. Tan
Jeanny C. Tan
Roxana Angela S. Tan
Ma. Cecilia V. Tejada
Virginia Y. Uy
Anthony Ariel C. Vilar

Managers
Ma. Hildelita P. Alano
Ma. Corazon M. Berces
Yasmin I. Biticon
Rachel S. Cabalde
Jonathan C. Camarillo
Marvin D. Celajes
Evelyn E. Dalaguit
Gemma B. Deladia
Mary Ann R. Ducanes
Anthony B. Fama
Glenn H. Francisco
Mercedes E. German
Allan M. Geronimo
Francisco Raymund P. Gonzales
Hector B. Holgado
Marvin V. Juan
Cristuta P. Labios
Melinda O. Lagahit
Minda A. Lim
Mary Ann L. Llanes
Jeanett J. Lopez
Juan Jesus C. Macapagal
Ma. Thea B. Manlongat
Florina L. Marcelo
Sheila Jane E. Medrero
Melanie K. Ngo
Mario S. Olarte
Remedios Emilia R. Olivar
Sonia M. Ong
Giancarlo C. Panganiban
Frederick M. Pineda
Emilie L. Sia
Anthony R. Sun, Jr.
Agnes Jade Y. Tan
Anna Liza M. Tan
Charis W. Tepoot
Nelson L. Tiu
Cristina C. Ty
Johnny L. Uy
Esmeralda R. Vicente
Vivian L. Yong
Mary Joy L. Yu
Ma. Teresa M. Yutuc

SUBSIDIARIES

CBC Properties and Computer Center, Inc.
Phillip M. Tan
Vice President

Editha N. Young
Vice President

Augusto P. Samonte
Assistant Vice President

Joseph Jeffrey B. Javier
Deputy Senior Manager

Rosalito C. Dela Cruz
Ma. Cecilia R. Ignacio
Joseph T. Yu
Managers

China Bank Insurance Brokers, Inc.
Gerard E. Reonisto
Vice President

STATEMENTS OF CONDITION

	Consolidated		Parent Company	
	December 31			
	2005	2004 (As Restated)	2005	2004 (As Restated)
ASSETS				
Cash and Other Cash Items *(Notes 11 and 21)*	₱2,405,605,764	₱2,597,900,274	₱2,373,689,104	₱2,565,668,396
Due from Bangko Sentral ng Pilipinas *(Notes 11, 15 and 21)*	4,567,587,253	2,346,840,957	4,567,587,253	2,346,840,957
Due from Other Banks *(Notes 15 and 21)*	3,586,826,013	1,281,921,787	3,586,826,013	1,281,921,787
Interbank Loans Receivable and Securities Purchased Under Resale Agreements *(Notes 15 and 21)*	6,215,348,000	2,423,410,000	6,215,348,000	2,423,410,000
Financial Assets at Fair Value through Profit and Loss (FVPL) *(Notes 2, 4, 15 and 21)*	18,708,972,246	–	18,708,972,246	–
Trading Account Securities (TAS) *(Notes 2, 4, and 15)*	–	10,916,838,980	–	10,916,838,980
Available-for-Sale Financial Assets (AFS) *(Notes 2, 4, 15 and 21)*	10,217,015,251	–	10,096,148,649	–
Available-for-Sale Securities (ASS) *(Notes 2, 4, and 15)*	–	182,918,270	–	80,022,400
Held-to-Maturity Financial Assets (HTM) *(Notes 2, 4, 15 and 21)*	16,595,775,342	–	16,595,775,342	–
Investments in Bonds and Other Debt Instruments (IBODI) *(Notes 2, 4, 11 and 15)*	–	34,392,373,411	–	34,392,373,411
Loans and Receivables - net *(Notes 2, 5, 10, 11, 15, 21 and 23)*	59,752,732,823	–	59,752,732,823	–
Receivables from Customers - net *(Notes 2, 5, 10 and 15)*	–	48,457,790,936	–	48,457,790,936
Accrued Interest Receivable *(Notes 15 and 21)*	846,156,516	1,115,134,757	842,709,506	1,111,569,567
Equity Investments *(Note 7)*	2,027,753	3,453,975	83,030,000	83,030,000
Bank Premises, Furniture, Fixtures and Equipment - net *(Note 6)*	3,052,055,081	3,040,162,213	3,050,698,982	3,039,078,283
Investment Properties - net *(Notes 8 and 10)*	4,692,178,083	3,988,877,979	4,692,178,083	3,988,877,978
Deferred Tax Assets - net *(Note 20)*	724,454,481	994,063,855	723,674,963	993,284,337
Other Assets - net *(Notes 9, 10, 15 and 21)*	1,584,487,916	2,076,108,377	1,561,205,396	2,050,726,181
	₱132,951,222,522	₱113,817,795,771	₱132,850,576,360	₱113,731,433,213

(Forward)

STATEMENTS OF CONDITION

	Consolidated		Parent Company	
	December 31			
	2005	2004 (As Restated)	2005	2004 (As Restated)
LIABILITIES AND CAPITAL FUNDS				
Liabilities				
Deposit Liabilities *(Notes 11, 15, and 21)*				
Demand	₱15,604,135,687	₱13,159,345,624	₱15,610,347,847	₱13,159,345,624
Savings	44,812,827,556	34,066,765,413	44,812,827,556	34,071,380,872
Time	42,040,418,267	38,575,346,201	42,040,418,267	38,575,346,201
	102,457,381,510	85,801,457,238	102,463,593,670	85,806,072,697
Bills Payable *(Notes 12, 15 and 21)*	4,030,421,799	4,334,942,904	4,030,421,799	4,334,942,904
Manager's Checks *(Notes 15 and 21)*	224,232,138	229,476,068	224,232,138	229,476,068
Accrued Interest, Taxes and Other Expenses *(Notes 13, 15 and 21)*	2,587,601,602	2,220,463,563	2,584,688,528	2,218,001,754
Other Liabilities *(Notes 14, 15 and 21)*	1,719,359,511	1,489,246,590	1,690,716,585	1,452,453,987
	111,018,996,560	94,075,586,363	110,993,652,720	94,040,947,410
Capital Funds				
Capital stock *(Note 16)*	4,933,155,000	3,654,251,200	4,933,155,000	3,654,251,200
Capital paid in excess of par value	671,504,726	671,504,726	671,504,726	671,504,726
Surplus reserves *(Notes 16 and 22)*	400,805,553	363,312,450	400,805,553	363,312,450
Surplus *(Notes 2, 16 and 22)*	14,067,988,594	13,774,190,218	13,999,232,116	13,718,268,833
Net accumulated unrealized gains on available-for-sale financial assets *(Note 4)*	581,494,654	–	574,948,810	–
Net accumulated unrealized gains on available-for-sale securities *(Note 4)*	–	38,167,020	–	42,364,800
Revaluation increment on land - net *(Notes 2 and 6)*	1,277,277,435	1,240,783,794	1,277,277,435	1,240,783,794
	21,932,225,962	19,742,209,408	21,856,923,640	19,690,485,803
	₱132,951,222,522	₱113,817,795,771	₱132,850,576,360	₱113,731,433,213

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Consolidated		Parent Company	
	December 31			
	2005	2004 (As Restated)	2005	2004 (As Restated)
INTEREST INCOME *(Note 17)*				
Debt securities, interbank loans receivable,				
due from other banks and others	₱5,058,104,277	₱–	₱5,045,370,310	₱–
Trading and investment securities, interbank				
securities, interbank loans receivable,				
due from other banks and others	–	4,696,926,864		4,685,773,819
Loans and receivables	5,142,189,902	–	5,142,189,902	–
Receivables from customers	–	3,870,883,544		3,870,883,544
	10,200,294,179	8,567,810,408	10,187,560,212	8,556,657,363
INTEREST EXPENSE *(Note 17)*				
Deposit liabilities, bills payable and				
other borrowings	4,360,247,197	3,501,851,516	4,360,247,197	3,501,851,516
NET INTEREST INCOME	5,840,046,982	5,065,958,892	5,827,313,015	5,054,805,847
PROVISION FOR PROBABLE LOSSES *(Note 10)*	822,000,000	855,526,104	822,000,000	855,526,104
NET INTEREST INCOME AFTER PROVISION				
FOR PROBABLE LOSSES	5,018,046,982	4,210,432,788	5,005,313,015	4,199,279,743
OTHER INCOME				
Trading and securities gain - net *(Note 4)*	1,213,844,235	301,144,831	1,213,781,712	301,807,713
Service charges, fees and commissions	711,997,043	646,324,558	689,887,310	625,805,479
Trust fee income *(Note 22)*	374,931,031	354,260,137	374,931,031	354,260,137
Gains on asset foreclosures and dacion				
transactions *(Note 2)*	318,776,649	133,361,729	318,776,649	133,361,729
Foreign exchange gain - net	267,051,949	737,862,797	267,055,673	737,844,804
Income from assets acquired	75,015,428	61,479,474	75,015,428	61,479,474
Equity in net earnings of an				
associate *(Note 2)*	(1,426,223)	383,145	–	–
Miscellaneous	99,758,961	45,051,129	99,614,220	45,158,334
	3,059,949,073	2,279,867,800	3,039,062,023	2,259,717,670
OTHER EXPENSES				
Compensation and fringe benefits *(Notes 18 and 23)*	1,441,523,176	1,238,060,517	1,433,671,301	1,230,949,634
Taxes and licenses	509,252,953	385,642,233	509,073,179	384,645,317
Occupancy *(Note 19)*	392,979,886	367,702,995	390,772,744	365,787,191
Depreciation and amortization *(Notes 6 and 8)*	256,198,198	262,849,244	255,468,992	262,328,400
Insurance	236,040,520	189,594,961	236,040,520	189,591,031
Repairs and maintenance	197,901,752	189,740,946	197,543,841	189,420,713
Entertainment, amusement				
and recreation *(Note 20)*	173,453,569	210,486,304	172,640,927	209,217,679
Miscellaneous	898,547,428	567,763,323	891,983,018	561,989,529
	4,105,897,482	3,411,840,523	4,087,194,522	3,393,929,494
INCOME BEFORE INCOME TAX	3,972,098,573	3,078,460,065	3,957,180,516	3,065,067,919
PROVISION FOR INCOME TAX *(Note 20)*	787,532,529	293,411,455	785,449,565	290,047,288
NET INCOME *(Note 26)*	₱3,184,566,044	₱2,785,048,610	₱3,171,730,951	₱2,775,020,631
Basic Earnings Per Share *(Note 26)*	₱64.55	₱56.46	₱64.29	₱56.25

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN CAPITAL FUNDS

	Consolidated						
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Accumulated Unrealized Gains on AFS Financial Assets	Revaluation Increment on Land	Total Capital Funds
Balance at December 31, 2004, as previously reported		₱671,504,726	₱363,312,450	₱13,668,455,565	₱38,167,020	₱1,240,783,794	₱19,636,474,755
Common Stock - ₱100 par value							
Authorized - 100,000,000 shares in 2005 and 50,000,000 shares in 2004							
Issued and outstanding - 49,331,550 shares in 2005 and 36,542,512 shares in 2004	₱3,654,251,200						
Effect of changes arising from transition to PFRS *(Note 2)*	–	–	–	105,734,653	–	–	105,734,653
Balance at December 31, 2004, as restated	3,654,251,200	671,504,726	363,312,450	13,774,190,218	38,167,020	1,240,783,794	19,742,209,408
Cumulative effect of changes arising from adoption of PAS 39, Financial Instruments: *Recognition and Measurement (Note 2)*	–	–	–	(295,382,845)	21,489,501	–	(273,893,344)
Balance at January 1, 2005	3,654,251,200	671,504,726	363,312,450	13,478,807,373	59,656,521	1,240,783,794	19,468,316,064
Net unrealized gains on AFS financial assets during the year	–	–	–	–	521,838,133	–	521,838,133
Effect of change in tax rates	–	–	–	–	–	36,493,641	36,493,641
Net income	–	–	–	3,184,566,044	–	–	3,184,566,044
Total income and expense recognized during the year	–	–	–	3,184,566,044	521,838,133	36,493,641	3,742,897,818
Transfer from surplus to surplus reserves *(Note 22)*	–	–	37,493,103	(37,493,103)	–	–	–
Stock dividends - 35% *(Note 16)*	1,278,903,800	–	–	(1,278,903,800)	–	–	–
Cash dividends - ₱35 per share	–	–	–	(1,278,987,920)	–	–	(1,278,987,920)
Balance at December 31, 2005	**₱4,933,155,000**	**₱671,504,726**	**₱400,805,553**	**₱14,067,988,594**	**₱581,494,654**	**₱1,277,277,435**	**₱21,932,225,962**
Balance at December 31, 2003 as previously reported		671,504,726	327,886,436	11,743,606,240	19,417,200	1,280,306,247	17,087,988,449
Common stock - ₱100 par value							
Authorized - 50,000,000 shares in 2004 and 2003							
Issued and outstanding - 36,542,512 shares in 2004 and 30,452,676 shares in 2003	3,045,267,600						
Effect of changes arising from transition to PFRS *(Note 2)*	–	–	–	42,208,362	–	–	42,208,362
Balance at December 31, 2003, as restated	3,045,267,600	671,504,726	327,886,436	11,785,814,602	19,417,200	1,280,306,247	17,130,196,811
Net unrealized gains on ASS securities during the year	–	–	–	–	18,749,820	–	18,749,820
Revaluation increment of land during the year	–	–	–	–	–	(39,522,453)	(39,522,453)
Net income, as restated	–	–	–	2,785,048,610	–	–	2,785,048,610
Total income and expense recognized during the year	–	–	–	2,785,048,610	18,749,820	(39,522,453)	2,764,275,977
Transfer from surplus to surplus reserves *(Note 22)*	–	–	35,426,014	(35,426,014)	–	–	–
Stock dividends - 20% *(Note 16)*	608,983,600	–	–	(608,983,600)	–	–	–
Cash dividends - ₱5 per share	–	–	–	(152,263,380)	–	–	(152,263,380)
Balance at December 31, 2004, as restated	₱3,654,251,200	₱671,504,726	₱363,312,450	₱13,774,190,218	₱38,167,020	₱1,240,783,794	₱19,742,209,408

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN CAPITAL FUNDS

	Parent Company						
	Capital Stock	Capital Paid in Excess of Par Value	Surplus Reserves	Surplus	Net Accumulated Unrealized Gains on AFS Financial Assets	Revaluation Increment on Land	Total Capital Funds
Balance at December 31, 2004, as previously reported		₱671,504,726	₱363,312,450	₱13,669,066,767	₱42,364,800	₱1,240,783,794	₱19,641,283,737
Common stock - ₱100 par value							
Authorized - 100,000,000 shares in 2005 and 50,000,000 shares in 2004							
Issued and outstanding - 49,331,550 shares in 2005 and 36,542,512 shares in 2004	₱3,654,251,200						
Effect of changes arising from transition to PFRS *(Note 2)*	–	–	–	49,202,066	–	–	49,202,066
Balance at December 31, 2004, as restated	3,654,251,200	671,504,726	363,312,450	13,718,268,833	42,364,800	1,240,783,794	19,690,485,803
Cumulative effect of changes arising from adoption of PAS 39 *(Note 2)*	–	–	–	(295,382,845)	21,489,501	–	(273,893,344)
Balance at January 1, 2005	3,654,251,200	671,504,726	363,312,450	13,422,885,988	63,854,301	1,240,783,794	19,416,592,459
Net unrealized gains on AFS financial assets during the year	–	–	–	–	511,094,509	–	511,094,509
Effect of change in tax rates	–	–	–	–	–	36,493,641	36,493,641
Net income	–	–	–	3,171,730,951	–	–	3,171,730,951
Total income and expense recognized during the year	–	–	–	3,171,730,951	511,094,509	36,493,641	3,719,319,101
Transfer from surplus to surplus reserves	–	–	37,493,103	(37,493,103)	–	–	–
Stock dividends - 35% *(Note 16)*	1,278,903,800	–	–	(1,278,903,800)	–	–	–
Cash dividends - ₱35 per share	–	–	–	(1,278,987,920)	–	–	(1,278,987,920)
Balance at December 31, 2005	**₱4,933,155,000**	**₱671,504,726**	**₱400,805,553**	**₱13,999,232,116**	**₱574,948,810**	**₱1,277,277,435**	**₱21,856,923,640**
Balance at December 31, 2003 as previously reported		671,504,726	327,886,436	11,748,201,737	19,417,200	1,280,306,247	17,092,583,946
Common stock - ₱100 par value							
Authorized - 50,000,000 shares in 2004 and 2003							
Issued and outstanding - 36,542,512 shares in 2004 and 30,452,676 shares in 2003	3,045,267,600						
Effect of changes arising from adoption of PFRS	–	–	–	(8,280,540)	–	–	(8,280,540)
Balance at December 31, 2003, as restated	3,045,267,600	671,504,726	327,886,436	11,739,921,197	19,417,200	1,280,306,247	17,084,303,406
Net unrealized gains on ASS securities during the year	–	–	–	–	22,947,600	–	22,947,600
Revaluation increment of land during the year	–	–	–	–	–	(39,522,453)	(39,522,453)
Net income, as restated	–	–	–	2,775,020,631	–	–	2,775,020,631
Total income and expense recognized during the year	–	–	–	2,775,020,631	22,947,600	(39,522,453)	2,758,445,778
Transfer from surplus to surplus reserves	–	–	35,426,014	(35,426,014)	–	–	–
Stock dividends - 20% per share *(Note 16)*	608,983,600	–	–	(608,983,600)	–	–	–
Cash dividends - ₱5 per share	–	–	–	(152,263,381)	–	–	(152,263,381)
Balance at December 31, 2004, as restated	₱3,654,251,200	₱671,504,726	₱363,312,450	₱13,718,268,833	₱42,364,800	₱1,240,783,794	₱19,690,485,803

See accompanying Notes to Financial Statements.

STATEMENTS OF CASH FLOWS

	Consolidated		Parent Company	
	December 31			
	2005	2004 (As Restated)	2005	2004 (As Restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	₱3,972,098,573	₱3,078,460,065	₱3,957,180,516	₱3,065,067,919
Adjustments to reconcile income before income tax to net cash provided by operations:				
Provision for probable losses *(Note 10)*	822,000,000	855,526,104	822,000,000	855,526,104
Depreciation and amortization *(Notes 6 and 8)*	256,198,198	262,849,244	255,468,992	262,328,400
Unrealized gains on financial assets at FVPL/TAS *(Note 4)*	(35,382,361)	(23,099,283)	(35,382,361)	(23,099,283)
Gain on sale of investment properties	(75,751,222)	(62,821,932)	(75,751,222)	(62,821,932)
Equity in net (earnings) losses of an associate	1,426,223	(383,145)	–	–
Gains on asset foreclosures and dacion transactions	(318,776,649)	(133,361,729)	(318,776,649)	(133,361,729)
Operating income before changes in operating assets and liabilities	4,621,812,762	3,977,169,324	4,604,739,276	3,963,639,479
Changes in operating assets and liabilities:				
Decrease (increase) in the amounts of:				
Financial assets at FVPL	(7,756,750,905)	–	(7,756,750,905)	–
TAS	–	3,969,257,203	–	3,969,257,203
Loans and receivables	(13,493,088,487)	–	(13,493,088,487)	–
Receivables from customers	–	(10,019,917,609)	–	(10,019,917,609)
Other assets	742,124,865	(2,104,459,976)	739,907,007	(2,090,279,210)
Increase (decrease) in the amounts of:				
Deposit liabilities	16,655,924,272	13,689,494,759	16,657,520,973	13,694,110,218
Manager's checks	(5,243,930)	9,211,217	(5,243,930)	9,211,217
Accrued taxes, interest and other expenses	386,315,944	(870,781,556)	385,252,248	(872,191,811)
Other liabilities	229,500,414	(159,946,997)	238,262,598	(171,392,762)
Net cash provided by operations	1,380,594,935	8,490,026,365	1,370,598,780	8,482,436,725
Income taxes paid	(499,994,915)	(200,025,527)	(497,912,025)	(196,402,193)
Net cash provided by operating activities	880,600,020	8,290,000,838	872,686,755	8,286,034,532

(Forward)

STATEMENTS OF CASH FLOWS

	Consolidated		Parent Company	
	December 31			
	2005	2004 (As Restated)	2005	2004 (As Restated)
CASH FLOWS FROM INVESTING ACTIVITIES				
Net additions to bank premises, furniture, fixtures and equipment *(Note 6)*	(187,334,507)	(194,866,565)	(186,333,132)	(194,398,482)
Proceeds from sale of investment properties	730,869,439	577,299,724	730,869,439	577,299,724
Additions to equity investments	–	–	–	(31,250,000)
Decrease (increase) in the amounts of:				
AFS financial assets	(9,505,941,714)	–	(9,504,702,876)	–
ASS	–	(4,523,862)	–	–
HTM financial assets	17,790,609,799	–	17,796,598,069	–
IBODI	–	(7,377,398,251)	–	(7,375,364,579)
Net cash provided by (used in) investing activities	8,828,203,017	(6,999,488,954)	8,836,431,500	(7,023,713,337)
CASH FLOWS FROM FINANCING ACTIVITIES				
Decrease in bills payable	(304,521,105)	(4,973,866,119)	(304,521,105)	(4,973,866,119)
Payments of cash dividends	(1,278,987,920)	(152,263,380)	(1,278,987,920)	(152,263,380)
Cash used in financing activities	(1,583,509,025)	(5,126,129,499)	(1,583,509,025)	(5,126,129,499)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	8,125,294,012	(3,835,617,615)	8,125,609,230	(3,863,808,304)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	2,597,900,274	2,134,884,494	2,565,668,396	2,130,843,305
Due from Bangko Sentral ng Pilipinas	2,346,840,957	1,259,370,585	2,346,840,957	1,259,370,585
Due from other banks	1,281,921,787	3,002,835,554	1,281,921,787	3,002,835,554
Interbank loans receivable and securities purchased under resale agreements	2,423,410,000	6,088,600,000	2,423,410,000	6,088,600,000
	8,650,073,018	12,485,690,633	8,617,841,140	12,481,649,444
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	2,405,605,764	2,597,900,274	2,373,689,104	2,565,668,396
Due from Bangko Sentral ng Pilipinas	4,567,587,253	2,346,840,957	4,567,587,253	2,346,840,957
Due from other banks	3,586,826,013	1,281,921,787	3,586,826,013	1,281,921,787
Interbank loans receivable and securities purchased under resale agreements	6,215,348,000	2,423,410,000	6,215,348,000	2,423,410,000
	₱16,775,367,030	₱8,650,073,018	₱16,743,450,370	₱8,617,841,140

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. CORPORATE INFORMATION

China Banking Corporation (the Parent Company) is a publicly listed commercial bank incorporated in the Philippines. The Parent Company acquired its universal banking license in 1991. It provides expanded commercial banking products and services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury products, trust products, foreign exchange, corporate finance and other investment banking services through a network of 141 local branches.

To date, the Parent Company has the following wholly owned subsidiaries:

Subsidiary	Country of Incorporation	Principal Activities
China Bank Insurance Brokers, Inc.	Philippines	Insurance brokerage
CBC Forex Corporation	Philippines	Foreign exchange
CBC First Sovereign Asset Management, Inc.*	Philippines	Special Asset Management

*Special purpose entity created to avail of the benefits under the Special Purpose Vehicle Act of 2002

The Parent Company's principal place of business is at 8745 Paseo de Roxas corner Villar Streets, Makati City.

The accompanying consolidated and parent company financial statements were authorized for issue by the board of directors (BOD) on April 5, 2006.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

<u>Basis of Financial Statement Preparation</u>
The accompanying consolidated financial statements include the financial statements of the Parent Company and its subsidiaries (collectively referred to as "the Group"). The consolidated and the separate or parent company financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines (Philippine GAAP) as set forth in Philippine Financial Reporting Standards (PFRS). The accompanying financial statements are the Group's and the Parent Company's first annual financial statements prepared in compliance with PFRS.

These financial statements are prepared under the historical cost convention as modified by the fair value measurement of financial assets at fair value through profit and loss (FVPL), available-for-sale (AFS) financial assets and certain derivative financial instruments.

The accompanying financial statements reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU) of the Parent Company. The financial statements individually prepared for these units are combined after eliminating inter-unit accounts.

For financial reporting purposes, FCDU accounts and foreign currency denominated accounts in RBU are translated into their equivalents in Philippine pesos based on the Philippine Dealing System weighted average rate (PDSWAR) prevailing at the end of the year (for assets and liabilities) and at the average PDSWAR for the year (for income and expenses). Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency denominated assets and liabilities are credited to or charged against operations in the year in which the rates change.

The Group applied PFRS 1, *First-time Adoption of Philippine Financial Reporting Standards*, in preparing its financial statements with January 1, 2004 as the date of transition. The Group applied the accounting policies set forth below to all the years presented, except for those relating to financial instruments. An explanation of how the transition to PFRS has affected the reported financial position, financial performance and cash flows of the Group and the Parent Company is provided below.

<u>Explanation of Transition to PFRS</u>
The transition to PFRS resulted in certain changes to the Group's previous accounting policies. The comparative figures for 2004 were restated to reflect the changes in accounting policies discussed below resulting from transition to PFRS, except those relating to financial instruments. The Group has availed of the exemption available under PFRS 1 and as allowed by the Philippine Securities and Exchange Commission (SEC), to adopt Philippine Accounting Standards (PAS) 32, *Financial Instruments: Disclosure and Presentation and PAS 39, Financial Instruments: Recognition and Measurement*, effective January 1, 2005. The adjustments arising from the adoption of PAS 32 and PAS 39 are applied to the beginning balance of surplus as of January 1, 2005.

Also, as allowed under PFRS 1, the Group elected to recognize all cumulative actuarial gains and losses as of January 1, 2004 in adopting PAS 19, *Employee Benefits.*

Prior to transition to PFRS, the Group prepared its financial statements until December 31, 2004 in conformity with previous Statements of Financial Accounting Standards and Statements of Financial Accounting Standards/International Accounting Standards [referred to in the subsequent sections as "previous generally accepted accounting principles (GAAP)"].

An explanation of the effects of the transition to PFRS on affected statements of condition and statements of income accounts is set forth in the following tables and notes.

Reconciliation of Selected Accounts in the Statements of Condition

		Consolidated					
		At January 1, 2004 (date of transition)			At December 31, 2004 (end of last period presented under previous GAAP)		
Selected Accounts	Notes	Previous GAAP	Effect of transition to PFRS	PFRS	Previous GAAP	Effect of transition to PFRS	PFRS
Assets							
Bank premises, furniture, fixtures and equipment	a	₱3,034,998,040	₱20,116,483	₱3,055,114,523	₱3,027,730,109	₱12,432,104	₱3,040,162,213
Equity investments	c	94,698,014	(91,627,184)	3,070,830	109,390,547	(105,936,572)	3,453,975
Real and other properties owned or acquired - net	a, d	4,329,598,020	(4,329,598,020)	–	4,372,636,805	(4,372,636,805)	–
Investment properties	d	–	4,333,101,749	4,333,101,749	–	4,685,505,524	4,685,505,524
Deferred tax assets - net	e	1,115,193,828	(61,349,598)	1,053,844,230	1,026,294,416	(32,230,561)	994,063,855
Other assets - net	b, c, d	902,659,284	699,069,995	1,601,729,279	1,361,430,819	714,677,558	2,076,108,377
Capital Funds							
Surplus	b, d	11,743,606,240	42,208,362	11,785,814,602	13,668,455,565	105,734,653	13,774,190,218

		Parent Company					
		At January 1, 2004 (date of transition)			At December 31, 2004 (end of last period presented under previous GAAP)		
Selected Accounts	Notes	Previous GAAP	Effect of transition to PFRS	PFRS	Previous GAAP	Effect of transition to PFRS	PFRS
Assets							
Bank premises, furniture, fixtures and equipment	a	₱3,033,861,349	₱20,116,483	₱3,053,977,832	₱3,026,646,179	₱12,432,104	₱3,039,078,283
Equity investments	c	193,896,087	(142,116,087)	51,780,000	245,499,158	(162,469,158)	83,030,000
Real and other properties owned or acquired - net	a, d	4,329,598,020	(4,329,598,020)	–	4,372,636,805	(4,372,636,805)	–
Investment properties	d	–	4,333,101,749	4,333,101,749	–	4,685,505,524	4,685,505,524
Deferred tax assets - net	e	1,114,520,482	(61,349,598)	1,053,170,884	1,025,514,898	(32,230,561)	993,284,337
Other assets - net	b	888,277,077	699,069,995	1,587,347,072	1,336,048,623	714,677,558	2,050,726,181
Capital Funds							
Surplus	b, d	11,748,201,737	(8,280,540)	11,739,921,197	13,669,066,767	49,202,066	13,718,268,833

Reconciliation of Selected Accounts in the Statements of Income

		Consolidated		
Selected Accounts	Notes	Previous GAAP	Effect of Transition to PFRS	PFRS
			For the year ended December 31, 2004	
Other income				
Gains from asset foreclosures and dacion transactions	d	₱–	₱133,361,729	₱133,361,729
Income from assets acquired	d	50,342,574	11,136,900	61,479,474
Other expenses				
Compensation and fringe benefits	b	1,226,770,999	11,289,518	1,238,060,517
Depreciation and amortization	a, d	164,047,387	98,801,857	262,849,244
Provision for income tax	e	322,530,491	(29,119,036)	293,411,455
Net income		₱2,721,522,320	₱63,526,290	₱2,785,048,610
Earnings per share		₱55.17	₱1.29	₱56.46

Selected Accounts	Notes	Parent Company Previous GAAP	Effect of Transition to PFRS	PFRS
			For the year ended December 31, 2004	
Other income				
Gains from asset foreclosures and dacion transactions		₱–	₱133,361,729	₱133,361,729
Income from assets acquired	d	50,342,574	11,136,900	61,479,474
Equity in net earnings of investees	c	6,043,683	(6,043,683)	–
Other expenses				
Compensation and fringe benefits	b	1,219,660,116	11,289,518	1,230,949,634
Depreciation and amortization	a, d	163,526,543	98,801,857	262,328,400
Provision for income tax	e	319,166,324	(29,119,036)	290,047,288
Net income		₱2,717,538,024	₱57,482,607	₱2,775,020,631
Earnings per share		₱55.09	₱1.16	₱56.25

Notes to the reconciliation of statements of condition as of January 1, 2004 and December 31, 2004 and statements of income for 2004 follow:

a. PAS 16, *Property, Plant and Equipment*. Property, plant and equipment under PFRS may include various equipment acquired by the Group through dacion or foreclosure previously classified as real and other properties owned or acquired (ROPOA). Such assets, being acquired through a nonmonetary exchange, should be recorded at their fair market values as of initial recognition, including any costs directly attributable to their acquisition. Any difference between the fair market value of the equipment and the carrying value of the related loan is recorded as part of current operations. Subsequently, these equipment may be accounted for under the cost model or the revaluation model. Under the cost model [which the Group has adopted as prescribed by the Bangko Sentral ng Pilipinas (BSP)], the equipment are carried at depreciated cost less any impairment loss.

   The net adjustment pertaining to reclassifications from ROPOA to bank premises, furniture, fixtures and equipment amounted to ₱20.12 million and ₱12.43 million as of January 1, 2004 and December 31, 2004, respectively.

b. PAS 19, *Employee Benefits*. Under this standard, retirement benefits are determined using the projected unit credit method. The change resulted in the recognition of net transitional plan assets under the Group's defined benefit plan which increased surplus by ₱225.41 million (net of tax effect of ₱106.07 million) and ₱269.15 million (net of tax effect of ₱62.33 million) as of January 1, 2004 and December 31, 2004, respectively. Net income in 2004 increased by ₱43.74 million.

   The standard also requires the immediate recognition of short-term compensated absences (such as vacation leave credits) which have vested to the employees as of statement of condition date at their undiscounted amounts. These would include even those compensated absences which are expected to occur beyond twelve months after the end of the period in which the employees render the related employee services. With respect to this requirement, surplus decreased by ₱88.16 million and ₱99.45 million as of January 1, 2004 and December 31, 2004, respectively. Net income in 2004 decreased by ₱11.29 million. Accrued taxes, interest and other expenses increased by ₱88.16 million and ₱99.45 million as of January 1, 2004 and December 31, 2004, respectively.

c. PAS 27, *Consolidated and Separate Financial Statements* and PAS 28, Investments in Associates. In the separate or parent company financial statements, investments in subsidiaries and associates are required to be accounted for either at cost or in accordance with PAS 39. Equity method of accounting is no longer allowed in the parent company financial statements. The Group decided to adopt the cost method in accounting for its investments in subsidiaries and associates. In the parent company financial statements, the adoption of PAS 27 and PAS 28 resulted in a decrease in equity investments and surplus as of January 1, 2004 and December 31, 2004 each amounting to ₱50.49 million and ₱56.53 million, respectively.

   As of January 1, 2004 and December 31, 2004, the Group also reclassified outstanding equity investments amounting to ₱91.63 million, net of the corresponding allowance for probable losses of ₱218.54 million to other assets. The Group does not have any significant interest on these investments. As discussed in Note 9 to financial statements, these investments were reclassified to AFS financial assets of January 1, 2005 upon the adoption of PAS 39.

d. PAS 40, *Investment Property.* Investment properties under PFRS may include land and buildings which were acquired through dacion or foreclosure (previously considered as ROPOA). Such assets, being acquired through a nonmonetary exchange, should be recorded at their fair market values as of initial recognition, including any costs directly attributable to their acquisition. Any difference between the fair market value of the properties and the carrying value of the related loan is taken to income. Subsequently, these assets may be accounted for under the cost model or the revaluation model. Under the cost model (which the Group has adopted as prescribed by the BSP), the assets should be carried at depreciated cost less any impairment loss.

   The net adjustment pertaining to investment properties consists of the following:

Description	January 1, 2004	December 31, 2004
Reclassification from ROPOA	₱4,472,865,558	₱4,779,572,561
Gains on asset foreclosures and dacion transactions	199,884,830	333,246,559
Adjustment to recorded income from ROPOA dispositions	–	(68,025,780)
Accumulated depreciation on ROPOA accounted for as investment properties	(339,648,639)	(359,287,816)
	₱4,333,101,749	₱4,685,505,524

e. The foregoing adjustments increased the Group's surplus as of January 1, 2004 and December 31, 2004 as follows:

Description	January 1, 2004	December 31, 2004
Recognition of net transitional plan assets (item b)	₱331,481,300	₱331,481,300
Accrual of compensated absences (item b)	(88,159,531)	(99,449,049)
Gains on asset foreclosures and dacion transactions (item d)	199,884,830	333,246,559
Accumulated depreciation on ROPOA accounted for as investment properties (item d)	(339,648,639)	(359,287,816)
Adjustment to recorded income from ROPOA dispositions	–	(68,025,780)
Decrease in net deferred tax assets (items b and d)	(61,349,598)	(32,230,561)
	₱42,208,362	₱105,734,653

f. The above changes decreased the Group's net deferred tax assets as follows:

Description	January 1, 2004	December 31, 2004
Other assets (item b)	₱106,074,016	₱62,332,013
Investment properties (item d)	(44,724,418)	(30,101,452)
	₱61,349,598	₱32,230,561

In the parent company financial statements, apart from the foregoing adjustments, an additional decrease in surplus is made amounting to ₱50.49 million and ₱56.53 million as of January 1, 2004 and December 31, 2004, respectively, to adjust the Parent Company's investments in subsidiaries and associates to cost.

Impact of PAS 32 and PAS 39

As allowed under PFRS 1, the adjustments required for differences between the previous GAAP and PAS 32 and PAS 39 are determined and recognized directly against surplus as of January 1, 2005. Reclassifications were also made to the financial assets as of January 1, 2005 to conform to the classification requirements under PAS 39.

a. Details of reclassifications of financial assets made by the Group as of January 1, 2005 follow:

Account Description	Previous GAAP	Reclassification	PFRS
Trading account securities	₱10,916,838,980	(₱10,916,838,980)	₱–
Financial assets at FVPL	–	13,870,458,323	13,870,458,323
Available-for-sale securities	182,918,270	(182,918,270)	–
AFS financial assets	–	3,479,477,458	3,479,477,458
Investments in bonds and other debt instruments - net	34,392,373,411	(34,392,373,411)	–
HTM financial assets - net	–	28,050,620,771	28,050,620,771
Receivables from customers - net	48,457,790,936	(48,457,790,936)	–
Loans and receivables - net	–	48,563,852,047	48,563,852,047
Other assets - net	4,147,097,734	5,961,513	4,153,059,247

b. The net adjustment to the Group's surplus as of January 1, 2005 consists of:

Description	
Impact on embedded derivatives:	
Accretion of the value of host contract reported as AFS financial assets	₱25,825,565
Recognition of accumulated mark-to-market gains from derivative asset arising from bifurcated embedded derivative	4,477,724
Impact on non-derivative financial instruments:	
Recognition of discount, net of accretion, on off-market financial assets	(272,713,055)
Recognition of net unrealized loss on financial assets at FVPL	(57,197,577)
Reversal of the excess in discount amortization of loans and receivables recognized under the previous GAAP	4,224,498
	(₱295,382,845)

Other Adopted PFRSs

The Group has also adopted the following other PFRSs. Comparative presentation and disclosures have been amended as required by the standards. Adoption of these standards has no effect on capital funds as of January 1, 2004 and December 31, 2004.

- PAS 1, *Presentation of Financial Statements*
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*
- PAS 10, *Events after the Balance Sheet Date*
- PAS 17, *Leases*
- PAS 21, *The Effects of Changes in Foreign Exchange Rates*
- PAS 24, *Related Party Disclosures*
- PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*
- PAS 33, *Earnings per Share*
- PAS 36, *Impairment of Assets*
- PAS 38, *Intangible Assets*
- PFRS 2, S*hare-based Payments*
- PFRS 3, *Business Combinations*
- PFRS 4, *Insurance Contracts*
- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*

Standards Effective After 2005

The Group did not early adopt the following standards and amendments that have been approved but are not yet effective:

- Amendments to PAS 19, Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures, will be included in the Group's and Parent Company's financial statements when the amendments are adopted in 2006.

- PFRS 6, Exploration for and Evaluation of Mineral Resources, effective 2006. This standard is not relevant to the Group's business operations.

- PFRS 7, Financial Instruments: Disclosures, will be included in the Group's and Parent Company's financial statements when the standard is adopted in 2007.

Basis of Consolidation and Investments in Subsidiaries and Associates

The consolidated financial statements reflect the consolidated accounts of the Parent Company and its wholly owned subsidiaries (see Note 1).

Subsidiaries are consolidated when control is transferred to the Group. Consolidation of subsidiaries ceases when control is transferred out of the Group.

All significant intercompany balances and transactions have been eliminated in consolidation.

The consolidated financial statements were prepared using uniform accounting policies for like transactions and other events in similar circumstances. The investment in CBC Properties and Computer Center, Inc., an associate, is accounted for under the equity method in the consolidated financial statements.

In the separate or parent company financial statements, investments in subsidiaries and associate are carried at cost, less any accumulated impairment in value. Dividends earned on these investments are recognized in the statements of income as declared by the respective BOD of the investees.

Cash and Cash Equivalents

For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks and interbank loans receivable and securities purchased under resale agreements, with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Repurchase and Resale Agreements

Repurchase agreements, which are limited to transactions with BSP, are contracts under which a party sells securities and simultaneously agrees to repurchase the same securities at a specified future date at a fixed price. Resale agreements are contracts under which a party purchases securities and simultaneously agrees to resell the same securities at a specified future date at a fixed price. Securities sold under repurchase agreements (repos) are retained in the financial statements as financial assets at FVPL or AFS financial assets and the counterparty liability is included in amounts due to other banks or bills payable, as appropriate. Securities purchased under resale agreements (reverse repos) are recorded as securities purchased under agreements to resell. The corresponding interest expense or interest income is accrued when incurred or earned.

Accounting Policies for Financial Instruments Effective January 1, 2005

Financial assets and financial liabilities are recognized initially at fair value. Transaction costs are included in the initial measurement of all financial assets and liabilities, except for financial instruments measured at FVPL.

Financial assets are classified into the following categories: (a) financial assets at FVPL, (b) loans and receivables, (c) held-to-maturity (HTM) financial assets, and (d) AFS financial assets. Financial liabilities, on the other hand, are classified into (a) financial liabilities at FVPL and (b) other liabilities. The Group determines the classification at initial recognition and, where allowed and appropriate, re-evaluates this designation at every reporting date.

(a) Financial asset or financial liability at FVPL
A financial asset or financial liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the near term or upon initial recognition, it is designated by the management at FVPL. Derivatives are also categorized as held at FVPL, except those derivatives designated and considered as effective hedging instruments. Assets or liabilities classified under this category are carried at fair value in the statement of condition. Changes in the fair value of such assets and liabilities are accounted for as part of income.

(b) Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are carried at amortized cost using the effective interest method. Gains and losses are recognized in income when the loans and receivables are derecognized or impaired, as well as through the amortization process.

(c) HTM financial assets
Non-derivative and quoted financial assets with fixed or determinable payments and fixed maturity are classified as HTM when the Group has the positive intention and ability to hold to maturity. Investments intended to be held for an undefined period are not included in this classification. Other long-term investments that are intended to be held-to-maturity, such as bonds, are subsequently measured at amortized cost. This cost is computed as the amount initially recognized minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initially recognized amount and the maturity amount. This 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 and discounts. For investments carried at amortized cost, gains and losses are recognized in income when the investments are derecognized or impaired, as well as through the amortization process.

(d) AFS financial assets
AFS financial assets are those non-derivative financial assets that are designated as available-for-sale or are not classified in any of the three preceding categories. After initial recognition AFS financial assets are measured at fair value with gains or losses being recognized as a separate component of equity until the investment is derecognized or until the investment is determined to be impaired at which time the cumulative gain or loss previously reported in equity is included in the statement of income.

(e) Derivative financial instruments
The Group is a party to derivative instruments, particularly, forward exchange contracts, with off-balance sheet risk. These contracts are entered into as a service to customers and as a means of reducing and managing the Group's foreign exchange risk, as well as for trading purposes, but are not designated as hedges. Such derivative financial instruments are stated at fair value through profit or loss.

The fair value of forward exchange contracts is calculated by reference to current forward exchange rates for contracts with similar maturity profiles. The resulting profit or loss is included in the statement of income.

Embedded derivatives that are bifurcated from the host financial and non-financial contracts are also accounted for at FVPL.

(f) Interest-bearing financial liabilities
All loans and borrowings are initially recognized at the fair value of the consideration received less directly attributable transaction costs.

After initial recognition, interest-bearing loans and borrowings are subsequently measured at amortized cost using the effective interest method. Amortized cost is calculated by taking into account any related issue costs, discount or premium.

Gains and losses are recognized in income when the liabilities are derecognized as well as through the amortization process.

The fair value of investments that are actively traded in organized financial markets is determined by reference to quoted market bid prices at the close of business on the statement of condition date. For investments where there is no active market, fair value is determined using valuation techniques. Such techniques include using recent arm's length market transactions; reference to the current market value of another instrument, which is substantially the same; discounted cash flow analysis and option pricing models.

Recognition and Derecognition of Financial Instruments
The Group follows the trade date accounting where an asset to be received and liability to be paid are recognized on the trade date. On the other hand, the derecognition of an asset that is disposed of and the recognition of a receivable from the counterparty are likewise recognized on the trade date. At the time a financial asset is derecognized:

- the rights to receive cash flows from the asset have expired;
- the Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement; or
- the Group has transferred its rights to receive cash flows from the asset and either (a) has transferred substantially all the risks and rewards of the asset, or (b) has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On the other hand, a financial liability is derecognized when the obligation under the liability is discharged or cancelled or has expired. Where an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and the recognition of a new liability, and the difference in the respective carrying amounts is recognized in the statement of income.

Realized gains and losses on these instruments are recognized in the statement of income, while interest earned on debt instruments classified as financial assets at FVPL is reported as interest income.

Offsetting
Financial assets and financial liabilities are only offset and the net amount reported in the statement of condition when there is a legally enforceable right to set off the recognized amounts and the Group intends to either settle on a net basis, or to realize the asset and the liability simultaneously.

Impairment of Financial Assets
An assessment is made at each statement of condition date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income.

(a) Assets carried at amortized cost
If there is objective evidence that an impairment loss on loans and receivables 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 (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in income.

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 it is determined that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics and that group of financial assets is collectively assessed 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, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(b) Assets carried at cost
If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument 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 discounted at the current market rate of return for a similar financial asset.

(c) AFS Financial Assets
If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to the statement of income. Reversals in respect of equity instruments classified as AFS financial assets are not recognized in profit. Reversals of impairment losses on debt instruments are reversed through the statement of income if the increase in fair value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in statement of income.

<u>Accounting Policies for Financial Instruments Prior to January 1, 2005</u>
Prior to January 1, 2005, the Group classified its financial assets into trading account securities, available-for-sale securities, investments in bonds and other debt instruments, receivables from customers and other investments.

(a) TAS
TAS consists of government and private debt and equity securities that are purchased and held principally with the intention of selling them in the near term. These securities are carried at their market values; realized and unrealized gains and losses on these instruments are recognized in "Trading and securities gain - net" in the statements of income. Interest earned on debt instruments is reported as interest income.

(b) ASS
Securities are classified as ASS when purchased and held indefinitely, that is, neither held to maturity nor for trading purposes, where the Group anticipates selling in response to liquidity requirements or in anticipation of changes in interest rates or other factors.

ASS are carried at their fair market values; unrealized gains and losses are excluded from the reported net income and are reported as a separate component of capital funds. Realized gains and losses are included in "Trading and securities gain - net" in the statements of income.

(c) IBODI
These are government and private debt securities where the Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost. Realized gains and losses are included in the statements of income. An allowance for probable losses is established by a charge to income (included in Trading and Foreign Exchange Gain - net) to reflect other-than-temporary impairment in value.

(d) Receivables from Customers
Loans are stated at the outstanding principal balance, reduced by unearned discounts and allowance for probable losses.

Unearned discount is recognized as income over the life of the loans using straight-line method. Interest income on undiscounted loans is accrued as earned, except in the case of non-accruing loans as required by existing BSP regulations.

Loans are classified as non-accruing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Interest income on non-accruing loans is recognized only to the extent of cash collections received. Loans are not reclassified as accruing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

(e) Other Investments
Other investments represent equity securities on entities over which the Parent Company or the Group has no significant influence. These are carried at cost less allowance for decline in value, if any. The allowance for probable decline in value is set up by a charge to income.

(f) Derivative Financial Instruments
The exchange difference between the contracted forward rate and the spot rate at contract date is deferred and recognized as income or expense over the term of the instrument.

Impairment on Financial Assets
The allowance for probable losses, which is comprised of specific and general loan loss reserves, particularly on receivables from customers, represents management's estimate of probable losses inherent in the portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable values based on fair market value of underlying collaterals, prospects of support from guarantors, subsequent collections, and evaluations made by BSP. The BSP prescribes certain criteria and guidelines based largely on the classification of loans in establishing specific loan loss reserves.

Bank Premises, Furniture, Fixtures and Equipment
Buildings, furniture, fixtures and equipment and leasehold improvements are carried at cost less accumulated depreciation and amortization and any accumulated impairment in value.

The initial cost of bank premises, furniture, fixture and equipment comprises its purchase price, including import duties and taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Cost also includes any related asset retirement obligation and interest incurred during the construction period on funds borrowed to finance the construction of the projects. Expenditures incurred after the furniture, fixtures and equipment have been put into operation, such as repairs maintenance and overhaul costs, are normally charged to income in the period the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional costs of property, plant and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation, amortization and impairment loss, if any, are removed from the accounts and any resulting gain or loss is credited or charged to current operations.

For financial reporting purposes, depreciation and amortization is computed using the straight-line method over the estimated useful lives of the respective assets as follows:

	Estimated Useful Life
Buildings	50 years
Furniture, fixtures and equipment	3 to 5 years
Leasehold improvements	Shorter of 6 years or the related lease terms

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

The separate recognition of significant components of bank premises, furniture, fixtures and equipment depends on whether these components serve the same purpose as the related items of property and equipment. If the corresponding components do not serve the same purpose, they must be recognized separately. If the component parts serve the same purpose, the need to recognize them separately depends on whether they have the same structure and the same normal useful life as the other component parts of the asset. If the structure and normal useful life are different, the component parts must be recognized separately insofar as they comply with the definition of the assets. Accordingly, the cost of acquisition must be allocated to the individual components over their respective useful lives. The depreciation of the component parts must be recognized for each component part separately. The subsequent expenses for the exchange or replacement of such assets must be recognized as acquisition costs for a separate asset and depreciated over their useful life.

Costs of minor repairs and maintenance are charged as expense in the period incurred; significant renewals and improvements are capitalized. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Change in Accounting Policy for Land
In 2005, the Group decided to change its accounting policy on parcels of land used in the Group's operations from the revaluation model to the deemed cost model in light of BSP Circular 494 which requires such treatment for fixed assets. As allowed under PFRS 1, the Group adopted the deemed cost model as of January 1, 2004 and considered the carrying value of the land determined under its previous accounting method (revaluation method) as the deemed cost of the

asset as of transition date. Accordingly, the carrying value of the land revaluation increment on the land as of January 1, 2004 is retained in the statements of condition and will be reversed to surplus upon the disposal of the asset. The land shall be carried at its deemed cost less accumulated impairment loss, if any.

Investment Properties

Initially, investment properties are measured at cost including certain transaction costs. Investment properties acquired through a nonmonetary asset exchange is measured initially at fair value unless (a) the exchange lacks commercial substance or (b) the fair value of neither the asset received nor the asset given up is reliably measurable.

Subsequent to initial recognition, investment properties are stated at cost less accumulated depreciation and any accumulated impairment in value.

Investment properties are derecognized when they have either been disposed of or when the investment properties are permanently withdrawn from use and no future benefit is expected from their disposal. Any gain or loss on the derecognition of an investment property is recognized in the statement of income in the year of derecognition.

Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are normally charged to income in the period in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the following useful lives from the time of acquisition of the investment properties:

	Estimated Useful Life
Buildings	10 to 20 years
Equipment	5 to 10 years

Impairment of Non-Financial Assets

At each reporting date, the Group assesses whether there is any indication that its non-financial assets may be impaired.

Where an indicator of impairment exists, the Group makes a formal estimate of recoverable amount. Where the carrying amount of an asset exceeds its recoverable amount the asset is considered impaired and is written down to its recoverable amount. Recoverable amount is the higher of an asset's or a cash-generating unit's fair value less costs to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets. A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

Income Taxes

Current Tax

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted as of the statement of condition date.

Deferred Tax

Deferred income tax is provided in full, using the balance sheet liability method, on all temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, the deferred income tax is not recognized if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable income. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the statement of condition date and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled.

Deferred income tax assets are recognized to the extent that it is probable that future taxable income will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient taxable income will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each statement of condition date and are recognized to the extent that it has become probable that future taxable income will allow the deferred tax asset to be recovered.

Income tax relating to items recognized directly in equity is recognized in equity and not in the statement of income.

Deferred tax assets and deferred tax liabilities are offset only if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Provisions and Contingencies

Provisions are recognized when an obligation (legal or constructive) is incurred as a result of a past event and where it is probable that an outflow of assets embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. If the effect of the time value of money is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as an interest expense.

The Group recognizes provisions arising from legal and/or constructive obligations associated with the cost of dismantling and removing an item of bank premises, furniture, fixtures and equipment and restoring the site where it is located, the obligation for which the Group incurs either when the asset is acquired or as a consequence of having used the asset.

Contingent liabilities are not recognized but are disclosed in the financial statements unless the possibility of an outflow of assets embodying economic benefits is remote. Contingent assets are not recognized but are disclosed in the financial statements when an inflow of economic benefits is virtually certain.

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

Interest income
Interest on loans and receivables is recognized based on accrual accounting using the effective interest method. In 2004 and prior years, interest income on nonperforming loans was recognized only to the extent of actual cash collections. Beginning 2005, interest income on impaired loans is recognized through accretion based on the rate used to discount future cash flows to their net present value, as discussed under the policy on "Impairment of Financial Assets".

Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective yield on such assets.

Unearned discount is recognized as income over the terms of the loans and receivables using the effective interest method and shown as deduction from loans and receivables.

Loan Fees and Service Charges
Loan commitment fees are recognized as earned over the terms of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where the Group does not have further obligations to perform under the syndication agreement.

Service charges and penalties are recognized only upon collection or accrued where there is a reasonable degree of certainty as to their collectibility.

Retirement Cost
The retirement cost of the Group is determined using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The liability recognized in the statements of condition in respect of defined benefit pension plans is the present value of the defined benefit obligation 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. In case the fair value of the plan assets exceeds the present value of the defined benefit obligation, the recognition of the net plan assets should not exceed the total of (a) any cumulative unrecognized net actuarial losses and past service cost and (b) the present value of any economic benefits available in the form of refunds from the Plan or reductions in future contributions to the Plan.

The defined benefit obligation is calculated annually by an independent actuary using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rate on government bonds that have terms to maturity approximating the terms of the related retirement liability. Actuarial gains and losses arising from experience adjustments and changes in actuarial assumptions are charged or credited to income when the net cumulative unrecognized actuarial gains and losses at the end of the previous period exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working life of the employees participating in the Plan.

Past-service costs, if any, are recognized immediately in 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.

Leases
Operating lease payments are recognized as expense in the statements of income on a straight-line basis over the lease term.

Earnings Per Share
Basic earnings per share (EPS) is computed by dividing net income for the year by the weighted average number of shares outstanding during the year after giving retroactive effect to stock dividends declared exercised during the year, if any.

The Group does not currently have any dilutive securities. As such, no diluted EPS is presented.

Segment Reporting
The Group's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products and serves different markets. Financial information on business segment is presented in Note 25 to the financial statements. The Group's assets producing revenues are located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

Fiduciary Activities
Assets and income arising thereon together with related undertakings to return such assets to customers are excluded from these financial statements where the Parent Company acts in a fiduciary capacity such as nominee, trustee or agent.

Subsequent Events
Post year-end events that provide additional information about the Group's position at the statement of condition date (adjusting events) are reflected in the financial statements. Post year-end events that are not adjusting events are disclosed in the notes to the financial statements when material.

3. MANAGEMENT'S USE OF JUDGMENTS AND ESTIMATES

The preparation of the financial statements in conformity with Philippine GAAP requires the management to make estimates and assumptions that affect the amounts reported in the consolidated and Parent Company financial statements and accompanying notes. The estimates and assumptions used in the accompanying financial statements are based upon management's evaluation of relevant facts and circumstances as of the date of the financial statements. Actual results could differ from such estimates.

PAS 1, *Presentation of Financial Statements*, which was adopted by the Group effective January 1, 2005, requires disclosures about key sources of estimation uncertainty and judgments that management has made in the process of applying accounting policies. The following presents a summary of these significant judgments and estimates:

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

Operating Leases
The Group has entered into commercial property leases on its investment property portfolio. The Group has determined that it retains all the significant risks and rewards of ownership of these properties which are leased out on operating leases.

As of December 31, 2005 and 2004, the investment properties of the Group amounted to ₱4.69 billion and ₱3.99 billion, respectively.

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (see Note 24).

Estimation Uncertainty
The key assumptions concerning the future and other key sources of estimation uncertainty at the statement of condition date, that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are discussed below.

Impairment Losses of Loans and Receivables
The Group reviews its loan and receivable portfolios to assess impairment at least on a quarterly basis. In determining whether an impairment loss should be recorded in the statement 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 a portfolio of loans and receivables before the decrease can be identified with an individual loan or receivable in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with defaults on assets in the group.

As of December 31, 2005, the loans and receivables of the Group amounted to ₱59.75 billion.

Fair Value of Financial Instruments
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments (see Note 21).

Impairment of AFS Financial Assets
The Group determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

As of December 31, 2005, the AFS financial assets of the Group amounted to ₱10.22 billion.

HTM Financial Assets
The Group follows the guidance of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM financial assets. 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 to maturity other than in certain specific circumstances - for example, selling an insignificant amount close to maturity - it will be required to reclassify the entire portfolio to AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost. If the entire HTM portfolio is tainted, the fair value would increase by ₱1.36 billion, with a corresponding entry in the unrealized loss on AFS financial assets, classified as part of capital funds.

As of December 31, 2005, the HTM financial assets of the Group amounted to ₱16.60 billion.

Impairment on Investment in Subsidiaries and Other Nonfinancial Assets
The Parent Company assesses impairment on its investments in subsidiaries and associate and other nonfinancial assets (e.g., investment properties and bank premises, furniture, fixtures and equipment) whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Among others, the factors that the Parent Company considers important which could trigger an impairment review on its investments in subsidiaries include the following:

- Deteriorating or poor financial condition;
- Recurring net losses; and
- Significant changes with an adverse effect on the subsidiary have taken place during the period, or will take place in the near future, the technological, market, economic, or legal environment in which the subsidiary operates

On its other nonfinancial assets, the Parent Company considers the following impairment indicators:
- Significant underperformance relative to expected historical or projected future operating results;
- Significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- Significant negative industry or economic trends.

An impairment loss is recognized whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is determined based on the asset's value in use computation which considers the present value of estimated future cash flows expected to be generated from the continued use of the asset. The Parent Company is required to make estimates and assumptions that can materially affect the carrying amount of the asset being assessed.

The aggregate carrying values of the Parent Company's investments in subsidiaries and associates and bank premises, furniture, fixtures and equipment amounted to ₱3.13 billion and ₱3.12 billion as of December 31, 2005 and 2004, respectively (see Notes 6 and 7).

Estimated Useful Lives of Bank Premises, Furniture, Fixture and Equipment and Investment Properties
The Group reviews on an annual basis the estimated useful lives of bank premises, furniture, fixtures and equipment and depreciable investment properties based on expected asset utilization as anchored on business plans and strategies that also consider expected future technological developments and market behavior. It is possible that future results of operations could be materially affected by changes in these estimates brought about by changes in the factors mentioned. A reduction in the estimated useful lives of bank premises, furniture, fixtures and equipment and depreciable investment properties would decrease their respective balances and increase the recorded depreciation and amortization expense.

As of December 31, 2005 and 2004, the aggregate carrying values of bank premises, furniture, fixtures and equipment and investment properties of the Group amounted to ₱7.74 billion and ₱7.03 billion, respectively (see Notes 6 and 8).

Net Plan Assets and Retirement Expense
The determination of the Group's net plan assets and annual retirement expense is dependent on the selection of certain assumptions used in calculating such amounts. Those assumptions include, among others, discount rates, expected returns on plan assets and salary increase rates and price and projected plan asset yields for the retirement of pension (see Note 18). In accordance with PFRS, actual results that differ from the Group's assumptions, subject to the 10% corridor test are accumulated and amortized over future periods and therefore, generally affect the recognized expense and recorded net plan assets in such future periods. While the Group believes that the assumptions are reasonable and appropriate, significant differences between actual experiences and assumptions may materially affect the Group's net plan assets and annual retirement expense.

As of December 31, 2005 and 2004, the Group has net plan assets amounting to ₱403.90 million and ₱331.48 million, respectively, (see Note 18).

Deferred Tax Assets
Significant judgment is required in determining provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination was made.

As of December 31, 2005 and 2004, net deferred tax assets of the Group amounted to ₱724.45 million and ₱994.06 million, respectively (see Note 20).

4. DEBT AND EQUITY SECURITIES CLASSIFIED AS FINANCIAL ASSETS

Balances as of December 31, 2005

Financial assets at FVPL of the Group consist of:

Government bonds	₱4,358,526,581
Treasury notes	12,620,148,046
Private bonds and commercial papers	1,700,000,000
BSP Treasury bills	30,297,619
	₱18,708,972,246

AFS financial assets of the Group consist of:

Government bonds	₱7,438,816,515
Private bonds and commercial papers	2,198,790,298
Equities	579,408,438
	₱10,217,015,251

HTM financial assets of the Group consist of:

Government bonds	₱15,794,274,008
BSP Treasury bills	830,850,885
	16,625,124,893
Unearned discounts	29,349,551
	₱16,595,775,342

Financial assets at FVPL include net accumulated unrealized gains of ₱35.38 million as of December 31, 2005.

AFS financial assets are carried net of accumulated unrealized gains of ₱581.49 million as of December 31, 2005.

As of December 31, 2005, the aggregate market value of HTM financial assets amounted to ₱17.96 billion (see Note 21).

On December 28, 2004, the Parent Company became a party to a purchase price sharing agreement (the Agreement) on the sale of the assets of one of its corporate borrowers, National Steel Corporation (NSC) to a special purpose vehicle (SPV).

Under the Agreement, the total consideration for NSC's assets is ₱13.3 billion with the following terms:

a. Cash downpayment of ₱1.0 billion, and
b. Issuance of zero coupon notes amounting to ₱12.3 billion as follows:
   i. ₱2.0 billion notes payable in five (5) years (termed as Tranche A notes), and
   ii. ₱10.3 billion notes payable in eight (8) years (termed as Tranche B notes)

The downpayment and the notes shall be allocated among NSC's secured creditor banks and its shareholders after deducting certain costs incurred for the maintenance of the mortgaged assets as well as other expenses incurred or to be incurred with the disposition of the assets. The remaining balance of the downpayment shall be applied in the order of the following:

a. share of a foreign bank amounting to ₱39.5 million of the Tranche A note;
b. share of preferred claims as provided in the memorandum of agreement (MOA) executed between the majority of NSC's secured creditors and shareholders on November 22, 2002; and
c. share of the remaining secured creditors pro rata in proportion to their respective outstanding claims and NSC's shareholders pro rata in proportion to their agreed shareholding in the SPV as contemplated in the MOA.

The Agreement further states that the downpayment shall be deposited in an escrow account with a local bank pending the finalization of the actual amounts of expenses which shall be deducted therefrom.

The details of the Parent Company's share in the notes issued by the SPV are as follows:

	Tranche A note	Tranche B note
Amount	₱83,509,351	₱483,365,246
Term	5 years	8 years
Interest	Zero interest	Zero interest
Annual Principal Installment		
2nd year	₱9,501,332	–
3rd year	12,092,344	–
4th year	26,801,459	–
5th year	35,114,216	₱52,197,612
6th year	–	80,277,622
7th year	–	81,359,101
8th year	–	269,530,911
	₱83,509,351	₱483,365,246

The notes shall be fully secured by a mortgage trust indenture (MTI) covering NSC's assets with the corresponding mortgage participation certificates to be issued equal to the outstanding balance of both Tranche A and B notes with a local bank as the trustee for the MTI.

All annual amortizations on both zero interest coupon notes will be covered by a stand-by letter of credit (L/C) initially for US$4.5 million effective up to October 15, 2005 to cover the first annual amortization on the outstanding Tranche A note. On or before the expiry of the L/C, another L/C will be issued to cover subsequent annual amortizations.

Balances as of December 31, 2004

The TAS of the Group consists of:

Government bonds	₱9,216,066,105
Treasury notes	1,700,000,000
BSP Treasury bills	725,875
Private bonds and commercial papers	47,000
	₱10,916,838,980

The ASS of the Group consists of:

Government bonds	₱102,895,870
Private bonds and commercial papers	80,022,400
	₱182,918,270

The IBODI of the Group consists of:

Government bonds	₱33,170,761,551
Private bonds and commercial papers	1,137,036,348
BSP Treasury bills	387,510,862
	34,695,308,761
Unearned discounts	302,935,350
	₱34,392,373,411

TAS include net accumulated unrealized gains of ₱23.10 million as of December 31, 2004.

ASS are carried net of accumulated unrealized gains of ₱38.17 million as of December 31, 2004.

As of December 31, 2004, the aggregate market value of IBODI amounted to ₱34.6 billion.

5. LOANS AND RECEIVABLES AND RECEIVABLES FROM CUSTOMERS

Loans and receivables (December 31, 2005 balances) and receivables from customers (December 31, 2004 balances) of the Group consist of:

	2005	2004
Loans and discounts	₱61,112,202,966	₱50,465,733,871
Unearned discounts	(1,492,091,910)	(2,558,823,556)
	59,620,111,056	47,906,910,315
Customers' liabilities under letters of credit or trust receipts	5,356,176,246	5,661,320,247
Bills purchased	1,463,309,515	1,137,085,697
	66,439,596,817	54,705,316,259
Allowance for probable losses (see Note 10)	(6,686,863,994)	(6,247,525,323)
	₱59,752,732,823	₱48,457,790,936

Loans and discounts include unquoted debt securities amounting to ₱7.11 billion as of December 31, 2005. As required under PAS 39, these unquoted debt securities were reclassified from IBODI to loans and receivables as of January 1, 2005.

Information on the amounts of secured and unsecured loans and receivables and receivables from customers are as follows:

	2005		2004	
	Amounts	%	Amounts	%
Loans secured by:				
Real estate	₱19,007,062,044	27.98	₱24,380,557,760	42.58
Shares of stock of other banks	2,615,792,900	3.85	2,315,515,634	4.04
Chattel mortgage	1,488,570,833	2.19	1,255,391,257	2.19
Deposit hold out	1,302,369,275	1.92	1,524,321,861	2.66
Others	11,931,428,840	17.56	6,941,667,100	12.13
	36,345,223,892	53.50	36,417,453,612	63.60
Unsecured loans	31,586,464,835	46.50	20,846,686,203	36.40
	₱67,931,688,727	100.00	₱57,264,139,815	100.00

Loans and receivables amounting to ₱169.7 million as of December 31, 2005 and receivables from customers amounting to ₱29.2 million as of December 31, 2004 are pledged to secure certain bills payable to the BSP under the Bank's rediscounting privileges (see Note 12).

Information on the concentration of credit as to industry of the Group follows:

	2005		2004	
	Amounts	%	Amounts	%
Manufacturing (various industries)	₱17,455,523,831	25.70	₱14,575,350,810	25.45
Financial intermediaries	15,341,793,986	22.59	9,855,003,772	17.21
Wholesale and retail trade	11,182,483,489	16.46	10,935,573,550	19.10
Real estate, renting and business services	10,708,021,117	15.76	8,456,976,997	14.77
Electricity, gas and water	5,678,877,199	8.36	5,942,793,607	10.38
Transportation, storage and communication	2,386,367,275	3.51	2,356,970,248	4.11
Construction	1,337,354,192	1.97	1,681,850,948	2.94
Agriculture	1,054,254,120	1.55	863,693,427	1.51
Mining and quarrying	76,195,842	0.11	73,310,396	0.13
Public administration and defense	9,460,917	0.01	9,404,583	0.01
Others	2,701,356,759	3.98	2,513,211,477	4.39
	₱67,931,688,727	100.00	₱57,264,139,815	100.00

The BSP considers that loan concentration exists when total loan exposure to a particular industry or economic sector exceeds 30% of total loan portfolio. As of December 31, 2005 and 2004, the Group does not have credit concentration in any particular industry.

BSP Circular No. 351 allows banks to exclude from nonperforming classification receivables classified as "Loss" in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said receivables shall not be accrued and that such receivables shall be deducted from the total receivable portfolio for purposes of computing non-performing loans. As of December 31, 2005 and 2004, nonperforming loans (NPLs) of the Group Company not fully covered by allowance for probable losses are as follows:

	2005	2004
Total NPLs	₱7,065,641,857	₱7,670,344,146
Less NPLs fully covered by allowance for probable losses	1,147,198,952	751,445,728
	₱5,918,442,905	₱6,918,898,418

As of December 31, 2005 and 2004, secured and unsecured NPLs of the Group follow:

	2005	2004
Secured	₱4,945,067,870	₱5,728,178,408
Unsecured	2,120,573,987	1,942,165,738
	₱7,065,641,857	₱7,670,344,146

6. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

Changes in the bank premises, furniture, fixtures and equipment of the Group follow:

	2005						
	Land	Furniture, Fixtures and Equipment	Buildings	Leasehold Improvements	Building Under Construction	Total	2004 Total (As restated)
At Cost							
At January 1	₱2,172,405,858	₱1,891,174,927	₱588,030,587	₱129,510,193	₱150,468	₱4,781,272,033	₱4,652,588,837
Additions	44,416,021	180,510,403	22,021,535	11,070,019	1,293,600	259,311,578	243,624,121
Disposals	(25,067,767)	(77,254,415)	(650,225)	(1,279)	(150,468)	(103,124,154)	(114,940,925)
At December 31	2,191,754,112	1,994,430,915	609,401,897	140,578,933	1,293,600	4,937,459,457	4,781,272,033
Accumulated depreciation and amortization							
At January 1	–	1,526,660,206	160,124,021	54,325,593	–	1,741,109,820	1,597,474,353
Depreciation and amortization	–	141,741,237	19,432,753	14,267,648	–	175,441,638	164,047,387
Disposals	–	(30,730,129)	(416,953)	–	–	(31,147,082)	(20,411,920)
At December 31	–	1,637,671,314	179,139,821	68,593,241	–	1,885,404,376	1,741,109,820
Net book value	₱2,191,754,112	₱356,759,601	₱430,262,076	₱71,985,692	₱1,293,600	₱3,052,055,081	₱3,040,162,213

Depreciation and amortization amounting to ₱175.44 million in 2005 and ₱164.05 million in 2004 are included in the statements of income.

7. EQUITY INVESTMENTS

As of December 31, 2005 and 2004, the Parent Company's equity investments consist of:

	Percentage of Ownership	2005	2004
Equity investments:			
CBC Forex Corporation	100%	₱50,000,000	₱50,000,000
First Sovereign Asset Management, Inc.	100%	31,250,000	31,250,000
Chinabank Insurance Brokers, Inc.	100%	1,500,000	1,500,000
CBC Properties and Computer Center, Inc.	40%	280,000	280,000
		₱83,030,000	₱83,030,000

The foregoing balances represent the acquisition cost of the Parent Company's subsidiaries and associate.

8. INVESTMENT PROPERTIES

The composition of and movements in the Group's investment properties follow:

	Land	Buildings and Improvements	Total	2004 Total (As Restated)
Cost:				
At January 1	₱3,929,414,546	₱1,115,378,796	₱5,044,793,342	₱4,672,750,388
Additions	1,138,084,296	311,690,585	1,449,774,881	1,009,373,140
Disposals/reclassifications	(405,416,562)	(356,457,473)	(761,874,035)	(637,330,186)
At December 31	4,662,082,280	1,070,611,908	5,732,694,188	5,044,793,342
Accumulated Depreciation and Amortization:				
At January 1	–	359,287,816	359,287,816	339,648,639
Depreciation and amortization	–	80,756,560	80,756,560	98,801,857
Disposals/reclassifications	–	(106,755,818)	(106,755,818)	(79,162,680)
At December 31	–	333,288,558	333,288,558	359,287,816
Accumulated Impairment Loss	572,854,313	134,373,234	707,227,547	696,627,547
Net Book Value				
At December 31, 2005	₱4,089,227,967	₱602,950,116	₱4,692,178,083	₱3,988,877,979

The Group's investment properties consist entirely of real estate properties acquired in settlement of loans and receivables (previously classified as ROPOA).

The aggregate fair value of the investment properties of the Group amounted to ₱6.77 billion and ₱6.16 billion as of December 31, 2005 and December 31, 2004, respectively.

The fair values of the Group's investment properties have been determined by the appraisal method on the basis of recent sales of similar properties in the same areas as the investment properties and taking into account the economic conditions prevailing at the time the valuations were made.

Details of the rental income and direct operating expenses on the investment properties of the Group follow:

	2005	2004
Rent income on investment properties	₱13,677,241	₱18,420,639
Direct operating expenses from investment properties not generating rent income	17,458,080	15,837,971

9. OTHER ASSETS

The Group's other assets consist of:

	2005	2004
Accounts receivable	₱595,731,044	₱471,704,869
Net plan assets	403,900,700	331,481,300
Sales contracts receivable	300,248,806	325,638,938
Returned checks and other cash items in process of collection (RCOCI)	293,030,539	268,432,956
Other investments (see Note 2)	–	7,073,564
Derivative assets (see Note 21)	198,776,447	140,987,800
Miscellaneous	108,670,136	1,042,908,674
	1,900,357,672	2,588,228,101
Allowance for probable losses (see Note 10)	(315,869,756)	(512,119,724)
	₱1,584,487,916	₱2,076,108,377

Other investments include investments in shares of stock of entities over which the Group does not have significant influence or control. These shares of stock are accounted for under PAS 39 and classified as part of AFS financial assets as of December 31, 2005.

10. ALLOWANCE FOR PROBABLE LOSSES

Changes in the allowance for probable losses of the Group are as follows:

	2005	2004
Balances at beginning of year:		
Loans and receivables	₱6,247,525,323	₱–
Receivables from customers	–	6,543,783,821
Investment properties	696,627,547	440,845,495
Other assets	512,119,724	490,184,247
	7,456,272,594	7,474,813,563
Provisions charged to operations	822,000,000	855,526,104
Accounts charged off and others	(568,311,297)	(874,067,073)
Balances at end of year:	₱7,709,961,297	₱7,456,272,594
Loans and receivables	6,686,863,994	–
Receivables from customers	–	6,247,525,323
Investment properties	707,227,547	696,627,547
Other assets	315,869,756	512,119,724
	₱7,709,961,297	₱7,456,272,594

At the current level of allowance for probable losses, management believes that the Group has sufficient allowance to cover any losses that may be incurred from the non-collection or non-realization of its loans and receivables and other risk assets.

11. DEPOSIT LIABILITIES

Of the total deposit liabilities of the Group as of December 31, 2005 and 2004, 66.43% and 64.31%, respectively, are subject to periodic interest repricing. The remaining deposit liabilities earn annual fixed interest rates ranging from 1% to 15.10% and from 1% to 12.375% as of December 31, 2005 and 2004, respectively.

Under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to liquidity reserve equivalent to 10% starting February 5, 2004 and statutory reserve equivalent to 9%. As of December 31, 2005 and 2004, the Group is in compliance with such regulations.

As of December 31, 2005 and 2004, available reserves of the Group per latest report submitted to the BSP are as follows:

	2005	2004
Cash and other cash items	₱2,567,510,444	₱2,669,854,856
Due from BSP	4,538,540,078	2,333,263,862
Loans and receivables	7,376,816,270	–
IBODI	–	5,388,726,836
	₱14,482,866,792	₱10,391,845,554

12. BILLS PAYABLE

The Group's bills payable consist of:

	2005	2004
BSP - rediscounting (see Note 5)	₱169,702,362	₱29,239,007
Others	3,860,719,437	4,305,703,897
	₱4,030,421,799	₱4,334,942,904

A significant portion of bills payable - others consists of government lending programs as follows:

Counterparty	Average term	Rates	2005	2004
Development Bank of the Philippines	7 years	6% to 8%	₱3,165,491,784	₱3,163,920,089
Land Bank of the Philippines	7 years	8% to 9%	464,468,097	245,157,143
Others	12 years	11%	127,288,656	164,193,665
			₱3,757,248,537	₱3,573,270,897

13. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The Group's accrued interest, taxes and other expenses consist of:

	2005	2004
Accrued interest payable	₱1,459,735,748	₱1,473,998,863
Accrued other expenses payable	1,100,410,538	701,155,011
Income tax payable	27,455,316	45,309,689
	₱2,587,601,602	₱2,220,463,563

The accrued other expenses payable as of December 31, 2005 includes primarily the Group's accrual for employee compensation and profit-sharing provisions as well as for various operating expenses.

14. OTHER LIABILITIES

The Group's other liabilities consist of:

	2005	2004
Accounts payable (see Note 23)	₱553,631,788	₱541,295,362
Acceptances payable	234,896,306	211,574,624
Due to BSP	14,872,548	34,789,147
Margin deposits	5,766,726	9,897,760
Derivative liability (see Note 21)	22,915	–
Miscellaneous	910,169,228	691,689,697
	₱1,719,359,511	₱1,489,246,590

15. MATURITY PROFILE OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

The following tables present the financial assets and financial liabilities of the Group by contractual maturity and settlement dates as of December 31, 2005 and 2004:

	2005			2004		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial Assets						
Due from BSP	₱4,567,587,253	₱–	₱4,567,587,253	₱2,346,840,957	₱–	₱2,346,840,957
Due from other banks	3,586,826,013	–	3,586,826,013	1,281,921,787	–	1,281,921,787
Interbank loans receivable and securities purchased under resale agreements	6,215,348,000	–	6,215,348,000	2,423,410,000	–	2,423,410,000
Financial assets at FVPL	18,708,972,246	–	18,708,972,246	–	–	–
Trading account securities	–	–	–	10,916,838,980	–	10,916,838,980
AFS financial assets	–	10,217,015,251	10,217,015,251	–	–	–
Available-for-sale securities	–	–	–	–	182,918,270	182,918,270
HTM financial assets	869,910,670	15,725,864,672	16,595,775,342	–	–	–
IBODI	–	–	–	3,302,307,528	31,090,065,883	34,392,373,411
Loans and receivables - gross	40,160,875,009	27,770,813,718	67,931,688,727	–	–	–
Receivable from customers - gross	–	–	–	32,599,679,386	24,664,460,429	57,264,139,815
Accrued interest receivable	846,156,516	–	846,156,516	1,115,134,757	–	1,115,134,757
Other assets - gross						
Accounts receivable	595,731,044	–	595,731,044	471,704,869	–	471,704,869
Net plan assets	–	403,900,700	403,900,700	–	331,481,300	331,481,300
Sales contracts receivable	280,298,877	19,949,929	300,248,806	325,638,938	–	325,638,938
Returned checks and other cash items	293,030,539	–	293,030,539	268,432,956	–	268,432,956
Other investments	–	–	–	–	7,073,564	7,073,564
Derivative assets	198,776,447	–	198,776,447	140,987,800	–	140,987,800
Miscellaneous	71,683,928	36,986,208	108,670,136	1,025,524,326	17,384,348	1,042,908,674
	₱76,395,196,542	₱54,174,530,478	₱130,569,727,020	₱56,218,422,284	₱56,293,383,794	₱112,511,806,078

(Forward)

	2005			2004		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Financial liabilities						
Deposit liabilities	₱90,833,365,306	₱11,624,016,204	₱102,457,381,510	₱74,863,141,618	₱10,938,315,620	₱85,801,457,238
Bills payable	278,048,262	3,752,373,537	4,030,421,799	850,761,293	3,484,181,611	4,334,942,904
Manager's checks	224,232,138	–	224,232,138	229,476,068	–	229,476,068
Accrued taxes, interest and other expenses	2,587,601,602	–	2,587,601,602	2,220,463,563	–	2,220,463,563
Other liabilities						
Accounts payable	553,631,788	–	553,631,788	541,295,362	–	541,295,362
Acceptances payable	234,896,306	–	234,896,306	211,574,624	–	211,574,624
Due to BSP	14,872,548	–	14,872,548	34,789,147	–	34,789,147
Margin deposits	5,766,726	–	5,766,726	9,897,760	–	9,897,760
Derivative liability	22,915	–	22,915	–	–	–
Miscellaneous	910,169,228	–	910,169,228	691,689,697	–	691,689,697
	₱95,642,606,819	₱15,376,389,741	₱111,018,996,560	₱79,653,089,132	₱14,422,497,231	₱94,075,586,363

16. CAPITAL FUNDS

On May 4, 2005, the BOD approved the declaration of 35% stock dividends to stockholders of record as of September 23, 2005. The BSP approved the dividend declaration on June 15, 2005.

On May 5, 2004, the BOD approved the declaration of 20% stock dividends to stockholders of record as of July 22, 2004. The BSP approved the dividend declaration on June 10, 2004.

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting principles, which differ from Philippine GAAP in some aspects.

Under current banking regulations, the combined capital accounts of a commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold-out 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. Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio is to be inclusive of a market risk charge. Using this formula, the Parent Company's capital-to-risk assets ratio (CAR) as of December 31, 2005 and 2004 were 28.17% and 31.52%, respectively. Under the previous computation provided under BSP Circular No. 280, which BSP Circular No. 360 above amended, the CAR of the Bank was 28.89% and 27.06% as of December 31, 2005 and 2004, respectively.

In the consolidated financial statements, a portion of the Group's surplus corresponding to the net earnings of the subsidiaries and accumulated equity in net earnings of an associate amounting to ₱68.76 million and ₱56.60 million as of December 31, 2005 and 2004, respectively, is not available for dividend declaration. The accumulated equity in net earnings becomes available for dividends upon receipt of cash dividends from the investees.

17. INTEREST INCOME AND INTEREST EXPENSE

Details of the Group's interest income and interest expense follow:

	2005	2004
Interest Income		
Debt securities, interbank loans receivable, due from other banks and others	₱5,058,104,277	₱–
Trading and investment securities, interbank securities, interbank loans receivable, due from other banks and others	–	4,696,926,864
Loans and receivables	5,142,189,902	–
Receivables from customers	–	3,870,883,544
	₱10,200,294,179	₱8,567,810,408
Interest Expense		
Deposit liabilities, bills payable and other borrowings	₱4,360,247,197	₱3,501,851,516

18. RETIREMENT PLAN

The Group has separate funded noncontributory defined benefit retirement plans covering substantially all its officers and regular employees. Under these retirement plans, all covered officers and employees are entitled to cash benefits after satisfying certain age and service requirements. The latest actuarial valuation studies of the retirement plans were made on December 14, 2005.

The principal actuarial assumptions used in determining retirement liability for the Group's retirement plan are shown below:

	2005	2004
Discount rate	12%	14%
Expected rate of return on assets	8%	8%
Future salary increases	8% to 9%	8% to 9%

The movements in the present value of defined benefit obligation of the Group follow:

	2005	2004
Balance at January 1	₱1,016,302,100	₱919,018,200
Current service cost	57,919,700	62,153,300
Interest cost	142,383,900	110,282,200
Benefits paid	(22,822,697)	(119,283,741)
Actuarial losses (gains) on obligation	(31,804,203)	44,132,141
Balance at December 31	₱1,161,978,800	₱1,016,302,100

The movements in the fair value of plan assets of the Group follow:

	2005	2004
Balance at January 1	₱1,362,100,400	₱1,280,320,800
Expected return	108,968,000	102,425,700
Contribution paid by employer	22,283,248	136,693,760
Benefits paid	(22,822,697)	(119,283,741)
Actuarial gains (losses) on plan assets	301,918,449	(38,056,119)
Balance at December 31	₱1,772,447,400	₱1,362,100,400

The amounts recognized in the statements of condition of the Group follow:

	2005	2004
Present value of defined benefit obligation	₱1,161,978,800	₱1,016,302,100
Fair value of plan assets	1,772,447,400	1,362,100,400
	610,468,600	345,798,300
Unrecognized actuarial losses (gains)	(206,567,900)	27,978,900
Unrecognized asset due to asset ceiling	–	(42,295,900)
Net plan assets	₱403,900,700	₱331,481,300

Movements in accumulated unrecognized actuarial losses (gains) of the Group follow:

	2005	2004
Balance at beginning of year	₱27,978,900	₱–
Actuarial losses (gains) on the present value of the defined benefit obligation	(31,804,203)	44,132,141
Actuarial losses (gains) on plan assets	(301,918,449)	38,056,119
Actuarial (gains) losses recognized during the year	99,175,852	(54,209,360)
Balance at end of year	(₱206,567,900)	₱27,978,900

The overall expected rate of return on plan assets is determined based on the market prices prevailing on that date applicable to the period over which the obligation is to be settled. The amounts included in compensation and fringe benefits of the Group in the statements of income follow:

	2005	2004
Current service cost	₱57,919,700	₱62,153,300
Interest cost	142,383,900	110,282,200
Expected return on plan assets	(108,968,000)	(102,425,700)
Net actuarial (gains) losses recognized during the year	(99,175,852)	54,209,360
Net pension expense (income)	(₱7,840,252)	₱124,219,160

Actual return amounted to ₱410.89 million and ₱64.37 million in 2005 and 2004, respectively.

19. LEASE CONTRACTS

The Group leases the premises for most of its personal computers. The lease contracts are for periods ranging from 1 to 25 years from the dates of contracts and are renewable under certain terms and conditions. Various leases contracts include escalation clauses, most of which bear an annual rent increase of 10%.

Annual rentals on these lease contracts amounted to ₱147.4 million and ₱100.8 million in 2005 and 2004, respectively.

Future minimum rentals payable of the Group under non-cancelable operating leases follow:

	2005	2004
Within one year	₱88,416,409	₱93,898,140
After one year but not more than five years	188,846,361	263,384,039
After more than five years	75,206,596	74,557,522
	₱352,469,366	₱431,839,701

20. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipt tax (GRT) and documentary stamp taxes (DST).

Income taxes include the corporate income tax, as discussed below, and final tax paid at the rate of 20% on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as "Provision for (benefit from) income tax" in the statements of income.

Republic Act. (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that the regular corporate income tax (RCIT) rate shall be 35% until January 1, 2009. Starting January 1, 2009 the RCIT rate shall be 30%. It also provides for the change in GRT rate from 7% to 5%. However, such amendments have been subject to temporary restraining order by the Supreme Court. On October 8, 2005, the Supreme Court has ruled that RA 9337 is constitutional and will take effect on November 1, 2005.

Prior to November 1, 2005, interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. Starting November 1, 2005, interest allowed as a deductible expense is reduced by an amount equivalent to 42% of interest income subjected to final tax. A minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the regular income tax. Any excess of the MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability for the next three years from the year of inception. In addition, the net operating loss carry-over (NOLCO) is allowed as a deduction from taxable income in the next three years from the year of inception.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1% of the Parent Company's net revenue.

Effective in May 2004, Republic Act No. 9294 restores the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

The provision for income tax of the Parent Company consists of:

	2005	2004 (As Restated)
Current:		
Final tax	₱451,891,235	₱167,066,236
MCIT	27,455,316	44,495,703
	479,346,551	211,561,939
Deferred	306,103,014	78,485,349
	₱785,449,565	₱290,047,288

The details of the net deferred tax assets of the Parent Company (included under Other Assets) follow:

	2005	2004 (As Restated)
Deferred tax assets (liabilities) on:		
Allowance for probable losses	₱1,359,846,268	₱1,571,213,532
Unamortized past service cost	31,454,713	39,205,720
Revaluation increment on land	(547,404,615)	(583,898,256)
Fair value adjustment on asset foreclosures and dacion transactions - net of depreciated portion	(42,834,337)	30,101,451
Recognition of net plan assets	(73,477,108)	(62,332,013)
Accrued rent	(3,909,958)	(1,006,097)
	₱723,674,963	₱993,284,337

The Parent Company did not set up deferred tax assets on the following temporary differences as it believes that it is highly probable that these temporary differences will not be realized in the near foreseeable future:

	2005	2004 (As Restated)
Allowance for probable losses	₱1,338,640,186	₱891,180,607
NOLCO	225,384,031	289,019,588
MCIT	100,175,641	90,414,376
Accrued compensated absences	37,955,970	31,823,696
Others	62,370,400	62,370,400
	₱1,764,526,228	₱1,364,808,667

As of December 31, 2005, details of the NOLCO of the Parent Company follow:

Inception Year	Original Amount	Expired Amount	Applied Amount	Remaining Balance	Expiry Year
2004	₱176,347,449	₱–	₱–	₱176,347,449	2007
2005	49,036,582	–	–	49,036,582	2008
	₱225,384,031	₱–	₱–	₱225,384,031	

As of December 31, 2005, details of the MCIT of the Parent Company follow:

Inception Year	Original Amount	Expired Amount	Applied Amount	Remaining Balance	Expiry Year
2003	₱28,224,622	₱–	₱–	₱28,224,622	2006
2004	44,495,703	–	–	44,495,703	2007
2005	27,455,316	–	–	27,455,316	2008
	₱100,175,641	₱–	₱–	₱100,175,641	

The reconciliation of the statutory income tax to the provision for income tax of the Parent Company follows:

	2005	2004
Statutory income tax	₱1,286,083,668	₱980,821,734
Tax effects of:		
FCDU income	(453,925,776)	(501,318,541)
Nondeductible expenses	317,555,706	155,204,931
Interest income subjected to final tax	(560,402,495)	(117,126,233)
Others	196,138,462	(227,534,603)
Provision for income tax	₱785,449,565	₱290,047,288

21. FINANCIAL INSTRUMENTS

Financial Risk Management Objectives and Policies
The main purpose of the Parent Company's financial instruments is to fund its operations and capital expenditures. The main risks arising from the use of financial instruments are credit risk and market risk (market risk includes interest rate risk and foreign exchange risk).

The BOD reviews and approves the policies for managing each of these risks. The Parent Company monitors risks arising from all financial products and regularly reports the results of risk management activities to the BOD.

a. *Credit Risk and Concentration of Assets and Liabilities and Off Balance Sheet Items*
Credit risk is the risk of financial loss due to one party to a financial product failing to discharge an obligation. The Parent Company manages credit risk by setting and monitoring limits for individual counterparties, and groups of counterparties as well as periodically assessing the creditworthiness of its counterparties. In addition, the Parent Company obtains collateral where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

In compliance with BSP requirements, the Parent Company established in March 2005 an internal Credit Risk Rating System (CRRS) for the purpose of measuring credit risk for corporate borrowers in a consistent manner, as accurately as possible, and thereafter use the risk information for business and financial decision making. The CRRS covers corporate borrowers with asset size of above ₱15 million, requiring financial statements from 2005 onwards to have been audited by SEC-accredited auditing firms.

The CRRS was designed within the technical requirements defined under BSP Circular No.439. The System has two components, namely: a) Borrower Risk Rating (BRR) which provides an assessment of the credit worthiness of the borrower, without considering the proposed facility and security arrangements, and b) Loan Exposure Rating (LER) which provides an assessment of the proposed facilities as mitigated or enhanced by security arrangements. The CRRS rating scale consists of ten grades, six of which fall under unclassified accounts, with the remaining four falling under classified accounts in accordance with regulatory provisioning guidelines.

For details of the composition of the loans and receivable portfolio refer to Note 5 of the financial statements.

Credit risk in respect of derivative financial products is limited to those with positive fair values, which are included under Other Assets. As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts on the statements of condition plus commitments to customers disclosed in Note 5 of the financial statements.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

The distribution of assets, liabilities, and off-balance sheet items by geographic region and industry sector of the Parent Company as of December 31, 2005 follows:

	Assets	Liabilities	Credit Commitments
Geographic Region:			
Philippines	₱129,731,751,978	₱112,127,272,533	₱433,497,711
Asia	2,384,495,258	391,579,648	896,060,756
Europe	91,826,356	188,034,639	236,575,566
United States	1,268,296,465	358,586,647	117,108,136
	₱133,476,370,057	₱113,065,473,467	₱1,683,242,169

Information on the credit concentration as to industry of the Parent Company is presented in Note 5 to the financial statements.

b. *Market Risk*
Market risk is the risk of loss that may result from changes in the price of a financial product. The value of a financial product may change as a result of changes in interest rates, foreign exchanges rates, commodity prices, equity prices and other market changes. The Parent Company's market risk originates from its holdings in its foreign exchange instruments, debt securities, equities and derivatives.

The Risk Management Unit of the Parent Company is responsible for assisting the Risk Management Committee with its responsibility for identifying, measuring, managing and controlling market risk. Market risk management is implemented under the Value-at-Risk (VaR) method, a procedure for estimating the probability of portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period.

In July 2005, the Parent Company commenced the bankwide computation of its VaR in certain trading activities, using a 99% confidence level and a 10-day holding period for interest rate risk and a 99% confidence level and 1-day holding period for foreign exchange risk and equity risk. This means that, statistically, the Parent Company's losses on interest rate risks arising from trading operations will exceed the VaR figure on 1 fortnightly period (with no change in the portfolio during the holding period) out of 100 fortnightly periods. The validity of the VaR model is verified through back testing, which examines how frequently actual daily losses exceeds daily VaR. The Parent Company measures and monitors the VaR and profit and loss on a daily basis.

Below is a table showing the VaR of the Parent Company for the period ended December 31, 2005:

	Average	High	Low
Interest rate risk	₱404,408,070	₱560,583,057	₱288,339,079
Foreign exchange risk	2,242,820	3,504,030	1,397,425
Equity risk	9,288,229	11,938,236	7,388,286
Total VaR	₱415,939,119	₱576,025,323	₱297,124,790

c. *Cash Flow Interest Rate Risk*

The Parent Company's interest rate risk originates from its holdings of interest rate sensitive assets and interest rate sensitive liabilities. The Parent Company follows prudent policies in managing its exposures to interest rate fluctuations, and constantly monitors its assets and liabilities.

As of December 31, 2005, 85% of the Parent Company's total loan portfolio comprised of floating rate loans which are repriced periodically by reference to the transfer pool rate which reflects the bank's internal cost of funds. In keeping with banking industry practice, the Parent Company aims to achieve stability and lengthen the term structure of its deposit base, while providing adequate liquidity to cover transactional banking requirements of customers.

Interest is paid on demand accounts, which constituted 15.24% of total deposits as of December 31, 2005.

Interest is paid on savings accounts and time deposit accounts, which constituted 43.74% and 41.02%, respectively, of total deposits as of December 31, 2005. Savings account interest rates are set by reference to prevailing market rates, while interest rates on time deposits and special savings accounts are usually priced by reference to prevailing rates of short-term government bonds and other money market instruments or, in the case of foreign currency deposits, inter-bank deposit rates and other benchmark deposit rates in international money markets with similar maturities.

The following table provides for the average effective interest rates by period of repricing (or by period of maturity if there is no repricing) of the Parent Company as of December 31, 2005:

	Up to 1 month	>1 months to 3 months	>3 months to 6 months	>6 months to 12 months	>12 months	Total
Peso						
Assets						
Due from BSP	–	–	–	–	3.94783%	3.94783%
Due from banks	–	–	–	–	3.47000%	3.47000%
Investment securities*	16.50000%	14.50303%	7.32274%	9.76415%	12.88853%	12.79367%
Loans and receivables	9.05810%	9.71203%	10.11061%	10.25098%	9.57206%	9.21960%
Liabilities						
Deposit liabilities	5.15330%	6.71038%	6.58443%	5.68022%	8.99000%	5.99098%
Bills payable	6.73059%	5.58528%	7.20600%	10.68597%	8.39289%	8.15514%
USD						
Assets						
Investment Securities*	–	–	–	5.62500%	8.73985%	8.73856%
Loans and receivables	4.57458%	5.04547%	6.51049%	5.29896%	8.23000%	6.28141%
Liabilities						
Deposit liabilities	2.62004%	3.25000%	3.50000%	3.50000%	3.62500%	2.99681%
Bills payable	3.94500%	6.58563%	–	–	–	4.01102%

*Consisting of financial assets at FVPL, AFS financial assets, HTM financial assets, and loans and receivables

The method by which the Parent Company measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of asset-liability gap analysis. This analysis provides the Parent Company with a measure of the bank's susceptibility to changes in interest rates. The repricing gap is calculated by first distributing the assets and liabilities contained in the Parent Company's statement of condition into tenor buckets according to the time remaining to the next repricing date (or the time remaining to maturity if there is no repricing), and then obtaining the difference between the total of the repricing (interest rate sensitive) assets and repricing (interest rate sensitive) liabilities.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive assets. A gap is considered positive when the amount of interest rate sensitive assets exceeds the amount of interest rate sensitive liabilities.

Accordingly, during a period of rising interest rates, a bank with a positive gap would be in a position to invest in higher yielding assets earlier than it would need to refinance its interest rate sensitive liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its interest rate sensitive assets repricing earlier its interest rate sensitive liabilities, which may restrain the growth of its net income or result in a decline in net interest income.

The following table sets forth the asset-liability gap position of the Parent Company as of December 31, 2005:

	Up to 1 month	>1 to 3 months	>3 to 6 Months	>6 to 12 Months	>12 months	Total
				(in millions)		
Assets						
Total loans and receivables	₱39,752	₱10,381	₱4,316	₱1,911	₱21,371	₱77,731
Total investments	4	591	298	393	40,791	42,077
Placements with other banks	–	–	–	–	8,156	8,156
Total assets	39,756	10,972	4,614	2,304	70,318	127,964
Liabilities and capital						
Deposit liabilities	31,532	31,556	3,691	1,610	34,081	102,470
Bills payable	536	113	35	64	3,283	4,031
Total liabilities	32,068	31,669	3,726	1,674	37,364	106,501
Asset-liability gap	₱7,688	(₱20,697)	₱888	₱630	₱32,954	₱21,463

The Parent Company also monitors its exposure to fluctuations in interest rates by using scenario analysis to estimate the impact of interest rate movements on its interest income. This is done by modeling the impact to the Parent Company's interest income and interest expenses of different parallel changes in the interest rate curve, assuming the parallel change only occurs once and the interest rate curve after the parallel change does not change again for the next twelve months.

The following table sets forth, as of December 31, 2005, the estimated change in annualized net interest income due to parallel changes in the interest rate curve.

	Change in interest rates (in basis points)			
	100bp rise	50bp rise	50bp fall	100bp fall
Change in annualized net interest income (₱)	(₱232,078,885)	(₱116,039,442)	₱116,039,442	₱232,078,885
As a percentage of the Group's net interest income for the period ended December 31, 2005 (%)	(3.98%)	(1.99%)	1.99%	3.98%

After modeling the impact to the Parent Company's interest income and interest expenses of different parallel changes in the interest rate curve, based on the mix of assets and liabilities of the Parent Company as of December 31, 2005, if interest rates decreased by 100 basis points, the Parent Company would expect annualized net interest income to increase by ₱232.08 million and correspondingly decrease by the same amount if interest rates increased by 100 basis points. This scenario analysis is performed for risk management purposes and depends on numerous assumptions. Actual changes in net interest income are almost certain to vary from the estimates above.

d. *Foreign Currency Risk*

The Parent Company's foreign exchange risk originates from its holdings of foreign currency denominated assets (foreign exchange assets) and foreign currency denominated liabilities (foreign exchange liabilities).

Foreign exchange liabilities generally consist of foreign currency denominated deposits in the Parent Company's FCDU account made in the Philippines or generated from remittances to the Philippines by persons overseas who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company.

Foreign currency liabilities are generally used to fund the Parent Company's foreign exchange assets which generally consist of foreign currency denominated loans and investments in the FCDU. Banks are required by the BSP to match the foreign currency denominated assets with liabilities held in the FCDU that are denominated in the same foreign currency as the assets. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held in the FCDU.

The Parent Company's policy is to maintain foreign currency exposure within existing regulations, and within acceptable risk limits. The Parent Company believes in ensuring its foreign currency is at all times within limits prescribed for financial institutions who are engaged in the same types of businesses in which the Parent Company and its subsidiaries are engaged.

The table below summarizes the Parent Company's exposure to foreign exchange risk as of December 31, 2005. Included in the table are the Parent Company's assets and liabilities at carrying amounts, categorized by currency.

	USD	Others Currencies	Total
Assets			
Due from other banks	$63,676,189	$2,572,074	$66,248,263
Interbank loans receivable	149,000,000	–	149,000,000
Financial assets at FVPL	50,518,269	–	50,518,269
AFS financial assets	117,322,880	–	117,322,880
HTM financial assets	241,334,175	–	241,334,175
Loans and receivables	153,827,931	424,400	154,252,331
Accrued interest receivable	11,625,560	–	11,625,560
Other assets	16,077,152	758,323	16,835,475
	$803,382,156	$3,754,797	$807,136,953

	USD	Others Currencies	Total
Liabilities			
Deposit liabilities	$661,522,057	$15,804	$661,537,861
Bills payable	2,000,000	–	2,000,000
Accrued taxes, interest and other expenses	3,138,066	–	3,138,066
Other liabilities	34,491,697	820,717	35,312,414
	$701,151,820	$836,521	$701,988,341
Currency forwards	$112,423,980	$424,400	$112,848,380
Net exposure	**($10,193,644)**	**$2,493,876**	**($7,699,768)**

Fair Value Measurement

The table below presents a comparison by category of carrying amounts and estimated fair values of all of the Parent Company's financial instruments as of December 31, 2005:

	Carrying Value	Fair Value
Assets		
Cash and other cash items	₱2,373,689,104	₱2,373,689,104
Due from BSP and other banks	8,154,413,266	8,154,413,266
Interbank loans receivable and securities purchased under agreement to resell	6,215,348,000	6,215,348,000
Financial assets at FVPL	18,708,972,246	18,708,972,246
AFS financial assets	10,096,148,649	10,096,148,649
HTM financial assets	16,595,775,342	17,957,482,213
Loans and receivables	59,752,732,823	59,272,995,578
Accrued interest receivable	842,709,506	842,709,506
Equity investments	83,030,000	83,030,000
Other assets	1,561,205,396	1,561,205,396
Total assets	₱124,384,024,332	₱125,265,993,958
Liabilities		
Deposit liabilities	₱102,463,593,670	₱102,463,593,670
Bills payable	4,030,421,799	4,030,421,799
Manager's checks	224,232,138	224,232,138
Total liabilities	₱106,718,247,607	₱106,718,247,607

The methods and assumptions used by the Parent Company in estimating the fair value of the financial instruments are:

Cash and other cash items, due from other banks and interbank loans receivable - The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

Equity securities - For publicly traded equity securities, fair values are based on quoted prices published in markets. For unquoted equity securities for which no reliable basis for fair value measurement is available, these are carried at cost.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables.

Accounts receivable, sales contracts receivable and RCOCI included in other assets - Quoted market prices are not readily available for these assets. They are not reported at fair value and are not significant in relation to the Parent Company's total portfolio of securities.

Derivative instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties or accepted valuation models (either based on discounted cash flow techniques or option pricing models, as applicable).

Deposit Liabilities (demand and savings deposits) - carrying amount approximate fair values considering that these are currently due and demandable.

Liabilities - Fair values of liabilities, other than deposit liabilities, are estimated using the discounted cash flow methodology using the Parent Company's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued. The fair values of the demand and savings deposits approximate their carrying amounts as these are demandable deposits.

Derivative Financial Instruments

The Parent Company's freestanding and embedded derivative financial instruments are transactions not designated as hedges. The table below sets out information about the Parent Company's derivative financial instruments and the related mark-to-market gain or loss as of and for the year ended December 31, 2005:

	Notional Amount	Derivative Asset	Derivative Liability
Freestanding:			
Currency forwards	US$112,847,961	₱158,608,600	₱22,915
Embedded:			
Embedded credit derivatives	US$30,000,000	11,269,758	–
Embedded equity conversion option	₱65,049,147	28,898,089	–
		₱198,776,447	₱22,915

Freestanding Derivatives

Currency Forwards

Occasionally, the Parent Company enters into forward exchange contracts as an accommodation to its clients and which are not designated as accounting hedges. The total notional amount of outstanding currency forwards as of December 31, 2005 amounted to US$112.85 million. As of December 31, 2005, the total net mark-to-market gains on the outstanding currency forwards amounted to ₱158.59 million.

Embedded Derivatives

Embedded Credit Derivatives

As of December 31, 2005, the Parent Company has US$30 million of credit-linked deposits (CLDs) with various foreign counterparties. All CLDs will mature before the end of 2006. These CLDs were classified as AFS financial assets. The funds were deposited at par; that is, without premium or discount to the face value.

Upon the occurrence of a credit event as defined in the master agreement between the Parent Company and its foreign counterparties, "reference securities" shall be received by the Parent Company in lieu of the funds it previously deposited. The redemption amount and interest rate of each CLD is based on a pre-agreed formula which includes a credit spread meant to compensate the Parent Company for the credit risk transferred to the Parent Company during the life of the deposit.

Each CLD contains an embedded credit default swap. All embedded credit default swaps were bifurcated as of initial recognition and marked-to-market through profit and loss. The Parent Company recognized an unrealized gain on the credit default swap amounting to ₱10.94 million in 2005.

The host contract (the U.S. dollar deposit) was accounted for as part of AFS financial assets.

Embedded Equity Conversion Option in Convertible Preferred Shares

The Parent Company has investments in convertible preferred shares amounting to ₱65.05 million, at par value, as of December 31, 2005 which allow the holder to convert the preferred shares to an equivalent number of the underlying common shares. The convertible preferred shares were classified as AFS.

The equity conversion option is an embedded derivative which was bifurcated from the host contract (preferred shares which can be considered as a debt instrument under PAS 32 on account of the redemption option at the instance of the holder) as of initial recognition and is marked-to-market through profit and loss. In 2005, the Company recognized an unrealized gain on equity option amounting to ₱15.32 million.

Fair Value Changes on Derivatives

The net movements in fair value changes of all derivative instruments in 2005 are as follows:

Balance at beginning of year	₱141,098,852
Unrealized gains during the year	407,261,897
Settled transactions	(389,775,064)
Balance at end of year	₱158,585,685

22. TRUST OPERATIONS

Securities and other properties (other than deposits) held by the Parent Company in fiduciary or agency capacities for clients and beneficiaries are not included in the accompanying statements of condition since these are not assets of the Parent Company (see Note 24).

In compliance with the requirements of current banking regulations relative to the Parent Company's trust functions: (a) government securities with a total face value of ₱402.8 million and ₱365.5 million as of December 31, 2005 and 2004, respectively, are deposited with the BSP as security for the Parent Company's faithful compliance with its fiduciary obligations; and (b) a certain percentage of the Parent Company's trust fee income (included under Other Operating Income in the statements of income) is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function equals 20% of the Parent Company's authorized capital stock.

23. RELATED PARTY TRANSACTIONS

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence. Related parties may be individuals or corporate entities.

In the ordinary course of business, the Group has loans and other transactions with its directors, officers, stockholders and related interests (DOSRI). Under the Group's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Group. In the aggregate, loans to DOSRI generally should not exceed the Group's total capital funds or 15% of the Group's total loan portfolio, whichever is lower. As of December 31, 2005 and 2004, the Group has complied with all these regulatory requirements.

BSP Circular No. 423 dated March 15, 2004 amended the definition of DOSRI accounts.

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans, other credit accommodations granted under said circular:

	Consolidated		Parent Company	
	2005	2004	**2005**	2004
Total outstanding DOSRI loans	**₱1,837,945,075**	₱3,137,125,624	**₱1,837,945,075**	₱3,137,125,624
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423	**2.68%**	4.46%	**2.68%**	4.46%
Percent of DOSRI accounts granted under BSP Circular No. 423	**0.02%**	0.91%	**0.02%**	0.91%
Percent of DOSRI loans to total loans	**2.71%**	5.48%	**2.71%**	5.48%
Percent of unsecured DOSRI loans to total DOSRI loans	**0.10%**	14.87%	**0.10%**	14.87%
Percent of past due DOSRI loans to total DOSRI loans	**0.08%**	3.34%	**0.08%**	3.34%
Percent of non-performing DOSRI loans to total DOSRI loans	**–**	–	**–**	–

The following table shows information relating to the loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of said circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later, as of December 31, 2005:

	Consolidated		Parent Company	
	2005	2004	**2005**	2004
Total outstanding non-DOSRI accounts prior to BSP Circular No. 423	**₱200,000**	₱59,251,783	**₱200,000**	₱59,251,783
Percent of unsecured non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**–**	0.09%	**–**	0.09%
Percent of past due non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**–**	0.02%	**–**	0.02%
Percent of non-performing non-DOSRI accounts prior to BSP Circular No. 423 to total loans	**–**	0.02%	**–**	0.02%

Compensation of Key Management Personnel

The remuneration of directors and key management personnel of the Group are as follows:

	2005	2004
Short-term benefits	**₱176,725,810**	₱171,604,898
Post-employment benefits	**38,715,532**	33,878,711
	₱215,441,342	₱205,483,609

24. COMMITMENTS AND CONTINGENT ASSETS AND LIABILITIES

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities which are not reflected in the accompanying financial statements. Management does not anticipate any material losses as a result of these transactions.

The following is a summary of contingencies and commitments with their equivalent peso contractual amounts:

	Consolidated		Parent Company	
	2005	2004	**2005**	2004
Trust department accounts (see Note 22)	**₱39,321,877,652**	₱38,184,795,281	**₱39,321,877,652**	₱38,184,795,281
Unused commercial letters of credit	**1,812,731,056**	2,061,265,436	**1,812,731,056**	2,061,265,436
Outstanding guarantees issued	**841,786,942**	2,637,888,695	**841,786,942**	2,637,888,695
Deficiency claims receivable	**772,393,711**	779,131,078	**772,393,711**	779,131,078
Late deposits/payments received	**267,692,017**	218,321,220	**267,692,017**	218,321,220
Outward bills for collection	**188,943,041**	219,272,685	**188,943,041**	219,272,685
Inward bills for collection	**125,248,472**	134,308,337	**125,248,472**	134,308,337
Others	**745,299,586**	731,573,297	**745,299,586**	731,573,297

There are pending assessments and pre-assessments from the Bureau of Internal Revenue (BIR) pertaining to withholding tax at source and DST for the years 1982 to 1986 and GRT for the years 1999 and 2000. In addition, the Group has received tax assessments from the BIR on two industry issues. The Group, through its tax counsel, is contesting these assessments and pre-assessments on the ground that the factual situations were not considered which, if considered, will not give rise to material tax deficiencies. The Group, together with other member banks of the Bankers' Association of the Philippines (BAP), is contesting these pending assessments and pre-assessments of the BIR. Discussions are ongoing between the BAP and the BIR for the appropriate settlement and disposition of these tax issues. No provision has been made in the accompanying financial statements for these contingencies.

Several suits and claims relating to the Group's lending operations and labor-related cases remain unsettled. In the opinion of management, these suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements of the Group.

25. SEGMENT INFORMATION

The Group's operating businesses are recognized and managed separately according to the nature of services provided and the markets served, with each segment representing a strategic business unit. The Group's business segments are as follows:

Consumer Banking - principally handling housing and auto loans for individual and corporate customers;

Account Management - principally administering all the lending, trade finance and corollary banking products and services extended to corporate and institutional customers;

Branch Banking - principally handling retail and commercial loans, individual and corporate deposits, overdrafts and fund transfer facilities, trade facilities and all other bank services for retail customers; and

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of government securities, placements and acceptances with other banks.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group include the operations and financial control groups. Transactions between segments are at estimated market rates on an arm's length basis. Interest is charged or credited to business segments based on a transfer pool rate, which approximates the marginal cost of funds.

The following tables present relevant information regarding business segments as of and for the years ended December 31, 2005 and 2004.

Segment information of the Group for the years ended December 31, 2005 and 2004 are as follows (in thousands):

	Consumer Banking		Account Management		Branch Banking	
	2005	2004	**2005**	2004	**2005**	2004
Results of operations						
Net interest income	**₱292,662**	₱190,760	**₱851,276**	₱782,058	**₱2,158,949**	₱1,979,528
Other operating income	**34,966**	20,950	**128,796**	176,181	**767,242**	804,794
Total revenue	**327,628**	211,710	**980,072**	958,239	**2,926,191**	2,784,322
Other operating expense	**(89,993)**	(71,402)	**(166,974)**	(208,886)	**(1,712,085)**	(1,622,211)
Income before income tax	**237,635**	140,308	**813,098**	749,353	**1,214,106**	1,162,111
Income tax provision	–	–	–	–	–	–
Net income	**₱237,635**	₱140,308	**₱813,098**	₱749,353	**₱1,214,106**	₱1,162,111

(Forward)

Total assets	**₱7,295,905**	₱4,562,663	**₱31,929,637**	₱26,892,138	**₱51,337,523**	₱45,473,334
Total liabilities	**₱545,874**	₱273,687	**₱3,751,032**	₱5,966,294	**₱82,322,188**	₱83,011,623
Depreciation and amortization	**₱1,833**	₱1,729	**₱2,422**	₱2,218	**₱75,712**	₱78,298
Capital expenditures	**₱603**	₱766	**₱1,003**	₱814	**₱32,681**	₱44,491

	Treasury		Others		Total	
	2005	2004	**2005**	2004	**2005**	2004
Results of operations						
Net interest income (loss)	**₱1,709,876**	₱1,661,601	**₱827,284**	₱452,012	**₱5,840,047**	₱5,065,959
Other operating income	**1,393,018**	939,451	**735,927**	338,492	**3,059,949**	2,279,868
Total revenue (loss)	**3,102,894**	2,601,052	**1,563,211**	790,504	**8,899,996**	7,345,827
Other operating expense	**(106,461)**	(166,346)	**(2,852,384)**	(2,198,522)	**(4,927,897)**	(4,267,367)
Income (loss) before income tax	**3,027,075**	2,434,706	**(1,289,173)**	(1,408,018)	**3,972,099**	3,078,460
Income tax provision	**451,891**	–	**335,642**	293,411	**787,533**	293,411
Net income (loss)	**₱2,575,184**	₱2,434,706	**(₱1,624,815)**	(₱1,701,429)	**₱3,184,566**	₱2,785,049
Total assets	**₱53,292,554**	₱53,857,401	**(₱10,904,396)**	(₱16,967,740)	**₱132,951,223**	₱113,817,796
Total liabilities	**₱12,717,573**	₱6,584,365	**₱11,682,330**	(₱1,760,383)	**₱111,018,997**	₱94,075,586
Depreciation and amortization	**₱2,980**	₱3,332	**₱173,251**	₱177,272	**₱256,198**	₱262,849
Capital expenditures	**₱1,164**	₱6,962	**₱45,884**	₱41,177	**₱81,335**	₱94,210

26. EARNINGS PER SHARE (EPS)

Basic earnings per share amounts are calculated by dividing the net income for the year by the weighted average number of common shares outstanding during the year (adjusted for stock dividends).

The following reflects the income and share data used in the basic earnings per share computations:

	Consolidated		Parent Company	
	2005	2004	**2005**	2004
a. Net income	**₱3,184,566,044**	₱2,785,048,610	**₱3,171,730,951**	₱2,775,020,631
b. Weighted average number of common shares outstanding	**49,331,663**	49,331,663	**49,331,663**	49,331,663
c. Earnings per share (a/b)	**₱64.55**	₱56.46	**₱64.29**	₱56.25

Weighted average number of outstanding common shares in 2004 was recomputed after giving retroactive effects to stock dividends declared on May 4, 2005 and May 5, 2004 (see Note 16).

Before consideration of the 35% and 20% stock dividend declared in 2005 and 2004, the EPS for 2004 and 2003 were ₱74.37 and ₱86.02, respectively.

27. FINANCIAL PERFORMANCE

The following basic ratios measure the financial performance of the Group and the Parent Company:

	Consolidated		Parent Company	
	2005	2004	**2005**	2004
Return on average equity	**15.28%**	15.12%	**15.27%**	15.09%
Return on average assets	**2.58**	2.56	**2.57**	2.56
Net interest margin	**5.26**	5.09	**5.25**	5.08

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PROVINCIAL BRANCHES - MINDANAO

BUTUAN CITY*
T. Calo corner San Francisco Streets
Leon Kilat, Butuan City
Tel # (085) 341-5159; 341-7445
815-3454; 225-2081
Fax # (085) 815-3455
Henry James A. Go, Jr., *Manager*

CAGAYAN DE ORO-BORJA*
J. R. Borja Street, Cagayan de Oro City
Tel # (08822) 724-832/33; 726-076
(082) 857-3742
Telefax # (088) 857-2212
Romualdo I. Uy, *Manager*

**with ATM*

BRANCH DIRECTORY

CAGAYAN DE ORO-CARMEN*
V. Neri Street, Carmen
Cagayan de Oro City, Misamis Oriental
Tel # (08822) 723-091; 724-372
(088) 858-3902 to 03
Telefax # (088) 858-3902
(08822) 724-372
James M. Bomediano, *Branch Manager*

CAGAYAN DE ORO-LAPASAN*
CBC Building, Claro M. Recto Avenue
Lapasan, Cagayan de Oro City
Tel # (08822) 722-240; 724-540; 726-242
(088) 856-1325/1326/2409/5063
Fax # (088) 856-1325
Vicente S. Yap, Jr., *Manager*

DAVAO-BAJADA*
Km. 3, J.P. Laurel Avenue, Bajada
Davao City
Tel # (082) 221-0184; 221-0568
Telefax # (082) 221-0319
Angeles Immaculada Y. Quibod, *Officer-in-Charge*

DAVAO-MATINA*
Gingerbread Building
McArthur Highway, Matina, Davao City
Tel # (082) 297-4455; 297-5880 to 81
Fax # (082) 297-4288
Tessie L. Virrey, *Branch Manager*

DAVAO-RECTO*
CBC Building, C.M. Recto Avenue
corner J. Rizal Street, Davao City
Tel # (082) 221-4481/7028/6021/6921
226-3851
Fax # (082) 221-8814
Julieta R. Torres, *Manager*

DAVAO-STA. ANA
R. Magsaysay Avenue
corner F. Bangoy Street
Sta. Ana District, Davao City
Tel # (082) 227-9501/51; 227-9601
221-1054/55; 221-6672
Fax # (082) 226-4902
Rodolfo S. Bisnar, *Deputy Senior Manager*

DAVAO-TAGUM*
153 Pioneer Avenue
Tagum, Davao del Norte
Tel # (084) 218-2601/02; 400-2290
Telefax # (084) 400-2289
Jesus B. Luna, Jr., *Branch Manager*

DIPOLOG CITY*
CBC Building, General Luna
corner Gonzales Street
Dipolog City
Tel # (065) 212-6767 to 68
Telefax # (065) 212-6769
Arnulfo H. Roldan, *Deputy Senior Manager*

GENERAL SANTOS CITY*
CBC Building, I. Santiago Boulevard
General Santos City, South Cotabato
Tel # (083) 552-2300; 552-8288/89
301-5045
Fax # (083) 552-2105
Helen Grace B. Lachica, *Officer-in-Charge*

ILIGAN CITY*
Lai Building, Quezon Avenue Extension
Pala-o, Iligan City
Tel # (063) 221-5477/79; 492-3009
Fax # (063) 492-3010
Jaime G. Asuncion, *Branch Manager*

OZAMIZ CITY*
Gomez corner Burgos Street, Ozamiz City
Tel # (088) 521-2658 to 60
Telefax # (088) 521-2659
Ariel F. Ilagan, *Branch Manager*

PAGADIAN CITY*
Marasigan Building, F.S. Pajares Avenue
Pagadian City
Tel # (062) 215-2781/82
Fax # (062) 214-3877
Hudson Q. Uy, *Deputy Senior Manager*

VALENCIA*
A. Mabini Street, Valencia, Bukidnon
Tel # (088) 828-2048/49; 222-2356
222-2417
Telefax # (088) 222-2417
Samuel L. Reymundo, *Branch Manager*

ZAMBOANGA CITY*
CBC Building, Gov. Lim Avenue corner
Nuñez Street, Zamboanga City
Tel # (062) 991-2978/79
Fax # (062) 991-1266
Abelardo T. Teng, *Senior Manager*

NORTH METRO MANILA / LUZON BRANCHES

Region Head: Roberto C. Uyquiengco
Vice President

Area I Head: Noemi L. Uy, *Assistant Vice President*

Area II Head: Thaddeus Anthony L. Tan
Assistant Vice President

Area III Head: Victoria L. Chua, *Senior Manager*

Area IV Head: Shirley T. Tan, *Assistant Vice President*

Area V Head: Camilo S. Cape, *Senior Manager*

SOUTH METRO MANILA / LUZON BRANCHES

Region Head: Philip S.L. Tsai, *Vice President*

Area I Head: Raul C. Gamboa, *Assistant Vice President*

Area II Head: Lydia Y. Yu, *Senior Assistant Vice President*

Area III Head: Bienvenido C. Hidalgo, *Senior Assistant Vice President*

Area IV Head: Bienvenido C. Hidalgo, *Senior Assistant Vice President*

Area V Head: Philip S.L. Tsai, *Vice President*

VISAYAS / MINDANAO BRANCHES

Region Head: Patrick U. Go, *Vice President*

Visayas I Area Head: Henry D. Sia, *Senior Assistant Vice President*

Visayas II Area Head: Patrick U. Go, *Vice President*

Mindanao I Area Head: Celso M. Sy, *Senior Assistant Vice President*

Mindanao II Area Head: Celso M. Sy, *Senior Assistant Vice President*

OFF-BRANCH ATM DIRECTORY

METRO MANILA

ALABANG TOWN CENTER
Alabang Town Center, Alabang-Zapote Road
Muntinlupa City

CALTEX-SLEX 1
South Luzon Expressway-Northbound
Barangay San Antonio, San Pedro, Laguna

CHERRY FOODARAMA
Cherry Foodarama, Shaw Boulevard
Mandaluyong City

CHIANG KAI SHEK
Chiang Kai Shek College
1274 P. Algue, Manila

CHINA BANK ONLINE CENTER
Starbucks, China Bank Building
8745 Paseo de Roxas corner Villar Street
Makati City

EASTWOOD-CYBERMALL
2/F Eastwood CyberMall Eastwood Avenue
Eastwood City CyberPark, Bagumbayan
Quezon City

GATEWAY MALL
Booth 4, Level 2 Gateway Mall
Cubao, Quezon City

GILMORE I.T. CENTER
G/F Gilmore IT Center
Gilmore Avenue corner 1st Street
New Manila, Quezon City

GLORIETTA 1
2/F Glorietta 1 (near BLIMS)
Ayala, Makati City

GLORIETTA 4
Between Modern China and Banana Leaf & Curry
Glorietta 4, Makati City

GREENBELT 3
Greenbelt 3, Makati Avenue Drop-Off Area
Makati City

GREENHILLS THEATRE MALL
Main Entrance, Greenhills Theatre Mall
San Juan, Metro Manila

JACKMAN EMPORIUM
G/F Jackman Emporium Department Store
Grace Park, Caloocan City

JGC PHILS ALABANG
JGC PHILS. Building, Prime Street
Madrigal Business Park-Phase III
Ayala Alabang, Muntinlupa City

MARKET! MARKET! 1
Market! Market! Fort Bonifacio
Global City, Taguig Metro Manila

MARKET! MARKET! 2
2/F Market! Market! Fort Bonifacio
Global City, Taguig Metro Manila

MEDICAL CITY
Medical City, Ortigas Avenue, Pasig City

METRO POINT MALL
3/F Metro Point Mall, EDSA corner
Taft Avenue, Pasay City

METROWALK
ATM 1 Building C
G/F Metrowalk Commercial Complex
Meralco Avenue, Pasig City

MRT-BONI STATION ATM
EDSA, Mandaluyong City

MRT-CUBAO STATION ATM
EDSA, Quezon City

MRT-NORTH AVENUE STATION ATM
EDSA, Quezon City

MRT-SHAW BOULEVARD STATION ATM
EDSA, Mandaluyong City

PASEO CENTER
G/F Paseo Center, Paseo de Roxas
corner Sedeno Streets, Makati City

PEOPLE SUPPORT
G/F People Support Center, Ayala Avenue corner
Sen. Gil Puyat Avenue, Makati City

POWERPLANT-R3
Space No. P1-060, Power Plant Mall

ROBINSON'S GALLERIA 1
L1-181 Robinson's Galleria, EDSA
corner Ortigas Avenue, Pasig City

ROBINSON'S GALLERIA 2
L1-181 Robinson's Galleria, EDSA
corner Ortigas Avenue, Pasig City

ROBINSON'S PLACE-MANILA
G/F, Padre Faura Wing Entrance, Pedro Gil
corner Adriatico Street, Ermita, Manila

ROCKWELL-LOFT
Space No. IC-1, Power Plant Mall Info Center
Block 10 Lot 1(near the Loft Office)

SHOP AND RIDE
Shop and Ride Shopping Center
#248 Gen. Luis Street, Novaliches Proper
Novaliches, Quezon City

SHOPWISE-ARANETA
Shopwise-Araneta (former Fiesta Carnival Area)
Cubao, Quezon City

SM CENTERPOINT
Ramon Magsaysay Boulevard
corner G. Araneta Avenue, Sta. Mesa, Manila

SM CITY ANNEX
SM City Annex Building, EDSA corner North Avenue
Bago-Bantay, Pag-asa, Project 6, Quezon City

SM CITY FAIRVIEW OFFSITE
SM City Fairview, Quirino Avenue
corner Regalado Avenue, Fairview, Quezon City

SM CITY MANILA
ATM-3 UGF Main Entrance, Arroceros Side
SM City Manila

SM CITY MARILAO OFFSITE
ATM-1 SM City Marilao, Marilao, Bulacan

SM CUBAO
SM Cubao, Times Square Avenue
Camp Murphy & University Subdivision
Quezon City

SM MEGA B
Level 2, Building B, SM Megamall
EDSA corner Julia Vargas Street
Mandaluyong City

SM SOUTHMALL OFFSITE
Alabang-Zapote Road
Barangay Almanza, Las Piñas City

TAFT-U.N.
G/F Times Plaza, T.M. Kalaw corner
Gen. Luna Street, Manila

OFF-BRANCH ATM DIRECTORY

TARGET MALL
G/F near Star Search, Sta. Rosa Commercial
Complex, Barangay Balibago, Sta. Rosa, Laguna

THE FORT
1/F Bonifacio Technology Center, 31st Street
corner 2nd Avenue, Bonifacio Global City
Taguig City

TIENDESITAS
Frontera Verde corner C-5, Pasig City

WALTERMART-MAKATI
G/F Waltermart Makati (near Mercury Drug)
790 Chino Roces Avenue
corner Antonio Arnaiz, Makati City

168 SHOPPING MALL
3/F 168 Shopping Mall, Sta. Elena Street
Binondo, Manila

LUZON

ADVENTIST UNIVERSITY OF THE PHILIPPINES
Adventist University of the Philippines
Puting Kahoy Silang, Sta. Rosa, Cavite

DLSU-HEALTH SCIENCE CAMPUS
De La Salle University
Health Campus, Inc., Congressional Road
Dasmariñas, Cavite

HOLY ANGEL UNIVERSITY
Sto. Rosario Street, Angeles City, Pampanga

JENRA MALL
JENRA Grand Mall, Angeles City, Pampanga

LORMA HOSPITAL
Lorma Hospital, City of San Fernando
La Union

MAGIC STAR MALL
UG/F, Magic Star Mall, Romulo Boulevard
Barangay Cut-Cut 1, Tarlac City

PACIFIC MALL
Pacific Mall Building, Landco Business Park
F. Imperial Street corner Circumferential Road
Legaspi City

SM BAGUIO
ATM C-3, SM City Baguio, Luneta Hill
Upper Session Road corner
Governor Park Road, Baguio City

SM CITY BACOOR
SM City Tirona Highway corner Aguinaldo Highway
Bacoor, Cavite

SM CITY BATANGAS
ATM-1 SM City Batangas, Pallocan
West Batangas City

SM CITY DASMARIÑAS
Offsite ATM 2, SM City
Dasmariñas, Cavite City

SM CITY PAMPANGA
ATM-2, Main Entrance Beside Covered Walk
SM City Pampanga, Barangay San Jose
San Fernando, Pampanga

UNION CHRISTIAN COLLEGE
Union Christian College, Widdoes Street
Barangay II, San Fernando, La Union

WESLEYAN UNIVERSITY
Wesleyan University of the Philippines
Mabini Extension, Cabanatuan City

VISAYAS

GAISANO TALISAY CEBU
G/F Gaisano Fiesta Mall, Tabunok, Talisay
Cebu City

LAPU-LAPU CITY
Gaisano Mactan Mall, Pusok
Lapu-Lapu City, Cebu

LEE SUPER PLAZA
G/F Lee Super Plaza, M. Perdices
corner San Jose Street, Dumaguete City

SM CEBU
UG/F SM City Cebu, Juan Luna
corner A. Soriano Avenue, Cebu City

SM DELGADO
SM Delgado, Delgado corner Valeria Street
Iloilo City

UNIVERSITY OF SAN CARLOS
University of San Carlos, Main University Building
P. Del Rosario Street, Cebu City

MINDANAO

DIPOLOG CENTER MALL
Dipolog Center Mall, 138 Rizal Avenue
Dipolog City

GAISANO MALL-BAJADA DAVAO
Gaisano Mall of Davao, J. P. Laurel Avenue
Bajada, Davao City

KCC MALL-GENSAN
G/F KCC Mall GenSan, J. Catolico Sr. Avenue
General Santos City, South Cotabato

LIM KET KAI MALL
M4-193B LimKetKai Center
Cagayan de Oro City

SM CITY CAGAYAN DE ORO
ATM Center 2, Main Entrance
SM City Cagayan de Oro

SM CITY DAVAO
ATM Center 1, SM City Davao,
Quimpo Boulevard, Ecoland Subdivision
Barangay Matina, Davao City

CONSUMER BANKING CENTER DIRECTORY

CBG BACOLOD CENTER
Marvin D. Celajes, *Manager*
China Bank - Araneta Branch
Araneta Street, Bacolod City
Tel. # (034) 433-7153
Telefax # (034) 435-0647

CBG BATANGAS CENTER
Genevieve A. Baldon, *Assistant Manager*
China Bank - Batangas City Branch
P. Burgos St., Batangas City
Tel # (043) 723-7127
Telefax # (02) 520-6161

CBG CABANATUAN CENTER
Manuelito V. Pagdanganan, *Supervisor*
China Bank - Cabanatuan
Maharlika Branch
Brgy. Dicarma, Maharlika Hi-way
Cabanatuan City
Tel # (044) 600-1575
Telefax # (044) 463-1063

CBG CAGAYAN DE ORO CENTER
Evelyn E. Dalaguit, *Manager*
China Bank - Lapasan Branch
CM Recto Avenue, Lapasan
Cagayan de Oro
Tel # (22) 72-8195
Telefax # (088) 856-2409

CBG CEBU CENTER
Melinda O. Lagahit, *Manager*
China Bank - Cebu Banilad Branch
AS Fortuna, Banilad, Cebu City
Tel # (032) 416-1606; 346-4448 to 49
Telefax # (032) 346-4450

CBG DAGUPAN CENTER
George Z. Wong, *Senior Assistant Manager*
China Bank - Dagupan City Branch
Perez Boulevard, Dagupan City
Tel # (075) 522-8471
Telefax # (075) 522-8472

CBG DAVAO CENTER
Freddie S. Bandong, *Deputy Senior Manager*
China Bank - CM Recto Branch
CM Recto corner J. Rizal Street
Davao City
Tel # (082) 226-2103
Telefax # (082) 222-5021

CBG ILOILO CÉNTER
Marvin D. Celajes, *Manager*
China Bank - Mabini Branch
A. Mabini Street, Iloilo City
Tel # (033) 336-7918
Telefax # (033) 336-7909

CBG PAMPANGA CENTER
Verna C. Gutierrez, *Assistant Manager*
China Bank - San Fernando Branch
V. Tiomico Street, Sto. Rosario
San Fernando, Pampanga
Tel # (045) 961-8351
Telefax # (045) 961-5344

SUBSIDIARIES AND AFFILIATES

CBC FOREX CORPORATION
G/F China Bank Building
8745 Paseo de Roxas corner Villar Streets
Makati City

CBC PROPERTIES AND COMPUTER CENTER, INC.
4/F & 15/F China Bank Building
8745 Paseo de Roxas corner Villar Streets
Makati City

CHINA BANK INSURANCE BROKERS, INC.
7/F China Bank Building
8745 Paseo de Roxas corner Villar Streets
Makati City

FIRST SOVEREIGN ASSET MANAGEMENT (SPV-AMC), INC.
3/F China Bank Building
8745 Paseo de Roxas corner Villar Streets
Makati City

PRODUCTS AND SERVICES

DEPOSITS AND RELATED SERVICES
ChinaCheck Plus Account
Regular Savings Account
MoneyPlus Savings Account
Diamond Savings Account
Certificates of Time Deposit
Manager's Checks
Gift Checks
TellerCard (ATM Card)
Government Securities
5-Year Money L.I.F.T.
(Long-Term Investment Free of Tax)
Electronic Banking Channels
China Bank Online
Mobile Banking
TellerPhone
ATM

LOANS AND CREDIT FACILITIES
Agricultural, Commercial and Industrial Financing
Personal Loans
Pre-export Financing (Direct and Indirect Exporters)
Special Lending Programs
Countryside Loan Fund (CLF)
Industrial Guarantee and Loan Fund (IGLF)
Japan Bank for International Cooperation - Industrial Support Service Expansion Program (ISSEP)
Domestic Shipping Modernization Program (DSMP)
Environmental Infrastructure Support Credit Program (EISCP)
SSS-GSIS Special Financing Program
SSS Industry Loan Program
Special Financing Program for Tourism Projects
Hospital Financing Program
Financing Program for Educational Institutions
Special Financing Program for Vocational and Technical Schools
Guarantee Programs
Small Business Guarantee Finance Corporation (SB Corp.)
Trade and Investment Development Cooperation (Designated as Philippine Export and Import Credit Agency – PHILEXIM)
Overseas Chinese Credit Guarantee Funds (OCCGF)
Export-Import Bank of the United States (USEXIM) Guarantee
Consumer Loans
HOMEPlus Real Estate Loan
Contract to Sell Financing
AUTOPlus Vehicle Loan

INTERNATIONAL BANKING PRODUCTS & SERVICES
Import and Export Financing
Foreign and Domestic Commercial Letters of Credit
Standby Letters of Credit
Collection of Clean and Documentary Bills
Bank Guaranty (Shipside Bond)
Foreign and Domestic Remittances
Purchase and Sale of Foreign Exchange
Travel Funds
Servicing of Foreign Loans and Investments
Trade Inquiry
Trust Receipt Facility
Correspondent Banking Services
LC Confirmations/LC Advising
Foreign Currency Checks and Drafts clearing services
Foreign Currency Deposit Unit Services
US$ Savings and Time Deposit
Foreign Currency Loans

REMITTANCE BUSINESS PRODUCTS
China Bank On-time Remittance
Credit to China Bank deposit account
Cash payout through any China Bank branch
Bank-to-Bank Fund Transfer
Door-to-Door Cash Delivery

TRUST AND INVESTMENT MANAGEMENT SERVICES
Investment Management
Investment Advisory
Investment Agency
Corporate Trust
Collateral/Mortgage Trust
Estate Planning
Testamentary Trust
Living Trust
Life Insurance Trust
Educational Trust
Employee Benefit Planning
Retirement Plan
Provident Plan
Other Fiduciary Services
Custodianship
Escrow Agency
Loan Agency
Unit Investment Trust Funds
China Bank Dollar Fund
China Bank GS Fund

CASH MANAGEMENT SERVICES
Automatic Debit Arrangement (ADA)
Bills Pay Plus Multi-Channel Bills Payment Services
(Over-the-Counter, ATM, TellerPhone & China Bank Online)
BancNet Payment System (ATM, Point-of-Sale and BancNet Online)
Check Depot Post-Dated Check Warehousing Service
Sure Collect Cash and Check Deposit Pick-up Services
Comprehensive Payroll Offering (Crediting and Outsourcing)
BIR eFPS Online Tax Payments
SSSNet Employee Contribution Facility
Automatic Credit Arrangement
Check Write Plus (Corporate and Manager's Check Writing System)
China Bank Online (Corporate)
Sweeping / Pooling
Upload Pro File Delivery System

INSURANCE PRODUCTS
Life Insurance
Endowment Plans, Group Life Insurance
Mortgage Redemption Insurance/Term Insurance
Dollar-Denominated Life Insurance Plans
Non-Life Insurance
Fire Insurance
Building and Content
Fire and Allied Perils
Motor Car Insurance
Surety/Bonds
Marine Cargo/Hull Casualty
Comprehensive General Liability (C.G.L.)
Products Liability (Local and Export)
Accident and Health
Personal/Travel Insurance
1. Student Personal Accident Insurance
2. Group Personal Accident Insurance
HMO Plans
Contractor's All Risk/Erector's All Risk Insurance
Industrial All Risk (IAR) Insurance
Electronic Equipment Insurance
Medical Insurance
Specialized Insurance Programs
Special Scheme–Captive Insurance Company
Risk Management Services/Risk Survey Report

PRODUCTS AND SERVICES

ACCEPTANCE OF PAYMENTS

- Credit Cards
  - AIG VISA/MasterCard
  - Allied Bank VISA
  - Banco De Oro Credit Card
  - Banco Filipino VISA
  - Bankard/RCBC
  - Citibank VISA/MasterCard
  - East West Card
  - HSBC Cards
  - Metrobank Card
  - MMO Card
  - Onecard International
  - Security Bank Diners/MasterCard
  - Standard Chartered VISA/MasterCard
- Telecommunications
  - Digitel
  - Eastern Telecom
  - Extelcom
  - Globe Telecoms
  - ICC-Bayantel
  - Innove (formerly Islacom)
  - PLDT
  - PT & T
  - Smart Communications
- Cable TV Companies
  - Destiny Cable
  - Sky Cable
  - ZPDEE
- Insurance / Pre-need
  - China Bank Insurance Brokers, Inc
  - Fortune Life
  - Fortune Medicare
  - Lifetime Plans
  - Manila Bankers Insurance
  - Manila Memorial
  - Paramount Life & General Insurance
  - Prudential Life Plans
  - Provident Plans
  - Sun Life of Canada, Philippines
- Loans
  - China Bank Loan Payments
  - Citystate Savings Bank
  - PSBank Loans
  - Standard Chartered Bank EZ Loan
- Utility Companies
  - Manila Water Company, Inc.
  - Maynilad Water Services Co.
  - Meralco
  - PSC-E-PASS
- Internet
  - Infocom
  - EDSAMAIL
- Government Institution
  - BIR
  - NSO Helpline Plus
  - PhilHealth
  - PNCC-Skyway
  - SSS
- Charitable Institutions
  - Bantay Bata
  - Knowledge Channel
  - Piso Para sa Pasig
- Other Services
  - Church of Jesus of Latter Day Saints
  - Directories Philippines Corporation
  - Far East Broadcasting
  - FG Financial Co. Inc.
  - Green Dot
  - National Pay
  - SSS Pension Accounts
    - Direct Deposit Facility for U.S. Pensioners
    - Safe Deposit Box
    - Domestic Collections
    - Western Union Money Transfer Service
    - Prepaid Card Reloads
      - Phonecards (Landline and Cellphone)
      - Internet Cards
      - Dream Satellite TV
      - Internet Game

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8745 Paseo de Roxas corner Villar Streets
Makati City, 1226 Philippines