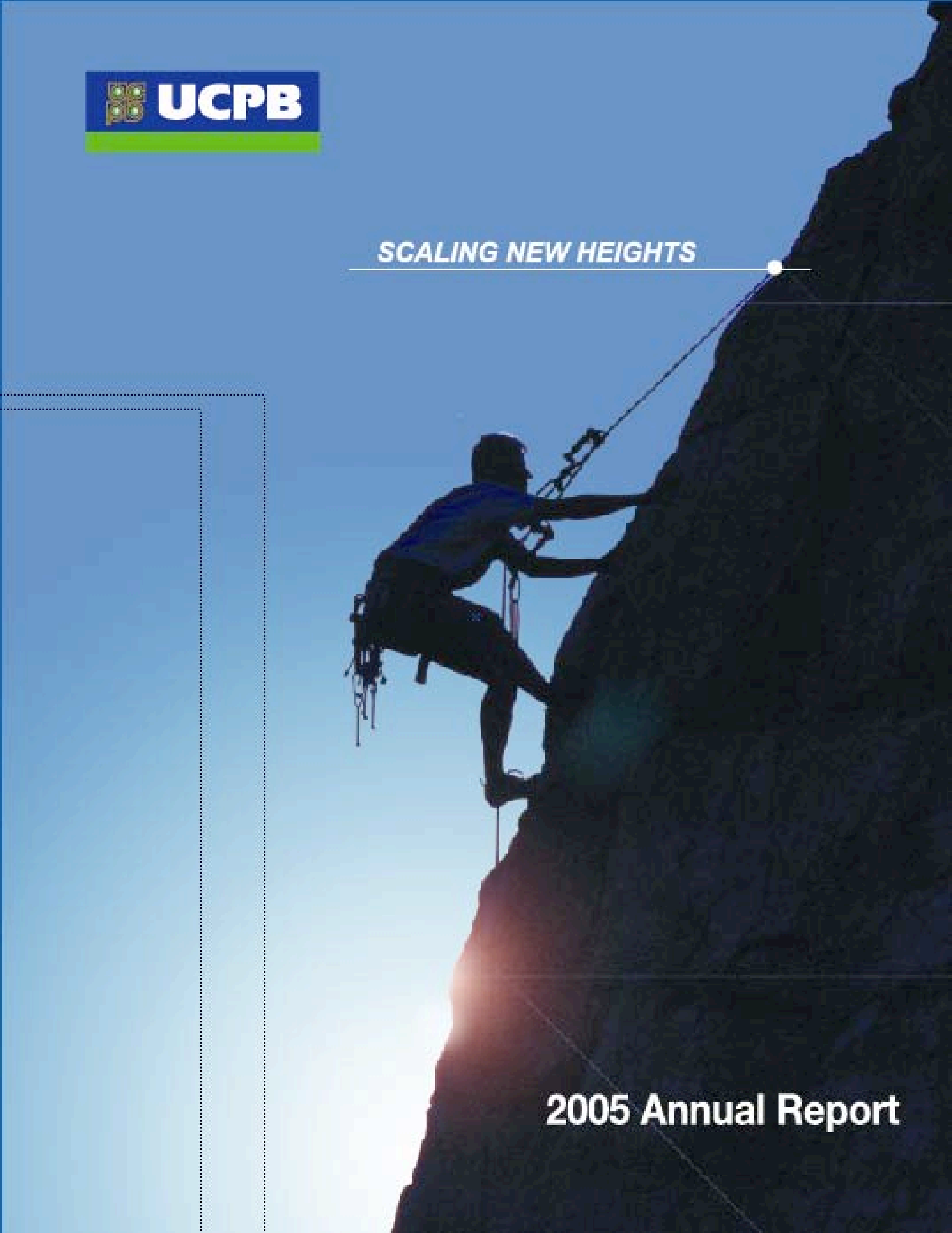
UCPB

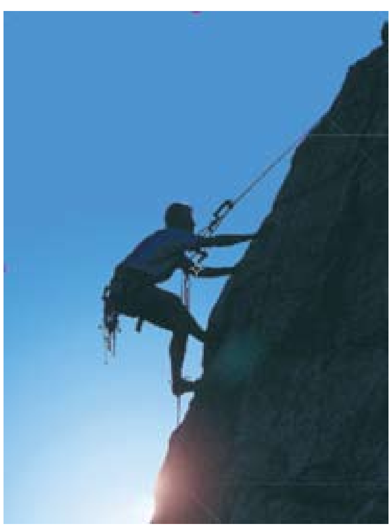


SCALING NEW HEIGHTS

2005 Annual Report

Contents

Our Cover



SCALING NEW HEIGHTS

UCPB continued to execute well against its 10-year business plan. In 2005, the bank increased net interest revenues; grew its CASA deposits; disposed of more non-performing assets; and kept operating costs under control. Having put in place the programs and infrastructures to build on these gains, the bank is now poised to scale new heights.

Message
of the Chairman of the Board and the President and CEO

Dear Stakeholders,

We completed the second year of implementation of the UCPB Group's 10-year business plan in 2005. As we had previously reported to you, the plan has four main components: rebuild the institution's deposit base, reduce the level of non-performing assets, grow the loan portfolio with particular emphasis on the consumer and middle market segments, and manage operating costs.

We pursued these efforts vigorously during the year while continuing to carry out our social mandate to promote the wellbeing of the smaller coconut farmers.

We also took an important step to align ourselves with the global move to the International Accounting Standards (IAS) --- and thus further enhance public transparency --- by adopting the Philippine Financial Reporting Standards.

At the end of the year, we posted solid gains on all fronts.

FINANCIAL PERFORMANCE

Total deposits of the UCPB Group increased by P13.19 billion during the last two years. With deposits growing strongly and additional funds coming in from the sale of non-performing assets, we started shifting our focus from building liquidity to improving profitability.

Accordingly, we pared down our high-cost time deposits in favor of the less expensive current accounts and savings accounts (CASA) in 2005 to improve margins.

Thus at yearend, deposit level went down from P81.81 billion to P79.97 billion reflecting the reduction of time deposits from P51.63 billion to P48.69 billion.

However, CASA rose by P1.11 billion, from P30.18 billion to P31.29 billion, and comprised 39% of total deposits, up from 37% a year ago. The improvement in the deposit mix lowered our overall fund cost, producing a tremendous effect on revenue performance.

Interest expense declined by P0.52 billion in 2005, from P4.91 billion to P4.39 billion. On the other hand, interest income increased by P1.16 billion, from P4.27 billion to P5.43 billion.

As a result, the UCPB Group registered a net interest income of P1.04 billion in 2005, compared to a net interest loss of P0.65 billion a year ago.

Non-interest income, net of the P1.24 billion extraordinary gain in the previous year, dipped slightly though from P1.91 billion to P1.89 billion. We actually grew service fees and charges as volume of business transactions rose in 2005, and increased equity earnings as well on the strength of the good performance of the subsidiaries. However, miscellaneous income and trading gains declined principally because the relatively stable securities market presented less trading opportunities during the year.

Still, with the dramatic P1.69 billion turnaround in net interest income, we cut our net loss in 2005 by almost one-half, from P2.49 billion to only P1.43 billion.

The continued expansion of our consumer and middle market businesses will be key to sustaining net interest income growth moving forward.

In 2005, our consumer loan portfolio further increased to P3.58 billion. Since we renewed our focus on the consumer market two years ago, our loans to the segment have grown four times or by P2.72 billion.

We are moving to duplicate this success in the middle markets by doubling the size of the account management team responsible for this segment. Having already put in place stringent credit controls and reduced our problem accounts, we can now redeploy people that had been previously doing these tasks to now focus on growing the business.

The restructuring of our loan portfolio continued to go very well. In 2005, we phased out a number of unprofitable relationships and sold a huge block of non-performing loans to a U.S. fund company under the Special Purpose Vehicle (SPV) Act.

While these moves brought down total loans to P31.44 from P43.24 billion, the quality of the portfolio improved sharply. Total non-performing loans declined by P11.80 billion to P5.65 billion from P17.66 billion. Consequently, we trimmed down our past due ratio by more than half, from 41.62% to 17.95%.

We vigorously pursued the resolution of our other acquired assets as well. During the last two years, we disposed of P2.58 billion of these acquired assets through outright cash sales and installment financing. We sold another P2.94 billion of the acquired assets, but the sales have not yet been reflected in our books since the documentation is still being completed.

During 2005, we also entered into land development agreements with four leading property developers covering P3.40 billion of foreclosed land and shares of stocks in real estate projects.

Under these agreements, our joint venture partners will shoulder the entire development and marketing costs. The investment should greatly enhance the value and sale prospect of

Armand V. Fabella
Chairman

this acquired asset without additional funding from us.

In all, we have resolved P20.72 billion of our non-performing assets consisting of P11.80 of non-performing loans and P8.92 billion of acquired assets over the past two years.

Inspite our aggressive thrust to simultaneously reduce non-performing assets and grow the business, we managed to keep overhead costs under control. Operating expenses declined by 5.24%, from P4.24 billion to P4.06 billion as we reduced manpower, occupancy, taxes and licenses, and other miscellaneous expenses.

The resulting decline in operating expenses reflects the success of our cost management initiatives and the effect of the changes in the organizational structure that we implemented two years ago, which eliminated functional overlaps and redundancies while enhancing customer focus.

Consistent with this continuing thrust to create organizational efficiency and synergy, we merged our UCPB Savings Bank with UCPB Rural Bank, with the former as the surviving entity.

The merger, which the regulatory agencies approved in late December of 2005, will create a stronger thrift bank that can leverage the strengths and expertise of the individual banks across a bigger branch network of the consolidated entity.

COMMUNITY PROGRAMS

We pursued our social development activities in 2005 with the same vigor that we applied to our business operation.

The scope of our intervention in coconut communities has broadened to cover the entire coconut-farming household over the last two year. Apart from the credit programs for coconut farmers and their cooperatives, we now also implement a micro-finance program for their wives and a scholarship program for their children.

All of these activities are being carried out by our UCPB-CIIF Finance and Development Corp. and UCPB-CIIF Foundation in more than 20,000 coconut communities across the country.

In 2005, the UCPB-CIIF Finance and Development Corp. accredited 161 more cooperatives, coconut farmers and farm workers organizations, rural financial institutions and non-government organizations to its various credit programs. This brought the number of our countryside partners to 1,305.

These new partnerships effectively widened the reach of our UCPB-CIIF Finance and Development Corp., enabling it to deliver more funds to finance livelihood projects of more coconut farming households and organizations.

A total of 36,665 coconut farmers and their wives and children received P439 million in livelihood loans in 2005.

Since it launch of its first credit program in 1995, our UCPB-CIIF Finance and Development Corp. has delivered P2.15 billion in loans to coconut areas across the country. This has benefited 227,450 coconut farming households or roughly 1.35 million people given that the average household has six members.

In addition to credit, our UCPB-CIIF Finance and Development Corp. also provides numerous trainings to the beneficiaries. It conducted 174 seminars on bookkeeping, credit management, strategic planning and values formation in 2005. Over the last 10 years, a total of 21,794 officers and members of cooperatives have attended 834 training sessions.

These trainings aim to equip the beneficiaries with the requisite skills, values and mindset so that they will use the credit wisely, and manage their livelihood projects successfully.

Judging by the quality of our UCPB-CIIF Finance and Development Corp.'s portfolio, this approach is working very well. At yearend, 93.31% of its outstanding loans were current, which meant that the beneficiaries were able to generate sufficient revenues from their livelihood activities that we had financed to cover their loan repayment.

Our UCPB-CIIF Foundation also stepped up its efforts to provide more opportunities for children of small coconut farmers to acquire a higher education or learn technical skills they can use to practice a trade. By the end of 2005, the UCPB-CIIF Foundation had 218 scholars.

We are also working with Operation Smile Philippines, a volunteer medical services organization that provides free reconstructive surgery to indigent children and young adults with oral cleft.

Oral cleft is prevalent among low-income groups, and many of those afflicted are children of small coconut farmers, which is why we are supporting Operation Smile's effort.

In 2005, Operation Smile volunteers operated on 992 cleft patients, bringing to nearly 17,000 the total number of beneficiaries of the free surgery since 1982.

SCALING NEW HEIGHTS

Looking back to the past two years, we can say that we have performed well against our business plan. Deposits and consumer loans have increased while non-performing assets and operating costs have declined during the period.

The challenge we must hurdle is to sustain and build on these gains. Certainly, it will not be easy since the ownership issue remains pending with the courts. However, we continue to work with Philippine Deposit Insurance Corp. (PDIC) in converting its P12-billion outstanding loans into Tier 1 capital.

Together with this initiative, we will continue building up our CASA deposits. We have transformed our Branch Banking Group into a more sales-oriented, 583-strong Business Development Group that will focus on generating these low cost deposits. We will support their effort with incentive programs.

We will also continue to expand our consumer loans aggressively. Competition in this segment has become keener, particularly for traditional products such as home financing and vehicle financing. To drive future growth, we will expand our product lines.

In fact, we recently launched two new consumer products, a personal loan targeting salaried employees and a mortgage-based small business loan aimed at small and medium-sized enterprises that need to raise funds quickly to augment their working capital, acquire additional fixed assets or use for other investments.

Our market research showed that there is a huge demand for these two products. With the UCPB Group's extensive delivery network, we are confident that we can build market share here.

On the remedial bank side, we continue to make important strides in resolving what remains of our non-performing assets.

Early this year, we inked another land development agreement with a well-known real estate developer covering P2.0 billion of our acquired assets. The asset will be redeveloped into an exclusive resort community targeting local end users and foreign investors. Our partner in this venture will shoulder the entire redevelopment costs.

We are confident that with your support, the continued trust of our clients and trade partners in the institution, and the dedication of our associates, we can accomplish the goals we have set for this year --- and move on to scale new heights.

Armand V. Fabella
Chairman

Jose L. Querubin
President and CEO

Jose L. Querubin
President and CEO

Statement of Management's Responsibility for Financial Statements

The management of United Coconut Planters Bank and Subsidiaries is responsible for all information and representations contained in the consolidated financial statements for the years ended December 31, 2005. The consolidated financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized.

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

Punongbayan & Araullo, the independent auditors appointed by the Board of Directors, has examined the financial statements of the Bank in accordance with generally accepted auditing standards in the Philippines and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the Board of Directors and stockholders.

ARMAND V. FABELLA
Chairman

JOSE L. QUERUBIN
President and CEO

CESAR A. RUBIO
Executive Vice President and CFO

Report of Independent Auditors

The Stockholders and the Board of Directors
United Coconut Planters Bank

We have audited the accompanying consolidated statement of condition of United Coconut Planters Bank and subsidiaries (the Group) and the statement of condition of United Coconut Planters Bank as of December 31, 2005, and the related statements of income, changes in capital funds and cash flows for the year 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 audit. The 2005 financial statements of the CIIF companies described in Note 14, the Group's investments in which are accounted for in the consolidated financial statements using the equity method, were audited by other auditors whose reports have been furnished to us, and our opinion on the consolidated financial statements, insofar as it relates to data included for the CIIF companies, is based solely on the other auditors' report. In the consolidated financial statements, the Group's total investments in the CIIF companies is stated at P4.51 billion at December 31, 2005, and the Group's share in the net income of the CIIF companies is stated at P368.9 million for the year then ended. The consolidated financial statements of United Coconut Planters Bank and subsidiaries for the year ended December 31, 2004 were audited by other auditors whose report dated May 5, 2005, expressed a qualified opinion on those statements, prior to restatement, with respect to certain matters referred to in the fifth and sixth paragraphs and discussed more fully in Note 2 to the financial statements.

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

As discussed in Note 15 to the financial statements, real and other properties acquired (ROPA) classified as held for sale amounting to P2.9 billion as of December 31, 2005 are carried at their original book values. Generally accepted accounting principles (GAAP) in the Philippines require that assets held for sale be measured at the lower of cost or fair value less costs to sell. Moreover, certain ROPA classified by the Group as investment properties amounting to P2.1 billion as of the end of 2005 are also carried at their original book values. Under GAAP, investment properties are required to be measured either at fair value or at cost. Application of the cost model, which the Group opted to use, further requires the Group to determine the fair value of the investment properties. The Group is unable to currently determine the fair values of ROPA classified as held for sale and investment properties. We were unable to satisfy ourselves by other alternative procedures as to the propriety of the carrying values of these assets.

As discussed in Note 11 to the financial statements, interest on certain P900.9 million worth of loans and other receivables of the Group are recognized as income using the straight-line method over the terms of the loans. This method does not consider the effective yield on the outstanding loan principal. The Group's accounting policy and GAAP in the Philippines require that interest be recognized on a time proportion basis, that is, based on the rate of interest required to discount the stream of future cash receipts expected over the life of the receivable to equal the initial carrying amount of the receivable. Due to the condition of its accounting records and the limitations of the information systems, applied on these loans, the Group is unable to compute the related effective interest income. Accordingly, we were unable to ascertain the propriety of the amount of recorded accrued interest receivable on the said loans and other receivables at December 31, 2005, and the interest income recognized in 2005.

As discussed in Note 12 to the financial statements, the Bangko Sentral ng Pilipinas (BSP) approved the staggered recognition of the Group's allowance for impairment on loans and other receivables, ROPA and other resources amounting to P14.03 billion determined as of December 31, 2003 over a period of 10 years starting in 2007 in accordance with BSP guidelines. Further, in 2004, the Group did not record the additional required allowance for impairment on loans and other receivables, ROPA and other resources totaling P7.70 billion. Under GAAP in the Philippines, such required allowance for impairment should have been taken up in the statement of condition and charged against operations in the affected prior years. Had the Group recognized the additional allowance for impairment in accordance with GAAP, the Group's total resources and capital funds as of December 31, 2005 would have been both reduced by P21.73 billion.

As discussed in Note 16, a loss of P1.24 billion arising from the loan settlement by a wholly owned subsidiary in 2004 was recorded by the Group as deferred charges and presented as part of the Other Resources account in the statement of condition. This loss is part of the required allowance for impairment mentioned in the fifth paragraph. In 2005, the Group incurred an additional loss of P135 million related to the subsidiary's loan settlement which loss was also charged to deferred charges. Under GAAP, the additional loss should have been recognized currently. Had the additional loss been recognized in accordance with GAAP, net loss for 2005 would have been increased by P135 million and total resources and capital funds as of December 31, 2005 would have been both reduced by P135 million.

As discussed in Note 16, in 2005, the Group incurred a loss of P2.08 billion from its sale of certain non-performing loans totaling P11.58 billion. This loss is in addition to the allowance for impairment which the Group should have recognized in 2004 and prior years as mentioned in the fifth paragraph. The Group, however, recognized the loss of P2.08 billion and a portion of the required allowance for impairment mentioned in the fifth paragraph of P6.43 billion as deferred charges, as approved by the BSP, and included these amounts as part of the Other Resources account in the statement of condition as of December 31, 2005. Under GAAP, the additional P2.08 billion loss representing the excess of the carrying value of the assets sold (that takes into consideration the related allowance for impairment of P6.43 billion) over the consideration received should be recognized immediately in the 2005 statement of income. Had the additional loss been recognized in accordance with GAAP, the Group's net loss for 2005 would have been increased by P2.08 billion and total resources and capital funds as of December 31, 2005 would have been both reduced by P2.08 billion.

In our opinion, based on our audit and the reports of other auditors, except for the effects on the 2005 financial statements of such adjustments, if any, as might have been determined to be necessary had we been able to satisfy ourselves as to the propriety of the carrying values or balances of the assets and related profit or loss accounts as discussed in the third and fourth paragraphs and, except for the effects of the matters described in the fifth, sixth and seventh paragraphs, the 2005 financial statements referred to above present fairly, in all material respects, the consolidated financial position of United Coconut Planters Bank and subsidiaries and the financial position of United Coconut Planters Bank as of December 31, 2005, and the results of their operations and their cash flows for the year then ended in accordance with generally accepted accounting principles in the Philippines.

We also reviewed the adjustments described in Notes 2 and 20 to restate the 2004 financial statements. In our opinion, except for the effects of such adjustments related to the matters discussed in the third to the seventh paragraphs, such adjustments, resulting mainly from the Group's transition to Philippine Financial Reporting Standards, are appropriate and have been properly applied to the 2004 financial statements.

The financial statements have been prepared on a going concern basis. The Group's losses prior to 2005, including the losses not recognized by the Group as discussed in the preceding paragraphs, brought the Group's capital below the required minimum capital requirement for an expanded commercial bank. As discussed in Note 1 to the financial statements, the Group's management is taking active steps to ensure the continued liquidity of the Group, and its capital build-up plan pursuant to the Financial Assistance Agreement with Philippine Deposit Insurance Corporation (PDIC) entered into on July 7, 2003 and the approval of the Monetary Board of the 10-year staggering of provisions. The Group also submitted on December 21, 2005 its 15-year revised Business/Rehabilitation Plan for approval by the PDIC and BSP in relation to the proposed conversion into equity of the Group of the PDIC financial assistance amounting to P12 billion.

PUNONGBAYAN & ARAULLO

By: Benjamin P. Valdez
Partner
CPA Reg. No. 0028485
TIN 136-619-880
PTR No. 4182110, January 4, 2006, Makati City
Partner SEC Accreditation No. 0009-AR-1
BIR AN 08-002511-11-2005 (Dec. 27, 2005 to 2008)

August 25, 2006

Statement of Condition

December 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousands of Pesos)

	Notes	CONSOLIDATED 2005	CONSOLIDATED 2004 (As Restated - See Note 2)	PARENT 2005	PARENT 2004 (As Restated - See Note 2)
RESOURCES					
CASH AND OTHER CASH ITEMS	5	**P 2 ,423,794**	P 3,002,610	**P 2,326,966**	P 2,867,090
DUE FROM BANGKO SENTRAL NG PILIPINAS	5	**4,770,801**	3,531,869	**4,718,299**	3,491,655
DUE FROM OTHER BANKS	6	**1,782,709**	2,240,563	**1,590,206**	1,738,409
INTERBANK LOAN RECEIVABLE	7	**4 ,252,503**	4,041,775	**4,063,503**	3,835,775
INVESTMENT SECURITIES					
At Fair Value Through Profit or Loss	8	**1,178,508**	916,150	**1,165,698**	878,100
Available-for-Sale	9	**13,855,669**	11,719,962	**13,727,260**	11,589,305
Held-to-Maturity	10	**1,360,773**	1,519,299	**1,214,749**	1,271,036
LOANS AND OTHER RECEIVABLES - Net	11	**39,356,413**	50,789,965	**36,705,546**	48,646,037
PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	13	**1,222,690**	1,384,780	**1,161,990**	1,246,074
EQUITY INVESTMENTS - Net	14	**4,612,926**	4,533,451	**1,262,308**	1,333,481
REAL AND OTHER PROPERTIES ACQUIRED					
Assets Held For Sale	15	**2,945,163**	–	**2,909,607**	–
Investment Properties	15	**15,750,814**	19,956,327	**15,552,345**	19,850,129
OTHER RESOURCES - Net	16	**12,478,588**	3,370,269	**12,115,168**	2,937,938
TOTAL RESOURCES		**P 105,991,351**	P 107,007,020	**P 98,513,645**	P 99,685,029
LIABILITIES AND CAPITAL FUNDS					
DEPOSIT LIABILITIES					
Demand		**P 4,176,978**	P 4,035,432	**P 4,127,665**	P 3,971,516
Savings		**27,109,028**	26,149,912	**25,692,093**	24,717,882
Time		**48,688,170**	51,628,231	**48,463,667**	51,169,626
Total Deposit Liabilities	17	**79,974,176**	81,813,575	**78,283,425**	79,859,024
BILLS PAYABLE	18	**8 ,993,856**	8,067,894	**9,044,792**	8,114,962
OTHER LIABILITIES	19	**7,787,483**	6,426,268	**7,487,539**	6,244,650
Total Liabilities		**96,755,515**	96,307,737	**94,815,756**	94,218,636
CAPITAL FUNDS					
Attributable To					
Equity Holders of the Parent	20	**9,181,369**	10,652,736	**3,697,889**	5,466,393
Minority Interest		**54,467**	46,547	**–**	–
		9,235,836	10,699,283	**3,697,889**	5,466,393
TOTAL LIABILITIES AND CAPITAL FUNDS		**P 105,991,351**	P 107,007,020	**P 98,513,645**	P 99,685,029

See Notes to Consolidated Financial Statements.

Statement of Income

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousands of Pesos)

	Notes	CONSOLIDATED 2005	CONSOLIDATED 2004 (As Restated - See Note 2)	PARENT 2005	PARENT 2004 (As Restated - See Note 2)
INTEREST INCOME ON					
Loans and Other Receivables	11	**P 3,541,033**	P 2,739,818	**P 3,145,302**	2,410,567
Investment Securities	9, 10	**1,598,695**	1,285,667	**1,550,739**	1,234,976
Due from Other Banks	6	**150,828**	148,434	**133,952**	122,162
Interbank Loan Receivable	7	**121,480**	87,673	**97,905**	70,277
Others	5	**15,468**	7,004	**14,551**	391
		5,427,504	4,268,596	**4,942,449**	3,838,373
INTEREST EXPENSE ON					
Deposit Liabilities	17	**3,405,339**	3,760,899	**3,417,583**	3,715,999
Bills Payable and Other Borrowings	18	**985,906**	1,153,984	**944,240**	1,154,051
		4,391,245	4,914,883	**4,361,823**	4,870,050
NET INTEREST INCOME (EXPENSE)		**1,036,259**	(646,287)	**580,626**	(1,031,677)
IMPAIRMENT LOSSES	12	**120,255**	587,912	**124,398**	174,271
NET INTEREST INCOME (EXPENSE) AFTER IMPAIRMENT LOSSES		**916,004**	(1,234,199)	**456,228**	(1,205,948)
OTHER INCOME					
Service Charges and Fees		**702,823**	651,791	**625,003**	557,209
Share in Net Income of Associates	14	**371,008**	272,652	**–**	–
Trading Gain		**363,511**	426,788	**363,145**	431,166
Gain on Extinguishment of Debt	16	**–**	1,240,426	**–**	–
Miscellaneous - net	21	**452,073**	557,175	**405,589**	504,710
		1,889,415	3,148,832	**1,393,737**	1,493,085
OTHER EXPENSES					
Employee Benefits	22	**1,176,779**	1,224,846	**1,064,697**	1,120,271
Occupancy	23	**764,378**	812,878	**715,487**	650,812
Taxes and Licenses	24	**570,208**	610,315	**528,109**	498,493
Litigation/Assets Acquired		**268,152**	236,289	**259,791**	234,641
Transportation and Travel		**220,454**	206,018	**203,081**	194,772
Others	21	**1,066,008**	1,146,454	**973,456**	1,028,517
		4,065,979	4,236,800	**3,744,621**	3,727,506
LOSS BEFORE TAX		**1,260,560**	2,322,167	**1,894,656**	3,440,369
TAX EXPENSE	24	**174,097**	170,625	**135,445**	111,814
NET LOSS		**P 1,434,657**	P 2,492,792	**P 2,030,101**	P 3,552,183
Attributable to:					
Equity holders of the Parent		**P 1,438,936**	P 2,498,156	**P 2,030,101**	P 3,552,183
Minority Interest		**(4,279)**	(5,364)	**–**	–
		P 1,434,657	P 2,492,792	**P 2,030,101**	P 3,552,183

See Notes to Consolidated Financial Statements.

Statement of Changes in Capital Funds

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousands of Pesos Except Per Share Data)

	Notes	CONSOLIDATED 2005	CONSOLIDATED 2004 (As Restated - See Note 2)	PARENT 2005	PARENT 2004 (As Restated - See Note 2)
ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT					
CAPITAL STOCK					
Preferred Stock - P1 par value					
Authorized, issued and outstanding - 750,000,000 shares	20	**P 750,000**	P 750,000	**P 750,000**	P 750,000
Common Stock - P1 par value					
Authorized - 2,500,000,000 shares					
Subscribed - 747,170,160 shares (net of subscription receivable of P12,327)	20	**734,843**	734,843	**734,843**	734,843
		1,484,843	1,484,843	**1,484,843**	1,484,843
SHARE IN CUMULATIVE TRANSLATION ADJUSTMENTS (CTA) OF ASSOCIATES					
Balance at Beginning of Year		**–**	440,919	**–**	440,919
Transfer to Surplus		**–**	(440,919)	**–**	(440,919)
Balance at End of Year		**–**	–	**–**	–
SURPLUS RESERVES					
Balance at Beginning of Year					
As previously stated		**779,387**	682,644	**779,387**	682,644
Effects of transition to PFRS	2	**93,630**	–	**–**	–
As Restated		**873,017**	682,644	**779,387**	682,644
Transfer from Surplus Free		**15,244**	190,373	**115,501**	96,743
Balance at End of Year		**888,261**	873,017	**894,888**	779,387
SURPLUS FREE					
Balance at Beginning of Year					
As previously stated		**1,904,825**	4,007,889	**1,904,825**	4,007,889
Prior period adjustments	20	674,092	(126,200)	**789,441**	–
Balance before transition to PFRS		**2,578,917**	3,881,689	**2,694,266**	4,007,889
Effects of transition to PFRS	2	**6,373,034**	7,317,872	**1,153,842**	3,048,226
As restated		**8,951,951**	11,199,561	**3,848,108**	7,056,115
Net Loss		**(1,438,936)**	(2,498,156)	**(2,030,101)**	(3,552,183)
Transfer from CTA		**-**	440,919	**–**	440,919
Transfer to Surplus Reserves		**(15,244)**	(190,373)	**(115,501)**	(96,743)
Balance at End of Year		**7,497,771**	8,951,951	**1,702,506**	3,848,108
FAIR VALUE LOSS ON AVAILABLE-FOR-SALE SECURITIES					
Balance at Beginning of Year					
As previously stated		**–**	–	–	–
Effects of transition to PFRS	2	**(657,075)**	8,666	**(645,945)**	–
As Restated		**(657,075)**	8,666	**(645,945)**	–
Gain (Loss) in Value of Securities		**(32,431)**	(665,741)	**261,597**	(645,945)
Balance at End of Year		**(689,506)**	(657,075)	**(384,348)**	(645,945)
TOTAL CAPITAL FUNDS ATTRIBUTABLE TO EQUITY HOLDERS OF THE PARENT		**9,181,369**	10,652,736	**3,697,889**	5,466,393
MINORITY INTEREST					
Balance at Beginning of Year					
As previously stated		**–**	–	**–**	–
Reclassification from Other Liabilities		**52,289**	52,289	**–**	–
Effects of transition to PFRS	2	**(5,742)**	(11,106)	**–**	–
As restated		**46,547**	41,183	**–**	–
Share in net loss for the year		**4,279**	5,364	**–**	–
Other changes in minority interest in subsidiaries during the year		**3,641**	–	**–**	–
		54,467	46,547	**–**	–
TOTAL CAPITAL FUNDS		**P 9,235,836**	P 10,699,283	**P 3,697,889**	P 5,466,393

See Notes to Consolidated Financial Statements.

Statement of Cash Flows

For the Year Ended December 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousands of Pesos)

	CONSOLIDATED 2005	CONSOLIDATED 2004 (As Restated - See Note 2)	PARENT 2005	PARENT 2004 (As Restated - See Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Loss Before Tax	**(P 1,260,560)**	(P 2,322,167)	**(P 1,894,656)**	(P 3,440,369)
Adjustments for:				
Interest income	**(5,427,504)**	(4,268,596)	**(4,942,449)**	(3,838,373)
Interest expense	**4,391,245**	4,914,883	**4,361,823**	4,870,050
Depreciation and amortization	**256,785**	258,329	**248,462**	233,349
Loss on sale of assets acquired	**103,968**	220,574	**103,968**	220,574
Loss on sale of fixed assets	**24,467**	–	**–**	–
Impairment losses	**120,255**	587,912	**124,398**	174,271
Unrealized trading loss (gain)	**(363,455)**	(866,986)	**(363,145)**	17,383
Equity shares in net earnings of associates	**(370,983)**	(272,637)	–	–
Amortization of deferred charges	**7,117**	33,263	–	33,263
Operating Loss Before Changes in Operating Resources and Liabilities	**(2 ,518,665)**	(1,715,425)	**(2,361,599)**	(1,729,852)
Decrease in financial assets at fair value through profit or loss	**101,097**	3,119,735	**75,547**	3,119,735
Decrease (increase) in available-for-sale securities	**435,234**	(10,648,347)	**(1,876,358)**	(11,587,919)
Decrease (increase) in loans and other receivables	**2,767,257**	(565,520)	**11,757,355**	(565,520)
Decrease in real and other properties acquired	**1,073,819**	1,585,986	**1,280,614**	1,585,986
Increase in other resources	**(614,148)**	(1,106,124)	**(9,177,230)**	(1,106,123)
Increase (decrease) in deposit liabilities	**(1,839,399)**	14,166,495	**(1,575,599)**	14,166,495
Increase (decrease) in other liabilities	**903,453**	(384,057)	**817,921**	(395,838)
Cash Generated from (Used in) Operations	**308,648**	4,452,743	**(1,059,349)**	3,486,964
Cash Paid for Income Taxes	**(150,269)**	(146,860)	**(135,445)**	(111,814)
Interest Received	**5,550,926**	5,310,616	**5,075,955**	4,778,858
Interest Paid	**(3,966,277)**	(5,292,443)	**(3,936,855)**	(5,110,508)
Net Cash From (Used In) Operating Activities	**1,743,028**	4,324,056	**(55,694)**	3,043,500
CASH FLOWS FROM INVESTING ACTIVITIES				
Net Acquisitions of Premises, Furniture Fixtures and Equipment	**(119,162)**	(456,132)	**(164,378)**	(59,464)
Decrease (increase) in Held-to-Maturity securities	**(2,136,838)**	4,873,365	**56,287**	4,873,365
Net Cash From (Used In) Investing Activities	**(2,256,000)**	4,417,233	**(108,091)**	4,813,901
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from (Payments of) Bills Payable	**925,962**	(7,913,859)	**929,830**	(7,913,859)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**P 412,990**	P 827,430	**766,045**	(56,458)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and Other Cash Items	**3,002,610**	3,083,911	**2,867,090**	3,083,911
Due from Bangko Sentral ng Pilipinas	**3,531,869**	7,017,535	**3,491,655**	7,017,535
Due from Other Banks	**2,240,563**	913,838	**1,738,409**	913,838
Interbank Loans Receivable	**4,041,775**	974,103	**3,835,775**	974,103
	12,816,817	11,989,387	**11,932,929**	11,989,387
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and Other Cash Items	**2,423,794**	3,002,610	**2,326,966**	2,867,090
Due from Bangko Sentral ng Pilipinas	**4,770,801**	3,531,869	**4,718,299**	3,491,655
Due from Other Banks	**1,782,709**	2,240,563	**1,590,206**	1,738,409
Interbank Loans Receivable	**4,252,503**	4,041,775	**4,063,503**	3,835,775
	P 13,229,807	P 12,816,817	**P 12,698,974**	P 11,932,929

See Notes to Consolidated Financial Statements.

Notes to Financial Statements

December 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousands of Pesos Except Per Share Data)

1. OPERATIONS AND REHABILITATION

1.1 OPERATIONS

United Coconut Planters Bank (the "Bank or the Parent Company") is a universal bank organized to provide expanded commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, investment banking and trust services. In addition, the Bank is licensed to enter into regular financial derivatives such as forward exchange contracts. The Bank was authorized to engage in trust operations in June 1963 and in foreign currency deposit operations in October 1977. At the end of 2005, the Bank has 178 branches and 222 automated teller machines, all located nationwide.

As a banking institution, the Bank's operations are regulated and supervised by the Bangko Sentral ng Pilipinas (BSP). In this regard, the Bank is required to comply with the rules and regulations of the BSP such as those relating to maintenance of reserve requirements on deposit liabilities and deposit substitutes and those relating to the adoption and use of safe and sound banking practices as promulgated by the BSP. The Bank is subject to the provision of the General Banking Law of 2000 (Republic Act No. 8791).

The Bank's registered address and main office is at UCPB Building, Makati Avenue, Makati City.

The Bank and its subsidiaries (the "Group") operate within the Philippines. The subsidiaries include the following:

Subsidiary	Nature of Business
UCPB Savings Bank, Inc. (USB) – 97.37% owned	Banking
UCPB Leasing and Finance Corporation (ULFC) – 100% owned	Leasing and finance
UCPB Properties, Inc. (UPI) – 100% owned	Real estate
UCPB Securities, Inc. (USI) – 100% owned	Stock brokerage
UCPB Rural Bank, Inc. (URB)*	Banking

**URB was merged with USB on December 29, 2005.*

1.2 REHABILITATION OF THE GROUP

The Group's consolidated financial statements have been prepared on a going concern basis. The Group's losses prior to 2003 brought the Bank's capital below the required minimum capital requirement for an expanded commercial bank. However, the Management has taken active steps to ensure the continuing liquidity of the Group , as well as its capital build-up plan. After taking into account the legal impediments arising out of the pending cases relating to the legal ownership of the shares of stock (see Note 20) of the Group which directly affect the ability of the Group to recapitalize and to ensure the continuing liquidity, on July 7, 2003, the Parent Company entered into a Financial Assistance Agreement (the "Agreement") with Philippine Deposit Insurance Corporation (PDIC). The financial assistance from PDIC amounting to P20,000,000, is composed of three components:

a. P8,000,000 direct purchase of nonperforming loans (NPL) (absolute sale to PDIC);

b. P5,000,000 purchase of NPL with buyback by 2013; and

c. P7,000,000 in Tier 2 capital with a cost to the Bank of 5% due in 2008, which may be constituted as unsecured subordinated debt.

The Agreement also provides for a P10,000,000 standby liquidity facility, of which P7,500,000 was availed by the Parent Company at an interest rate of 6.325%. This borrowing was paid by the Parent Company in July 2004, two months ahead of the September 2004 due date.

As required by the Agreement, the Parent Company prepared a detailed rationalization plan of the Parent Company's subsidiaries which is already being implemented.

On February 26, 2004, PDIC endorsed to the BSP for approval the Parent Company's 10-year Business Plan or Rehabilitation Plan (the Plan). Part of the Plan is the Parent Company's business strategy that has the following elements: (1) separation of "bad bank" from the "good bank", (2) right-sizing and streamlining of operations to reduce costs; and (3) capital raising which aims to withstand the limitation brought about by the unresolved ownership issue.

In a letter to the BSP dated March 29, 2004, the Parent Company requested for certain concessions for the duration of the rehabilitation period of ten years or until such time that the Parent Company is able to comply with the regulatory requirements whichever is earlier. The BSP, in its reply dated January 10, 2005:

a. Approved the 10-Year Business/Rehabilitation Plan of the Parent Company;

b. Granted temporary relief by reducing the risk-weighted capital ratio to 8% for a period of three years up to 2007 or until such time that UCPB is able to comply with the required 10% capital adequacy ratio (CAR), whichever comes earlier;

c. Allowed the staggered booking of P14.03 billion required valuation reserves based on the fixed rate of 5% each year for the first three years, 10% each year for the next four years and 15% each year for the remaining three years; and

d. Required the Parent Company to seek prior BSP approval for the merger of USB and UCPB Rural Bank (URB). The merger was subsequently effected on December 29, 2005.

On December 21, 2005, the Parent Company submitted its 15-year revised Business/Rehabilitation Plan for approval by the PDIC and BSP in relation to the proposed conversion into equity of the existing P12 billion PDIC Financial Assistance. With the recent approval by the Monetary Board of Hybrid Tier 1 Capital, the Parent Company requested the approval for the conversion and treatment of the PDIC Financial Assistance as part of the Tier 1 Capital under the following concessions:

a. Exemption from the requirement that Hybrid Tier 1 Capital will be capped at a maximum of 15% of Tier 1 Capital;

b. Exemption from the requirement of sufficient authorized capital stock to allow for a conversion to common stock of the Hybrid Tier 1 Capital; and

c. Exemption from the requirement that the Hybrid Tier 1 Capital be underwritten by a third party.

1.3 APPROVAL OF FINANCIAL STATEMENTS

The financial statements of the Group for the year ended December 31, 2005 (including the comparatives for the year ended December 31, 2004) were authorized for issue by the Group's Board of Directors on August 25, 2006.

2. TRANSITION TO PHILIPPINE FINANCIAL REPORTING STANDARDS

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

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

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

2.1 FIRST-TIME ADOPTION OF PFRS

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

The 2004 comparatives contained in these financial statements differ from those published in the financial statements for the year ended December 31, 2004, due to the transition to PFRS.

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

2.2 RECONCILIATIONS

2.2.1 Capital Funds Under PFRS

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

		CONSOLIDATED		PARENT	
	Notes	December 31, 2004	January 1, 2004	December 31, 2004	January 1, 2004
Fair Value Loss on Available-for-Sale Financial Assets under previous GAAP		P -	P -	P -	P -
Mark-to-market valuation of financial assets classified as available-for-sale	2.7	(657,075)	8,666	(645,945)	-
Fair Value Loss on Available-for-Sale Financial Assets under PFRS		(P 657,075)	P 8,666	(P 645,945)	P -
Surplus Reserves under previous GAAP		P 779,387	P 682,644	P 779,387	P 682,644
Reclassification of appropriated Surplus		93,630	-	-	-
Surplus Reserves under PFRS		P 873,017	P 682,644	P 779,387	P 682,644
Minority Interest under previous GAAP		P -	P -	P -	P -
Reclassification from Other Liabilities	2.3	52,289	52,289	-	
Share of Minority Interest on effects of Transition to PFRS		(5,742)	(11,106)	-	-
Minority Interest under PFRS		P 46,547	P 41,183	P -	P -

		CONSOLIDATED		PARENT	
	Notes	December 31, 2004	January 1, 2004	December 31, 2004	January 1, 2004
Surplus Free under previous GAAP		P 1,904,825	P 4,007,889	P 1,904,825	P 4,007,889
Prior period adjustments	20	674,092	(126,200)	789,441	-
		2,578,917	3,881,689	2,694,266	4,007,889
Adjustment on off-market bills payable	2.4	6,185,508	6,567,532	6,185,508	6,567,532
Remeasurement on off-market loans	2.4	(257,249)	-	(257,249)	-
Reversal of equity in net earnings of subsidiaries and associates	2.5	-	-	(4,784,585)	(3,930,481)
Recognition of dividends in equity investments as income	2.5	-	-	85,227	79,924
Remeasurement of investments in associates	2.5	505,650	56,690	-	-
Recognition of employee retirement fund transitional asset based on PAS 19	2.6	151,233	162,239	139,502	146,930
Recognition of sick leave/vacation leave credits	2.6	(141,931)	(6,759)	(141,931)	(6,759)
Recognition of mark-to-market of trading account securities reclassified to AFS	2.7	646,529	1,018,944	612,591	614,476
Recognition of impairment loss on AFS	2.7	(16,730)	-	(16,730)	-
Adjustment on the income amortization of auto loans	2.8	(944)	368	843	-
Adjustment on off-market MRT bonds	2.8	(669,239)	(423,396)	(669,334)	(423,396)
Recognition of impairment loss on loans	2.9	-	(18,109)	-	-
Reversal of trading right amortization	2.10	150	75	-	-
Remeasurement of investment properties	2.11	(4,707)	(10,244)	-	-
Recognition of impairment loss on other resources	2.11	(21,581)	(26,490)	-	-
Measurement of security deposit at amortized cost	2.12	(2,189)	(2,860)	-	-
Derecognition of deferred tax asset/liability	2.13	(1,466)	(118)	-	-
Total adjustments to surplus free		6,373.034	7,317,872	1,153,842	3,048,226
Surplus Free under PFRS		**P 8,951,951**	**P 11,199,561**	**P 3,848,108**	**P 7,056,115**
Total adjustments to capital funds		P 6,530,228	P 7,241,521	P 1,297,338	P 3,048,226
Capital Funds under previous GAAP		4,169,055	6,616,295	4,169,055	6,616,295
Capital Funds under PFRS		**P 10,699,283**	**P 13,857,816**	**P 5,466,393**	**P 9,664,521**

2.2.2 Statement of Condition Under PFRS

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

		CONSOLIDATED			PARENT		
	Notes	Previous GAAP	Effects of Transition	PFRS	Previous GAAP	Effects of Transition	PFRS
December 31, 2004							
Changes in Resources:							
Cash and other cash items		P 3,003,368	(P 758)	P 3,002,610	P 2,867,090	-	P 2,867,090
Due from BSP		3,531,869	-	3,531,869	3,491,655	-	3,491,655
Due from other banks	2.3	2,072,097	168,466	2,240,563	1,738,409	-	1,738,409
Interbank loans receivable	2.3	1,541,775	2,500,000	4,041,775	1,335,775	2,500,000	3,835,775
Trading and investment securities	2.3, 2.7	19,665,173	(19,665,173)	-	19,082,232	(19,082,232)	-
Financial assets at fair value through profit or loss	2.3, 2.7	-	916,150	916,150	-	878,100	878,100
Held-to-maturity	2.3, 2.7, 2.8	-	1,519,299	1,519,299	-	1,271,036	1,271,036
Available-for-sale	2.3, 2.7	-	11,719,962	11,719,962	-	11,589,305	11,589,305
Receivables from customers – net	2.3	41,836,483	(41,836,483)	-	41,098,925	(41,098,925)	-
Loans and other receivables - net	2.3, 2.4, 2.8	-	50,789,965	50,789,965	-	48,646,037	48,646,037
Premises, furniture, fixtures and equipment – net	2.3	1,384,702	78	1,384,780	1,246,074	-	1,246,074
Equity Investments	2.5	4,027,801	505,650	4,533,451	6,097,487	(4,764,006)	1,333,481
ROPA - net	2.3, 2.11	22,623,148	(22,623,148)	-	22,430,844	(22,430,844)	-
Investment properties	2.3, 2.11	-	19,956,327	19,956,357	-	19,850,129	19,850,129
Other resources	2.3, 2.6, 2.7 2.10, 2.11 2.12, 2.13	7,120,994	(3,750,725)	3,370,269	5,042,779	(2,104,841)	2,937,938
Total		P106,807,410	P 199,610	P107,007,020	P104,431,270	(P 4,746,241)	99,685,029
Changes in Liabilities:							
Deposit liabilities	2.3	81,650,881	162,694	81,813,575	79,859,024	-	79,859,024
Bills payable	2.3, 2.4	14,335,470	(6,287,576)	8,067,894	14,300,470	(6,185,508)	8,114,962
Manager's checks and demand drafts outstanding	2.3	292,056	(292,056)	-	270,732	(270,732)	-
Accrued taxes, interest and other expenses	2.3	1,118,754	(1,118,754)	-	1,010,619	(1,010,619)	-
Other liabilities	2.3	5,221,194	1,205,074	6,426,268	4,821,370	1,423,280	6,244,650
		102,638,355	(6,330,618)	96,307,737	100,262,215	(6,043,579)	94,218,636
		P 4,169,055		**P 10,699,283**	**P 4,169,055**		**P 5,466,393**
Total Adjustments to Capital Funds			**P 6,530,228**			**P 1,297,338**	

		CONSOLIDATED			PARENT		
	Notes	Previous GAAP	Effects of Transition	PFRS	Previous GAAP	Effects of Transition	PFRS
January 1, 2004							
Changes in Resources:							
Cash and other cash items		P 3,157,180	P -	P 3,157,180	P 3,083,911	P -	P 3,083,911
Due from BSP		7,064, 284	-	7,064,284	7,017,535	-	7,017,535
Due from other banks		989,224	-	989,224	913,838	-	913,838
Interbank loans receivable		1,152,018	-	1,152,018	974,103	-	974,103
Trading and investment securities	2.3	10,500,995	(10,500,995)	-	10,159,619	(10,159,619)	-
Securities at fair value through profit or loss	2.3, 2.7	-	4,034,621	4,034,621	-	4,015,218	4,015,218
Available-for-sale securities	2.3, 2.7	-	1,121,183	1,121,183	-	679,124	679,124
Held-to-maturity securities	2.3, 2.7	-	5,949,405	5,949,405	-	6,144,401	6,144,401
Receivables from customers	2.3	44,201,914	(44,201,914)	-	47,009,807	(47,009,807)	-
Loans and other receivables	2.3, 2.4	-	47,384,852	47,384,852	-	49,195,273	49,195,273
Premises, furniture, fixtures and equipment		1,582,583	-	1,582,583	1,419,959	-	1,419,959
Other investments	2.5	4,309,359	56,690	4,366,049	5,216,893	(3,915,205)	1,301,688
ROPA - net	2.3, 2.10	21,864,655	(21,864,655)	-	21,656,689	(21,656,689)	-
Investment properties	2.3, 2.10	-	21,854,411	21,854,411	-	21,656,689	21,656,689
Other resources	2.7, 2.10	9,012,011	(3,191,173)	5,820,838	4,327,010	(2,461,932)	1,865,078
Total		P103,834,223	P 642,425	P104,476,648	P101,779,364	(3,512,547)	98,266,817
Changes in Liabilities:							
Deposit liabilities	2.3	66,775,705	-	66,775,705	65,692,529	-	65,692,529
Bills payable	2.3, 2.4	22,791,702	(6,567,532)	16,224,170	22,596,353	(6,567,532)	16,028,821
Manager's checks and demand drafts outstanding	2.3	577,732	(577,732)	-	561,359	(561,359)	-
Accrued taxes, interest and other expenses	2.3	2,044,567	(2,044,567)	-	1,732,908	(1,732,908)	-
Other liabilities	2.3	5,028,222	2,590,735	7,618,957	4,579,920	2,301,026	6,880,946
		97,217,928	(6,599,096)	90,618,832	95,163,069	(6,560,773)	88,602,296
		P 6,616,295		**P 13,857,666**	**P 6,616,295**		**P 9,664,521**
Total Adjustments to Capital Funds			**P 7,241,521**			**P 3,048,226**	

2.2.3 Profit and Loss Under PFRS

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

		CONSOLIDATED			*PARENT*		
	Notes	**Previous GAAP**	**Effects of Transition**	**PFRS**	**Previous GAAP**	**Effects of Transition**	**PFRS**
Interest Income	*2.4, 2.8*	P 4,801,985	(P 533,389)	P 4,268,596	P 4,341,511	(P 503,138)	P 3,838,373
Interest Expense	*2.4*	(4,569,350)	(345,533)	(4,914,883)	4,486,936	(383,114)	(4,870,050)
Net Interest Expense		232,635	(878,922)	(646,287)	(145,425)	(886,252)	(1,031,677)
Impairment Losses	*2.5, 2.7, 2.9*	(1,269,600)	681,688	(587,912)	(857,541)	683,270	(174,271)
Net Interest Expense After Impairment Losses		(1,036,965)	(197,234)	(1,234,199)	(1,002,966)	(202,982)	(1,205,948)
Other Income - net	*2.5, 2.7*	2,703,997	444,835	3,148,832	2,121,313	(628,228)	1,493,085
Other Expenses	*2.6, 2.10, 2.12*	(3,952,917)	(283,883)	(4,236,800)	(3,453,773)	(273,733)	(3,727,506)
Loss Before Tax		(2,285,885)	(36,282)	(2,322,167)	(2,335,426)	(1,104,943)	(3,440,369)
Tax expense	*2.13*	(161,355)	(9,270)	(170,625)	(111,814)	-	(111,814)
Net Loss		(P 2,447,240)	(P 45,552)	(P 2,492,792)	(P 2,447,240)	(P 1,104,943)	(P 3,552,183)

2.3 REVISED STRUCTURE OF STATEMENT OF CONDITION

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

a. Assets classified as trading and investment securities under the previous GAAP are now presented under separate statement of condition line items Investment Securities at Fair Value through Profit or Loss, Available-for-Sale and Held-to-Maturity;

b. Assets acquired or foreclosed by the Group from borrowers were reclassified from Real and Other Properties Acquired (ROPA) as presented under the previous GAAP to the separate statement of condition line items as Investment Properties, Assets Held for Sale, Available-for-Sale Investment Securities, and Loans and Other Receivables.

c. Accounts receivable, sales contract receivables and other receivables presented as part of Other Resources account under the previous GAAP now form part of the Loans and Other Receivables account;

d. Accrued interest receivables and payables previously presented as part of Other Resources and Other Liabilities, respectively, are now presented together with the related principal account;

e. Investments in shares of stock of associates previously presented as Equity Investments under the previous GAAP are now presented as part of Equity Investments;

f. Managers' Checks and Demand Drafts Outstanding, Accrued Taxes, Interest and Other Expenses and Other Liabilities presented as separate line items under the previous GAAP are now presented under one line item as Other Liabilities in the statement of condition;

g. Minority Interest previously presented as part of Other Liabilities under the previous GAAP is now presented as a separate line item in the statement of capital funds.

2.4 RE-MEASUREMENT OF CERTAIN FINANCIAL ASSETS AND LIABILITIES WITH OFF-MARKET RATES

2.4.1 PDIC Borrowings

Under the previous GAAP, the Group's borrowings with PDIC amounting to P5,000,000 carries zero interest and another P7,000,000 carries interest at off-market rate. These borrowings were re-measured by the Group at their present values on initial measurement and subsequently measured at amortized cost using the effective interest method. The Group's re-measurement of Bills Payable resulted to a gain of P6,185,508 as of December 31, 2004 and P6,567,532 as of January 1, 2004. This also increased the previous reported net loss in 2004 by P382,024.

2.4.2 Corporate Loans

The Group has certain corporate loans which earn off-market interest. These were re-measured by the Group at amortized cost using the effective interest method. The re-measurement resulted to the recognition of loss on initial measurement in 2004 of P257,249.

2.5 RE-MEASUREMENT OF EQUITY INVESTMENTS

2.5.1 Re-measurement of Investments in Subsidiaries and Associates at Cost, Recognition of Dividend Income and Test of Impairment of Investments

Under the previous GAAP, investments in subsidiaries and associates were accounted for at cost, plus the Bank's equity in net earnings or losses and other changes in its share in net assets of the investees from date of acquisition, less any impairment in value. These investments are now accounted for by the Parent Company at cost in the Parent Company's separate financial statements as required under PFRS. This resulted in the reversal of the previously recognized equity in net earnings of the subsidiaries and associates against the Parent Company's surplus free as of December 31, 2004 and January 1, 2004 amounting to P4,784,585 and P3,930,481, respectively. This also increased the reported net loss in 2004 by P854,104.

Under the previous GAAP, dividends declared by the subsidiaries and associates are recognized as return of investments and deducted from the carrying amount of investments. Under PFRS, in the separate parent company financial statements, dividends received from the subsidiaries and associates are recognized as dividend income. Accordingly, the Parent Company recognized P85,227 and P79,924 for the dividends declared by certain subsidiaries in the December 31, 2004 and January 1, 2004 balances, respectively. This also reduced the previous reported net loss in 2004 by P85,227.

2.5.2 Recognition of PFRS Impact on Investment in Associates

Due to the transition to PFRS, the financial statements of the Group's associates were re-measured to comply with the requirements of PFRS 1. The Group's aggregate share on the effects of the transition on these associates opening financial statements as of December 31, 2004 and January 1, 2004 amounted to P505,500 and P56,540, respectively, which also increased the capital funds by the same amounts.

2.6 FULL RECOGNITION OF DEFINED BENEFIT OBLIGATION

Under PFRS, the Group's obligation under post-employment defined benefit plan should be actuarially determined using projected unit credit method. The adoption of this new standard resulted in the recognition of transitional asset amounting to P162,239 as of January 1, 2004. This also resulted in the recognition of additional defined benefit expense in 2004 amounting to P11,006. The total adjustments to the surplus free as of December 31, 2004 and January 1, 2004 amounted to P151,233 and P162,239, respectively in the consolidated financial statements and P139,502 and P146,930, respectively in the parent company financial statements.

In addition, the Group accrued sick leave/vacation leave credits amounting to P141,931 and P6,759 as of December 31, 2004 and January 1, 2004, respectively.

2.7 VALUATION OF AVAILABLE-FOR-SALE SECURITIES PREVIOUSLY CLASSIFIED AS HELD-TO-MATURITY, AT FAIR VALUE THROUGH PROFIT OR LOSS AND OTHER RESOURCES

The Group reclassified a portion of its held-to-maturity investments as available-for-sale as allowed under PAS 39 and by BSP in designating its financial assets on the initial adoption of PFRS. Accordingly, these investments were re-measured at market values with changes directly recognized to capital funds under Fair Value Loss on Available-for-Sale Securities account. The re-measurement of AFS resulted to a gain of P4,868 as of December 31, 2004.

The Group also reclassified certain financial assets At Fair Value Through Profit or Loss to Available-for-Sale Securities. Accordingly, the mark-to-market loss of these investments as of December 31, 2004 and January 1, 2004 amounted to P646,529 and P578,746, respectively in the consolidated financial statements, and P612,591 and P614,476, respectively in the parent company financial statements. The said mark-to-market loss previously presented under the Statement of Income are now reclassified as part of the Fair Value Loss on Available-for-Sale Securities account in the statement of capital funds.

The Group's investments in certain club shares and shares in public utility companies totaling P92,570 were previously carried at cost and presented as part of Other Resources account in the statement of condition. Investments in shares of public utility companies that are quoted in an active market are re-measured at market values based on current bid prices. Investments in shares or public utility companies and investments in club shares whose fair values are not quoted in an active market were re-measured based on recent arm's length transactions with changes directly recognized to capital funds under Fair Value Loss on Available-for-Sale Securities account. However, prolonged decline determined to be other than temporary are recognized in the statement of income. The mark-to-market of investments where changes are determined to be temporary resulted to a loss of P15,414 as of December 31, 2004 and is presented as part of Fair Value Loss on Available-for-Sale Securities account in the statements of changes in capital funds while investments whose declines are determined to be other than temporary resulted to an impairment loss amounting to P16,730 recognized in the statement of income.

2.8 REMEASUREMENT OF CERTAIN FINANCIAL ASSETS USING THE EFFECTIVE INTEREST METHOD

2.8.1 Consumer Loans

Under the previous GAAP, certain consumer loans of the Group (e.g., auto loans, salary loans) were amortized using the rule of 78 method. Under PFRS, the Group is now required to use the effective interest method in calculating the amortized cost and in allocating the related interest income over the relevant period covered. This resulted to the decrease in the previous interest income amounting to P1,312 for the year ended December 31, 2004. Total adjustment in the consolidated financial statements to reduce Surplus Free amounted to P944 as of December 31, 2004 and adjustment to increase surplus free amounted to P368 as of January 1, 2004. In the parent company financial statements, adjustment to increase Surplus Free amounted to P843 as of December 31, 2004.

2.8.2 MRT Bond Receivable

Also, the Group holds MRT bonds previously classified as held-to-maturity but are now classified under loans and other receivables. These bonds were previously carried at amortized cost based on the straight line method. The Group remeasured these bonds at amortized cost using the effective interest method which resulted to the recognition of loss on initial measurement amounting to P669,334 and P423,396 as of December 31, 2004 and January 1, 2004, respectively. This also increased the previous net loss in 2004 by P245,938.

2.9 RECOGNITION OF ADDITIONAL ALLOWANCE FOR IMPAIRMENT LOSSES ON LOANS

Under the previous GAAP, the Group's allowance for impairment losses on loans is computed using the guidelines and rates that essentially comply with those prescribed by the BSP. Under PFRS, the Group prepares discounted future cash flow projections for impaired loans using the loan's original effective interest rate. The adoption of the new standard resulted to the recognition of impairment losses in January 1, 2004 amounting to P18,109.

2.10 REVERSAL OF TRADING RIGHT AMORTIZATION

Trading right was previously carried at cost less accumulated amortization and any allowance for decline in market value. Trading right was being amortized over a period of 20 years beginning 2003 when the Group's PSE exchange seat was allocated to Investments in PSE shares and Trading Right. Under PFRS, Trading Right qualifies as an intangible asset with indefinite useful life. Intangible assets with indefinite useful lives are not amortized but are subjected to impairment test annually or whenever there is an indication that the intangible asset may be impaired. This resulted in the reversal of accumulated amortization of P150 and P75 as of December 31, 2004 and January 1, 2004, respectively.

2.11 CLASSIFICATION OF REAL AND OTHER PROPERTIES ACQUIRED, REVERSAL OF ALLOWANCE ON ROPA AND MEASUREMENT OF INVESTMENT PROPERTIES AND OTHER ASSETS

Under the previous GAAP, real and other properties acquired from borrowers through foreclosure or repossession are stated at cost (which is the lower of the outstanding loan balance and bid price), less allowance for impairment. Under PFRS, the Group is required to classify its ROPA into the following: investment property, non-current assets held for sale or financial assets. ROPA classified as investment property is carried at cost less accumulated depreciation while non-current assets held for sale is carried at the lower of cost or fair value less costs to sell. As a result of the adoption of the new standard, the Group classified its ROPA with total carrying amount of P80,766 as of December 31, 2004 to investment properties and other assets (for chattel mortgage not saleable within one year) amounting to P10,566 and P66,294, respectively, and ROPA with total carrying amount of P83,431 as of January 1, 2004 amounting to P11,111 and P72,320, respectively.

Investment properties were remeasured by the Group using the cost model in compliance with BSP guidelines. Recognized accumulated depreciation on depreciable investment properties as of December 31, 2004 and January 1, 2004 amounted to P1,837 and P1,297, respectively. The related depreciation expense and impairment losses recognized in 2004 amounted to P541 and P923, respectively, which resulted in the decrease in the previous net income for that year by the same amounts.

Other properties acquired and classified as Other assets were presented at costs less accumulated impairment losses. Accordingly, the Group recognized accumulated impairment losses in January 1, 2004 amounting to P26,490 and recovery on impairment losses amounting to P4,909 in December 31, 2004 which resulted to the increase in the previous net income in that year by the same amount. Total adjustments to retained earnings amounted to P26,490 and P21,581 as of December 31, 2004 and January 1, 2004.

2.12 REMEASUREMENT OF REFUNDABLE SECURITY DEPOSIT

Refundable security deposits arising from the lease of office space from third parties were measured under the previous GAAP at the amount of consideration given to the lessor with various amounts. Under PFRS, the refundable deposit is considered as a financial asset to be measured at its present value with cash flows discounted using the effective interest rate method. The discount rates used were determined by reference to the market interest rate of comparable financial instrument at the date of the inception of the lease. This resulted in the recognition of P2,860 fair value loss at initial recognition. The related interest income recognized in 2004 amounted to P421 which resulted in the increase in the previous net income for that year. The net adjustments to the beginning Surplus Free as of December 31, 2004 and January 1, 2004 amounted to P2,189 and P2,860, respectively.

2.13 DEFERRED TAX ADJUSTMENTS

The deferred tax expense recognized by the Group which relates to the temporary differences arising from PFRS adjustment amounted to P1,466 and P118 in December 31, 2004 and January 1, 2004, respectively, which resulted to a decrease in the previous net income for that year by the same amount. The deferred tax expense adjusted to the beginning surplus amounted to P1,466 in 2004.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 BASIS OF PREPARATION

The financial statements of the Group have been prepared in accordance with generally accepted accounting principles in the Philippines as set forth in PFRSs.

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

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

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

3.2 IMPACT OF NEW AND REVISED ACCOUNTING STANDARDS EFFECTIVE SUBSEQUENT TO 2005

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

<u>2006</u>		
PAS 19 (Amendment)	:	Employee Benefits
PAS 39 (Amendment)	:	Cash Flow Hedge Accounting of Forecast Intra-Bank Transaction
PAS 39 (Amendment)	:	The Fair Value Option
PAS 39 and PFRS 4 (Amendment)	:	Financial Guarantee Contracts
PFRS 1 (Amendment)	:	First-time Adoption of Philippine Financial Reporting Standards
PFRS 6	:	Exploration for and Evaluation of Mineral Resources
IFRIC 4	:	Determination Whether an Arrangement Contains a Lease
IFRIC 5	:	Rights to interests arising from Decommissioning, Restoration and Environmental Rehabilitation Funds
IFRIC 6	:	Liabilities Arising from Participating in a Specific Market
<u>2007</u>		
PAS 1 (Amendment)	:	Presentation of Financial Statements
PFRS 7	:	Financial Instruments: Disclosures

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

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

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

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

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

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

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

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

3.3 PRINCIPLES OF CONSOLIDATION

The Group's consolidated financial statements comprise the accounts of the Parent Company and its subsidiaries after elimination of material intercompany transactions.

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

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

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

The financial statements of subsidiaries are prepared for the same reporting period as the parent company, using consistent accounting principles.

The minority interest components in the 2005 and 2004 consolidated financial statements, being not material amounts, are shown as part of Other Resources accounts.

3.4 FUNCTIONAL CURRENCY AND FOREIGN CURRENCY TRANSACTIONS

- ***Functional and Presentation Currency***

Items included in the consolidated financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Philippine peso, which is also the Group's functional currency. The financial statements of the Group's FCDU, which are expressed in its functional currency U.S.

dollars, are translated at current exchange rate at the statement of condition date for statement of condition accounts and at average exchange rates for profit and loss accounts.

- ***Transactions and Balances***

The accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing on transaction dates.

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

3.5 CASH AND CASH EQUIVALENTS

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

Securities Purchased Under Reverse Repurchase Agreements, whereby the Group enters into short-term purchases of securities under reverse repurchase agreements of substantially identical securities with the BSP, are presented as part of the interbank loans receivable account and are included in this category.

3.6 FINANCIAL ASSETS

3.6.1 Classification, Recognition and Measurement

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

All financial assets that are not classified as at FVTPL are initially recognized at fair value, plus transaction costs.

- ***Securities at FVTPL*** - This category includes derivative financial instruments and financial assets that are either classified as held for trading or are designated by the entity to be carried at FVTPL upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling in the short term or if so designated by management. Derivatives are also categorized as 'held for trading' unless they are designated as hedges.

  Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally designated as financial assets at FVTPL may not subsequently be reclassified.

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

  Loans and receivables are subsequently measured at amortized cost using the effective interest method, less impairment losses. Any change in their value due to impairment is recognized in profit or loss.

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

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

  HTM securities consist of government and private debt securities. If the Group sells other than an insignificant amount of HTM securities, the entire category would be tainted and reclassified as AFS securities.

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

- ***AFS Securities*** - These include non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

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

  In case of impairment, any loss previously recognized in equity is transferred to the statements of income (see Note 3.17). In case of subsequent recovery, losses recognized in the statements of income on equity investments are not reversed through the statement of income but through the statement of changes in equity. Losses recognized in prior period statement of income resulting from the impairment of debt instruments are reversed through the statement of income only upon subsequent recovery in value of the investment.

The fair values of quoted investments in active markets are based on current bid prices. If the market for a financial asset is not active (and for unlisted securities), the Group establishes fair value by using valuation techniques, mostly through discounted cash flow method. These include the use of recent arm's length transactions, discounted cash flow analysis, option pricing models and other valuation techniques commonly used by market participants.

Gains and losses arising from changes in the fair value of the financial assets at FVTPL category are included in Trading Gain – net account in the statements of income in the period in which they arise. Gains and losses arising from changes in the fair value of AFS securities are recognized directly in capital funds, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. However, interest amortization calculated using the effective interest method is recognized in the statements of income. Dividends on AFS equity instruments are recognized in the statements of income when the entity's right to receive payment is established.

Non-compounding interest and other cash flows resulting from holding impaired financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

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

3.6.2 Impairment of Financial Assets

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

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

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

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

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

Future cash flows in a group of financial assets that are collectively evaluated for impairment are estimated on the basis of the contractual cash flows of the assets in the Group and historical loss experience for assets with credit risk characteristics similar to those in the Group. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions that did not affect the period on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently.

When a loan is uncollectible, it is written off against the related allowance for loan impairment. Such loans are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of the impairment loss of financial assets in the statements of income.

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 by adjusting the allowance account. The amount reversed is recognized in the statements of income.

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

3.6.2.3 Assets carried at cost - The Group assesses at each statement of condition date whether there is objective evidence that any of the unquoted equity securities and derivative assets linked to and required to be settled in such unquoted equity instruments, which are carried at cost and for which objective evidence of impairment exist. The amount of impairment loss is the difference between the carrying amount of the equity security and the present value of the estimated future cash flows discounted at the current market rate of return of a similar asset. Impairment losses on assets carried at cost cannot be reversed.

3.7 DERIVATIVE FINANCIAL INSTRUMENTS

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

Derivatives are initially recognized at fair value on the date on which derivative contract is entered into and are subsequently measured at their fair value. Fair values are obtained from quoted market prices in active markets, including recent market transactions, and valuation techniques, including discounted cash flow models. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

3.8 PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

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

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

Buildings	10 - 20 years
Furniture, fixtures and equipment	3 - 10 years

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount.

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

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

3.9 INVESTMENT PROPERTIES

Investment properties are stated at cost. The cost of an investment property comprises its purchase price and directly attributable cost incurred. This also includes land and building acquired by the Group from defaulting borrowers not held for sale in the next twelve months. For these assets, the cost is recognized initially at the lower of the outstanding loan balance and bid price, which should not be higher than the appraised value of the property. Depreciable investment properties are depreciated over the estimated useful life of 10 years.

3.10 ASSETS HELD FOR SALE

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

Assets classified as held for sale are measured at the lower of their carrying amounts, immediately prior to their classification as held for sale and their fair value less costs to sell. Assets classified as held for sale are not subject to depreciation or amortization. The profit or loss arising from the sale or revaluation of held-for-sale assets is included in the Other Expenses account in the statements of income.

3.11 IMPAIRMENT OF NON-FINANCIAL ASSETS

The Group's investments, premises, furniture, fixtures and equipment and investment properties are subject to impairment testing. All other individual assets or cash-generating units are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable.

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

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

All assets are subsequently reassessed for indications that an impairment loss previously recognized may no longer exist and the carrying amount of the asset is adjusted to the recoverable amount resulting in the reversal of the impairment loss.

3.12 FINANCIAL LIABILITIES

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

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

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

Bills payable are recognized initially at fair value, which is the issue proceeds (fair value of consideration received) net of direct issue costs. Bills payable are subsequently stated at amortized cost; any difference between proceeds net of transaction costs and the redemption value is recognized in the statements of income over the period of the borrowings using the effective interest method.

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

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

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

3.13 OFFSETTING FINANCIAL INSTRUMENTS

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

3.14 PROVISIONS

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

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

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

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

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

3.15 CAPITAL FUNDS

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

Surplus reserves pertain to the percentage of the Group's income from trust operations set-up on a yearly basis in compliance with the BSP regulations.

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

Fair value gain of AFS financial assets pertains to accumulated mark-to-market valuation of AFS financial assets.

3.16 REVENUE AND COST RECOGNITION

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

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

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

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

- Trading Gain – when the ownership of the securities is transferred to the buyer (at an amount equal to the excess of the selling price over the carrying amount of securities) and as a result of the mark-to-market valuation of the securities at year end.

- Service charges, fees and commissions are generally recognized on an accrual basis when the service has been provided. Commitment fees for loans that are likely to be drawn are deferred (together with related direct costs) and recognized as an adjustment to the effective interest rate on the loan.

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

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

3.17 LEASES

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

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

3.18 EMPLOYEE BENEFITS

- ***Retirement Benefit Obligation***

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

  A defined benefit plan is a pension plan that defines an amount of pension benefit that an employee will receive on retirement, usually dependent on one or more factors such as age, years of service and salary. The legal obligation for any benefits from this kind of pension plan remains with the Group, even if plan assets for funding the defined benefit plan have been acquired. Plan assets may include assets specifically designated to a long-term benefit fund, as well as qualifying insurance policies. The Group's defined benefit pension plan covers all regular full-time employees. The pension plan is tax-qualified, noncontributory and administered by a trustee.

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

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

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

- ***Termination Benefits***

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

- ***Bonus Plans***

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

- ***Compensated Absences***

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

3.19 INCOME TAXES

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

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

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

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

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

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

3.20 TRUST ACTIVITIES

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

3.21 CRITICAL ACCOUNTING ESTIMATES AND ASSUMPTIONS

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

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

- Fair value of financial assets and liabilities - The following table summarizes the carrying amounts and fair values of those financial assets and liabilities not presented on the consolidated statements of condition at their fair values as of December 31, 2005. Valuation techniques are used to determine the fair values.

	CONSOLIDATED		***PARENT***	
	Carrying Value	**Estimated Fair Value**	**Carrying Value**	**Estimated Fair Value**
Held-to-maturity securities	P 1,360,773	P 1,360,273	P 1,214,749	P 1,214,749
Loans and other receivables	39,356,413	33,850,797	36,705,546	31,199,930

Held-to-maturity securities - Investment securities include interest-bearing assets held to maturity. Fair value for held-to-maturity assets is based on market prices. Where this information is not available, fair value is estimated using quoted market prices for securities with similar credit, maturity and yield characteristics.

Loans and receivables - Loans and receivables are net of provisions for impairment. The estimated fair value of loans and receivables represents the discounted amount of estimated future cash flows expected to be received. Expected cash flows are discounted at current market rates to determine fair value.

4. RISK MANAGEMENT OBJECTIVES AND POLICIES

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

The Group also trades in financial instruments where it takes positions to take advantage of short-term market movements in bonds.

To manage the financial risk for holding financial assets and liabilities, the Group operates an integrated risk management system to address the risks it faces in its banking activities, including liquidity, interest rate, credit and market and operational risks. The Group's risk management objective is to adequately and consistently identify, measure, control, and monitor the risk profile inherent in the Bank's activities. The Group's Risk Management Committee has overall responsibility for the creation and oversight of the Group's corporate risk policy and actively involves in the planning, approval, review and assessment of all the risks in the Group's organization. The Group also has in place an authorization structure that defines and sets limits on the type and value of transactions that each position can approve.

Within the Group's overall risk management system, Risk Management Unit (RMU) is responsible for managing these risks in a more detailed and proactive fashion on a continuing basis through performance of risk and return analysis.

4.1 MARKET RISK

Market risk is the risk of future loss from changes in the price of a financial instrument. Trading portfolios are exposed to market risk because the values of trading positions are sensitive to changes in market prices. Assets and liabilities portfolios are affected by market risks because the revenues derived from these activities, such as securities gains and losses and net interest income are sensitive to changes in interest and foreign exchange rates. In particular, the Group faces market risks in the form of:

(1) Currency risks – arise from fluctuations in the prices of currencies;
(2) Interest rate risks – which refer to the possible impact on the Group's financial results of the changes in interest rates that may affect the spread earned between yields on interest-earning assets and the cost of interest-bearing liabilities.

The Group manages its currency risk exposures through various established risk measurement frameworks and limits. Meanwhile, interest rate risk management comes in the form of proper pricing and matching of asset products and liability products in terms of tenor, yield, and interest rate sensitivity.

Market risks are monitored on a daily basis by the Treasury Risk Control and Compliance (TRCC), which functions independently from the business units. The Group uses various risk measurement methodologies as follows:

- Stop loss limits
- Loss alert limits
- Position limits
- Mark-to-market valuation
- Value-at-risk (VaR)
- Earnings-at-risk (EaR)

The RMU conducts stress testing to measure and monitor market risks in extreme market conditions. The VaR is based on parametric or variance-covariance model using a 260 day rolling window, and 2.326 standard deviation under 99% confidence level.

4.2 LIQUIDITY RISK

Liquidity risk is the risk that there are insufficient funds available to adequately meet the credit demands of the Group's customers and repay deposits on maturity. The Group closely monitors the current and prospective maturity structure of its resources and liabilities and the market condition to guide pricing and asset/liability allocation strategies to manage its liquidity risks. Liquidity risks are monitored and managed by using the Maximum Cumulative Outflow limits and funding diversification/concentration limits.

4.3 FOREIGN EXCHANGE RISK

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

The Group's net foreign exchange exposure is computed as its foreign currency assets less foreign currency liabilities. BSP regulations impose a cap of 2.5% of unimpaired capital, or U.S.$5,000, whichever is lower, on the consolidated excess foreign exchange holding of banks in the Philippines. In the case of the Group, its foreign exchange position is primarily limited to the day-to-day, over-the-counter buying and selling of foreign exchange in the Group's branches as well as foreign exchange trading with corporate accounts and other financial institutions. The Group, being a major market participant in the Philippine Dealing System (PDS), may engage in proprietary trading to take advantage of foreign exchange fluctuations.

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

4.4 CREDIT RISK

Credit risk is the risk that the borrowers fail to settle their loan obligations when these fall due. The Group manages its credit risk and loan portfolio through a stringent process of loan approval. The screening process is directed by the Credit Processing Division. The process established the creditworthiness of the individual loan applicant based in best credit practices, and takes into consideration the current business condition and medium-term potential of the industry in which the loan applicant operates in.

On a continuing basis, the Group generates credit risk ratings for existing loan accounts to assess their performance and to determine which account will be retained, expanded, or phased out. A separate review of the loan portfolio is conducted by the Portfolio and Credit Analysis Department. This review focuses on the quality of individual accounts and the concentration of the Group's credit exposures in the various industries.

4.5 OPERATIONAL RISK

Operational risks refer to the possible impact on the Group's financial results of problems related to service or product delivery. Currently, the Group has an existing system of internal controls, the enforcement of which effectively manages operations risks.

Control activities engaged in by various units of the Group include:

a. Top level reviews made by senior management committees;

b. Detailed periodic performance and exception reports to individual senior officers;

c. Physical controls such as restricted access;

d. Enforcement of exposure limits;

e. A system of approvals and authorizations; and

f. A system of verifications and reconciliation.

In view of the Group's commitment towards managing its operational risks, the Group is developing an independent operation risk management function that is responsible for the design and implementation of the Group's operational risk management framework.

The operational risk management function is responsible for:

a. Codifying firm-level policies and procedures concerning operational risk management and controls;

b. The design and implementation of a risk-reporting system for operational risk; and

c. Developing strategies to identify, measure, monitor and control/mitigate operational task.

The Group is also planning to integrate the internal operational risk measurement system with the day-to-day risk management processes of the Group. The synergy provided by such an approach would make for an integral part of the process of monitoring and controlling the Group's operational risk profile. The Group is developing and benchmarking for techniques for allocating operational risk capital to major business lines.

Accompanying this new approach on operational risk management is the regular reporting of operational risk exposures and loss experience to the business unit management, senior management and to the Board of Directors. The reportorial requirement would also be complemented by procedures for the Group to take appropriate action according to the information within the management reports.

5. CASH AND BALANCES WITH THE BSP

The account consists of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Cash and other cash items	**P 2,423,794**	P 3,002,610	**P 2,326,966**	P 2,867,090
Due from BSP				
Mandatory reserves	**590,313**	669,149	**537,811**	628.935
Other than mandatory reserves	**4,180,488**	2,862,720	**4,180,488**	2,862,720
	4,770,801	3,531,869	**4,718,299**	3,491,655
Total	**P 7,194,595**	P 6,534,479	**P 7,045,265**	P 6,358,745

Mandatory reserves represent the balance of the deposit account maintained with the BSP to meet reserve requirements and to serve as clearing account for interbank claims. Only 40% of the net required reserves or the quarterly Average Daily Balance (ADB) of the Due from BSP account, whichever is lower, earns 4% for 2005 and 2004.

6. DUE FROM OTHER BANKS

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

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Local Banks	**P 1,276,501**	P 1,446,474	**P 1,083,998**	P 944,320
Foreign Banks	**506,208**	794,089	**506,208**	794,089
	P 1,782,709	P 2,240,563	**P 1,590,206**	P 1,738,409

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

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
United States (U.S.) Dollar	**P 1,535,131**	P 1,623,779	**P 1,536,407**	P 1,660,788
Peso	**247,578**	616,784	**53,799**	77,621
	P 1,782,709	P 2,240,563	**P 1,590,206**	P 1,738,409

Interest rates on these deposits range from 1% to 6% per annum in 2005 and 1% to 6.4% per annum in 2004.

7. INTERBANK LOANS RECEIVABLE

This account is composed of interbank lendings and securities purchased under reverse repurchase agreement with maturities of one day to three months and earn annual interest rates of 2.04% to 5.61%.

8. SECURITIES AT FAIR VALUE THROUGH PROFIT OR LOSS

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

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Government bonds	**P 1,178,171**	P 906,054	**P 1,165,698**	P 878,100
Other debt securities	**337**	96	**–**	–
	P 1,178,508	P 916,150	**P 1,165,698**	P 878,100

All financial assets at fair value through profit or loss are held for trading. All amounts presented have been determined directly by reference to published price quoted in an active market.

Foreign currency denominated securities amounted to P599,937 in 2005 and P706,895 in 2004.

9. AVAILABLE-FOR-SALE SECURITIES

Available-for-sale financial assets consist of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Government securities	**P 9,082,040**	P 8,744,046	**P 9,051,496**	P 8,713,803
Equity securities				
Quoted	**662,106**	5,450	**654,606**	–
Not Quoted	**4,204,813**	3,058,896	**4,038,988**	2,892,232
	13,948,959	11,808,392	**13,745,090**	11,606,035
Allowance for impairment losses	**(93,290)**	(88,430)	**(17,830)**	(16,730)
Net	**P 13,855,669**	P 11,719,962	**P 13,727,260**	P 11,589,305

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

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Foreign currency	**P 2,631,335**	P 2,105,503	**P 2,839,641**	P 2,088,632
Peso	**11,224,334**	9,614,459	**10,887,619**	9,500,673
	P 13,855,669	P 11,719,962	**P 13,727,260**	P 11,589,365

Available-for-sale financial assets pertain to government bonds, bonds and equity securities issued by resident and non-resident corporations earning interest at 5.4375% to 16.00% per annum in 2005 and 7.5625% to 20.5% per annum in 2004.

10. HELD-TO-MATURITY SECURITIES

The balance of this account is composed of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Government debt securities	**P 1,184,890**	P 1,487,340	**P 1,087,932**	P 1,241,772
Debt securities	**50,197**	-	**-**	-
Accumulated premium	**-**	-	**-**	(1,041)
Accumulated bond discount	**125,686**	31,959	**126,817**	30,305
Net	**P 1,360,773**	P 1,519,299	**P 1,214,749**	P 1,271,036

The maturity profile of this account is presented below:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Less than one year	**P 42,296**	P 184,592	**P 386**	P 4,691
More than one year	**1,318,477**	1,334,707	**1,214,363**	1,266,345
	P 1,360,773	P 1,519,299	**P 1,214,749**	P 1,271,036

Interest rates on these investments range from 7% to 14.81% per annum in 2005 and 7% to 10.65% per annum in 2004.

11. LOANS AND OTHER RECEIVABLES

This account consists of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Receivables from customers:				
Loans and discounts	**P 27,305,428**	P 39,521,028	**P 25,763,234**	P 38,399,157
Customers' liabilities under letters of credit and trust receipts	**1,425,369**	647,675	**1,425,369**	647,675
Bills purchased	**2,713,745**	3,070,477	**2,713,745**	3,066,743
	31,444,542	43,239,180	**29,902,348**	42,113,575
Allowance for impairment losses	**(1,318,229)**	(1,556,520)	**(874,401)**	(880,089)
Net	**30,126,313**	41,682,660	**29,027,947**	41,233,486
Other receivables:				
MRT Bonds	**5,128,406**	5,075,272	**P 5,128,405**	P 5,075,272
Accounts receivables	**1,520,510**	1,363,699	**1,731,557**	1,609,453
Sales contract receivables	**1,300,512**	1,202,206	**998,637**	905,118
Lease receivables	**877,003**	991,983	**-**	-
Others	**640,798**	758,462	**-**	-
Total	**9,467,229**	9,391,622	**7,585,599**	7,589,843
Allowance for impairment losses	**(237,129)**	(284,317)	**(181,000)**	(177,292)
Net	**9,230,100**	9,107,305	**7,677,599**	7,412,551
Total	**P 39,356,413**	P 50,789,965	**P 36,705,546**	P 48,646,037

Included in these accounts are NPL's amounting to about P5,645,002 in 2005 and 17,996,645 in 2004 in the consolidated receivables from customers and P5,125,443 in 2005 and P16,850,437 in 2004 in the parent company receivables from customer.

Interest on certain receivables from customers amounting to P900,875 is recognized as income using the straight-line method. Under the Group's accounting policy and Philippine GAAP, interest income should be recognized on a time proportion basis that takes into account the effective yield on the asset, i.e., the rate of interest required to discount the stream of future cash receipts expected over the life of the assets to equal the initial carrying amounts of the assets. The Group is currently unable to compute interest receivable and unearned interest income using the effective interest method on the said receivables due to limitations on its information systems.

The concentration of credit as to industry follows:

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Manufacturing (various industries)	**P 11,513,983**	P 10,429,990	**P 10,513,983**	P 10,429,490
Real estate, renting and other related activities	**6,164,450**	8,134,933	**6,120,013**	7,547,581
Wholesale and retail trade	**4,592,904**	4,044,021	**4,592,904**	4,035,253
Financial intermediaries	**3,912,961**	7,142,960	**3,912,961**	7,142,960
Other community, social and personal activities	**2,209,344**	1,800,076	**424,663**	1,410,974
Transportation and communication	**1,287,909**	3,964,904	**1,287,909**	3,964,104
Agriculture, fishing and forestry	**997,282**	776,055	**997,282**	553,306
Others	**1,765,709**	6,946,242	**2,052,633**	7,029,907
Total	**P 32,444,542**	P 43,239,180	**P 29,902,348**	P 42,113,575

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

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Secured				
Real estate mortgage	**P 3,266,422**	P 6,479,324	**P 2,630,293**	P 5,699,812
Shares of stock	**2,513,142**	3,099,111	**2,513,141**	3,099,111
Chattel mortgage	**1,319,932**	962,941	**1,105,084**	791,139
Mortgage trust indenture	**375,165**	3,003,390	**375,165**	3,003,390
Other securities	**2,450,066**	1,437,707	**1,894,966**	1,369,933
	9,924,727	14,982,476	**8,518,649**	13,963,385
Unsecured	**21,519,815**	28,256,704	**21,383,699**	28,150,190
Total	**P 31,444,542**	P 43,239,180	**P 29,902,348**	P 42,113,575

The breakdown of receivables from customers as to maturity are shown below:

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Within one year	**P 20,038,050**	P 25,393,588	P 18,495,856	P 23,571,128
One to five years	**7,032,979**	1,260,851	7,032,979	1,957,706
Beyond five years	**4,373,513**	16,584,741	**4,373,513**	16,584,741
Total	**P 31,444,542**	P 43,239,180	**P 29,902,348**	P 42,113,575

12. ALLOWANCE FOR IMPAIRMENT LOSSES

The changes in allowance for impairment losses are as follows:

	CONSOLIDATED	
	2005	2004
Balance at beginning of year		
Loans and other receivables	**P 1,840,837**	P 1,903,832
AFS	**88,430**	71,700
ROPA	**751,763**	397,863
Other resources	**103,707**	17,176
	2,784,737	2,390,571
Provisions during the year		
Loans and other receivables	**67,765**	191,044
AFS	**4,860**	16,730
ROPA	**21,369**	373,779
Other resources	**26,261**	5,983
	120,255	587,536
Write-off and reversals during the year		
Loans and other receivables	**(353,244)**	(254,039)
ROPA	**34,788**	(19,879)
Other resources	**(83,136)**	80,548
	(401,592)	(193,370)
Balance at end of year		
Loans and other receivables	**1,555,358**	1,840,837
AFS	**93,290**	88,430
ROPA	**807,920**	751,763
Other resources	**46,832**	103,707
	P 2,503,400	P 2,784,737

	PARENT	
	2005	2004
Balance at beginning of year		
Loans and other receivables	**P 1,057,381**	P 982,789
AFS	**16,730**	–
ROPA	**–**	372,435
Other resources	**36**	17,176
	1,074,147	1,372,400
Provisions during the year		
Loans and other receivables	**52,125**	151,558
Investments	**71,173**	–
AFS	**1,100**	16,730
Other resources	**–**	5,983
	124,398	174,271
Write-off and reversals during the year		
Loans and other receivables	**(54,105)**	(76,966)
ROPA	**–**	(372,435)
Other resources	**(36)**	(23,123)
	(54,141)	(472,524)
Balance at end of year		
Loans and other receivables	**1,055,401**	1,057,381
Investments	**71,173**	–
AFS	**17,830**	16,730
ROPA	**–**	–
Other resources	**–**	36
	P 1,144,404	P 1,074,147

The BSP approved the Group's recognition of additional allowance for impairment amounting to P14.03 billion determined as of December 31, 2003 on a staggered basis over a period of ten years starting 2007. Further, in 2004, the Group did not record additional required allowance on loans of P7.70 billion. In 2005, based on the Group's review of its allowance for impairment on these assets, it was ascertained that the Group's unbooked required allowance for impairment as of December 31, 2005 amounted to P23.8 billion. Under GAAP in the Philippines, the required allowance for impairment should have been taken up in the statement of condition and charged against operations in 2005 and any affected prior years. Had the Group recognized the additional allowance for impairment in accordance with GAAP, the Group's total resources and capital funds as of December 31, 2005 would have both been reduced by P23.8 billion. Below is the summary of the proforma balance of the Allowance for Impairment Losses had the Group recorded the unbooked valuation reserves as of December 31, 2005:

CONSOLIDATED

	ALLOWANCE FOR IMPAIRMENT LOSSES					
	December 31, 2004			December 31, 2005		
	Booked Valuation	Unbooked Valuation	Proforma Balance	Booked Valuation	Unbooked Valuation	Proforma Balance
Loans and other receivables	P 1,840,837	P 11,633,185	P 13,474,022	P 1,555,358	P 5,505,616	P 7,060,974
HTM	-	754,766	754,766	-	-	-
AFS	88,430	-	88,430	93,290	-	93,290
ROPA	751,763	8,669,503	9,421,266	807,928	7,769,180	8,579,100
Other resources	103,707	672,875	776,582	46,832	10,569,463	10,616,295
	P 2,784,737	**P 21,730,329**	**P 24,515,066**	**P 2,503,400**	**P 23,844,259**	**P26,347,659**

PARENT

	ALLOWANCE FOR IMPAIRMENT LOSSES					
	December 31, 2004			December 31, 2005		
	Booked Valuation	Unbooked Valuation	Proforma Balance	Booked Valuation	Unbooked Valuation	Proforma Balance
Loans and other receivables	P 1,057,381	P 11,633,185	P 12,690,566	P 1,055,401	P 5,505,616	P 6,561,017
HTM	-	754,766	754,766	-	-	-
AFS	16,730	-	16,730	17,830	-	17,830
Equity investments	-	-	-	71,173	-	71,173
ROPA	-	8,669,503	8,699,503	–	7,769,180	7,769,180
Other resources	36	672,875	672,911	-	10,569,463	10,569,463
	P 1,074,147	**P 21,730,329**	**P 22,804,476**	**P 1,144,404**	**P 23,844,259**	**P24,988,663**

As of December 31, 2005, the Group has recognized impairment losses as deferred charges in its statement of condition which should have been charged as impairment losses in the years indicated below:

Applicable Year	Amount
2005	P 2,214,295
2004	1,240,426
2003 and prior	7,114,742
	P 10,569,463

13. PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

CONSOLIDATED

	Land	Buildings and Improvements	Furniture, Fixtures and Equipments	Leasehold Improvements	Total
Balance at January 1, 2005, net of accumulated depreciation and amortization	P 181,551	P 677,234	P 397,060	P 128,935	P 1,384,780
Additions	-	20,161	177,815	28,189	226,165
Disposals	(70,290)	(16,979)	(43,621)	(461)	(131,351)
Deprecation charge for the year	-	(42,855)	(184,305)	(29,744)	(256,904)
Balance at December 31, 2005 net of accumulated depreciation and impairment	**P 111,261**	**P 637,561**	**P 346,949**	**P 126,919**	**P 1,222,690**
December 31, 2005					
Cost	P 111,261	P 1,134,846	P 1,866,679	P 132,361	P 3,245,147
Accumulated depreciation and amortization	-	(497,285)	(1,519,730)	(5,442)	(2,022457)
Net carrying amount	**P 111,261**	**P 637,561**	**P 346,949**	**P 126,919**	**P 1,222,690**
December 31, 2004					
Cost	P 181,551	P 1,149,810	P 2,411,784	P 130,898	P 3,874,043
Accumulated depreciation and amortization	-	(472,576)	(2,014,724)	(1,963)	(2,489,263)
Net carrying amount	P 181,551	P 677,234	P 397,060	P 128,935	P 1,384,780

PARENT

	Land	Buildings and Improvements	Leasehold Improvements	Furniture, Fixtures and Equipments	Total
Balance at January 1, 2005, net of accumulated depreciation and amortization	P 111,241	P 656,024	P 114,915	P 363,894	P 1,246,074
Additions	-	20,334	26,881	165,778	212,993
Disposals	-	(5,346)	(461)	(42,808)	(48,615)
Deprecation charge for the year	-	(42,236)	(27,624)	(178,602)	(248,462)
Balance at December 31, 2005 net of accumulated depreciation and impairment	**P 111,241**	**P 628,776**	**P 113,711**	**P 308,262**	**P 1,161,990**
December 31, 2005					
Cost	P 111,241	P 1,121,948	P 113,711	P 1,713,512	P 3,078,412
Accumulated depreciation and amortization	-	(493,172)	-	(1,423,250)	(1,916,422)
Net carrying amount	**P 111,241**	**P 628,776**	**P 113,711**	**P 308,262**	**P 1,161,990**
Balance at January 1, 2004 net of accumulated depreciation and amortization	P 111,241	P 707,291	P 147,356	P 454,071	P 1,419,959
Additions	5,552	1,621	3,059	180,693	190,925
Disposals	(5,552)	(5,406)	(35,500)	(192,789)	(239,247)
Depreciation charge for the year	-	(47,482)	-	(78,081)	(125,563)
Balance at December 31, 2004 net of accumulated depreciation and impairment	P 111,241	P 656,024	P 114,915	P 363,894	P 1,246,074
December 31, 2004					
Cost	P 111,241	P 1,106,959	P 114,915	P 2,284,869	P 3,617,984
Accumulated depreciation and amortization	-	(450,935)	-	(1,920,975)	(2,371,910)
Net carrying amount	P 111,241	P 656,024	P 114,915	P 363,894	P 1,246,074

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

14. EQUITY INVESTMENTS

Equity investments consist of the following:

		CONSOLIDATED	
	% Interest Held	**2005**	2004
At equity:			
CIIF Companies:			
Legaspi Oil Company, Inc. (LOCI)	17.5	**P 56,000**	P 56,000
San Pablo Manufacturing Corporation (SPMC)	12.8	**25,000**	25,000
Southern Luzon Coconut Oil Mills, Inc. (SLCOMI)	17.5	**24,950**	24,950
Granexport Manufacturing Mills, Inc. (GMC)	2.8	**6,250**	6,250
		112,200	112,200
Accumulated equity in net income:			
Balance at beginning of year		**3,771,737**	3,501,819
Equity in net income during the year		**368,898**	269,918
Balance at end of year		**4,140,635**	3,771,737
Share in cumulative translation adjustment of associates		**247,585**	539,118
Total CIIF Companies		**4,500,420**	4,423,055
UCPB - CIIF Finance and Development Corporation	10.26	112,506	110,396
		P 4,612,926	P 4,533,451

		PARENT	
	% Interest Held	**2005**	2004
ULFC	100	**P 400,000**	P 400,000
USB	97.4	**370,781**	267,394
UPI	100	**315,500**	315,500
CIIF Finance	10.3	**100,000**	100,000
USI	100	**35,000**	35,000
URB	94.7	**-**	103,387
Legaspi Oil Company, Inc. (LOCI)	17.5	**56,000**	56,000
San Pablo Manufacturing Corporation (SPMC)	12.8	**25,000**	25,000
Southern Luzon Coconut Oil Mills, Inc. (SLCOMI)	17.5	**24,950**	24,950
Granexport Manufacturing Corporation (GMC)	2.8	**6,250**	6,250
		1,333,481	1,333,481
Allowance for impairment		**(71,173)**	-
		P 1,262,308	P 1,333,481

The Group has investments in LOCI, SPMC, SLCOMI and GMC, herein referred to as Coconut Industry Investment Fund companies ("CIIF companies") that were established from the CIIF. The CIIF formed part of the Coconut Consumers Stabilization Fund ("CCSF"), otherwise known as the coconut levy fund which was created in 1973 by Presidential Decree No. 276. These CIIF companies have investments in 14 CIIF Holding Companies whose funds were invested in San Miguel Corporation (SMC) shares that were sequestered by the PCGG in May 1986. The Group's investments in these CIIF companies, where the Group exercises significant influence over operating and financial policies, are accounted for using the equity method even though the Group holds less than 20% of the voting stock of the companies.

The investment in SMC is accounted for under equity method, as the 14 CIIF holding companies consider their ownership over SMC on a collective basis since they are all under common ownership and management. The 14 CIIF holding companies have a collective ownership of 24%. As of December 31, 2005, the Group's interest in the aggregate book value of the SMC shares amounted to P2,578,098, while market values of the Group's proportionate share on the total SMC Class A and B shares held by the 14 CIIF holding companies are as follows:

Class A	P 2,332,996
Class B	2,186,972
	P 4,519,968

15. REAL AND OTHER PROPERTIES ACQUIRED (ROPA)

15.1 INVESTMENT PROPERTIES

In 2005, this account is composed of the following:

	CONSOLIDATED	PARENT
Land	P 9,943,254	P 8,936,865
Building	6,991,912	6,987,915
	16,935,166	15,924,780
Accumulated depreciation	(376,432)	(372,435)
Accumulated impairment losses	(807,920)	-
	P 15,750,814	P 15,552,345

The Group's certain investment properties amounting to P2.1 billion as of December 31, 2005 are carried at their original book values. Philippine GAAP requires that investment properties be measured either at fair value or at cost. Application of the cost model, which the Group opted to use, further requires the Group to determine the fair value of the investment properties. However, due to limitations on its information systems, the Group is unable to determine the fair value of these assets.

15.2 ASSETS HELD FOR SALE

In 2005, this account is composed of the following:

	CONSOLIDATED	PARENT
Land	P 1,411,929	P 1,376,373
Building	705,229	705,229
Machineries and Equipment	828,005	828,005
	P 2,945,163	P 2,909,607

Real and other properties acquired (ROPA) classified as held for sale are carried at their original book values. Accounting principles generally accepted in the Philippines require that assets held for sale be measured at the lower of cost or fair value less costs to sell. Due to limitations on its information systems, the Group is unable to determine the fair values of these assets.

16. OTHER RESOURCES

Other resources consist of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Deferred charges	**P 10,560,326**	P 1,163,857	**P 10,560,326**	P 1,163,857
Returned checks and other cash items	**424,778**	135,562	**424,132**	134,651
Foreign currency notes and coins on hand	**282,618**	392,502	**282,618**	392,502
Defined benefit asset *(see Note 22)*	**121,508**	133,647	**106,102**	139,502
Deferred tax asset	**107,909**	117,793	**-**	-
Prepaid expenses	**80,928**	64,358	**60,252**	51,388
Due from head office/branches	**48,848**	726,730	**41,837**	716,700
Documentary stamps on hand	**46,863**	31,057	**46,684**	30,878
Others *(see Note 25)*	**851,642**	708,470	**593,217**	308,496
	12,525,420	3,473,940	**12,115,168**	2,937,974
Less: allowance for impairment	**(46,832)**	(103,707)	**-**	(36)
	P 12,478,588	P 3,370,269	**P 12,115,168**	P 2,937,938

Deferred Charges is further broken down as shown below :

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Loss on sale of NPLs to an SPV	**P 8,511,172**	P -	**P 8,511,172**	P -
Loss on dacion settlement of UPI	**1,375,426**	1,240,426	**1,375,426**	1,240,426
Interoffice float items	**673,728**	(76,569)	**673,728**	(76,569)
	P 10,560,326	P 1,163,857	**P 10,560,326**	P 1,163,857

In 2004, the Bank accepted the dacion en pago settlement of UPI's outstanding loans. The dacion price of the three properties received from the dacion settlement amounted to P1,742,510 as compared to the outstanding balance of UPI's loan of P2,982,936 or a deficiency of P1,240,426, which is recorded as Deferred Charges and presented as part of the Other Resources account in the statement of condition to be amortized over a period of ten years in accordance with the schedule prescribed in the Memorandum issued by the BSP to all banks dated February 16, 2004 (i.e. 5% per year for the first three years ; 10% per year for the next four years ; and 15% per year for the remaining three years). This loss is part of the required allowance for impairment mentioned in Note 11. In 2005, the Parent Company incurred an additional loss of P135 million related to the dacion en pago settlement but recognized the loss as deferred charges. Under GAAP, the losses should be recognized in the periods these were incurred. Had the losses been recognized in accordance with GAAP, net loss for 2005 would have been increased by P135 million and total resources and capital funds as of December 31, 2005 would have both been reduced by P135 million.

The Group incurred a loss of P2.08 billion on its sale of certain non-performing loans totaling P11.58 billion. This loss is net of the allowance for impairment amounting to P6.43 billion which the Bank should have recognized in 2004 and prior years. The Group, however, recognized the loss of P2.08 billion and the reversal of allowance for impairment of P6.43 billion as deferred charges included as part of the Other Resources account in the statement of condition. Under GAAP, the loss should be recognized immediately in the statement of income and the related allowance for impairment on the sold loans should be reversed. Had the amounts been recognized in accordance with GAAP, the Bank's net loss for 2005 would have been increased by P2.08 billion and total resources and capital funds as of December 31, 2005 would have both been reduced by P2.08 billion.

However, the BSP through its Monetary Board, in its Resolution No. 1656 dated December 28, 2005, approved the Group's request to reverse all previously booked valuation reserves that is part of the staggered booking, as well as the amortization of deferred losses from Special Purpose Vehicle (SPV) transactions of P700,000 in 2004 and P1,150 in 2005. In addition, the BSP also approved the deferment of the staggered booking of unbooked valuation reserves and amortization of SPV losses until the end of 2006.

17. DEPOSIT LIABILITIES

This account is composed of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Due to banks:				
Demand deposit	**P 39,910**	P 98,340	**P 49,945**	P 97,436
Savings deposit	**890,357**	831,284	**870,859**	744,891
Time deposit	**427,050**	902,452	**596,919**	888,825
	P 1,357,317	P 1,832,076	**P 1,517,723**	P 1,731,152
Due to customers:				
Demand deposit	**P 4,137,068**	P 3,937,092	**P 4,077,720**	P 3,874,080
Savings deposit	**26,218,671**	25,318,628	**24,821,234**	23,972,991
Time deposit	**48,261,120**	50,725,779	**47,866,748**	50,280,801
	78,616,859	79,981,499	**76,765,702**	78,127,872
Total	**P 79,974,176**	P 81,813,575	**P 78,283,425**	P 79,859,024

The breakdown of the account, as to currency would be as follows:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Foreign currency	**P 13,379,566**	P 15,042,733	**P 13,379,566**	P 15,042,733
Peso	**66,594,61**	66,770,842	**64,903,859**	64,816,291
	P 79,974,176	P 81,813,575	**P 78,283,425**	P 79,859,024

Deposit liabilities are in the form of savings, demand and time deposit accounts at interest rates of 1.0% to 8.25% in 2005 and 1% to 15% in 2004.

18. BILLS PAYABLE

The account, as to counterparty, is composed of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
PDIC	**P 6,247,995**	P 5,814,492	P 6,247,995	P 5,814,192
Foreign banks	**2,080,320**	1,201,633	2,080,320	1,201,634
Social Security System (SSS)	**350,998**	556,909	350,998	556,909
Local banks	**269,066**	20,997	320,002	521,927
BSP	**45,477**	453,863	45,477	-
Others	**-**	20,000	-	20,300
	P 8,993,856	P 8,067,894	P 9,044,792	P 8,114,962

The breakdown of the account, as to currency would be as follows:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Foreign currency	**P 2,080,320**	P 1,201,633	**P 2,080,320**	P 957,283
Peso	**6,913,536**	6,866,261	**6,964,472**	7,157,679
	P 8,993,856	P 8,067,894	**P 9,044,792**	P 8,114,962

Bills payable represent borrowings from BSP, other banks and financial intermediaries, other entities and money market borrowings at interest rates of 5.1% to 13.5% per annum in 2005 and 2004.

As discussed in Notes 1 and 2, Bills Payable to PDIC pertain to the present value of the P7 billion subordinated debt convertible to common shares in 2008 and the P5 billion proceeds from sale of NPL which will be bought back in 2013 discounted at 13.5%. The future annual interest expense to be recognized using the effective interest method is shown below:

2006	P 491,917
2007	558,203
2008	633,421
2009	718,774
2010	815,629
2011	925,536
2012	1,050,252
2013	558,273
	P 5,752,005

Based on the FAA, the proceeds from the purchase of PDIC shall be invested in government securities, which in turn shall be pledged to and managed by PDIC to secure the Group's obligation to buyback the assets, as well as to ensure and secure compliance by the Group of the terms, conditions and covenants under the FAA. In case the Bank fails or refuses to buyback the assets related to the P5,000,000 purchase, PDIC shall have the absolute right to foreclose either judicially or extra-judicially the pledge constituted on the government securities.

Borrowings from SSS represents amounts loaned to educational institutions through the Group as a conduit financial institution of the SSS for its lending programs at annual interest rates ranging from 11% to 13%. These are secured through a Deed of Assignment of the credits and collaterals of the individual borrowers and are being repaid in the same manner and in the same term/period provided in the promissory notes of the borrowers.

19. OTHER LIABILITIES

Other liabilities consist of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Accrued taxes and other expenses	**P 1,799,185**	P 1,315,749	**P 1,701,528**	P 1,248,073
Accounts payable	**953,782**	791,759	**904,682**	711,318
Other deferred credits	**931,796**	547,065	**805,680**	449,474
Capitalized interest and other charges	**452,440**	420,161	**393,899**	352,482
Outstanding acceptances payable	**398,445**	175,922	**398,445**	175,923
Manager's checks	**296,190**	246,328	**296,190**	246,328
Due to BSP	**71,408**	60,073	**50,679**	44,166
Payment order payable	**44,498**	35,815	**44,498**	35,815
Margin deposits	**23,934**	20,673	**23,934**	20,673
Miscellaneous *(see Note 25)*	**2,815,805**	2,812,723	**2,868,004**	2,960,398
	P 7,787,483	P 6,426,268	**P 7,487,539**	P 6,244,650

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

20. CAPITAL FUNDS

20.1 PREFERRED SHARES

The Group's authorized, issued and outstanding preferred shares are nonparticipating, nonvoting and are convertible to common shares. The preferred shares entitle the holders to cumulative dividends equal to 14% of the issue price per annum. The Group, as provided in its articles of incorporation, is required to reserve a portion of the authorized and unissued common shares for the conversion of such preferred shares.

Dividends in arrears as of December 31, 2005 and 2004 amounted to P630,000 and P525,000, respectively.

20.2 COMMON SHARES

Prior to May 25, 2004, a substantial portion of the outstanding shares of the Group remains sequestered as a result of the sequestration orders issued by the PCGG on June 26, 1986. Court proceedings on the ownership issue have been ongoing since then with the Sandiganbayan and the Supreme Court. Meantime, PCGG exercised the right to vote on the sequestered shares of the Group.

On May 25, 2004, the First Division of the Sandiganbayan resolved the ownership issue through a Partial Summary Judgment. It declared that the CIIF Companies, the 14 CIIF Holding Companies and the CIIF block of San Miguel Corporation shares of stock, together with all dividends declared, paid and issued thereon as well as any increments thereto arising from, but not limited to, exercise of pre-emptive rights are owned by the government in trust for all the coconut farmers and ordered reconveyed to the government.

Subsequently, a Motion for Reconsideration (Re: Partial Summary Judgment promulgated on May 7, 2004) dated May 25, 2004 was filed by defendant Eduardo M. Cojuangco, Jr., et. Al.; and a Class Action Omnibus Motion to Dismiss for Lack of Subject Matter Jurisdiction. Alterntively, motion for reconsideration and motion to set case for trial dated May 26, 2004 was filed by defendants COCOFED, et al. and Ballares, et al. These motions were denied by the Sandiganbayan on December 28, 2004 for lack of merit, thus affirming its earlier decision granting ownership to the government in trust for all the coconut farmers.

20.3 UNIMPAIRED CAPITAL

Under current banking regulations, the combined capital accounts of expanded commercial banks should not be less than an amount equal to ten percent of its risk assets. The unimpaired capital of the Bank for purposes of determining the capital-to-risk assets ratio is total equity excluding:

a. unbooked valuation reserves and other capital adjustments as may be required by the BSP;
b. total outstanding unsecured credit accommodations to related interests (DOSRI);
c. deferred income tax asset or liability;
d. accumulated equity in earnings of investee where the Group holds 50% or less but where the equity method of accounting has been applied; and
e. appraisal increment on property and equipment other than those allowed to be recognized in connection with a merger or acquisition.

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

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

On January 10, 2005 the BSP granted temporary relief to the Bank by reducing the risk-related capital ratio to eight percent for a period of three years up to 2007 or until such time that UCPB is able to comply with the required ten percent capital adequacy ratio (CAR), whichever comes earlier.

As of December 31, 2005 and 2004, the Group was not able to comply with the required capital adequacy ratio.

20.4 PRIOR PERIOD ADJUSTMENT

On January 10, 2006, the BSP approved the Bank's application for the reversal of all previous staggered booking of unbooked valuation reserves amounting to P700,000 booked in 2004. In addition, BSP also approved the deferment of staggered booking of unbooked valuation reserves until the end of 2006. In addition, the Group also reversed the P89,441 amortization of deferred losses from sale of non-performing assets in 2004. The Bank is still waiting for the BSP's approval on its application to reverse the amortization of said losses.

Also, the balance of Surplus Free as of January 1, 2005 and 2004 have been restated from the amounts previously reported to recognize rental expense on a straight-line basis over the lease term in accordance with PAS 17, Leases. Previously, the Group recognized rental expense based on the contractual terms of the lease contract. The adjustment resulted to the decrease in the balance of Surplus Free by P6,167 (net of tax of P2,902) and P5,378 (net of tax of P2,531) as of January 1, 2005 and 2004, respectively, and increase in the amount of rental expense by P1,159 in 2004.

The Group also restated its Surplus Free to effect the derecognition of the recorded deferred tax assets and liabilities amounting to P109,182 and P102,369 as of January 1, 2005 and 2004, respectively. The management does not expect to have sufficient taxable profit within the period against which the deferred tax assets can be utilized.

21. MISCELLANEOUS INCOME AND OTHER OPERATING EXPENSES

Miscellaneous Income is composed of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Income from assets acquired	**P 330,058**	P 102,522	**P 267,552**	P 96,864
Foreign exchange gain - net	**44,316**	155,280	**44,316**	155,280
Rental income	**14,311**	38,672	**16,049**	21,371
Miscellaneous - net	**63,388**	260,701	**77,672**	231,195
	P 452,073	P 557,175	**P 405,589**	P 504,710

Other Operating Expenses consist of the following:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Insurance	**P 204,405**	P 200,236	**P 194,600**	P 196,387
Security, clerical and messengerial	**204,317**	193,561	**192,921**	181,253
Loss on sale of acquired assets	103.968	220,574	103,968	220,574
Repairs and maintenance	**90,556**	89,588	**82,933**	82,381
Stationery and supplies	**56,553**	56,851	**48,885**	48,200
Supervision and examination fees	**51,624**	45,487	**50,696**	45,487
Management and other professional fees	**30,532**	51,172	**22,789**	42,865
Advertising	**29,505**	20,532	**27,994**	19,891
Representation and entertainment	**14,427**	18,047	**12,826**	16,509
Miscellaneous	**280,121**	250,406	**235,844**	174,970
	P 1,066,008	P 1,146,454	**P 973,456**	P 1,028,517

22. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are presented below:

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Salaries and wages	**P 685,788**	P 678,040	**P 607,586**	P 587,768
Fringe Benefits	**270,406**	377,298	**262,911**	371,892
Retirement – defined benefit plan	**114,097**	80,327	**111,584**	81,595
Short-term medical benefits	**106,488**	89,181	**82,616**	79,016
	P 1,176,779	P 1,224,846	**P 1,064,697**	P 1,120,271

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

The Group obtained an updated actuarial valuation as of January 1, 2004 to ascertain its transitional liability as of that date in accordance with PAS 19, Employee Benefits. The Group's transition to PAS 19 is discussed in Note 2.

The amounts of retirement benefit asset recognized and shown as part of Other Resources in the statement of condition, (see Note 16) are determined as follows:

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Present value of the obligation	**P 1,309,858**	P 866,479	**P 1,256,183**	P 862,457
Fair value of plan assets	**(934,885)**	(787,686)	**(865,344)**	(789,244)
Deficiency of plan assets	**374,973**	78,793	**390,839**	73,213
Unrecognized actuarial losses	**(496,481)**	(212,440)	**(496,851)**	(212,715)
Retirement benefit asset	**P 121,508**	P 133,647	**P 106,012**	P 139,502

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

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Current service costs	**P 74,888**	P 79,783	**P 71,949**	P 79,730
Interest costs	**98,246**	86,301	**94,870**	86,257
Net actuarial loss recognized during the year	**7,560**	(442)	**7,904**	-
Expected return on plan assets	**(66,597)**	(85,315)	**(63,139)**	(84,392)
Retirement benefits	**P 114,097**	P 80,327	**P 111,584**	P 81,595

The movements in the retirement asset recognized in the books are as follows:

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Balance at beginning of year	**(P 151,917)**	(P 139,807)	**(P 139,502)**	(P 146,930)
Expense recognized	**114,097**	80,327	**111,584**	81,595
Contributions paid	**(83,688)**	(74,167)	**(78,094)**	(74,167)
Balance at end of year	**P 121,508**	P 133,647	**P 106,012**	P 139,502

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

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Discount rates	**11.0%**	9.5%	**11%**	9.5%
Expected rate of return on plan assets	**8.0%**	8.0%	**8.0%**	8.0%
Expected rate of salary increases	**8.0%**	8.0%	**8.0%**	8.0%

The salaries and other compensation given to the Group's key management personnel amounted to P137,503 and P125,623 in 2005 and 2004.

23. LEASE CONTRACTS

The Group leases the premises for most of its branch offices for periods ranging from 1 to 20 years from the date of the contracts, which terms are renewable upon the mutual agreement of the parties. Rent expense amounted to P246,123 in 2005 and P225,125 in 2004 (included under Occupancy account in the statement of income).

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

	CONSOLIDATED	*PARENT*
2006	P 178,505	P 165,070
2007	174,364	137,459
2008	116,363	103,882

24. TAXATION

24.1 INCOME TAX

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

	CONSOLIDATED		*PARENT*	
	2005	2004	**2005**	2004
Statements of income:				
Final tax – at 20%, and 7.5%	**P 150,269**	P 136,315	**P 135,445**	P 111,814
Regular corporate income tax (RCIT) (at 32.5%)	**13,576**	18,149	**-**	-
Minimum corporate income tax (MCIT) (at 2%)	**368**	1,957	**-**	-
Deferred tax expense:				
Deferred tax relating to origination and reversal of temporary differences	**9,884**	14,204	**-**	-
Tax expense reported in the statement of income	**P 174,097**	P 170,625	**P 135,445**	P 111,814

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

	CONSOLIDATED		*PARENT*	
	2005	2004	**2005**	2004
Tax on pretax income (at 35% in 2005 and 32% in 2004)	**(P 441,196)**	(P 743,093)	**(P 663,130)**	(P 1,100,918)
Adjustment for income tax subjected to lower income tax rates	**(11,877)**	(244,899)	**135,897**	54,693
Tax effects of:				
Net operating losses carrying (NOLCO) not recognized	**3,850,615**	1,574,348	**3,849,259**	1,573,795
Non-deductible expenses	**297,725**	365,830	**288,066**	357,259
Loss from sale of NPL not recognized	**(2,978,910)**	–	**(2,978,910)**	–
Loss from dacion not recognized	**–**	(396,936)	**–**	(396,936)
Dividend income not subject to tax	**(1,065)**	(12,767)	**(1,065)**	(12,767)
Income exempted from tax	**(26,768)**	(23,785)	**(5,528)**	(17,999)
Tax-paid income	**(398,084)**	(216,102)	**(398,084)**	(216,102)
Unrecognized net deferred tax assets	**(7,109)**	(3,246)	**–**	–
Other temporary differences	**(22,665)**	(18,868)	**(4,423)**	(19,355)
Expired MCIT	**68**	–	**–**	–
Income from foreign currency deposit unit (FCDU)	**(86,637)**	(109,856)	**(86,637)**	(109,856)
Tax expense reported in the statements of income	**P 174,097**	P 170,625	**P 135,445**	P 111,814

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

	STATEMENT OF CONDITION				STATEMENT OF INCOME			
		2005		2004		**2005**		2004
Deferred tax assets:								
Allowance for impairment losses	**P**	**101,569**	P	100,618	**(P**	**951)**	(P	2,700)
Effects of PAS		**3,234**		3,474		**240**	(	943)
Unamortized retirement cost		**695**		664	**(**	**31)**		-
Unrealized profit on sales contract receivable		**587**		537	**(**	**50)**		537
Excess MCIT		**79**		6,067		**5,988**		844
NOLCO		**4,987**		9,587		**4,600**		15,277
		111,151		120,947		**9,796**		13,015
Deferred tax liability:								
Defined benefit asset		**2,987**		2,923		**64**		1,189
Unearned interest discount		**-**		221	**(**	**221)**		-
Gain on changes in Fair value		**108**		10		**98**		-
Foreign exchange gains		**147**		-		**147**		-
		3,242		3,154		**88**		1,189
Net Deferred Tax Assets	**P**	**107,909**	P	117,793				
Deferred Tax Income					**P**	**9,884**	P	14,204

The Group did not recognize the deferred tax assets arising from NOLCO amounting to P6,483,888 because the Group's management believes that the future income tax benefits arising from NOLCO will not be realized within the availment period. As of December 31, 2005, the Group has a NOLCO of P20,430,659, P11,919,487 of which can be claimed as deduction against taxable income for the next three consecutive years after the NOLCO was incurred. The remaining NOLCO of P8,511,172 which resulted from the sale of NPLs to an SPV on Aprill 11, 2005 can be claimed as deduction against taxable income for the next five consecutive years after the NOLCO was incurred *(see Note 16)*. The breakdown of NOLCO with the corresponding validity periods follow:

	CONSOLIDATED						
Year Incurred		Amount		Used/Expired		Balance	Year of Expiry
2005	P	8,511,172	P	-	P	8,511,172	2010
		2,730,295		-		2,730,295	2008
2004		5,185,430		-		5,185,430	2007
2003		4,003,762		-		4,003,762	2006

	PARENT						
Year Incurred		Amount		Used/Expired		Balance	Year of Expiry
2005	P	8,511,172	P	-	P	8,511,172	2010
		2,486,710		-		2,486,710	2008
2004		4,918,108		-		4,918,108	2007
2003		3,792,416		-		3,792,416	2006

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

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

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

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

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

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

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

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

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

24. 2 NEW TAX REGULATION

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

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

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

c. 10% VAT will now be imposed on certain goods and services that were previously zero-rated or subject to percentage tax;

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

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

24.3 GROSS RECEIPTS TAX (GRT)/VALUE ADDED TAX (VAT)

On February 5, 2004, Republic Act 9238 reverts the imposition of GRT on banks and financial institutions on gross receipts derived from sources within the Philippines in accordance with the following schedule:

a. On interest, commissions and discounts from lending activities as well as income from financial leasing, on the basis of remaining maturities of instruments from which such receipts are derived:

	Five years or less	5%
	More than five years	1%
b.	On dividends	0%
c.	On royalties, rentals of property, real or personal, profits from exchange and all other items treated as gross income under Section 32 of the NIRC	5%
d.	On net trading gains within the taxable year on foreign currency, debt securities, derivatives and other similar financial instruments	5%

In case the maturity period referred to in paragraph (a) is shortened thru pretermination, the maturity period shall be reckoned to end as of the date of pretermination for purposes of classifying the transaction and the correct rate of tax shall be applied accordingly.

Generally accepted accounting principles as may be prescribed by the BSP for banks and non-bank financial intermediaries performing quasi-banking functions shall be the basis for the calculation of gross receipts.

This law is retroactive to January 1, 2004. The Bank complied with the transitional guidelines provided by the Bureau of Internal Revenue (BIR) on the final disposition of the uncollected Output VAT as of December 31, 2004.

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

24.4 DOCUMENTARY STAMP TAX (DST)

Documentary stamp taxes (at varying rates) are imposed on the following:

a. Bank checks, drafts, or certificate of deposit not bearing interest, and other instruments;

b. Bonds, loan agreements, promissory notes, bills of exchange, drafts, instruments and securities issued by the Government or any of its instrumentalities, deposit substitute debt instruments, certificates of deposits bearing interest and other not payable on sight or demand;

c. Acceptance of bills of exchange and letters of credit; and

d. Bills of lading or receipt.

On February 7, 2004, RA 9243 was passed amending the rates of DST, the significant provisions of which are summarized below:

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

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

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

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

- Borrowings and lending of securities executed under the Securities Borrowing and Lending Program of a registered exchange, or in accordance with regulations prescribed by the appropriate regulatory authority;
- Loan agreements or promissory notes, the aggregate of which does not exceed P250,000 or any such amount as may be determined by the Secretary of Finance, executed by an individual for his purchase on installment for his personal use;
- Sale, barter or exchange of shares of stock listed and traded through the local stock exchange for a period of five years from the effectivity of R.A. 9243;
- Fixed income and other securities traded in the secondary market or through an exchange;
- Derivatives including repurchase agreements and reverse repurchase agreements;
- Bank deposit accounts without a fixed term or maturity; and
- Interbank call loans with maturity of not more than seven days to cover deficiency in reserve against deposit liabilities.

25. TRUST OPERATIONS

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

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Investments	**P 38,292,314**	P 31,466,029	**P 38,292,314**	P 31,466,029
Others	**189,489**	1,374,571	**189,489**	1,374,571
	P 38,481,803	P 32,840,600	**P 38,481,803**	P 32,840,600

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

a. investment in government securities with a total face value of P353,953 as of December 31, 2005 and P299,653 as of December 31, 2004 are deposited with BSP as security for the Group's faithful compliance with its fiduciary obligations; and

b. 10% of the Group's trust income is transferred to surplus reserve. This yearly transfer is required until the surplus reserve for trust function is equivalent to 20% of the Bank's authorized capital stock. Income from trust operations is reported net of the related expenses. As of December 31, 2005, the reserve for trust functions amounted to P116,069 and is shown as Surplus Reserves in the statements of changes in capital funds.

The Bank, as administrator of the CIIF Fund through its Board of Directors, had placed the CIIF assets under the management of the Trust Banking Division (TBD). The trust fees and other administrative expenses due from the CIIF Fund trust account was not recognized as expense in the books of the CIIF Fund trust account because of the losses it has incurred over the years. Moreover, BSP has disallowed the use of the accrued trust fees account in the books of the CIIF Fund trust account. Accordingly, the Bank did not recognize the income from the CIIF Fund trust account as of December 31, 2005 totaling P301,788 (of which P38,688 pertains to 2005). This amount is shown as part of the Other Resources account in the statement of condition (see Note 16) and a corresponding balance included in the Other Liabilities account *(see Note 19)*.

26. RELATED PARTY TRANSACTIONS

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

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

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Total outstanding DOSRI loans	**P 522,041**	P 519,022	**P 522,041**	P 519,022
Unsecured DOSRI loans	**P 129,466**	P 142,120	**P 129,466**	P 142,120
% of DOSRI loans to total loans	**1.7%**	1.0%	**1.7%**	1.0%
% of unsecured DOSRI loans to total DOSRI loans	**24.8%**	27.4%	**24.8%**	27.4%

In 2005, the Group has a past due DOSRI loan amounting to about P18,052 (P142,186 in 2004) which represents 3.46% of the total DOSRI loans as of December 31, 2005.

27. SELECTED FINANCIAL PERFORMANCE INDICATORS

a. The following are some measures of the Group's financial performance before unrecorded deferred losses:

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Return on average equity	**(14.4%)**	(20.5%)	**(44.3%)**	(48.4%)
Return on average assets	**(1.4%)**	(2.4%)	**(2.1%)**	(3.6%)
Net interest margin	**2.0%**	(1.3%)	**1.2%**	(2.1%)
Capital to risk assets ratio	**0.7%**	3.0%	**2.2%**	3.0%

b. Secured Liabilities and Assets Pledged as Security

	CONSOLIDATED		***PARENT***	
	2005	2004	**2005**	2004
Aggregate amount of secured liabilities	**P 1,941,268**	P 1,710,745	**P 1,941,268**	P 1,710,745
Aggregate amount of assets pledged as security	**P 5,000,000**	P 5,000,000	**P 5,000,000**	P 5,000,000

28. COMMITMENTS AND CONTINGENT LIABILITIES

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. The Group recognizes in its books any losses and liabilities incurred in the course of its operations as soon as these become determinable and quantifiable. Management believes that, as of December 31, 2004, no additional material losses or liabilities are required to be recognized in the accompanying financial statements as a result of the above commitments and transactions.

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

	CONSOLIDATED		PARENT	
	2005	2004	**2005**	2004
Trust department accounts	**P 38,481,803**	P 32,840,600	**P 38,481,803**	P 32,840,600
Standby letters of credit/unused commercial letter of credit	**1,064,857**	2,064,827	**1,064,857**	2,064,827
Late deposits/payment received	**215,666**	3,825	**211,616**	-
Outstanding guarantees issued	**62,591**	160,761	**62,591**	160,761
Outward bills for collection	**22,075**	215,501	**21,915**	215,478
Domestic letters of credit	**19,474**	115,111	**19,474**	115,111
Sight import letters of credit	**9,695**	476,640	**9,695**	476,640
Usage import letters of credit	**4,235**	148,962	**4,235**	148,962
Inward bills for collection	**1,718**	215,057	**1,718**	215,057
Others	**1,369,629**	320,275	**1,368,632**	-

The Group received various Letter Notices and Preliminary Assessment Notices from the BIR for taxable years 1998 to 2002. The Group, and all other banks with FCDU operations, were assessed for FCDU, GRT and Documentary Stamp Taxes. The assessments were protested on the basis of their legality. The Bankers Association of the Philippines is currently negotiating for a compromise settlement with the BIR through the Congress, and, the Group is still waiting for the results.

The Group is defendant in various cases pending in courts for alleged claims against the Group, the outcome of which are not fully determinable at present. As of December 31, 2005, management believes that, liabilities or losses, if any, arising from these claims should be recorded upon their final determination.

Board of Directors

First row from left: Alejandro D. Asis, Datu Mao K. Andong, Jr., Chairman Armand V. Fabella, president and CEO Jose L. Querubin, Atty. Rosalinda U. Casiguran, Jesus L. Arranza,
Second row from left: Rosenda Ann M. Ocampo, Prudencio A. Garcia, Atty. Karlo Marco P. Estavillo, Atty. William D. Dichoso
Third row from left: Cristina Q. Orbeta, Cresente C. Paez, Sr., Andres I. Rustia, Camilo L. Sabio, Oscar C. Solidor, and corporate secretary Atty. Jose A. Barcelon

ARMAND V. FABELLA
Chairman

- Chairman of the Board, Jose Rizal University
- Chairman of the Board, Private Education Retirement Annuity Association
- Chairman of the Board, Bellcat Corp.
- Member of the Board, Lyceum of the Philippines, Sky Foundation, Allways Corp. Vicarel Realty Corp., and Arbortowne Development Corp.
- Consultant for World Bank, Asian Development Bank and Central Bank of the Philippines
- Formerly Trustee of College of the Holy Spirit and Eisenhower Exchange Fellowships
- Formerly Director of Philippine Commercial and Industrial Bank and Philippine Trust Company
- served in government as Assistant Executive Secretary and Secretary of Education
- post-graduate studies in London School of Economics
- Master of Arts in Economics, Jose Rizal College
- Bachelor of Arts in Economics (cum laude), Harvard College

JOSE L. QUERUBIN
Director, President & CEO

- Chairman of the Board of UCPB Savings Bank
- Chairman of the Executive Board of United Coconut Association of the Philippines, Inc. (UCAP)
- Director and Chairman of the Educations Committee, Bankers Association of the Philippines
- President of Megalink
- former Senior Vice President and Asia Regional Sales Director of Bank of America based in Singapore
- former Philippine Country Manager of Bank of America
- held senior executive positions in Solidbank Corp. and Citibank N.A. - Manila Branch
- Master of Business Administration, major in Finance, Wharton Graduate School, University of Pennsylvannia
- Bachelor of Arts, major in Mathematics (cum laude), De La Salle University
- Bachelor of Science in Mechanical Engineering, De La Salle University

DATU MAO K. ANDONG, JR.
Director

- Director of Kaunlaran Magsasaka, Inc.
- National President of Coconut Peasants' Reform Alliance
- Vice President for Mindanao Pambansang Koalisyon ng mga Samahan ng Magsasaka at Manggagawa sa Niyugan
- a consultant in United Coconut Planters Life Assurance Corp.
- former Director of United Coconut Planters Life Assurance Corp.
- held various executive positions in government
- Bachelor of Arts in Economics, Gregorio Araneta University Foundation

JESUS L. ARRANZA
Director

- President and past Chairman of the Federation of Philippine Industries
- Chairman of the Board and President of AFTA Corporation
- President of Duratrainers, Inc.
- President (and founder) of the Confederation of Homeowners Association for Reforms in Government and Environment
- Chairman of the Board of the Coconut Oil Refiners Association
- Member of the Advisory Council of National Anti-Smuggling Task Force
- Consultant to the Secretary of DILG
- Consultant on Homeowner Affairs, Housing and Land Use Regulatory Board
- founding Chairman of the Board of the ASEAN Vegetable Oils Club
- former Chairman of the Board of United Coconut Association of the Philippines
- former President of San Pablo Manufacturing Corp.
- former professor of University of the East Graduate School for Public Administration
- Master of Public Administration, University of the East
- Bachelor of Arts in Economics, University of the East

ALEJANDRO D. ASIS
Director

- National President of Lakas ng Magsasakang Pilipino
- Bachelor of Science in Customs Administration, St. Joseph Institute of Technology

ATTY. ROSALINDA U. CASIGURAN
Director

- Fellow, Institute of Corporate Directors
- Member of the Board of CIBI Foundation
- former Senior Executive Vice President of the Philippine Deposit Insurance Corporation
- former Associate Commissioner of Securities and Exchange Commission
- Bachelor of Laws (summa cum laude), University of Sto. Tomas
- Bachelor of Arts in Political Science (magna cum laude), University of Sto. Tomas
- Strategic Business Economic Program of the University of Asia and the Pacific

ATTY. WILLIAM D. DICHOSO*
Director

- Commissioner of the Presidential Commission on Good Government
- Lifetime member of the Association of Judge Advocate General of the Philippines
- Member of the Philippine Constitution Association
- former Member of the Board of UCPB Leasing and Finance Corp., UCPB Properties Inc., UCPB Securities, Inc. and UCPB Savings Bank
- former Chairman of the Board of Dumaguete Rural Bank
- former Director of Legal Management Council of the Philippines
- former Director of Benguet Corp.
- held senior executive positions in Guevent Group of Companies, Pilipinas Nissan, Inc., Honda Cars Phils., Inc., and Honda Engine Manufacturing Phils., Inc.
- served in government as Vice Governor of Laguna, Member of the Provincial Board of Laguna City Councilor of San Pablo City
- Bachelor of Laws, Manuel L. Quezon School of Law

ATTY. KARLO MARCO P. ESTAVILLO
Director

- is engaged in business and private law practice
- had served as Legal Counsel and Corporate Secretary in various private corporations
- Bachelor of Laws, University of the Philippines College of Law
- Bachelor of Science in Business Management, Ateneo de Manila University
- A Fellow at International Think Tank Asia-Pacific Policy Center

* *resigned as of June 2006*
** *resigned as of September 2006, and was replaced by Carmen D. Lim*

PRUDENCIO A. GARCIA
Director

- National President of the National Federation of Small Coconut Farmers Organization, Inc.
- Chairman of the coconut sector of the Regional Agriculture and Fisheries Council Region VII
- Vice President of the Coconut Peasant Reform Alliance
- Master of Public Administration, University of the Philippines
- Bachelor of Science in Commerce, University of the Visayas

CRISTINA Q. ORBETA
Director

- Executive Vice President of the Philippine Deposit Insurance Corp.
- Member of the Board of Unang Hakbang Foundation
- former director of Bangko Sentral ng Pilipinas
- former Executive Director of the Central Bank Board of Liquidators
- former Deputy Country Officer of Calyon Manila Offshore Branch
- former Deputy General Manager of Credit Lyonnais Manila Offshore Branch
- served as consultant to the Department for International Development UK government, WB, ADB and SGV
- Master of Public Administration, Harvard University, Cambridge, Mass., U.S.A.
- Bachelor of Arts in Mathematics (magna cum laude), University of the East

ROSENDA ANN M. OCAMPO
Director

- Chairman of the Board Sta. Ana Heritage Foundation
- Founding President Samahan ng Kaanak Himagsikan 1896
- Chairman Emeritus Kaanak 1896 Foundation
- President of GP Homes, Inc.
- Director of The Link Road Co.
- Treasurer of GP Development Corp.
- Design Consultant for Philippine Asia Consultant
- former Representative of 6th District of Manila, House of Representatives
- former City Councilor, City of Manila
- Doctor of Public Administration, Polytechnic University of the Philippines
- Master of Urban Planning, University of California, Los Angeles
- Bachelor of Science in Architecture, University of Sto. Tomas

CRESENTE C. PAEZ
Director

- President and CEO of National Confederation of Cooperatives (NATCCO)
- President of NATCCO Health Solutions, Inc.
- President of NATCCO Funeral Care Company
- President of Kasanyangan Microfinance Center
- Member of the Board of Institute for Cooperative Excellence
- former Assistant Secretary of the Department of Agrarian Reform
- former COOP NATCCO Party List Representative in the House of Representatives
- former Executive Director of Kakasaka Foundation
- former Executive Director of Visayas Cooperative Development Center
- former National Coordinator of Philippine Partnership for the Development of Human Resource in Rural Areas (PHILDHRRA)
- former member of the Board of Trustees of the Peace & Equity Foundation
- candidate, Masters of Management, University of San Jose, Recoletos
- Bachelor of Science in Agriculture, University of Southern Mindanao
- attended Basic Management Program at the Asian Institute of Management
- attended the Cooperative Leadership Program at the University of Marlburg, Germany

ANDRES I. RUSTIA
Director

- formerly Assistant Governor of the Bangko Sentral ng Pilipinas
- served as Consultant for the Bangko Sentral ng Pilipinas and the International Monetary Fund
- served as Bank Supervision Advisor to the Bank of Tanzania, Republic of Tanzania
- Bachelor in Business Administration, University of the East
- Certified Public Accountant

CAMILO L. SABIO**
Director

- Chairman (with Cabinet Rank) Presidential Commission on Good Government
- Chairman of the CIIF Management Company, Inc.
- Chairman of the CIIF Oil Mills Group
- former Presidential Adviser (with Cabinet Rank) on Constitutional Reform
- former Secretary (with Cabinet Rank) of the National Anti-Poverty Commission
- former Secretary-General (with Cabinet Rank), House of Representatives
- former President, Philippine Constitution Association
- Bachelor of Laws (valedictorian) Ateneo de Manila University
- Bachelor of Arts (valedictorian) Xavier University

OSCAR C. SOLIDOR
Director

- Chairman of the Alyansa sa mga Timawang Mag-uugmad sa Amihanang Mindanao
- Secretary-General of Lakas ng Magsasakang Pilipino
- Member of the Council of Leaders of Pambansang Kilusan ng mga Samahang Magsasaka at Manggagawa sa Niyugan
- past Municipal Secretary of the Municipal Government of Rosario, Agusan del Sur
- Bachelor of Science in Agriculture, Central Mindanao University
- previously a consultant in the Office of the Presidential Adviser for Special Concerns

ATTY. JOSE A. BARCELON
Corporate Secretary

- Corporate Secretary of UCPB Savings Bank, UCPB Properties, Inc., UCPB Securities, Inc., UCPB Leasing and Finance, United Coconut Planters Life Assurance Corp., UCPB General Insurance, Inc., Cocoplans, All Nations Security and Investigation, New Ultra Security, Ultra Security Services, Inc.
- Director and Corporate Secretary of United Coconut Planters International, United Funds, Inc., Silahis Marketing Corp., Minola Refining Corporation, San Pablo Manufacturing Corp., Granex, U.S.A.
- formerly a Partner in Mendoza and Barcelon Law Offices and R.B. Ancheta Law Office
- formerly Senior Associate Lawyer in Solis and Medina Law Offices
- previously Special Legislative Officer, Senate of the Philippines
- previously Legislative Staff Officer, House of Representatives
- Bachelor of Arts in Political Science, University of the Philippines
- LL.B University of the Philippines College of Law

Leadership Team

First row from left: Evangelina P. Samonte, president and CEO Jose L. Querubin, Higinio O. Macadaeg, Jr., Cesar A. Rubio
Second row from left: Eulogio V. Catabran III, Sebastian V. Santiago III, Enrique L. Gana
Third row from left: Edmond E. Bernardo, David C. Mercado, Raul Victor C. Tan and Ma. Paz Q. Cuevas.

JOSE L. QUERUBIN
President and CEO

- Chairman of the Board of UCPB Savings
- Chairman of the Board of United Coconut Association of the Philippines, Inc. (UCAP)
- Director and Chairman of the Education Committee, Bankers Association of the Philippines
- President of Megalink
- past Senior Vice President and Asia Regional Sales Director of Bank of America based in Singapore
- past Philippine Country Manager of Bank of America
- held senior executive positions in Solidbank Corp., and Citibank N.A. - Manila Branch
- Master of Business Administration, major in Finance, Wharton Graduate School, University of Pennsylvannia
- Bachelor of Arts, major in Mathematics (cum laude), De La Salle University
- Bachelor of Science in Mechanical Engineering, De La Salle University

HIGINIO O. MACADAEG, JR.
Executive Vice President
Head, Institutional and Retail Bank

- past Managing Director of Risk Trends, Inc.
- held senior executive positions in Equitable PCIBank, Metropolitan Bank and Trust Company, Solidbank Corp., Standard Chartered Bank, and Citytrust Banking Corp.
- Bachelor of Science in Management, Ateneo de Manila University

CESAR A. RUBIO
Executive Vice President and CFO
Head, Support Services Group

- Certified Public Accountant
- held senior executive positions in Rizal Commercial Banking Corp. and Metropolitan Bank and Trust Co.; started banking carreer in Citibank as trainee, credit and lending officer
- past director of Merchants Savings and Loan Association
- past lecturer at the Development Center for Financial Executives and Inter Forex Resources, Inc.
- Master of Business Management, Asian Institute of Management
- Bachelor of Science in Commerce, major in Accounting, De La Salle University
- Attended Pacific Rim Bankers Program, University of Washington, Seattle

EULOGIO V. CATABRAN III
Executive Vice President
Head, Treasury Banking Group

- past senior vice president of Chinatrust (Philippines) Commercial Bank
- Candidate, Master of Business Economics, University of Asia and the Pacific
- Bachelor of Arts in Management and Economics, Ateneo de Manila University

EVANGELINA P. SAMONTE
Executive Vice President
Head, Operations Group

- Certified Public Accountant
- held senior executive positions in Philippine Bank of Communications, Solidbank Corp., and International Corporate Bank
- Bachelor of Science in Commerce, major in Accounting (cum laude), University of Nueva Caceres

ENRIQUE L. GANA
Senior Vice President and CCO
Head, Credit and Supervision Group

- held executive positions in Union Bank of the Philippines and Commercial Credit Corp.
- Master of Business Management, Asian Institute of Management
- Bachelor of Science in Management of Financial Institutions, De La Salle University
- Bachelor of Arts in Behavioral Science, De La Salle University

SEBASTIAN V. SANTIAGO III
Senior Vice President
Head, Corporate and Investment Banking Group

- past President of CMB Partners, Inc.
- past Deputy Senior Country Officer of The Chase Manhattan Bank
- held senior position in The Chase Manhattan Bank, N.A.
- Master of Science, Graduate School of Administration, University of California at Irvine
- Bachelor of Arts in Economics, Ateneo de Manila University

EDMOND E. BERNARDO
First Vice President
Head, Business Development Group

- Certified Public Accountant
- past president and director of UCPB Savings Bank
- past director of UCPB Rural Bank
- Bachelor of Science in Commerce, major in Accounting, Ateneo de Zamboanga University

DAVID C. MERCADO
First Vice President
Head, Consumer Banking Group

- Certified Public Account
- Master of Business Administration, De La Salle University
- Bachelor of Science in Business Administration, Philippine School of Business Administration

RAUL VICTOR B. TAN
First Vice President
Head, Working Capital Product Group

- held executive positions in various banks
- Master of Business Administration, Fordham University
- Bachelor of Science in Management, Ateneo de Manila University

MARIA PAZ Q. CUEVAS
Vice President
Head, Human Resources Group

- held executive positions in computer companies before joining the banking industry
- Master of Science in Mathematics, Ateneo de Manila University
- Bachelor of Science in Education, major in Mathematics, minor in Chemistry (magna cum laude) St. Scholastica's College

Senior Officers *(as of October 2006)*

BANK COMPLIANCE

Frank C. Capalongan
Vice President
Bank Compliance Officer

Arturo D. Sayao, Jr.
Assistant Vice President 2 and Head
Operations

Antonio C. Romero
Assistant Vice President 1 and
Anti Money Laundering Officer

BUSINESS DEVELOPMENT GROUP

Gerardo T. Auson
Vice President and Head
North Metro Manila Region

Rodolfo G. De Guzman
Vice President and Head
Central Luzon Region

Angelito S. Estanislao
Vice President and Head
Mindanao Region

Manuel R. Macam
Vice President and Head
Central Metro Manila Region

Angel H. Mojica
Vice President and Head
West Metro Manila Region

Rolando R. Mortel
Vice President and Head
South Luzon Region

Modesto M. Sicangco
Vice President and Head
North Luzon Region

Pedrito R. Uy
Vice President and Head
Visayas Region

Edilberto P. Vizcarra
Vice President and Head
South Metro Manila Region

Nestor M. Ambrocio
Assistant Vice President 2 and
Business Development Officer
Angeles Branch

Carminda A. Baculi
Assistant Vice President 2 and
Business Development Officer
Roosevelt Avenue Branch

Hermilo A. Bagabaldo
Assistant Vice President 2 and
Business Development Officer
Lacson Galo Branch

Martin B. Bautista
Assistant Vice President 2 and
Business Development Officer
San Pablo Branch

Josefina M. Caraos
Assistant Vice President 2 and
Business Development Officer
Ayala Branch

Voltaire Rex C. Castro
Assistant Vice President 2 and
Business Development Officer
Vito Cruz Branch

Rowena Z. Catolos
Assistant Vice President 2 and
Business Development Officer
Pioneer Branch

Socorro S. Chua
Assistant Vice President 2 and
Business Development Officer
T. M. Kalaw Branch

Ma. Catalina M. Cruz
Assistant Vice President 2 and
Business Development Officer
Main Office Branch

Jesus L. Davis
Assistant Vice President 2 and
Business Development Officer
Jones Avenue Branch

Elizabeth B. Dee
Assistant Vice President 2 and
Business Development Officer
Juan Luna Branch

Jane V. De Guzman
Assistant Vice President 2 and
Business Development Officer
Baguio Branch

Marilu P. De Guzman
Assistant Vice President and
Business Development Officer
Novaliches Branch

Alice R. De Vera
Assistant Vice President 2 and
Business Development Officer
Marikina Branch

Ceferino A. Duldulao
Assistant Vice President 2 and
Business Development Officer
Bohol Avenue Branch

Ronaldo E. Elamparo
Assistant Vice President 2 and
Business Development Officer
Loyola Heights Branch

Guillerma M. Espiritu
Assistant Vice President 2 and
Business Development Officer
Balagtas Branch

Ma. Corazon A. Esquivias
Assistant Vice President 2 and
Business Development Officer
Salcedo Branch

Lolita A. Gonzales
Assistant Vice President 2 and
Business Development Officer
J. P. Rizal Branch

Trinidad S. Liao
Assistant Vice President 2 and
Business Development Officer
Tomas Morato Branch

Ma. Cecilia V. Lim
Assistant Vice President 2 and
Business Development Officer
Velez Branch

Irene L. Lim
Assistant Vice President 2 and
Business Development Officer
Escolta Branch

Romeo S. Lindain
Assistant Vice President 2 and
Business Development Officer
Herrera Branch

Juan P. Liwag
Assistant Vice President 2 and
Business Development Officer
Tordesillas Branch

Elizabeth D. Orbe
Assistant Vice President 2 and
Business Development Officer
Muñoz Branch

Evelyn D. Pasajol
Assistant Vice President 2 and
Business Development Officer
Karuhatan Branch

Neptali F. Ramos
Assistant Vice President 2 and
Business Development Officer
Laguna Branch

Rolando V. Robiñol
Assistant Vice President 2 and
Business Development Officer
Sta. Rosa Branch

Samuel L. Santos
Assistant Vice President 2 and
Business Development Officer
San Fernando Branch

Raymundo A. Saranza
Assistant Vice President 2 and
Business Development Officer
Tagbilaran Branch

Emily D. Serrano
Assistant Vice President 2 and
Business Development Officer
Caloocan Branch

Monina A. Sunga
Assistant Vice President 2 and
Business Development Officer
Blueridge Branch

Jesus L. Vargas
Assistant Vice President 2 and
Business Development Officer
Banaue Branch

Jaime C. Yu, Jr.
Assistant Vice President 2 and
Business Development Officer
Cauayan Branch

Ma. Ana T. Abala
Assistant Vice President 1 and
Business Development Officer
San Andres Branch

Edison B. Agarao
Assistant Vice President 1 and
Business Development Officer
Las Piñas Branch

Rene A. Alimagno
Assistant Vice President 1 and
Business Development Officer
Lipa-Recto Branch

Pedro G. Ando, Jr.
Assistant Vice President 1 and
Business Development Officer
Magsaysay-Davao Branch

Clara Jean F. Arce
Assistant Vice President 1 and
Business Development Officer
Ortigas Branch

Melody E. Aspiras
Assistant Vice President 1 and
Business Development Officer
Batangas Branch

Angela L. Baes
Assistant Vice President 1 and
Business Development Officer
Zamboanga Branch

Crispulo B. Baltazar
Assistant Vice President 1 and
Business Development Officer
Solano Branch

Victoria C. Bernal
Assistant Vice President 1 and
Business Development Officer
Quirino Highway Branch

Rodolfo F. Caleon, Jr.
Assistant Vice President 1 and
Business Development Officer
Metropolitan Avenue Branch

Rosita R. Carreon
Assistant Vice President 1 and
Business Development Officer
E. Rodriguez Branch

Amado T. De Leon, Jr.
Assistant Vice President 1 and
Business Development Officer
C. M. Recto Branch

Rosalinda T. Domingo
Assistant Vice President 1 and
Business Development Officer
Pasong Tamo Branch

Jesus K. Estaris
Assistant Vice President 1 and
Business Development Officer
Boni Avenue Branch

Rosario L. Fernando
Assistant Vice President 1 and
Business Development Officer
Malanday Branch

Natividad B. Francisco
Assistant Vice President 1 and
Business Development Officer
San Miguel Branch

Mina C. Gan
Assistant Vice President 1 and
Business Development Officer
Binondo Branch

Jose Jeric E. Gomez
Assistant Vice President 1 and
Business Development Officer
Sta. Cruz Branch

Anthony Evan A. Lluch
Assistant Vice President 1 and
Business Development Officer
Iligan Branch

Clarita V. Luber
Assistant Vice President 1 and
Business Development Officer
Greenhills Branch

Eva Marie N. Magno
Assistant Vice President 1 and
Business Development Officer
Alfaro Branch

Diosdado L. Mante
Assistant Vice President 1 and
Business Development Officer
Tacloban Branch

Romeo B. Millera
Assistant Vice President 1 and
Business Development Officer
Sucat Branch

Fiel Amor J. Pacleb
Assistant Vice President 1 and
Business Development Officer
Aurora Boulevard Branch

Caridad B. Ponce
Assistant Vice President 1 and
Business Development Officer
Banilad Branch

Henry S. Ralleta
Assistant Vice President 1 and
Business Development Officer
Meycuayan Branch

Cristina B. Robledo
Assistant Vice President 1 and
Business Development Officer
Diliman Branch

Mary Ann H. Salgado
Assistant Vice President 1 and
Business Development Officer
Libertad - Bacolod Branch

Arturo Jerome J. Salcedo
Assistant Vice President 1 and
Business Development Officer
Visayas Avenue Branch

Merle Perpetua C. Singson
Assistant Vice President 1 and
Business Development Officer
Grace Park Branch

Jennifer A. Tagle
Assistant Vice President 1 and
Business Development Officer
Madrigal Branch

Ma. Theresa Tamayo
Assistant Vice President 1 and
Business Development Officer
F. B. Harrison Branch

Aloida B. Tanunliong
Assistant Vice President 1 and
Business Development Officer
Shangrila Branch

Ma. Cristina V. Untalan
Assistant Vice President 1 and
Business Development Officer
West Avenue Branch

Mario Cesar R. Villa
Assistant Vice President 2 and
Business Development Officer
Oroquietta Branch

Edgar V. Yabes
Assistant Vice President 1 and
Business Development Officer
La Union Branch

Carolina O. Zavala
Assistant Vice President 1 and
Business Development Officer
Main Office Branch

CONSUMER BANKING GROUP

Yolanda L. de Claro
Vice President and Head,
Real Estate & Personal Loans Department

Francisco R. Palanca
Vice President and Head,
Vehicle Financing Department

Felicitas M. Dimaano
Assistant Vice President 2 and Head,
Credit Card Department

Rogelio G. Naz
Assistant Vice President 1
Consumer Finance Business Center-Naga

CORPORATE AND INVESTMENT BANKING GROUP

Danielyn P. Casaul
Vice President and Team Head
Middle Markets - South West

Corazon R. Guevarra
Vice President and Team Head
CBD - Real Estate Banking

Jaime W. Jacinto
Vice President and Team Head
Middle Markets - North East

Francesca Carina C. Uy
Vice President and Team Head
Wholesale Banking

Rey T. Maraingan
Assistant Vice President 2 and Team Head
Middle Markets - Luzon

Olga U. Olis
Assistant Vice President 2 and Team Head
Middle Markets - Vismin

Cherry Deanna O. Formoso
Assistant Vice President 2 and
Relationship Manager
Wholesale Banking

Mary Jean A. Go
Assistant Vice President 2 and
Relationship Manager
Real Estate Banking

Carlo C. Calma
Assistant Vice President 1 and
Relationship Manager
Middle Markets - North East

Cynthia Q. Camacho
Assistant Vice President 1 and
Relationship Manager
Middle Markets - North East

Jesus Enrique A. Cortez
Assistant Vice President 1 and
Relationship Manager
Wholesale Banking

Evelyn M. Gonzales
Assistant Vice President 1 and
Relationship Manager
Middle Markets Vismin

Victoria V. Soriano
Assistant Vice President 1 and
Relationship Manager
Wholesale Banking

CREDIT AND SUPERVISION GROUP

ASSET MANAGEMENT AND DISPOSITION

Christine Y. Carandang
First Vice President and Head
Asset Management and Disposition

CREDIT ADMINISTRATION

Alfredo J. Bautista
Vice President and Head
Credit Administration

Oscar G. Gumabay
Vice President and Head,
Credit Appraisal and Investigation
Department

Lorna V. Mariano
Assistant Vice President 2 and Head,
Documentation and Custodianship
Department

Manuel L. Cinco
Assistant Vice President and Head,
CAID - Vismin Area

CREDIT CONTROL

Anna Christina M. Vicente
Vice President and Head
Credit Control

Alexander M. Borja
Assistant Vice President 2 and Head,
Wholesale Banking
Middle Markets and Real Estate Teams

Ramon L. Fernandez
Assistant Vice President 2 and Head
Wholesale Banking
Financial Institution and Public Sector Teams

Ma. Carmela L.G. Felicidario
Assitant Vice President 1 and Head,
Middle Markets - Luzon Team

Ma. Florebeth O. Villapaz
Assistant Vice President 1 and Head
Middle Markets - Vismin

LEGAL SERVICES

Edgardo R. Balbin
First Vice President and Head
Legal Services

Delfin S. Catapang
Vice President and Head,
Operations and Corporate Services
Department

Doroteo B. Aguila
Vice President and Head,
Collection & Enforcement Monitoring
Department

Ma. Angelica L. Rayel
Assistant Vice President 2 and Head,
Documentation Services Department

Cecilia M. Cabatit
Assistant Vice President 2 and Legal Officer
Collection & Enforcement Monitoring
Department

Hilda B. Guzman
Assistant Vice President 1 and Legal Officer
Operations and Corporate Services
Department

SUPERVISED CREDIT

Franco P. Magalong
First Vice President and Head
Supervised Credit Division

Milagros E. Alcabao
Assistant Vice President 1 and Head
Luzon Team

Ma. Cristina J. Corona
Assistant Vice President 1 and Head
Vismin Team

CUSTOMER QUALITY MANAGEMENT

Rosario M. Dayrit
Assistant Vice President 2 and Head
Customer Quality Management

Melinda A. Bautista
Assistant Vice President 1 and Head
Market and Customer Research Department

HUMAN RESOURCES GROUP

Cynthia C. De Rivera
Vice President and Head,
Organizational Development Department

Susan E. Cornelio
Assistant Vice President 1 and Head,
Compensation and Benefits Department

Maria Stella A. Fulgencio
Assistant Vice President 1 and Head,
Training and Development Department

Arlene N. Siongco
Assistant Vice President 1 and Head,
Manpower Management Department

Muriel S. Lapus
Assistant Vice President 1
Office of the Group Head

INTERNAL AUDIT

Joji S. Norico
Vice President and Officer-in-Charge,
Internal Audit

Pinky S. Derequito
Vice President and Head,
Greater Metro Manila Audit Department

Rosalia J. Simborio
Vice President and Head,
Head Office Audit Department

Ma. Luz H. Cantoria
Assistant Vice President 2 and Head,
Provincial Branch Audit Department

Lilia M. Diokno
Assistant Vice President 2 and Head,
Systems and Technology Audit Department

Ma. Edene M. Recio
Assistant Vice President 2 and Head,
Fraud Investigation Department

Teodora B. Garcia
Assistant Vice President 1 and
Credit Review Officer,
Credit Process Audit Department

Ramonita C. Mendoza
Assistant Vice President 1 and
Credit Review Officer,
Credit Process Audit Department

Nelson J. Montemayor
Assistant Vice President 1 and IS Audit
Officer,
System & Technology Audit Department

Carlito I. Santos
Assistant Vice President 1 and
Credit Review Officer,
Credit Process Audit Department

Elvira D. Soriano
Assistant Vice President 1 and Audit Officer,
Provincial Branch Audit Department

Ma. Elizabeth R. Sta. Ana
Assistant Vice President 1 and
Credit Review Officer,
Credit Process Audit Department

OPERATIONS GROUP

BRANCH OPERATIONS

Noel T. Calalang
Vice President and Head
Branch Operations

Edgardo R. Alferez
Assistant Vice President 2 and
Operations Area Head, West GMA

Ester T. Salcedo
Assistant Vice President 2 and
Operations Area Head, Central GMA

Ma. Cecilia A. Caleon
Assistant Vice President 1 and
Operations Area Head, East GMA

Kris V. Curaming
Assistant Vice President 1 and
Operations Area Head, Mindanao Area

BRANCH SUPPORT & SERVICES

Hector Y. Manawis
Assistant Vice President 2 and Head
Branch Support and Services

Mario A. Gulle
Assistant Vice President 1 and Head,
Clearing Center

Raul L. Gumangan
Assistant Vice President 1 and Head,
Cash Services and Operations Department

INTERNATIONAL BANKING AND TREASURY OPERATIONS

Arnel A. Valles
Vice President and Head,
International Banking and Treasury Operations

Elzeber O. Murallos
Assistant Vice President 2 and Head,
Remittance and Telecoms Department

LOANS AND MONITORING

Benjamin P. Apan
Assistant Vice President 1 and Head,
Loans and Monitoring

RISK MANAGEMENT

Reno P. Velasco
First Vice President and Chief Risk Officer

Ma. Cristina M. Farol
Assistant Vice President 2 and Head
Portfolio and Corporate Analysis Department

Arwin M. Guste
Assistant Vice President 1 and
Market Risk Officer

Maria Teresa S. Atraje
Assistant Vice President 1 and
Credit Review Officer
Portfolio and Corporate Analysis Department

Sonia Marie P. Arceo
Assistant Vice President 1 and
Credit Review Officer
Portfolio and Corporate Analysis Department

SUPPORT SERVICES GROUP

CONTROLLERSHIP

Dalisay N. Rubio
First Vice President and Head
Controllership

Cynthia A. Almirez
Assistant Vice President 2 and Head,
Regulatory and Management
Reports Department

Alexander L. Andres
Assistant Vice President 2 and Head,
Financial Accounting Department

Matilde T. Pascua
Assistant Vice President 2 and Head,
Subsidiaries Financial Accounting
Department

Donabel R. Aala
Assistant Vice President 1 and Head,
Tax Management and
Compliance Department

CORPORATE SERVICES

Alan Michael R. Cruz
Vice President and Head
Corporate Services

Karen V. Ramos
Vice President and Head,
Planning and Development Department

Carmelita H. Nepomuceno
Vice President and Head,
Facilities Management Department

Raymond C. Alonzo
Assistant Vice President 2 and Head,
ROPOA Operations Department

Teresita V. Rivera
Assistant Vice President 2 and Head,
Procurement Department

Willard C. Paras
Assistant Vice President 1 and Head,
AdministrationDepartment

INFORMATION TECHNOLOGY

Edgardo R. Diama
Senior Vice President and Head
Information Technology

Ramona E. Cruz
Vice President and Head,
Consulting and Development
Services Department 2

Manuel Joey A. Regala
Vice President and Head,
Technology Research, Control and
Planning Department

Melvin P. Guanzon
Vice President and Head,
Data Center Services Department

Janette L. Tempongko
Vice President and Head,
Consulting and Development
Services Department 1

Jones J. Ballesteros
Assistant Vice President 2 and Head,
Telecommunications Section
Data Center Services Department

Gil Pedro Primo B. Consunji
Assistant Vice President 2 and Head,
Technical Services Section
Data Center Services Department

Eriberto C. Contreras
Assistant Vice President 2 and Head,
Computer Operations Section
Data Center Services Department

Danilo U. Cua
Assistant Vice President 2 and SPO,
CASA Systems Project Team
Consulting and Development
Services Department 1

Ma. Elisa D. Ibana
Assistant Vice President 2 and Head,
Quality Assurance Section
Technology Research, Control and
Planning Department

Caridad P. Abad
Assistant Vice President 1 and SPO,
Trust Banking System Project Team
Consulting and Development
Services Department 2

Cynthia Y. Asong
Assistant Vice President 1 and SPO
Loans Management System Project Team
Consulting and Development
Services Department 1

Wilfredo H. Calapatan
Assistant Vice President 1 and SPO,
APA/RARS System Project Team
Consulting and Development
Services Department 1

Eleonor C. Cua
Assistant Vice President 1 and Head
Engineering Section
Data Center Services Department

Jaime D. Lambino
Assistant Vice President 1 and Head
Users Support Section
Data Center Services Department

Geronimo S. Mangubat
Assistant Vice President 1 Section Head
Data Center Services Department

Renato A. Mondez
Assistant Vice President 1 and SPO,
USB/CFD System Project Team
Consulting and Development
Services Department 2

Elena I. Refulgente
Assistant Vice President 1 and SPO,
Treasury System Project Team
Consulting and Development
Services Department 1

Michael S. Rabena
Assistant Vice President 1 and Unit Head,
Production Support Unit
Computer Operations Section
Data Center Services Department

Alfredo R. Torres
Assistant Vice President 1 and Unit Head,
Shift Operations Unit
Computer Operations Section
Data Center Services Department

STRATEGIC PLANNING AND ANALYSIS

Margarita A. Guadines
Vice President and Head,
Strategy Management Department

SYSTEMS AND METHODS

Irma C. Surtida
Assistant Vice President 2 and Head
Systems and Methods Department

CORPORATE COMMUNICATIONS

Ricardo Y. Lepatan, Jr.
Assistant Vice President 2 and Head
Corporate Communications Department

TREASURY GROUP

Arturo I. Lipio, Jr.
Assistant Vice President 2 and Head
Products and Structure Department
Capital Markets

Elizabeth C. Terrado
Assistant Vice President 2 and Head
Fund Management Department

Jonathan Thaddeus V. Jimenez
Assistant Vice President 2
Trading Department

Anthony F. Serrano
Assistant Vice President 2
Trading Department

Christian C. Cotoco
Assistant Vice President 1
Trading Department

Vincent K. De Leon
Assistant Vice President 1
Trading Department

Menchie E. Lagac
Assistant Vice President 1
Trading Department

Ma. Christine C. Pagkalinawan
Assistant Vice President 1
Sales and Distribution Department

Meliza B. Zulueta
Assistant Vice President 1
Office of the Group Head

TRUST BANKING

Kevin Patrick L. Kwok
First Vice President and Trust Officer
Trust Banking Division

Elisa M. Gala
Assistant Vice President 2 and Head,
Trust Operations Department

Enrique C. Jurado
Assistant Vice President 2 and
Trust Risk Officer

Maria Victoria C. Mendoza
Assistant Vice President 1 and Head,
Directed Investment and
Product Management Department

Gerardo Z. Evaristo
Assistant Vice President 1 and
Portfolio Manager
Managed Portfolios Department

Susan U. Ferrer
Assistant Vice President 1 and
Portfolio Manager
Managed Portfolios Department

WORKING CAPITAL PRODUCT GROUP

Gerald O. Florentino
Vice President and Head
Cash Management Collection

Mary Joan T. Garcia
Assistant Vice President 2 and Head
Traditional Deposit Products and Services

Lawrence S. Salido
Assistant Vice President 1 and Head,
Transactional Support Services and
Non-Traditional Products

Cecilia C. Carlos
Assistant Vice President 2 and
Product Manager

UCPB SAVINGS

Renato F. Apolonio
President

Germel L. Natinga
Vice President

Stella Maris R. Peliño
Vice President

Edward E. Martin
Vice President and Head
Legal Services Department

Evangeline P. Reyes
Assistant Vice President 2
Controller and Head Support Services and
Credit Supervision

Manuel T. Arpafo
Assistant Vice President 2 and Head
Branch Banking Division

Oben Jesus B. Aloba
Assistant Vice President 2 and
Area Head Vismin

Gilbert L. Nunag
Assistant Vice President and
Compliance Officer

Rafael N. Milan
Assistant Vice President 1 and Head
Branch Operations

UCPB SECURITIES, INC.

Renato P. Peralta
President

UCPB LEASING AND FINANCE CORP.

Aristides S. Armas
President

Catherine B. Aguilar
Assistant Vice President 1 and
Account Officer

John M. Sanchez
Assistant Vice President 1 and
Account Officer