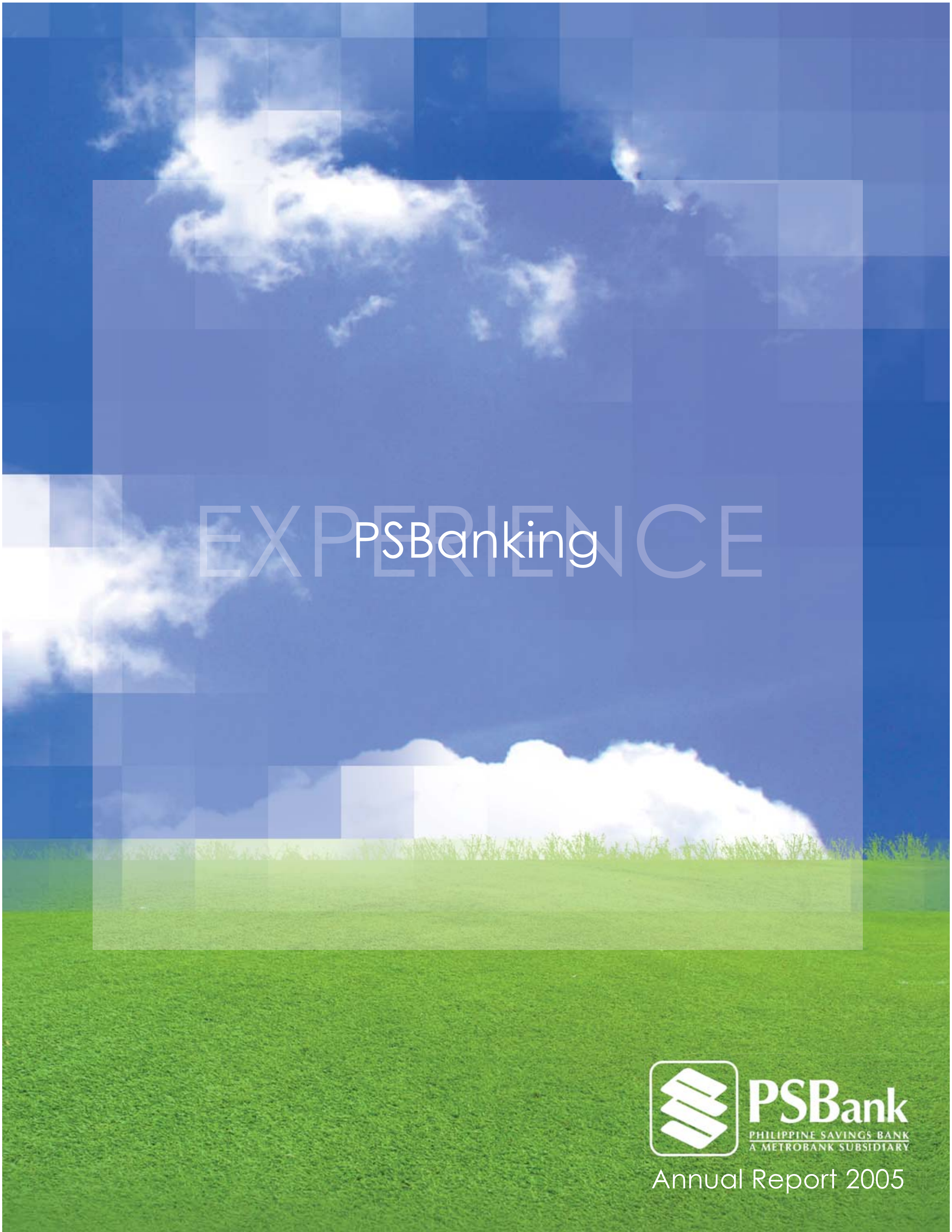
EXPERIENCE
PSBanking
PSBank
PHILIPPINE SAVINGS BANK
A METROBANK SUBSIDIARY
Annual Report 2005

PSBanking /ps bangking/ *v.tr.* engaging in a different kind of experience only a bank that knows its customers best could provide

::VISION

To be the country's **consumer and retail bank of choice**

::MISSION

As an INSTITUTION:
To conform to the **highest standards** of integrity, professionalism, and teamwork

For our CLIENTS:
To provide **superior products** and reliable, top-quality services responsive to their banking needs.

For our EMPLOYEES:
To place a premium on their growth, and

nurture an environment of teamwork where **outstanding performance** is recognized.

For our SHAREHOLDERS:
To **enhance** the value of their investments.

::CORE VALUES

In realizing our mission and vision, we will be **PROACTIVE** in serving our customers; **PERFORMANCE-DRIVEN** and recognized, reinforced, and rewarded accordingly; **PROFESSIONAL** to the highest standards and in all respects; **PEOPLE-ORIENTED** in our dealings with our internal and external customers alike.

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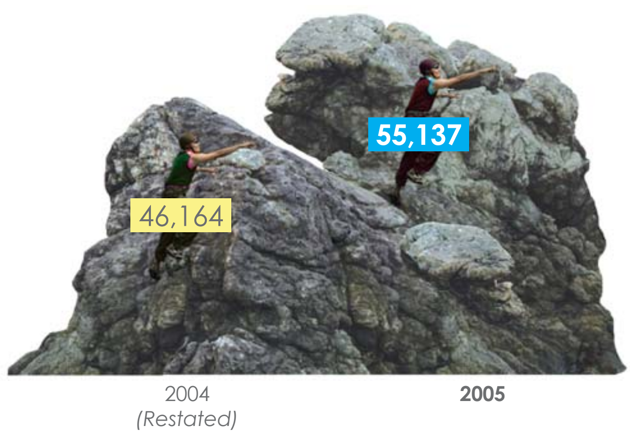


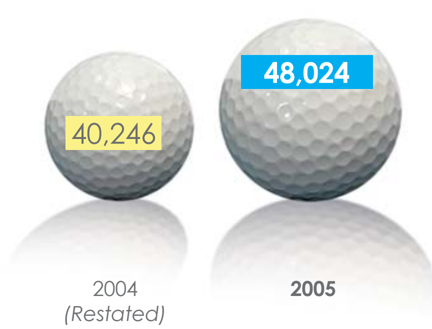
Total Assets
In million PhP

2005 By the Numbers

Selected Financial Indicators	**2004** *(Restated)*	**2005** *(Audited)*
Total Assets (In PhP million)	46,163.57	55,136.79
Total Deposits (In PhP million)	40,245.58	48,024.15
Capital Funds (In PhP million)	4,462.26	5,319.07
Net Income (In PhP million)	497.20	646.36
Earnings per Share (%)	2.77	3.60
Return on Average Equity (%)	12.14	13.43
Return on Average Assets (%)	1.21	1.20
Cost-to-Income Ratio (%)	74.80	74.87
Net Interest Margin (%)	5.58	5.77
Capital Adequacy Ratio* (%)	13.81	12.51
NPL Ratio (%)	5.71	5.31
NPL Cover (%)	57.64	86.42
Branches	139	150
ATMs	94	147

**The Bank's CAR declined due to its adoption of the new international accounting standards. However, it was able to improve the ratio after issuing PhP 2 billion in Tier 2 unsecured subordinated debt in January 2006.*

Net Income
In million PhP



Deposits
In million PhP

Loans
In million PhP

Message from the Chairman

ADVERSITY AND CHANGE were the dominant themes of 2005 and ushered in trying but challenging times.

For the most part, the Philippine economy was buffeted with volatile oil prices, rising global interest rates, lower farm output, and heightened inflationary pressures. The widening fiscal deficit, the country's heavier debt load, and the unresolved current political and constitutional impasse all weighed down government's efforts to re-stimulate confidence in the economy. Then there was the human tragedy in Southern Leyte that claimed the lives of thousands and again tested our nation's preparedness for disasters.

Yet there were also silver linings. The robust increase in inflows from abroad, largely from overseas Filipinos, pushed the Gross National Product (GNP) to 5.7 percent growth. The resurgence of agriculture and the strong performance of the industry and services sectors in the last quarter of the year propelled the economy to a gross domestic product (GDP) growth rate of 5.1 percent.

The Philippine banking industry also had its share of trials. The change to the International Accounting Standard (IAS) and the adoption of global banking standards under the Basel 2 both tested the strengths and preparedness of the internal systems of banks and financial institutions.

We at PSBank met these challenges head on. We raised funds from the subordinated debt market during the early part of 2006 to further boost our capital adequacy and firmly support the further expansion of our loan and investment portfolios. We also initiated several changes that revitalized the Bank with a refreshed strategy.

While the challenges we faced in 2005 were significant, the progress we have made is tangible. These initiatives had a positive impact on our results in the fiscal year. More importantly, we have remained dedicated to delivering quality products and services to our customers.

Many factors have contributed to PSBank's successful year, not least our culture of offering our customers our brand of banking experience, and our focus on keeping things simple. What this illustrates is the power of customer experience and the value of consistency.

At PSBank, we do not leave things to chance. We believe good luck happens when preparedness meets opportunity. We continue to outperform industry standards by a wide margin. We have flexed our muscles to 150 branches and 147 ATMs nationwide—a network even bigger than other commercial banks. Indeed, we have come a long way to be the country's 2nd largest and one of the most profitable thrift banks.

Just as our mandate is continuous growth and service excellence, our tools are more aggressive marketing efforts, focused strategies and evolving IT platforms that loop everything into one dynamic banking system in tune with the times.

We must always be prepared for the opportunity to take the lead. We must also create opportunities and build more bridges to lead in the industry. This is our continuing direction. This is the only way PSBank can go.

Jose T. Pardo

The President's Report

FOR the past five years, I have had the privilege of being at the helm of an extraordinary bank—one that is closer to its goal of becoming the industry leader with a strong nationwide presence in the retail and consumer markets.

The experience has brought seasons of triumph and tribulation—but never, for a moment, dull. We continue to enjoy the longest double-digit growth streak in our Bank's history, and create unprecedented opportunities for our customers, shareholders and employees.

Today, we face new challenges. The rapidly changing yet more regulated business environment prompted the Bangko Sentral ng Pilipinas to mandate banks to shift to International Accounting Standard (IAS) by end-2005 and prepare to adopt banking standards under the Basel 2. These new rules were seen to erode the net income and capital base of most Philippine banks.

However, PSBank bucked the trend. Our net income rose 30 percent in 2005 to an all-time high of PhP 646.36 million. Consequently, we were able to improve its Earnings per Share to PhP 3.60 in 2005 from PhP 2.77 in 2004. We also continued to reward our shareholders for their confidence. Our performance allowed us to consistently pay dividends to our stockholders over the years.

Another challenge is the overcrowding of the consumer loan arena. We see this as an opportunity to elevate our performance standards, improve organizational competencies, and continue to build the entrepreneurial mindset.

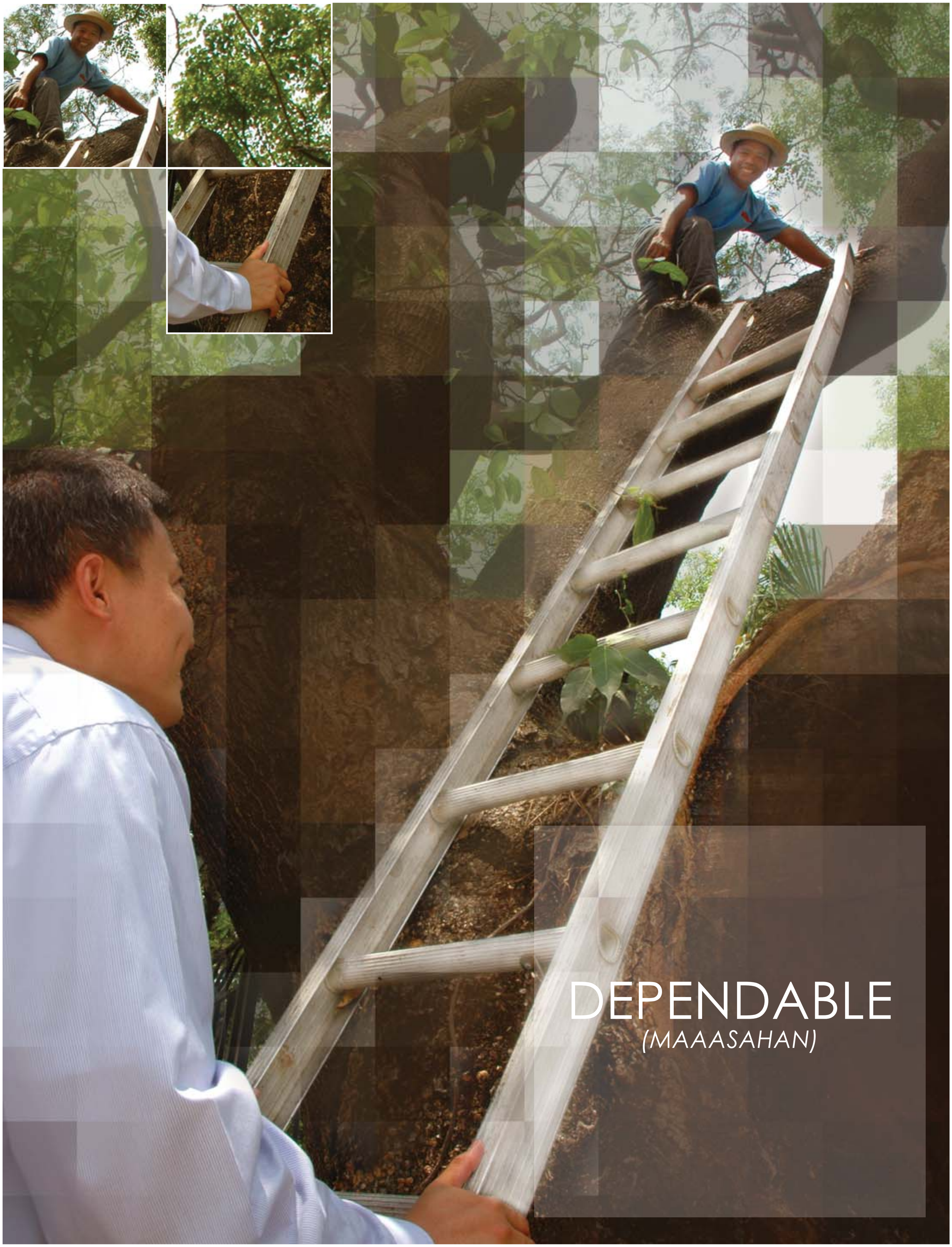
Early and continuing successes in these areas resulted in improved contributions of our business lines in 2005. Our Consumer Banking business continues to expand in relation to our loan portfolio, and now comprises 65 percent. Our provisioning coverage is at a high of 86 percent after we set aside PhP 485 million for this purpose last year. Consumer and commercial lending continue to be stable sources of income and has benefited from strong asset growth, while Treasury has tremendously gained from favorable market conditions.

Mindful of challenges that may confront the Bank in the near term, we have successfully tapped the debt and equities markets for capital-raising initiatives. We raised PhP 2 billion early in the year through an unsecured subordinated debt issuance and will be completing a PhP 750-million rights offer in May 2006. The Bank will continue to be open to opportunities to further strengthen and grow its primary and secondary capital levels.

Our 46-year history has shown that PSBank responds powerfully in the face of adversity. Markets and rules change, but our leadership and principles endure. This is the very fabric of PSBank—who we are and how we operate.

Much has been accomplished but much more has yet to be done. We are confident that PSBank will continue to lead the way in harnessing technology and customer service to create an enduring PSBank experience for our clients.

Pascual M. Garcia III



DEPENDABLE

(MAAASAHAN)

JONAS PAW (left), owner of Binondo-based Wonderful Travel Services: *"In my industry, a bank is not just there to serve my banking needs, but acts as a guarantor for my airline deals. PSBank is my steady business partner."* Also in photo is Mr. Venson C. Garcia, head of PSBank-Binondo Branch.

The Long Haul

BENITO AND YOLLY DE ASIS seem every bit like your typical neighborhood rice traders. They rise before the crack of dawn, mind their small store day in and out, and drive on weekends to Mindoro or Nueva Ecija to replenish their stock.

Except that the couple has been doing this non-stop for over three decades and is now reaping a bountiful harvest.

With just P500 as capital, Benito and Yolly entered the business selling two sacks of rice in a *bilao* on a corner seat in the Lemery Public Market. Little by little, just like the rice grain they sell, they built their savings until they were able to take out their first loan from PSBank-Lemery Branch in 1982.

The P10,000 loan was seed capital for their Lemery Rice Center, now one of the biggest wholesalers and retailers of rice in the Lemery New Public Market. The couple has seen rice prices fluctuate, along with supply and market competition, but knew they are always prepared for the long haul.

"We have seen it all, seen new rice dealers, seen old ones close shop. But when you have already built a reputation, you don't cower," says Benito, 56. The couple also has a trucking business that enables them to keep their transport costs down.

From the fruits of their rice business, the couple now maintains several accounts with PSBank, including a standby commercial line, a checking account, two auto loans, and a housing loan. Their eldest son, who is now a rice dealer, is also a valued PSBank client.

"Nakapagpatapos kami ng apat na anak sa pagtitinda ng bigas lang," says Yolly. "Without a bank like PSBank, we will not be able to make it to the long haul."

Review of Operations

Changing the way you look at banking

IN our 45 years of providing service to owners of small- and medium-sized enterprises, we have always been fascinated with the way they talk about their business—it is their passion, their livelihood, and their life. They describe what they do and how they do things, and one usually finds very simple business models and common themes.

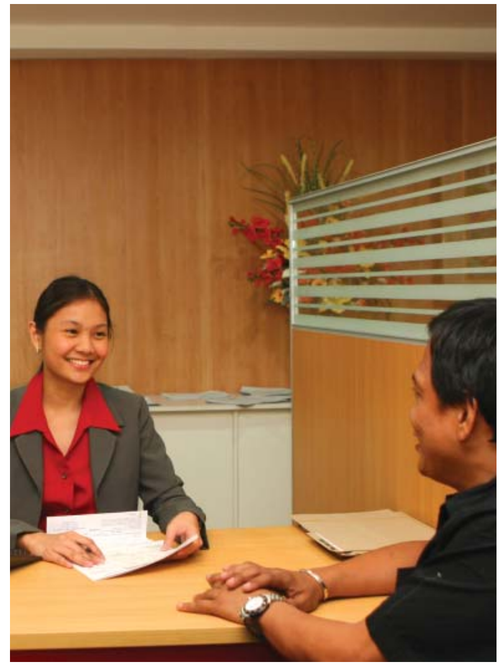
Oftentimes, too, they view banks the same way: not having much differentiation in products and services, and using traditional delivery channels. The widely held view is that a bank is a bank is a bank, and nothing more.

Changing the way our customers look at our business is our greatest challenge at PSBank. We look at our rapidly growing business and we constantly find that at the heart of our success is doing something different for our customers.

In an extensive market research we conducted in 2005, we found out our customers describe PSBank using the following traits: fast (*mabilis*), approachable (*madaling kausap*/*simple lang*), dependable (*maaasahan*), and accommodating (*maasikaso*).

Some call it the “it” factor; at PSBank, we simply call it EXPERIENCE. We measure our business success by the quality of the overall customer experience we provide—before, during and after a transaction.

We make it our business to know our customers well, and we work even harder to find the simplest and most effective solutions to their banking needs.



How we operate

The Bank is divided into three business segments designed for greater customer focus: Consumer Banking Group, Commercial Banking Group, and Treasury. Each segment is organized and managed separately according to the nature of the services provided and the different markets served.

Consumer Banking

The Consumer Banking Group principally handles individual customer’s deposits, and provides customer-type loans and other products and services.

Branch Banking

At the heart of the sustainability of PSBank is our distribution network, which further grew to 150 branches in 2005, 92 of which are strategically spread all over Metro Manila. This makes PSBank the second largest among thrift banks in terms of branch network.

The year saw several system improvements in our branches such as the full rollout of the automated, centralized Signature Verification System and other core applications in deposits and loans processing. These translated to quicker turnaround times, and more efficient and accurate service deliveries.

We also further expanded our ATM network to 147 and maximized their functions, in addition to traditional cash dispensing and bills payment. PSBank ATMs also now serve as marketing vehicles for our products and services. We invested in a new software delivery management system that allows us to update our ATM screens from a central location—a first in the industry.

These system enhancements resulted in a surge in ATM transactions and revenues. Income from our ATM business tripled from January to December 2005—both from local as well as from international cards.

With a bigger and more equipped branch and ATM network, we were able to increase our deposits in 2005 by 20 percent, breaching the PhP 48-billion mark.

Loans, meanwhile, rose by almost PhP 6 billion in 2005, with auto loans posting the heftiest increase and accounting for the largest share of the bank's total loan portfolio, next to commercial loans.

Mortgage Banking
Mirroring the signs of the times, the Bank's mortgage loans portfolio got a fillip from the resurgence in the housing sector. This led to a dramatic growth of more than PhP 7 billion in 2005 from PhP 5.77 billion in 2004.

Total number of accounts booked and peso volumes posted double-digit growths in 2005 year-on-year. These were due to aggressive nationwide print advertising, strict monitoring of the application process, and closer coordination with clients on credit decisions through the adoption of a real-time client advice via text messaging (SMS). The SMS facility is also accessible to prospective clients for inquiries on home loans.

Auto Loans
PSBank continued to be a recognized leader in the auto loans business which accounted for more than a third of its 2005 loan portfolio.

In 2005, the Bank launched an aggressive tri-media campaign to drum up interest in our fast and easy auto loan approval process. More below-the-line marketing strategies and tie-ups with leading car manufacturers and dealers enabled us to surpass our year-on-year performance, both in terms of number of units booked and peso volumes.

Personal Loans
While personal loans have the smallest share among loan products, it serves as the entry point for customers to learn about the Bank's other product lines. In 2005, we launched the PSBank Money Card which fills the market's demand for ready cash anytime, anywhere.

This aided the growth of our personal loans business, which rose by 19 percent versus 2004, mostly due to bookings in the branches. Loan bookings also benefited from system improvements such as the adoption of an online personal loans application encoding at any PSBank branch. This improved turnaround time from the date the application was sent to the actual loan release to the customer.

Commercial Banking
Whether helping a client obtain revolving capital through SME Business Credit Line, or a first-time borrower avail of a MultiPurpose loan for his start-up venture, PSBank offers a wide array of commercial banking products and services that suit the needs of small and medium enterprises (SMEs).

In 2005, we aggressively marketed our premium commercial loan product, the SME Business Credit Line. The pioneering product continues to gain a steady stream of customers drawn to its low interest rate, hassle-free check-writing facility, and flexible repayment terms.

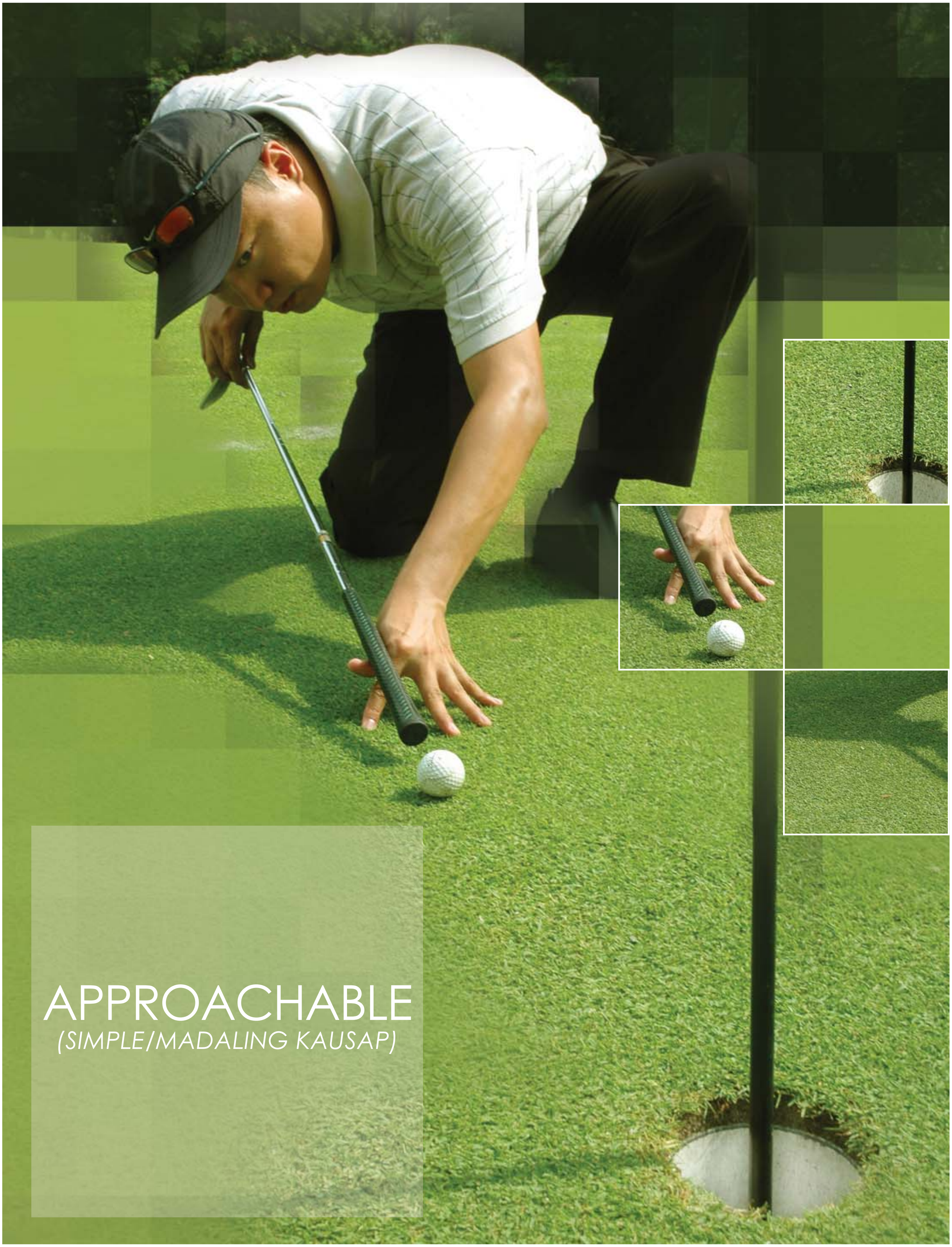
This resulted in a hefty increase in our commercial loans portfolio which makes up the largest share of the total loan basket, at 33 percent. Consequently, this boosted our total loan portfolio to PhP 9.27 billion in 2005, from PhP 8.83 billion 2004.

Treasury
The Treasury Group mainly provides money market, trading and treasury services, and is responsible for the management of the Bank's funding operations.

Recognizing opportunities in the ever-changing environment, the Bank took advantage of market volatility and generated a substantial trading volume for government securities and Republic of the Philippines (ROP) sovereign bonds. This was achieved despite the political turmoil and increasing inflation concerns in 2005. We also benefited from our continuing efforts to maintain adherence to risk management principles.

LEO RIVERA, owner of L Riveras Balisong and client of PSBank-Lemery in Batangas for 15 years now. Started his successful fan knife business in the 1980s with a P10,000 working capital loan from PSBank and has availed of two auto loans from the Bank since.

"For my long-term placements, I need a stable bank like PSBank." – JOSEFINA CHINCUANCO, owner of Lorraine Technical School with branches in Pampanga, Bulacan and Kalookan. Client of PSBank-Greenhills Branch since 1989. Also availed of PSBank Auto Loans for her family-owned driving school, and for personal use.



APPROACHABLE
(SIMPLE/MADALING KAUSAP)

ALEX BANCUD (right), owner of Davao-based exporter Elinita Farms: "With PSBank, I could run my 100-hectare banana plantation smoothly and facilitate my export shipments thrice a week. PSBank auto loans also made it possible for me to buy delivery vans." Also in photo is Mr. Alfredo E. Abrenica, head of PSBank-Tagum Branch.

A Relationship Made of Steel

GUILLERMO GOLLON has a heart of steel. After all, it has been about a decade now since he braved the iron and steel business where the cycle is always like a rollercoaster ride.

For his Cebu-based New Millennium Hardware, Inc. to survive, Guillermo has to run high volumes to compensate for margins that could dip to as low as 50 centavos a steel rod. On top of the margin squeeze, buyers are also used to payment terms of 75 to 90 days.

"They issue post-dated checks (PDCs) so I am always in need of cash to fund orders," he says. "It's a tough market."

The steel cycle is like an erratic heartbeat. Supply does not quickly adjust fast enough when demand surges. Guillermo says it takes a lot of getting used to before a businessman fully understands the cycle.

He thought all his years in the business, starting as a lowly *boduegero* (stock keeper) for nine years, prepared him for the global crash in 2000 which sent steel prices on a tailspin.

"My clients had a hard time paying. So they gave me checks with second endorsements. I asked the bank to help me stay liquid by facilitating these check payments. They did and it was such a relief!" he relates.

Now over the hump, New Millennium gets steady demand from customers, particularly from furniture exporters. Apart from the store in Subangdaku and the warehouse, another retail store is about to rise in Liloan.

"That experience brought me even closer to PSBank. *Madali silang kausap at may malasakit,*" Guillermo says.

"It's always banking with a smile at PSBank." – DRS. JOEL AND MA. BERNARDA MENDOZA, proud owners of a brand-new Fortuner—their third personal vehicle funded by a PSBank Auto Loan. Long-time clients of PSBank-Tagum Branch in Davao.

"I'm 101% satisfied! PSBank is very friendly and accommodating." – AMELIA LONTOC, third-generation proprietress of Amelia's Embroidery and loyal client of PSBank-Lemery Branch since 1980. Has three auto loans, one housing loan, and maintains personal and business accounts with PSBank.

Even with growing competition in both fixed income and term fund markets, all our Treasury-driven term deposits and government securities significantly increased compared with 2004 volumes. A more aggressive and dynamic sales strategy led to the expansion of our client base.

Service Quality
A full-staffed Service Quality Division in our Bank spearheads and drives the service culture and employee development through training.

In 2005, the Bank carried out various service and customer care training programs on process improvement and quality process. Customer satisfaction surveys were conducted for our new accounts, closed accounts, as well as for our internal customers. We also initiated a Contactor Survey to get customer feedback at the point of first contact with PSBank personnel. These surveys helped imbibe a culture of customer service in our organization, which is integral to our overall business strategy.

PSBank believes that its strength lies in the quality of its people. In 2005, we offered various training programs to PSBankers, which translates to an average of seven training programs or 56 hours of training per employee. More customized training programs and courses on professional advancement are in the pipeline as PSBank continues to prepare its people for bigger opportunities and bigger dreams.

Marketing and Communications
We invested in aggressive advertising and marketing campaigns in 2005 to drum up our new brand image as a consumer and retail bank.

The Bank launched major tri-media campaigns for its Auto Loans, Money Card, Home Rate Protect, PSBank Premium Checking account, MasterCard, and other new products and services. A fresh advertising campaign came out almost every month for the entire year in our single-minded desire to achieve top-of-mind awareness among our target markets.

We also initiated more below-the-line efforts across all product categories in 2005, and maximized our branches and ATMs as effective merchandising tools. We also carried out internal marketing campaigns through bigger and better incentive programs for our branch personnel to drive the business.

Credit Administration
Vital to the Bank's operations is Credit Administration which is responsible for the approval of consumer and commercial loan applications nationwide, credit investigation and appraisal. Under the consumer credit evaluation, auto, personal and mortgage loans are processed for approval and booking while commercial credit evaluation is focused on SME and corporate segments. Appraisal supports both consumer and commercial credit by giving a fair valuation to residential and commercial properties offered by clients.

Keeping in mind the Bank's goal to deliver its promises to clients, automation projects were undertaken to support loan processing. Standard delivery times were also shortened to improve service levels while processes were centralized for consistent evaluation of loans and compliance with lending policies and guidelines.

Remedial Management
While the Bank pursued aggressive growth targets in its lending operations and hastened the turnaround time for processing loans, it managed to grow its balance sheet without eroding the quality of its assets.

In 2005, the share of Non-Performing Loans (NPL) to the Bank's total loan portfolio was successfully kept at 5.31 percent from 2004 levels. These gains can be attributed to the following initiatives: enhancements in collection processes, increased productivity, and focused strategies; and integration of the litigation function under remedial management. The Bank also aggressively marketed its ROPOA and made full use of automated text messaging (SMS) applications for collection notices.

Information Technology

An integral part of the Bank's growth story is execution and implementation. Powerful technological applications have been propelling our growth in recent years.

In 2005, PSBank's Information Technology Division enabled the entire branch network gain access to ready information that helped us achieve our growth objectives. The Bank was able to monitor and manage abrupt cycles in business volumes and measure its profitability down to the specific branch or account.

Driven by our overall objective to provide access to products and services anytime, anywhere, we undertook the following initiatives in 2005:

- Improvements in operational and back-end processes that include centralization of clearing process, post-review and signature verification of transaction documents, automated signature verification, and putting in place an Exception Management System.

- Establishment of a highly automated, paperless request tracking and monitoring system that enables the Bank to manage and improve its processes from end to end.

- Utilization of software that transformed the Bank's ATM machines into strategic marketing and communication tools by deploying ATM screens to our branches simultaneously and centrally.

- Installation of a system that allows PSBank customers to pay their loans via our ATM network. The system also provides validation process to eliminate erroneous posting of payments to accounts.

These systems resulted in higher operational efficiency for the Bank and steadily reduced our cost-to-income ratio.

Human Resources

Amid the uncertain economic conditions, we beefed up our headcount in 2005 to support our aggressive branch expansion and the growth of our business units.

While many in the banking industry adopted a conservative hiring policy in 2005, PSBank increased its headcount by 19 percent and hired a total of 399 new employees, ending the year with 1,792 strong. Still, the Bank managed to significantly enhance its employee productivity levels, with the compensation to total expenses ratio improving to 37.6 percent in 2005 from 41.4 percent in 2004.

Internal Audit

The Internal Audit Group is responsible for monitoring risk areas of the Bank. This covers looking into the adequacy and effectiveness of the Bank's internal control systems and its risk management procedures and risk assessment methodologies. All audit reviews, findings and results are reported to the Audit Committee of the Board of Directors. In addition to its periodic review of all branches and units, the Bank formed a Special Audit Unit in 2005 to handle investigations and reviews of fraud-related cases. A signature verification and customer confirmation process was also set up at the Quality Assurance Division at the Head Office, as well as a Quality Assurance Rating System for branch reviews.

Compliance

Adherence to regulatory policies and rules is a cornerstone of the Bank's corporate governance thrust. The Board of Directors of the Bank approved a charter that properly lays down the fundamental principles of the Compliance function in PSBank.

In 2005, the Bank enhanced employee awareness of existing regulations and issues that impact its business, including: electronically posting on our InfoChannel intranet facility the Bangko Sentral ng Pilipinas' regulations and circulars, the implementing rules and regulations of the Anti-Money Laundering Act of 2000, as well as compliance memoranda issued.


ACCOMMODATING
(MAASIKASO)

GLENDA MARIE VILLANO-TENORIO (RIGHT), general manager, Casa Cecilia Heritage Hotel: "For me, PSBank is family. We have been a client for 15 years now and it's not easy to find someone you could trust that long." Also in photo is Ms. Mercedita N. Mangubat, head of PSBank-Lemery Branch.

Warm Smiles and Iced Tea

PIO S. RAYMUNDO II loves everything warm: a good spa, a cozy home at the end of a busy day, and the sunshiny smiles at PSBank-Greenhills branch.

"When I enter the branch, the tellers greet me on a first-name basis, I make *chika* with the branch head, pour myself an iced-cold tea," he says.

Call him easy to please, but Pio has stayed with PSBank for the past 12 years because he loves the personal touch. "You don't get that treatment in other banks. They're all business, formal and cold," he says.

When you are in the frozen food trade, it's but natural to seek some warm company. He and wife Judy run Goodwealth Enterprises, which supplies headless black tiger prawns to local hotels and restaurants.

Pio knows the business like the palm of his hand. He once worked with the frozen foods division of Mitsubishi Corp. and headed the Asia-Pacific seafood export operations of San Miguel Corp. for five years. In 2000, he thought he acquired enough knowledge of the business that he started charting his own destiny as an entrepreneur and took out a working capital loan at PSBank.

With seafood now a popular choice among the health conscious, Goodwealth has been bringing good fortunes to Pio and his wife. They have since fully paid two working capital loans with PSBank, on top of the auto loans they used to buy two delivery vans and their two personal vehicles.

"At PSBank, I always feel like coming home," Pio adds.

Risk Management

Risk is intrinsic in banking and the ability to manage risks effectively is vital for a bank to sustain its growth and continue to create value for its shareholders.

PSBank has adopted an integrated risk management approach to ensure that it is able to identify, measure, monitor, and mitigate its risk exposures across different types of risks, including credit, market, structural interest rate, liquidity, operational, technology, legal, and regulatory risks.

Organization

In 2005, PSBank undertook several significant organizational changes to develop a stronger and integrated risk management framework that balances the nature of the Bank's businesses and its risk appetite.

Its risk management structure continues to be a top-down organization, with the Board of Directors at the helm of all major initiatives. The active involvement and interaction of the various Board- and management-level committees, and specialized units that focus on the different aspects of risk management, provide the support mechanism.

The Risk Management Committee (RMC), comprised of at least three members of the Board of Directors, has overall responsibility for the development and oversight of the Bank's risk management process. An Administrative Risk Management Committee (ARMC), comprised of the President and the heads of Audit, Finance, Compliance, Operations, Credit, Treasury, Risk Control and Risk Management Office, was formed to provide the RMC with the necessary support of Senior Management on risk-related matters, including market risk. Other committees include: the Executive Committee and the Credit Committee for credit risks, the Assets and Liabilities Committee for structural interest rate and liquidity risk, and the Audit Committee for operational risks.

New functions were likewise created to have a firmer grasp on the full range of risks that the Bank faces in its day-to-day activities. The Risk Management Office (RMO) was spun off and made independent of any line function. It reports directly to the Board of Directors through the RMC. The RMO covers the three key risk areas of Credit, Market, and Operational Risk. Also created to complete the integrated risk management approach of the Bank were the Information Security Department, which reports directly to the Office of the President and the Operations Risk Control Division, which reports to the Head of Operations.

Credit Risk

Credit Risk is the risk that counterparty will not settle its obligations as agreed, resulting in a financial loss.

In managing credit risk, the Business Unit Heads develop business plans that set concentration limits and target markets by product, and specify terms acceptable for risk-taking, in accordance with the internal policies and guidelines established by the senior management. The business plans are endorsed by the Credit Committee, and approved by the Board of Directors based on the risk/reward dynamics of the product offering, and capability to measure and manage the risk.

Extension of credit exposure is based on the recommendation of Credit Scoring and at least one approver for Consumer Loans, or at least three approvers for Commercial Loans. An approver or credit officer is one who has been granted a specific type of authority to approve extension of credit on the basis of experience, proven ability and specific duties and responsibilities. There are three types of mandates. Each type establishes the level of authority and maximum amount for each type of transaction. The delegation chain proceeds from the Board of Directors only.

The Credit Administration Head, along with the Credit Risk Manager, identifies, recommends, and tracks delegation limits. Delegated authorities are reviewed regularly, and changes are recommended as necessary.

A loan is initiated with complete verification of the individual or corporate entity, fulfilling all Know Your Customer (KYC) requirements. Critical data provided by the borrower are also independently verified. The repayment ability of the borrower and cash flow should be adequate, independent of assets pledged as collateral, if any. For secured loans, the Bank validates that the collateral exists and is of value, that the Bank can have physical control and/or legal title thereto, and that it is supported with necessary documentation.

In place are management information at all stages of the credit cycle: credit initiation, account servicing and collections. These provide the ARMC basis for formulating/modifying lending policies and procedures. In 2005, portfolio quality reviews resulted to changes in the target market, streamlining of credit processes, and intensification of collection efforts.

Working towards Basel compliance, the organization continues to enrich the data capture capability of the systems, and enhance and automate the credit rules for better data quality, tracking and enhancement. Recently, the Bank has embarked on developing derivative scorecards which, after risk differentiation, allows streamlined credit processing for selected customer segments.

The Bank, through the RMC, assesses the adequacy of its provisions for probable credit losses regularly. It has an automated loan grading system, setting up initial provision on a per-account basis. Any manual loan upgrade or downgrade is subject to the approval of the Credit Committee.

Market Risk

Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk), from movements in interest rates (interest rate risk), and from an inability to meet obligations when they come due without incurring unacceptable losses (liquidity risk).

Trading Market Risk

The RMC and the Board of Directors have set a comprehensive limit structure to define the market risk parameters within which trading activities may operate. The Bank has established daily Value-at-Risk (VaR) limits that set a cap on the Bank's trading risk appetite, daily and month-to-date Loss Triggers and Stop-Loss Limits. This is to control total losses from trading activities, portfolio position and tenor limits, and trader's transaction and position limits.

VaR is a tool for measuring the potential loss from an unlikely, adverse event in a normal market environment. It is defined as a statistical estimate of the maximum possible loss on a given position during a time horizon within a given confidence interval, and is a measure of likely earnings volatility for trading portfolios. The Bank's VaR model assumes a 99% level of confidence (2.326SD) over a one-day horizon, using a 0.985 exponential decay factor. Back testing is employed to verify the effectiveness of the VaR model and stress testing is also conducted, based on a historical crisis period and on an ad hoc rate shock to estimate potential losses in a crisis situation.

As part of trading market risk controls, daily monitoring and reporting procedures are set to ensure that positions taken by risk-takers do not exceed Board-approved parameters. Limit excesses are immediately flagged to management and are reported to the ARMC, RMC and the Board of Directors.

The RMC, supported by the ARMC and the RMO, is responsible for managing the Trading Market Risk of the Bank. The Committee recommends to the Board of Directors risk limits on transactions, decision-making authorities, and exception management.

Interest Rate Risk Management

The Bank's primary tool for managing its structural interest rate risk is the Interest Rate Sensitivity Gap. The report uses interest mismatch ladders to identify gaps or mismatches by recording all interest rate sensitive assets and liabilities according to their next interest repricing date or maturity. The report shows the Bank's balance sheet positions together with the performances of its major products. The interest rate gap profile is then subjected to scenario analysis, which measures the impact of interest rate movements on gain/loss assumptions.

The ALCO has the responsibility of managing the structural interest rate exposure of the Bank. Its focus is to achieve a desired overall interest rate profile, which may change over time based on management's long-term view of interest rates and economic conditions. The RMC, supported by the ARMC and RMO, also reviews the composition of the Bank's assets and liabilities, including interest rate mismatch positions.

The tables below summarize the Bank's interest rate risks for the Peso and FCDU books as of end-2005 (amounts in millions of Philippine pesos).

PESO BOOKS INTEREST RATE RISK EXPOSURE

ACCOUNT	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON-RATE BEARING	TOTAL
ASSETS							
CIV, CHECKS & OTHER CASH ITEMS	-	-	-	-	-	741.04	741.04
DUE FROM BSP	1,747.36	-	-	-	-	-	1,747.36
DUE FROM OTHER BANKS	197.06	-	-	-	-	-	197.06
HELD-FOR-TRADING INVESTMENTS	-	-	-	-	-	631.64	631.64
AVAILABLE FOR SALE INVESTMENTS	569.34	0.40	270.21	998.27	1,444.90	237.05	3,520.17
HELD-TO-MATURITY INVESTMENTS	-	200.00	8.00	487.21	1,383.98	-	2,079.19
INTERBANK CALL LOANS	-	-	-	-	-	-	-
LOANS AND RECIEVABLES	7,574.23	1,664.12	5,297.54	9,279.00	4,157.94	1,150.86	29,123.71
OTHER ASSETS	-	-	-	-	-	4,404.23	4,404.23
TOTAL ASSETS	**10,087.99**	**1,864.52**	**5,575.75**	**10,764.48**	**6,986.82**	**7,164.82**	**42,444.38**
LIABILITIES							
DEPOSITS	16,428.64	3,993.26	1,451.90	5,610.94	8,638.70	-	36,123.45
DUE TO TREASURER OF THE PHILIPPINES	3.46	-	-	-	-	-	3.46
DUE TO OTHER BANKS	-	-	-	-	-	-	-
BILLS PAYABLE	-	-	-	-	-	-	-
OTHER LIABILITIES	-	-	-	-	-	1,729.22	1,729.22
TOTAL LIABILITIES	**16,432.10**	**3,993.26**	**1,451.90**	**5,610.94**	**8,638.70**	**1,729.22**	**37,856.12**
CAPITAL	-	-	-	-	-	4,588.26	4,588.26
TOTAL LIABILITIES AND CAPITAL	**16,432.10**	**3,993.26**	**1,451.90**	**5,610.94**	**8,638.70**	**6,317.48**	**42,444.38**
INTEREST RATE SENSTIVITY GAP	**(6,344.11)**	**(3,993.26)**	**4,123.85**	**5,153.54**	**(1,651.88)**	**847.34**	**-**

FCDU BOOKS INTEREST RATE RISK EXPOSURE

ACCOUNT	UP TO 1 MONTH	1-3 MONTHS	3-12 MONTHS	1-5 YEARS	OVER 5 YEARS	NON-RATE BEARING	TOTAL
ASSETS							
CASH IN VAULT, CHECKS & OTHER CASH ITEMS	-	-	-	-	-	67.69	67.69
DUE FROM BSP	-	-	-	-	-	-	-
DUE FROM OTHER BANKS	1,201.44	-	-	-	-	-	1,201.44
HELD-FOR-TRADING INVESTMENTS	-	-	-	-	-	-	-
AVAILABLE FOR SALE INVESTMENTS	-	-	-	394.09	7,902.16	415.04	8,711.29
HELD-TO-MATURITY INVESTMENTS	-	-	-	-	1,848.06	-	1,848.06
INTERBANK CALL LOANS	-	-	-	-	-	-	-
LOANS AND RECIEVABLES	-	-	-	-	-	317.40	317.40
OTHER ASSETS	-	-	-	-	-	546.53	546.53
TOTAL ASSETS	**1,201.44**	-	**-**	**394.09**	**9,750.22**	**1,346.65**	**12,692.41**
LIABILITIES							
DEPOSITS	6,394.32	3,482.51	1,481.69	21.25	520.91	-	11,900.68
DUE TO OTHER BANKS	-	-	-	-	-	-	-
BILLS PAYABLE	-	-	-	-	-	-	-
OTHER LIABILITIES	-	-	-	-	-	84.52	84.52
TOTAL LIABILITIES	**6,394.32**	**3,482.51**	**1,481.69**	**21.25**	**520.91**	**84.52**	**11,985.20**
CAPITAL	-	-	-	-	-	707.21	707.21
TOTAL LIABILITIES AND CAPITAL	**6,394.32**	**3,482.51**	**1,481.69**	**21.25**	**520.91**	**791.73**	**12,692.41**
INTEREST RATE SENSTIVITY GAP	**(5,192.88)**	**(3,482.51)**	**(1,481.69)**	**372.84**	**9,229.31**	**554.93**	**-**

The Bank assumes that 70% of its regular savings and demand deposits are stable and are thus considered core deposits (long-term liabilities in the bucket over five years).

Liquidity Risk Management
The Bank's policy on liquidity management emphasizes three elements of liquidity, namely: cash flow management, overnight interbank trading, short-term risk free investments. The Bank's policy on liquidity management emphasizes on three elements of liquidity: cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high- quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool for monitoring the Bank's liquidity is the Balance Sheet Liquidity Model. Under this analysis, all assets are classified into "liquid assets" or "illiquid assets." All liabilities are split into "volatile liabilities" or "stable liabilities." (For customer deposits, assumptions are made and incorporated into the analysis). Volatile liabilities are then deducted from liquid assets to determine the Bank's Net Liquid Asset. The Bank applies the Balance Sheet Liquidity analysis for both "normal" and "stress" scenarios.

The Bank also utilizes Maximum Cumulative Outflow (MCO) reports, which are also called liquidity gap or maturity matching gap reports. The MCO is a useful tool to measure and analyze the Bank's cash flow projections and monitor liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions. This also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

ALCO, supported by the RMO, is responsible for managing the liquidity of the Bank.

Operational Risk
Operational Risk is the risk to earnings and capital arising from fraud, error, the inability to deliver products or services, maintain a competitive position, and manage information. This risk is a function of internal controls, information systems, employee integrity and operating processes. Developing a strong "control culture," prudent use of technology, and an effective internal control system are key factors to mitigate these risks.

Other Risks

Legal Risk
Legal Risk covers the potential loss due to non-existent, incomplete, incorrect, and unenforceable documentation used by the Bank to protect and enforce its rights under contracts and obligations. A legal review process, performed by the Legal Department, is the primary control mechanism for legal risk. Other than just validating documentation, the review also aims to verify the capacity and authority of counterparties and customers to enter into transactions with the Bank.

Regulatory Risk
Regulatory Risk, also known as Compliance Risk, covers the potential loss from non-compliance to laws, rules, regulations, prescribed practices, internal policies and procedures, or ethical standards. Compliance risk can lead to diminished reputation, reduced franchise value, limited business opportunities, reduced expansion potential, and lack of contract enforceability. The Bank's compliance functions are implemented by the Compliance Officer, who has the responsibility to maintain an on-going monitoring and assessment of regulations, especially in dynamic regulatory environments.

The following PSBank clients appeared on the following pages of the Annual Report:

On Page 1, Mission and Vision Page (extreme right):
Mr. Wilbert T. Lim, managing director, CBX Corp. and client of PSBank-Subangdaku Branch in Cebu.

On Page 30, Products and Services Page:
Mr. Martin Goho, owner of Gateway Motors Corp. in Cebu.

Ms. Lucy Tan, owner of Legend Builders Hardware and second-generation PSBank-Binondo client.

Special thanks to the Orchidarium and Butterfly Pavilion for sharing its rock climbing facilities for the photo shoot.


FAST
(MABILIS)

MARIANO HO, JR. (left), owner of Cebu-based Mariano and Sons Marketing, Inc.: "My wholesale and retail rice and sugar trading business needs an all-around bank that can take care of all my business needs. I found that in PSBank." Also in photo is Ms. Amylen C. Teo, head of PSBank-Subangdaku Branch.

All It Takes is A Call

RONALD AND MARJORIE CODILLA knew how it feels to get the cold shoulder. The young couple used to knock on doors to sell postpaid cards back when mobile phones were still not the craze.

The engineer and the nurse did not get formal sales training, but saw the opportunity in the cellphone business in 1998. Today, their Citiphones Telecenter is one of the leading dealers of cell phone services and accessories in Southern Mindanao.

Before their fortune changed, the Codillas were just an ordinary couple going around town in a second-hand car for sales calls. When business started picking up, they eagerly called their bank.

"We were told we had to wait for three weeks for an auto loan as the person handling it was on leave," says Marjorie, 35. "We were terribly dismayed."

Dismay turned to surprise when they called the head of PSBank-Tagum Branch, Alfredo E. Abrenica, who asked them that instant to go to the car dealership of their choice.

"We went in a tricycle, as our old car had already been sold. He arrived with the loan application papers. We left the dealership in our first brand-new car. I was crying with joy!" says Marjorie.

The experience has turned the Codillas into loyal customers. All their personal and company accounts are with PSBank, including a second auto loan. They also realized their dream to have a newly remodeled home, with the help of PSBank's Home Credit Line.

Nowadays, the Codillas are being deluged by banks that want a piece of their fortune. But they can now give them the cold shoulder.

"PSBank was there when we were just starting out. Because of that, we will remain loyal clients," says Marjorie.

Corporate Governance

Philippine Savings Bank aspires to apply the highest standards of corporate governance to its operations, recognizing its importance in creating shareholder value and maintaining the trust of its depositors and investors.

It adheres to the corporate governance principles of transparency, disclosure, and accountability in generating sustainable economic returns to owners, considering interests of stakeholders, aligning corporate activities and behaviors, complying with applicable laws and regulators and protecting the interest of depositors.

Board of Directors

The Board of Directors is committed to upholding standards of corporate governance and is accountable to the bank's shareholders and the banking public for safeguarding their investment and maintaining public trust. It establishes strategic objectives and procedures that will guide and direct activities of the bank, make policy decisions, and provide the mechanism for monitoring management performance.

The Board is made up of 10 directors who are qualified business professionals possessing the expertise and experience required in directing PSBank's strategic path. It has two independent directors.

It is responsible for establishing the Bank's overall credit capacity and performs its duties through subcommittees with different areas of focus. The Executive Committee reviews and approves risk related activities and recommends matters for Board approval.

Other Board-level committees are:

- Risk Management Committee, is responsible for identification and evaluation of risk exposures, developing risk management strategies;
- Audit Committee, provides internal control and oversees the work of internal and external auditors;
- Trust Committee, supervises the proper exercise of the Bank's fiduciary powers;
- Corporate Governance Committee, ensures the Board's effectiveness and due performance of corporate governance principles and guidelines;
- Nominations Committee, reviews and evaluates all persons nominated to the Board as well as those nominated to other positions requiring appointment by the Board; and
- Remuneration and Compensation Committee, establishes a formal and transparent procedure for developing a policy on executive remuneration.

Executive Management

The Board appoints the President and delegates to him the responsibility of managing and implementing the Bank's business strategies. Twenty-three senior officers support the President through their work in the Bank's major divisions.

Guided by an organizational strategy, Management is supported by performance measures, both financial and non-financial, that allow the assessment of the efficiency and effectiveness of these divisions. Financial reports, based on underlying accounting and quality assurance systems, are generated on a regular basis for management.

There are continuous professional development programs for employees and officers while a succession plan has been put in place for senior management.

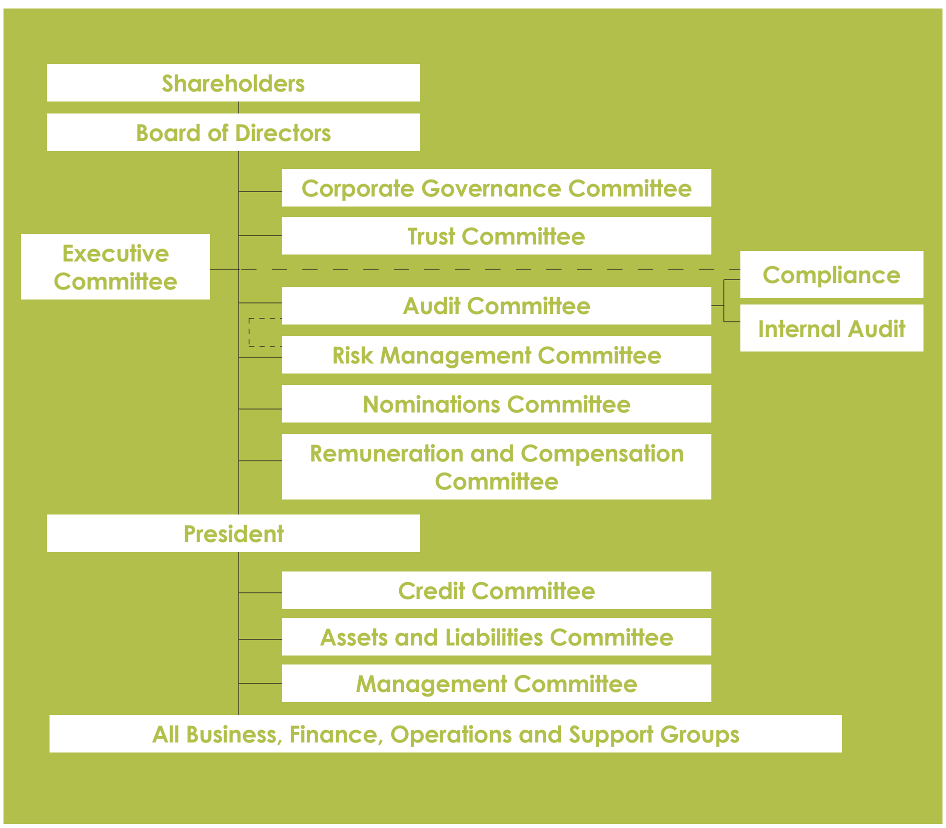
Audit and Compliance

Internal controls and systems have been established in the different areas of operations to protect the bank from various risks associated with its business. The Internal Audit Group reviews and evaluates the adequacy and effectiveness of these control systems and recommends measures to address the risks.

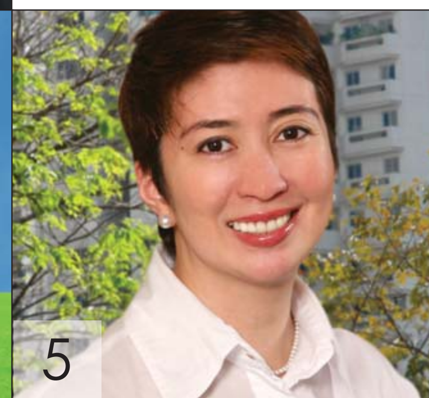
A Quality Assurance process has also been put in place to monitor the proper implementation of the prescribed policies and procedures across the various business and operating units of the Bank.

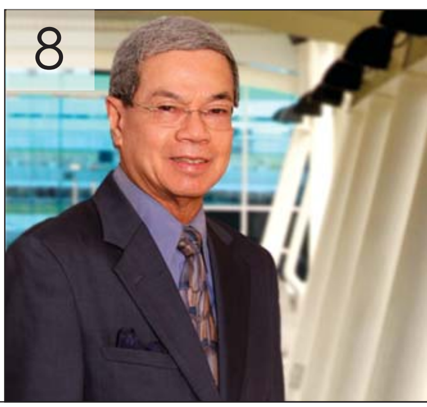
In order to ensure that the Bank complies with all relevant laws, regulations and codes of best business practices, a Compliance System has been established to reinforce the Bank's self-regulating stance. The Compliance Office has been placed in charge of communicating new and existing laws and regulations as well as best practices to the entire organization.

The Bank maintains active dialogue with the Bangko Sentral Ng Pilipinas and other regulatory agencies on its compliance with and proper interpretation and implementation of banking laws. Being a listed company, the Bank also monitors proper compliance with rules and regulations of the Philippine Stock Exchange and the Securities and Exchange Commission.



Board of Directors





The Board of Directors of PSBank is committed to upholding the highest standards in corporate governance. It is accountable to the Bank's shareholders and the banking public for safeguarding their investment and maintaining their public trust.

1] JOSE T. PARDO, Chairman of the Board since 2003. A TOYM (The Outstanding Young Men) awardee. Former Secretary of Finance and Secretary of Trade and Industry. Served as Chairman of the Landbank of the Philippines, Philippine Deposit Insurance Corp., Trade and Investment Development Corp., Governor of Asian Development Bank, and for several years, a member of the Monetary Board of the Bangko Sentral ng Pilipinas. Earned a Masters degree under the DLSU-Harvard MBA Advisory Program in 1963.

2] JOVENCIO F. CINCO, Vice Chairman of the Board since 2003. President/Director of Penta Capital Investment Corp./Penta Capital Finance Corp., Chairman of Intra Invest Securities Inc. Holds a Bachelor of Law degree from Far Eastern University.

3] ARTHUR V. TY, Vice Chairman of the Board since 2003. Vice Chairman, Metropolitan Bank and Trust Company; Director, Metrobank Card Corp.; Chairman, MBTC Technology, Inc.; and President/Director, Horizon Royale Holdings Corp. Formerly President of PSBank. Holds a Masters degree in Business Administration from Columbia University.

4] PASCUAL M. GARCIA III, Director/ President of the Bank since 2001. Member of the Board of Directors of Metrobank Card Corp. and the Board of Advisers of Metropolitan Bank and Trust Company. Formerly President and Director of the Bank of Southeast Asia and DBS Bank Philippines, Inc. Holds a Bachelor of Science degree in Commerce from Ateneo de Zamboanga.

5] MARGARET TY-CHAM, Director of the Bank since 2003. Director of Orix Metro Leasing Corp. Corporate Secretary of Federal Land Inc. and Assistant Corporate Secretary of Baywatch Realty Corp.

6] DAVID O. CHUA, Director of the Bank since September 2005. President of Cathay Pacific Steel Corp., and Asia Pacific Capital

Equities and Securities Corp. Former member of the Board of Directors of the Philippine Banking Corp. (which merged with Global Business Bank-Metrobank) and First Metro Investments Corp. Finished his Masters in Business Administration from J.L. Kellogg School of Management (Northwestern University) and Hong Kong University of Science and Technology Graduate School of Management. Holds a Bachelor of Science in Financial Services Management degree at St. Mary's College of California.

7] DANILO L. DOLOR, Director of the Bank since 2002. Chairman of the following companies: YLFI Emilio Aguinaldo College; Pearl of the Orient Seas Resort Corp.; UPSI Holdings, Inc.; St. Patrick School of Quezon City; House of Knowledge, Inc.; Emilio Aguinaldo Educational Corp.; and Batangas Sugar Central, Inc. President of Lipa Golden Land Realty Corp.

8] JOSE MACARIO LAUREL IV, Director of the Bank since 2003. Chairman Emeritus of President Jose P. Laurel Rural Bank. Formerly Philippine Ambassador to Brazil and Congressman of the third district of Batangas. Retired Colonel of the Philippine Army. Holds a Bachelor of Laws degree from the Lyceum of the Philippines.

9] ALBERTO A. PEDROSA, Director of the Bank since 2002. Board Director of Philippine National Oil Company. Vice Chairman of Peace, Inc. Formerly Philippine Ambassador to the European Union, Belgium, and Luxembourg.

10] REGIS V. PUNO, Director since 2004. Currently Senior Partner of Puno and Puno Law Offices. Formerly Undersecretary of the Department of Justice. Holds a Bachelor of Laws degree from the Ateneo de Manila University and a Masters of Laws degree from the Georgetown University Law Center in Washington, D.C.

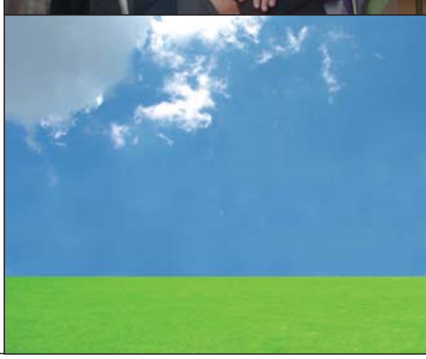
11] ROLANDO A. RODRIGUEZ, Corporate Secretary of the Board since 2005 and Executive Vice-President of the Bank since August 2003. Formerly Senior Vice-President at Equitable-PCI Bank. Holds a Bachelor of Science, Major in Accounting, and Bachelor of Arts, major in Economics degrees from De La Salle University.

Management Committee

1 Pascual M. Garcia III
President

2 (L-R, standing) Nerissa J. Lazaro, Vice-President; Jaime Valentin L. Araneta, Senior Vice-President
(L-R, seated) Arnel R. Lopez, Vice-President; Yolanda L. Dela Paz, Vice-President; Eliel B. Aparri, Vice-President

3 (L-R) Rebecca R. Igot, Vice-President; Arnold D. Tolentino, Vice-President; Ma. Priscila M. Torres, Vice-President; Consolacion R. Saur, First Vice-President



4 (L-R) Noli S. Gomez, Senior Vice-President; Elizabeth T. Miranda, First Vice-President; Grace G. Dela Cruz, Vice-President; Neil C. Estrellado, Vice-President

5 (L-R) Jan Nikolai M. Lim, Vice-President; Mary Jane M. Valero, Vice-President; Rolando A. Rodriguez, Executive Vice-President; Marieta Bernadette A. Sevilla, First Vice-President; Jose Jesus B. Custodio, Vice-President; Leonardo Roberto A. Disini, Vice-President

6 (L-R) Satur A. Paterno, Vice-President; Edeza Que, Vice-President; Perfecto Ramon Z. Dimayuga, Jr., First Vice-President; Ma. Patricia L. Castañeda, Vice-President; Jose Martin A. Velasquez, Vice-President

Products & Services

PSBank ATM Savings
A savings account accessible day and night through any BancNet and Megalink ATMs nationwide or any MasterCard, Maestro, Cirrus ATMs worldwide.

PSBank Regular Passbook Savings
A fixed interest-earning account where you can monitor your accounts via a passbook.

PSBank Regular Checking
A non-interest earning account with check-writing flexibility.

PSBank Passbook with ATM
A fixed interest-earning account with free inter-regional fees and comes with an ATM card.

PSBank Premium Checking
A 3-in-1 account that gives the convenience of a record book, ATM card, and checkbook while enjoying higher yields as the account balance grows.

PSBank Peso Time Deposits
Let your money earn higher interest than peso savings accounts. Enjoy monthly interest for 1-, 2-, or 3-year placements.

PSBank Prime Time Deposit
A five-year tax-free placement that guarantees high yields that you can use to fund your long-term needs for cash.

PSBank Dollar Savings
A fixed interest-earning US Dollar-denominated account where funds are accessed over the counter and monitor transactions via a passbook.

PSBank Dollar Time Deposit
A US Dollar-denominated term placement that earns higher yields than a dollar savings account.

PSBank Money Card
A non-collateralized revolving credit line that provides day-and-night access to cash via the ATM.

PSBank Flexiloan
A non-collateralized term loan facility that allows easy access to cash at low interest rates.

PSBank Auto Loan
A term loan facility that makes buying a car fast and easy with simplified application process, quick processing time, low interest rates, and flexible payment terms.

PSBank MasterCard
A credit card facility for cashless purchases that is internationally accepted.

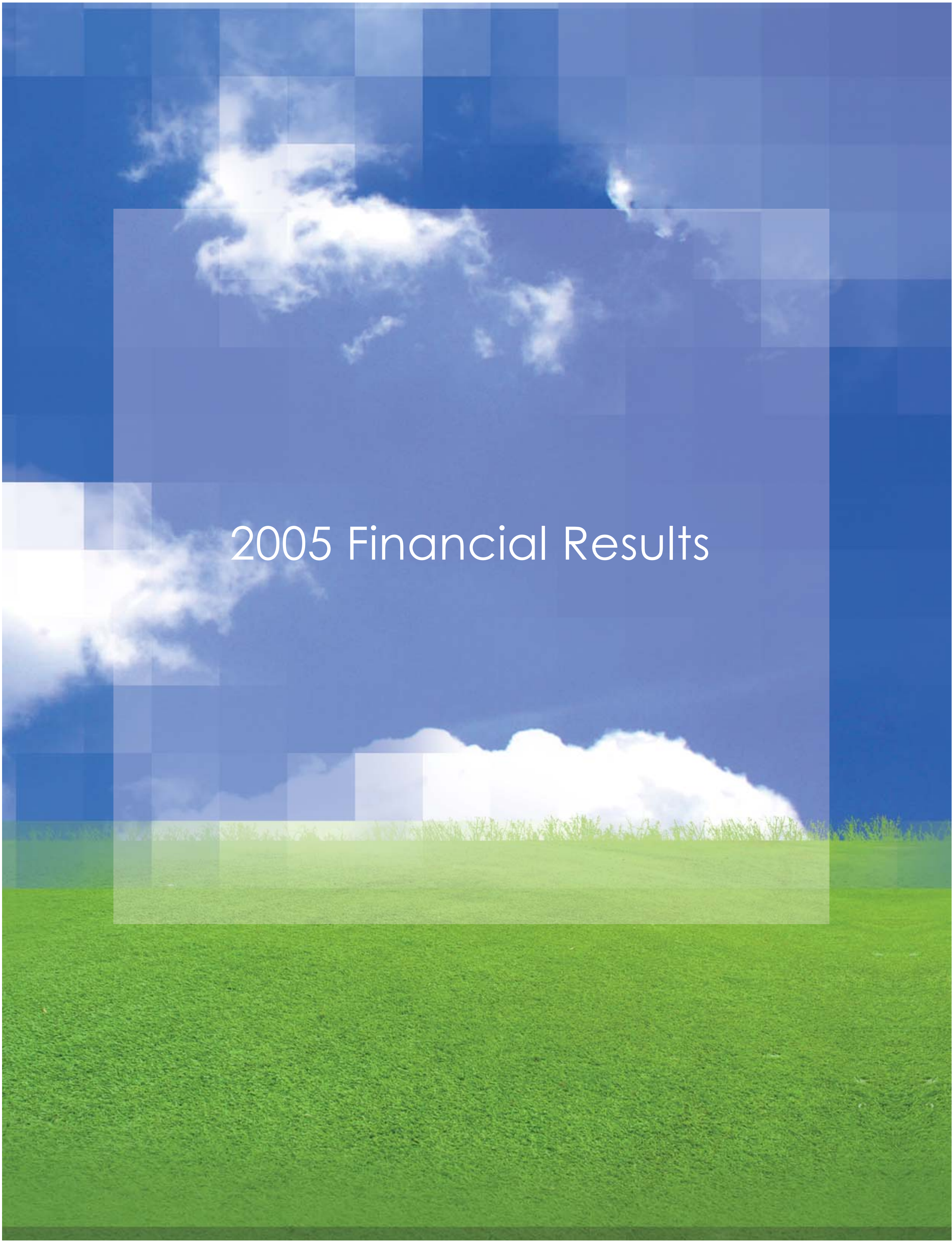
PSBank MultiPurpose Loan
A non-collateral corporate employee loan program for accredited companies so their employees can take care of their financial needs.

PSBank SME Business Credit Line
One-year revolving credit facility that provides instant funds for business needs and opportunities by issuing checks.

PSBank Home Rate Protect
A home loan facility for purchase of a new home, vacant lot, or for house construction or renovation with guaranteed protection from fluctuating interest rates.

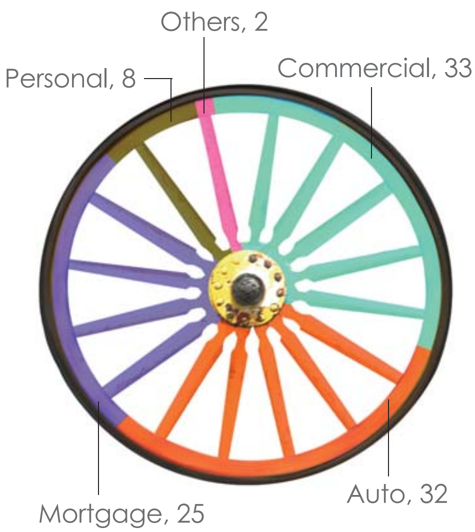
PSBank Home Credit Line
A mortgage revolving credit line facility using your residential property as collateral. Have the financial flexibility and enjoy interest rates lower than most personal loans.

PSBank Home Construction Loan
A loan facility for home construction or renovation that works like a credit card with flexible payment terms.

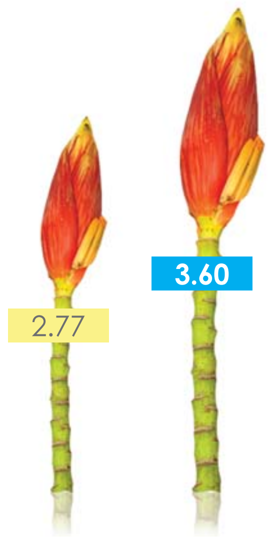


2005 Financial Results

Financial Highlights



Loan Portfolio Breakdown per Product Type



2004 *(Restated)* **2005**

Earnings Per Share
In PhP

2004 *(Restated)* **2005**

Cost-To-Income Ratio

** In Percent*

Financial Review

Profitability
PSBank posted record returns in 2005 of PhP 646.36 million, even with considerable provisioning charges. The growth of interest income outpaced interest expenses and led to a pre-provisioning net interest income growth of 39 percent.

Majority of the interest income came from its loan portfolio. Trading and securities gains provided PhP 225.50 million in other income last year, up from PhP 82 million in 2004.

With significant investments in branches, ATMs and information technology, operating expenses increased 26 percent in 2005. Cost-to-Income is relatively high at 75% but is expected to slightly decline going forward.

Asset Quality
PSBank's assets grew 19 percent between 2005 and 2004, with most of the growth coming from Loans and Receivables (24 percent year-on-year) followed by Investment Securities (26 percent year-on-year). These assets represent 53 percent and 30 percent of total assets, respectively. PSBank has been aggressively expanding its auto, mortgage and personal loan lending portfolios through branch expansion and marketing efforts. Commercial loans comprise the largest share in the bank's total loan portfolio, followed closely by Auto Loans, Mortgage Loans and Personal Loans. PSBank's strength has been traditionally in the consumer market, with some emphasis also given to corporations and small- and medium-scale enterprises.

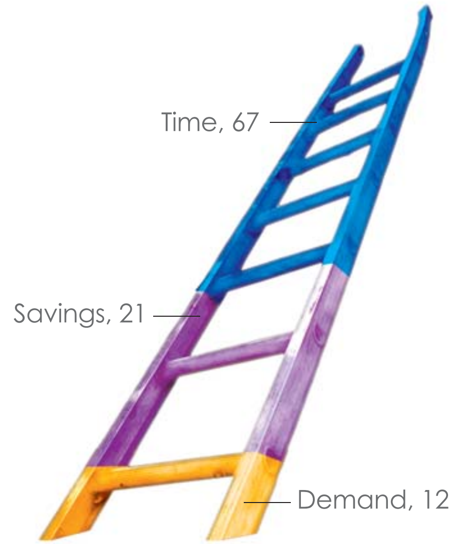
On the other hand, most of its Investment Securities are in the form of Philippine Government paper. Investment securities have been contributing a significant portion of the Bank's income, providing 27 percent of interest income in 2005 versus 23 percent in 2004.

Earnings per Share (EPS)
EPS measures the net income allocated to a share of common stock after payment of taxes. It is calculated by dividing net income by the weighted average number of common shares.

Cost-to-Income Ratio
Also known as the Efficiency Ratio. It is calculated by dividing non-interest expenses by the sum of net interest income and other income. A lower ratio indicates better productivity.

NPL Ratio

Capital Adequacy Ratio



Deposits Breakdown per Product Type

Capital Adequacy Ratio (CAR)
CAR is a measure of the Bank's overall strength. It is calculated by dividing total qualifying capital by risk-weighted assets. The Bangko Sentral ng Pilipinas requires a minimum CAR of 10 percent for banks.

Non-Performing Loans (NPL) Ratio
NPL Ratio is an indication of the soundness of the Bank's loan portfolio. It is calculated by dividing total non-performing loans by Receivables from Customers, gross of unearned discounts. A lower ratio means the Bank is better able to manage the growth of bad debts.

For at least three consecutive years in a row, PSBank has surpassed asset and loan growth rate in the industry and has been able to do so with no significant effect on its balance sheet. Its Non-Performing Loans (NPL) to Total Loans ratio was posted at 5.31 percent in end-2005. This slowdown in NPL growth and increase in recoveries is apparent in the entire Philippine banking industry.

The loan loss provisions for NPLs have steadily increased to 86 percent in end-2005, from 58 percent in the previous year. In terms of absolute numbers, the Bank's Non-Performing Assets (NPAs) have been increasing but its proportion to total assets has declined with a faster increase in total resources. NPAs to total assets ratio has come down to 7 percent from a high of 12 percent in 2002.

Capital Adequacy
PSBank's capital adequacy ratio (CAR) is adequate and more than meets the industry minimum at 12.5 percent in end-2005. Its CAR was adjusted last year as a result of IAS changes. However, this was brought up again in the first two months of the year as the Bank was able to raise Tier 2 capital worth PhP 2 billion. This is expected to increase further with a Rights Offer scheduled in May 2006. Dividends have been notable over the past three years, averaging at 37 percent of earnings. Earnings retention has also been significant and has been able to sufficiently support asset growth.

Liquidity and Funding
Liquidity conditions are comfortable with its loans-to-deposits ratio at 65 percent. Funding has been primarily generated from deposits, which comprise 87 percent of total assets in end-2005. Of these deposits, current accounts constitute 12 percent of the total, followed by savings at 21 percent and time at 67 percent.

REPORT OF INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Philippine Savings Bank
PSBank Center
777 Paseo de Roxas corner Sedeño St.
Makati City

SGV & Co

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Philippine Savings Bank as of December 31, 2005 and 2004, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the Philippines.

SyCip Gorres Velayo + Co

Makati City
March 28, 2006

STATEMENT OF MANAGEMENT RESPONSIBILITY

PSBank
PHILIPPINE SAVINGS BANK
A METROBANK SUBSIDIARY

SECURITIES AND EXCHANGE COMMISSION
SEC Building, EDSA, Greenhills
San Juan, Metro Manila

The management of Philippine Savings Bank is responsible for all information and representations contained in the financial statements as of December 31, 2005 and 2004 and for each of the two years in the period ended December 31, 2005. The financial statements have been prepared in conformity with accounting principles generally accepted 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 management likewise discloses to the Bank's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process and report financial data; (ii) material weaknesses in the external controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

Sycip, Gorres, Velayo & Co., the independent auditors appointed by the Board of Directors and stockholders, have examined the financial statements of Philippine Savings Bank in accordance with generally accepted auditing standards and has expressed its opinion on the fairness of presentation upon completion of such examination, in its report to the stockholders and Board of Directors.

JOSE T. PARDO	PASCUAL M. GARCIA III	PERFECTO RAMON Z. DIMAYUGA JR.
Chairman of the Board	President	Chief Finance Officer

SUBSCRIBED AND SWORN TO before me this March 31, 2006 affiants exhibiting to me their Community Tax Certificates, as follows:

Name	CTC No.	Date of Issue	Place of Issue
Jose T. Pardo	18963992	February 22, 2006	Muntinlupa City
Pascual M. Garcia III	12799268	February 10, 2006	Quezon City
Perfecto Ramon Z. Dimayuga Jr.	02121638	January 16, 2006	Makati City

ATTY. JOSE HERNANDEZ DY
Notary Public
Until December 31, 2006
P 1-17-06
IBP No. 642125 Mla. 1-17-06
City of Makati

STATEMENTS OF CONDITION

	December 31	
	2005	2004 (As restated - Note 2)
RESOURCES		
Cash and Other Cash Items (Notes 13 and 28)	**₱808,727,771**	₱810,466,328
Due from Bangko Sentral ng Pilipinas (Notes 13 and 16)	**1,747,364,183**	1,958,275,032
Due from Other Banks (Notes 16 and 24)	**1,398,497,354**	885,962,808
Interbank Loans Receivable (Notes 16 and 24)	–	200,000,000
Fair Value Through Profit or Loss Investments, at market (Notes 7 and 16)	**631,639,249**	–
Available-for-Sale Investments, at market (Notes 7 and 16)	**12,231,456,771**	–
Held-to-Maturity Investments, at amortized cost - net (Notes 7, 13, 16 and 21)	**3,927,251,377**	–
Loans and Receivables - net (Notes 8, 16, and 24)	**29,369,241,237**	–
Trading Account Securities, at market (Notes 7 and 16)	**–**	71,869,207
Available-for-Sale Securities, at market (Notes 7 and 16)	**–**	2,081,332,979
Investments in Bonds and Other Debt Instruments - net (Notes 7, 13, 16 and 21)	**–**	11,188,618,814
Receivables from Customers - net (Notes 8, 16 and 24)	**–**	23,649,151,935
Bank Premises, Furniture and Equipment - net (Note 9)	**1,608,598,929**	1,539,244,694
Investment Properties - net (Note 10)	**2,329,437,516**	2,065,823,181
Deferred Tax Assets - net (Note 20)	**638,918,289**	192,120,369
Other Resources - net (Notes 11 and 28)	**445,658,647**	1,520,708,889
	₱55,136,791,323	₱46,163,574,236
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities (Notes 13, 16 and 24)		
Demand	**₱5,734,216,960**	₱2,071,542,212
Savings	**9,810,179,441**	24,247,860,215
Time	**32,479,750,841**	13,926,182,294
	48,024,147,242	40,245,584,721
Cashier's and Gift Checks (Note 16)	**188,149,629**	211,541,049
Accrued Taxes, Interest and Other Expenses (Notes 14 and 16)	**531,183,247**	365,666,188
Accrued Income Tax Payable (Note 16)	**36,200,228**	22,596,674
Other Liabilities (Notes 15 and 28)	**1,038,044,019**	855,924,664
	49,817,724,365	41,701,313,296
Capital Funds (Note 22)		
Common stock	**1,795,015,200**	1,795,015,200
Capital paid in excess of par value	**693,554,524**	693,554,524
Surplus reserves (Note 21)	**452,747,205**	388,111,384
Surplus (Notes 2 and 21)	**1,739,221,118**	1,604,180,730
Net unrealized gain (loss) on available-for-sale investments (Note 7)	**638,528,911**	(18,600,898)
	5,319,066,958	4,462,260,940
	₱55,136,791,323	₱46,163,574,236

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Years ended December 31	
	2005	2004 (As restated - Note 2)
INTEREST INCOME ON		
Loans and receivables (Notes 8 and 24)	**₱3,410,663,103**	₱2,779,165,110
Investment securities (Note 7)	**1,317,755,212**	850,223,688
Deposits with other banks (Note 24)	**66,767,166**	44,818,999
Interbank loans receivable (Note 24)	**114,491,006**	33,336,391
	4,909,676,487	3,707,544,188
INTEREST EXPENSE ON		
Deposit liabilities (Notes 13 and 24)	**2,186,897,314**	1,737,422,306
Bills payable	**424,247**	8,997,457
	2,187,321,561	1,746,419,763
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES	**2,722,354,926**	1,961,124,425
PROVISION FOR IMPAIRMENT LOSSES (Note 12)	**485,349,205**	233,910,606
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES	**2,237,005,721**	1,727,213,819
OTHER INCOME		
Service charges, penalties, fees and commissions	**392,456,424**	381,597,929
Profit from assets sold (Note 10)	**74,888,795**	217,682,155
Trading and securities gain - net	**225,500,495**	81,758,557
Miscellaneous (Note 17)	**32,087,310**	93,603,339
	724,933,024	774,641,980
OTHER EXPENSES		
Compensation and fringe benefits (Notes 24 and 25)	**908,809,376**	768,144,702
Taxes and licenses (Note 20)	**310,073,995**	226,099,705
Occupancy and equipment-related expenses (Note 18)	**262,300,833**	202,886,226
Depreciation and amortization (Notes 9 and 10)	**205,952,244**	221,358,259
Security, messengerial and janitorial services	**119,402,847**	109,026,783
Amortization of intangible assets (Note 11)	**25,532,481**	24,261,572
Miscellaneous (Note 19)	**748,954,902**	494,707,279
	2,581,026,678	2,046,484,526
INCOME BEFORE INCOME TAX	**380,912,067**	455,371,273
BENEFIT FROM INCOME TAX (Note 20)	**265,446,139**	41,824,108
NET INCOME	**₱646,358,206**	₱497,195,381
Earnings Per Share (Note 23)	**3.60**	2.77

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN CAPITAL FUNDS

	Common Stock (Notes 22 and 28)	Capital Paid in Excess of Par Value	Surplus Reserves (Note 21)	Surplus (Notes 2, 21 and 22)	Net Unrealized Gain (Loss) on Available-for-Sale Investments (Note 7)	Total Capital Funds
Balance at December 31, 2003, as previously reported						
Common Stock - 10 par value						
Authorized - 425,000,000 shares						
Issued - 179,501,520 shares	₱1,795,015,200	₱693,554,524	₱339,556,076	₱1,064,057,687	₱–	₱3,892,183,487
Effect of change in accounting for:						
Philippine Accounting Standards (PAS 19) Retirement benefits	–	–	–	(145,172,707)	–	(145,172,707)
PAS 40 Investment properties	–	–	–	344,356,589	–	344,356,589
Balance at December 31, 2003, as restated	1,795,015,200	693,554,524	339,556,076	1,263,241,569	–	4,091,367,369
Net change in unrealized gain (loss) on available-for-sale investments	–	–	–	–	(18,600,898)	(18,600,898)
Net income for the year	–	–	–	497,195,381	–	497,195,381
Total income and expense for the year				497,195,381	(18,600,898)	478,594,483
Appropriation of surplus for trust business	–	–	48,555,308	(48,555,308)	–	–
Cash dividends	–	–	–	(107,700,912)	–	(107,700,912)
	–	–	48,555,308	340,939,161	(18,600,898)	370,893,571
Balance at December 31, 2004, as restated	₱1,795,015,200	₱693,554,524	₱388,111,384	₱1,604,180,730	(₱18,600,898)	₱4,462,260,940
Balance at December 31, 2004, as previously reported	₱1,795,015,200	₱693,554,524	₱388,111,384	₱1,393,354,548	(₱18,600,898)	₱4,251,434,758
Effect of change in accounting for:						
PAS 19 Employee Benefits	–	–	–	(137,850,519)	–	(137,850,519)
PAS 40 Investment Properties	–	–	–	325,076,701	–	325,076,701
IFRS 3 Business Combination	–	–	–	23,600,000	–	23,600,000
Balance at December 31, 2004, as restated	1,795,015,200	693,554,524	388,111,384	1,604,180,730	(18,600,898)	4,462,260,940
Cumulative effect of PAS 39 in accounting for financial instruments	–	–	–	(123,579,261)	–	(123,579,261)
Balance at January 1, 2005, as adjusted	1,795,015,200	693,554,524	388,111,384	1,480,601,469	(18,600,898)	4,338,681,679
Net change in unrealized gain (loss) on available-for-sale investments	–	–	–	–	657,129,809	657,129,809
Net income for the year	–	–	–	646,358,206	–	646,358,206
Total income and expense for the year	–	–	–	646,358,206	657,129,809	1,303,488,015
Appropriation of surplus for trust business	–	–	64,635,821	(64,635,821)	–	–
Cash dividends	–	–	–	(323,102,736)	–	(323,102,736)
	–	–	64,635,821	258,619,649	657,129,809	980,385,279
Balance at December 31, 2005	**₱1,795,015,200**	**₱693,554,524**	**₱452,747,205**	**₱1,739,221,118**	**₱638,528,911**	**₱5,319,066,958**

See accompanying Notes to Financial Statements

STATEMENTS OF CASH FLOWS

	Years Ended December 31	
	2005	2004 (As restated - Note 2)
Income before income tax	**₱380,912,067**	₱455,371,273
Adjustments to reconcile income before income tax to net cash generated from operations:		
Depreciation and amortization (Notes 9 and 10)	**205,952,244**	221,358,259
Provision for impairment losses (Note 12)	**485,349,205**	233,910,606
Profit from assets sold (Note 10)	**(74,888,795)**	(217,682,155)
Amortization of intangible assets (Note 11)	**25,532,481**	24,261,572
Unrealized trading loss (gain) on Fair value through profit or loss (FVPL) investments (Note7)	**(6,132,203)**	405,985
Changes in operating resources and liabilities:		
Decrease (increase) in amounts of:		
FVPL investments	**(553,637,839)**	(69,550,000)
Loans and receivables	**(6,205,438,507)**	(4,231,875,308)
Other resources	**1,049,517,761**	(496,816,733)
Increase (decrease) in amounts of:		
Deposit liabilities	**7,778,562,521**	12,472,895,092
Cashier's and gift checks	**(23,391,420)**	75,762,174
Accrued taxes and other expenses	**(434,426,841)**	(59,450,637)
Other liabilities	**(25,842,647)**	4,047,491
Cash generated from operations	**2,602,068,027**	8,412,637,619
Income taxes paid	**(109,593,281)**	(83,536,067)
Net cash provided by operating activities	**2,492,474,746**	8,329,101,552
CASH FLOWS FROM INVESTING ACTIVITIES		
Net purchases of available-for-sale investments	**(9,492,993,983)**	(2,099,933,877)
Net purchases of held-to-maturity investments	**7,261,367,437**	(4,910,356,676)
Net acquisitions of bank premises, furniture and equipment (Note 9)	**(481,908,969)**	(216,192,392)
Net disposals of investments properties (Note 10)	**436,086,643**	223,424,447
Net cash used in investing activities	**(2,277,448,872)**	(7,003,058,498)
CASH FLOWS FROM FINANCING ACTIVITIES		
Dividends paid (Note 22)	**(115,140,734)**	(107,700,912)
Payment of bills payable	**–**	(656,206,699)
Cash used in financing activities	**(115,140,734)**	(763,907,611)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**99,885,140**	562,135,443
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	**810,466,328**	803,368,410
Due from Bangko Sentral ng Pilipinas	**1,958,275,032**	1,651,912,913
Due from other banks	**885,962,808**	837,287,402
Interbank loans receivable	**200,000,000**	–
	3,854,704,168	3,292,568,725
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	**808,727,771**	810,466,328
Due from Bangko Sentral ng Pilipinas	**1,747,364,183**	1,958,275,032
Due from other banks	**1,398,497,354**	885,962,808
Interbank loans receivable	**–**	200,000,000
	₱3,954,589,308	₱3,854,704,168

See accompanying Notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. **Corporate Information**

Philippine Savings Bank (the Bank) was incorporated in the Philippines on June 30, 1959 primarily to engage in savings and mortgage banking. The Bank's shares are listed in the Philippine Stock Exchange. The Bank offers a wide range of products and services such as deposit products, loans, treasury and trust functions that cater mainly to the retail and consumer market. On September 6, 1991, the Bank was authorized to perform trust functions. As of December 31, 2005 and 2004, the Bank had 150 and 139 branches, respectively.

As of December 31, 2005, the Bank is seventy-four percent (74%) owned by Metropolitan Bank & Trust Company (Metrobank).

The Bank's principal place of business is located at PSBank Center, 777 Paseo de Roxas corner Sedeño St., Makati City.

The Bank's Audit Committee reviewed and approved the accompanying comparative financial statements on March 28, 2006 for release and for subsequent confirmation by the board of directors (BOD) in their regular meeting on the same date.

2. **Summary of Significant Accounting Policies**

Basis of Financial Statement Preparation
The Bank's financial statements have been prepared in compliance with accounting principles generally accepted in the Philippines as set forth in the Philippine Financial Reporting Standards (PFRS). These are the first annual financial statements of the Bank in accordance with PFRS.

The accompanying financial statements are prepared under the historical cost convention as modified for the measurement at fair value of derivative financial instruments, fair value through profit or loss (FVPL) investments and available-for-sale (AFS) investments. The accompanying financial statements of the Bank reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts. The books of accounts of the RBU are maintained in Philippine pesos, while those of FCDU are maintained in United States (US) dollars.

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

The Bank applied PFRS 1, *First-Time Adoption of Philippine Financial Reporting Standards,* in preparing the accompanying financial statements with January 1, 2004 as the date of transition. The Bank has prepared its opening PFRS statement of condition as of that date. As discussed below, the Bank also adopted Philippine Accounting Standard (PAS) 32 and PAS 39 with transition date of January 1, 2005.

The adoption of PFRS resulted in certain changes to the Bank's previous accounting policies (referred to in the Reconciliation of financial position table as "previous GAAP"). The comparative figures for the 2004 financial statements were restated to reflect the changes in policies except those relating to financial instruments. The Bank elected to apply the following optional exemptions from full retrospective application:

Restatement of comparative financial information for PAS 32 and PAS 39
The Bank applied previous GAAP rules to derivatives and certain financial instruments for the comparative information for 2004.

Designation of financial assets and financial liabilities exemption
The adjustments relating to PAS 32 and PAS 39 at the opening statement of condition date of January 1, 2005, the PAS 32 and PAS 39 transition date, are discussed in the Reconciliation of Financial Position and Results of Operations.

In addition, the Bank applied the following mandatory exemptions from full retrospective application:

Derecognition of financial assets and liabilities
Financial assets and liabilities derecognized before January 1, 2004 are not re-recognized under PFRS. The application of the exemption from restating comparatives for PAS 32 and PAS 39 means that the Bank recognized from January 1, 2005 any financial assets and financial liabilities derecognized since January 1, 2004 that do not meet the PAS 39 derecognition criteria.

Assets held-for-sale and discontinued operations
The Bank applied PFRS 5 prospectively from January 1, 2005. Assets held-for-sale are recognized in accordance with PFRS 5 only from January 1, 2005. The Bank had properties which met the criteria for assets held-for-sale as of December 31, 2004 (Note 11) and which are in the process of being sold in 2006. Accordingly, the Bank continues to maintain such assets as Assets held-for-sale. Because of the mandatory exception from full retrospective application of PFRS 5, such were treated as Other resources as of December 31, 2004.

An explanation of how the adoption of PFRS has affected the reported financial position of the Bank is provided in the following table.

		January 1, 2005 (date of transition of PAS 32 and PAS 39)		
	Item	Previous GAAP	Effect of Transition To PFRS	PFRS
Resources				
Cash and Other Cash Items	a	₱810,466,328	₱–	₱810,466,328
Due from Bangko Sentral ng Pilipinas		1,958,275,032	–	1,958,275,032
Due from Other Banks		885,962,808	–	885,962,808
Interbank Loans Receivable		200,000,000	–	200,000,000
Trading Account Securities, at market	b	71,869,207	(71,869,207)	–
Available-for-Sale Securities, at market	c	2,081,332,979	(2,081,332,979)	–
Investments in Bonds and Other Debt Instruments - net	d	11,188,618,814	(11,188,618,814)	–
Fair Value Through Profit or Loss Investments, at market	b	–	71,869,207	71,869,207
Available-for-Sale Investments, at market	c	–	2,155,254,701	2,155,254,701
Held-to-Maturity Investments, at amortized cost - net	d	–	11,155,155,120	11,155,155,120
Loans and receivables - net	e	23,649,151,935	968,732,183	24,617,884,118
Property and Equipment - net		1,539,244,694	–	1,539,244,694
Investment Properties - net	f	2,065,823,181		2,065,823,181
Deferred Tax Assets - net	g	192,120,369	58,154,946	250,275,315
Other Resources - net	h	1,520,708,889	(1,190,924,418)	329,784,471
		₱46,163,574,236	(₱123,579,261)	₱46,039,994,975
Liabilities				
Deposit Liabilities		₱40,245,584,721	₱–	₱40,245,584,721
Bills Payable		–	–	–
Cashier's and Gift Checks		211,541,049	–	211,541,049
Accrued Taxes, Interest and Other Expenses		365,666,188	–	365,666,188
Accrued Income Tax Payable		22,596,674	–	22,596,674
Other Liabilities	i	855,924,664	–	855,924,664
		41,701,313,296	–	41,701,313,296
Capital Funds				
Common stock		1,795,015,200	–	1,795,015,200
Capital paid in excess of par value		693,554,524	–	693,554,524
Surplus reserves		388,111,384	–	388,111,384
Surplus	j	1,604,180,730	(123,579,261)	1,480,601,469
Unrealized loss on available-for-sale investments		(18,600,898)	–	(18,600,898)
		4,462,260,940	(123,579,261)	4,338,681,679
		₱46,163,574,236	(₱123,579,261)	₱46,039,994,975

December 31, 2004 (end of last period presented under previous GAAP)			January 1, 2004 (date of transition)		
Previous GAAP	Effect of Transition To PFRS	PFRS	Previous GAAP	Effect of Transition To PFRS	PFRS
₱750,408,617	₱60,057,711	₱810,466,328	₱759,540,596	₱43,827,814	₱803,368,410
1,958,275,032	–	1,958,275,032	1,651,912,913	–	1,651,912,913
885,962,808	–	885,962,808	837,287,402	–	837,287,402
200,000,000	–	200,000,000	–	–	–
71,869,207	–	71,869,207	2,725,192	–	2,725,192
2,081,332,979	–	2,081,332,979	–	–	–
11,188,618,814	–	11,188,618,814	6,278,262,138	–	6,278,262,138
–	–	–	–	–	–
–	–	–	–	–	–
–	–	–	–	–	–
23,649,151,935	–	23,649,151,935	19,651,187,233	–	19,651,187,233
1,539,244,694	–	1,539,244,694	1,503,691,336	–	1,503,691,336
1,734,525,166	331,298,015	2,065,823,181	1,667,809,868	397,599,395	2,065,409,263
285,693,333	(93,572,964)	192,120,369	159,663,673	(97,186,883)	62,476,790
1,404,944,117	115,764,772	1,520,708,889	1,091,981,542	68,432,831	1,160,414,373
₱45,750,026,702	₱413,547,534	₱46,163,574,236	₱33,604,061,893	₱412,673,157	₱34,016,735,050
₱40,245,584,721	₱–	40,245,584,721	₱27,772,689,629	₱–	27,772,689,629
–	–	–	656,206,699	–	656,206,699
211,541,049	–	211,541,049	135,778,875	–	135,778,875
365,666,188	–	365,666,188	277,012,760	–	277,012,760
22,596,674	–	22,596,674	18,313,270	–	18,313,270
653,203,312	202,721,352	855,924,664	851,877,173	213,489,275	1,065,366,448
41,498,591,944	202,721,352	41,701,313,296	29,711,878,406	213,489,275	29,925,367,681
1,795,015,200	–	1,795,015,200	1,795,015,200	–	1,795,015,200
693,554,524	–	693,554,524	693,554,524	–	693,554,524
388,111,384	–	388,111,384	339,556,076	–	339,556,076
1,393,354,548	210,826,182	1,604,180,730	1,064,057,687		
				199,183,882	1,263,241,569
(18,600,898)	–	(18,600,898)	–	–	–
4,251,434,758	210,826,182	4,462,260,940	3,892,183,487	199,183,882	4,091,367,369
₱45,750,026,702	₱413,547,534	₱46,163,574,236	₱33,604,061,893	₱412,673,157	₱34,016,735,050

Reconciliation of 2004 results of operations:

	Item	Previous GAAP	Effect of Transition To PFRS	PFRS
		For the year ended December 31, 2004		
Interest Income On				
Loans and receivables		₱2,779,165,110	₱–	₱2,779,165,110
Investment securities		850,223,688	–	850,223,688
Deposits with other banks		44,818,999	–	44,818,999
Interbank loans receivable		33,336,391	–	33,336,391
		3,707,544,188	–	3,707,544,188
Interest Expense On				
Deposit liabilities		1,737,422,306	–	1,737,422,306
Bills payable		8,997,457	–	8,997,457
		1,746,419,763	–	1,746,419,763
Net Interest Income before Provision for Probable Losses		1,961,124,425	–	1,961,124,425
Provision for Probable Losses	k	120,900,000	113,010,606	233,910,606
Net Interest Income after Provision for Probable Losses		1,840,224,425	–	1,727,213,819
Other Income				
Service charges, penalties, fees and commissions		381,597,929	–	381,597,929
Profit from assets sold	l	88,476,861	129,205,294	217,682,155
Trading and securities gain - net		81,758,557	–	81,758,557
Miscellaneous		93,603,339	–	93,603,339
		645,436,686	129,205,294	774,641,980
Other Expenses				
Compensation and fringe benefits	m	778,912,625	(10,767,923)	768,144,702
Taxes and licenses		226,099,705	–	226,099,705
Occupancy and other equipment-related expenses		202,886,226	–	202,886,226
Depreciation and amortization	n	178,824,029	42,534,230	221,358,259
Security, messengerial and janitorial services		109,026,783	–	109,026,783
Amortization of intangible assets	o	47,861,572	(23,600,000)	24,261,572
Miscellaneous		494,707,279	–	494,707,279
		2,038,318,219	8,166,307	2,046,484,526
Income before Income Tax		447,342,892	8,028,381	455,371,273
Benefit from Income Tax	p	38,210,189	3,613,919	41,824,108
Net Income		₱485,553,081	₱11,642,300	₱497,195,381

Notes to the reconciliation of statements of condition as of January 1 and December 31, 2004, and January 1, 2005 and statement of income for the year ended December 31, 2004 follow:

a. Adjustment on cash and other cash items pertains to the reclassification of foreign currency notes and checks on hand (item h).

b. The adjustment pertains to the reclassification of securities from trading account securities (TAS) amounting to ₱71.9 million.

c. The adjustments on AFS investments consist of:

	January 1, 2005
Reclassification from available-for-sale securities (ASS)	₱2,081,332,979
Reclassification from other investments (item h)	30,100,220
Reclassification of nonmarketable equity securities (item h)	45,021,502
Transfer of allowance from other investments (item h)	(1,200,000)
	₱2,155,254,701

d. The adjustments on held-to-maturity investments (HTM) investments consist of:

	January 1, 2005
Reclassification from investments in bonds and other debt instruments (IBODI)	₱11,188,618,814
Reclassification of a debt security that is not traded in an active market from IBODI to unquoted debt security under loans and receivables (item e)	(95,610,552)
Transfer of allowance on unquoted debt securities to loans and receivables (item e)	62,146,858
	₱11,155,155,120

e. The adjustments on loans and receivable consist of:

	January 1, 2005
Reclassification of an unquoted debt security from IBODI (item d)	₱95,610,552
Reclassification of accrued interest receivable from other resources (item h)	692,033,120
Reclassification of accounts receivable from other resources (item h)	251,133,965
Reclassification of sales contract receivable from other resources (item h)	386,512,812
Transfer of allowance of unquoted debt securities from IBODI (item d)	(62,146,858)
Transfer of allowance on accrued interest receivable and accounts receivable from other resources (item h)	(212,677,201)
Recognition of impairment loss on receivables from customers (item j)	(181,734,207)
	₱968,732,183

f. The adjustments on investment properties follow:

	December 31,2004	January 1, 2004
Recognition of unrealized gain on initial measurement at fair value of investment properties (item j)	₱550,505,104	₱441,334,859
Recognition of accumulated depreciation on investments properties (item j)	(136,064,210)	(117,843,152)
Reclassification to other resources (item h)	(163,838,851)	(119,598,890)
Reversal of allowance for probable losses (item j)	80,695,972	193,706,578
	₱331,298,015	₱397,599,395

g. Adjustments on the net deferred tax assets (DTA) follow:

	January 1, 2005	December 31,2004	January 1, 2004
Recognition of DTA on net pension liability (item j)	₱–	₱64,870,833	₱68,316,568
Deferred tax liability (DTL) on net unrealized gain on investment properties (item j)	–	(176,161,632)	(141,227,155)
DTA on depreciation on investment properties (item j)	–	43,540,546	₱37,709,809
Recognition of DTA on additional impairment loss of receivables from customers (item j)	58,154,946	–	–
Reversal of DTA on allowance on investment properties (item j)	–	(25,822,711)	(61,986,105)
	₱58,154,946	(₱93,572,964)	(₱97,186,883)

h. The net adjustments on other resources follow:

	January 1, 2005	December 31,2004	January 1, 2004
Reclassification of accrued interest receivable to loans and receivables (item e)	(₱692,033,120)	₱–	₱–
Reclassification of accounts receivable to loans and receivables (item e)	(251,133,965)	–	–
Reclassification of sales contract receivable to loans and receivables (item e)	(386,512,812)	–	–
Transfer of allowance on accrued interest receivable and accounts receivable (item e)	212,677,201	–	–
Reclassification from investment properties (item e)	–	163,838,851	119,598,890
Reclassification of foreign currency notes and coins on hand (item a)	–	(60,057,711)	(43,827,814)
Reclassification of other investments to AFS (item c)	(30,100,220)	–	–
Recognition of accumulated depreciation on other assets transferred from investment properties (item j)	–	(8,044,669)	(5,239,308)
Initial measurement at fair value of other assets transferred from investment properties (item j)	–	(3,571,699)	(2,098,937)
Reclassification of nonmarketable equity securities to AFS (item c)	(45,021,502)	–	–
Transfer of allowance of other investments (item c)	(1,200,000)	–	–
Reversal of amortization of goodwill (item j)	–	23,600,000	–
	(₱1,190,924,418)	₱115,764,772	₱68,432,831

i. The adjustments on other liabilities consist of (item j):

	December 31,2004	January 1, 2004
Recognition of transition liability	₱213,489,275	₱213,489,275
Reversal of overstatement of retirement expense	(10,767,923)	–
	₱202,721,352	₱213,489,275

j. Following is the summary of the adjustments to Surplus:

	January 1, 2005	December 31,2004	January 1, 2004
Recognition of net pension liability (item i)	₱–	(₱202,721,352)	(₱213,489,275)
Recognition of accumulated depreciation of investment property (item f)	–	(136,064,210)	(117,843,152)
Recognition of DTA on accrued retirement (item g)	–	64,870,833	68,316,568
Recognition of accumulated depreciation of other assets (item h)	–	(8,044,669)	(5,239,308)
Recognition of DTA on depreciation of investment properties (item g)	–	43,540,546	37,709,809
Recognition of DTL on unrealized gain on initial measurement of investment properties (item g)	–	(176,161,632)	(141,227,155)
Recognition of impairment loss on receivables from customers (item e)	(181,734,207)	–	–
Recognition of DTA on impairment loss on receivables from customers (item g)	58,154,946	–	–
Reversal of DTA on allowance for impairment losses of investment properties (item g)	–	(25,822,711)	(61,986,105)
Reversal of allowance on ROPOA (item f)	–	80,695,972	193,706,578
Recognition of unrealized gain on initial measurement at fair value of investment properties (item f)	–	550,505,104	441,334,859
Recognition of unrealized loss on initial measurement at fair value of other assets transferred from investment properties (item h)	–	(3,571,699)	(2,098,937)
Reversal of 2004 amortization of goodwill (item h)	–	23,600,000	–
	(₱123,579,261)	₱210,826,182	₱199,183,882

k. The adjustment pertains to the reversal of impairment losses on investment properties.

l. The adjustments to Profits from assets sold follow:

Unrealized gain on initial measurement at fair value of investment properties	₱107,521,205
Adjustment on gain on disposal of investment properties	21,684,089
	₱129,205,294

m. The adjustment pertains to the reversal of the overstatement in retirement expense recognized under previous GAAP amounting ₱10.8 million.

n. The adjustments on depreciation and amortization consist of:

Depreciation expense of investment properties for the year	₱33,376,143
Depreciation expense of other assets transferred from investment properties	9,158,087
	₱42,534,230

o. The adjustment pertains to reversal of amortization of goodwill in compliance with PFRS 3.

p. The adjustments on benefit from income tax follow:

Movement in DTA on net pension liability	(₱3,445,735)
Movement in DTL on net unrealized gain on investment properties	(34,934,477)
Movement in DTA on depreciation of investment properties	5,830,737
Movement in DTA on allowance on investment properties	36,163,394
	₱3,613,919

<u>Effect on the Statement of Cash Flows for 2004</u>
There are no material differences between the statement of cash flow prepared under PFRS and statement of cash flow presented under the previous GAAP.

<u>Changes in Accounting Policies</u>
On January 1, 2005, the following new accounting standards became effective and were adopted by the Bank:

- PAS 19, *Employee Benefits,* provides for the accounting for long-term and other employee benefits. The standard requires the projected unit credit method in determining the retirement benefits of the employees and a change in the manner of computing benefit expense relating to past service cost and actuarial gains and losses. It requires the Bank to determine the present value of defined benefit obligations and the fair value of any plan assets with sufficient regularity that the amounts recognized in the financial statements do not differ materially from the amounts that would be determined at the statement of condition date.

  The adoption of this standard resulted in a net transition liability amounting to ₱213.5 million as of December 31, 2003. Surplus as of that date decreased by ₱145.2 million, net of deferred income tax of ₱68.3 million. Net income in 2004 was increased by ₱7.3 million, net of deferred income tax of ₱3.4 million. Accordingly, surplus as of December 31, 2004 was reduced by ₱137.9 million, net of deferred tax asset of ₱64.9 million to reflect the net effect of the change.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* prohibits the capitalization of foreign exchange losses. The standard also addresses the accounting for transactions in foreign currency and translating the financial statements of foreign operations that are included in those of the reporting enterprise by consolidation, proportionate consolidation and equity method. The adoption of this standard had no material impact on the financial statements.

- PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* provides for the required disclosure and presentation in respect of the accounts of banks and similar financial institutions. It also provides that provision for general banking risks is treated as an appropriation of surplus and should not be included in the determination of net income for the period. In accordance with this standard, new disclosures have been included in the accompanying financial statements, where applicable.

  The adoption of this standard resulted in the reallocation of the general loan loss reserves to cover the additional specific reserves required upon the adoption of PAS 39, *Financial Instruments: Recognition and Measurement.*

- PAS 32, *Financial Instruments: Disclosure and Presentation,* covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Bank's financial instruments, whether recognized or unrecognized in the financial statements. In accordance with this standard, new disclosures were included in the financial statements, where applicable.

- PAS 39, *Financial Instruments: Recognition and Measurement,* establishes the accounting and reporting standards for recognizing and measuring the Bank's financial assets and financial liabilities. PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of derivative instruments to include derivatives (derivative-like provisions) embedded in non-derivative contracts. The Bank has reviewed all its outstanding contracts entered into as of January 1 and December 31, 2005 to ascertain if there are derivatives embedded in those contracts. As of the said dates, the Bank does not have any material embedded derivatives. In addition, the Bank does not have any freestanding derivatives as of January 1 and December 31, 2005.

  As allowed by the Securities and Exchange Commission, the effect of adopting PAS 32 and PAS 39 was charged against surplus as of January 1, 2005.

  The adoption of the effective interest rate method in measuring amortized cost for loans and receivables, HTM investments and AFS investments had no material impact on the Bank's financial statements. The effect of adopting the provision of PAS 39 on the classification and related measurement of financial resources and liabilities on the Bank's financial statements did not result in an adjustment of surplus as of January 1, 2005. In addition, certain accounts were reclassified in accordance with PAS 32 and PAS 39 (see discussion under Reconciliation of Financial Position).

  In determining the allowance for impairment losses of a financial asset, PAS 39 requires, among others, the use of discounted cash flow method. Prior to January 1, 2005, the adequacy of allowance for impairment losses on loans and other receivables and risk assets was determined based on management criteria and BSP requirements. The effect of adopting PAS 39 on provisions for impairment of financial resources resulted in a reduction of surplus as of January 1, 2005 of ₱123.6 million, net of deferred tax asset of ₱58.2 million. Such adjustment has taken into account the reallocation of the general reserves existing as of that date.

- PAS 40, *Investment Property,* prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Bank to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. The Bank opted to adopt the cost model in accounting for its investment property. The effect of adopting the cost method in accounting for the real and other properties owned or acquired (ROPOA) that qualify as investment property increased surplus as of December 31, 2004 and 2003 by ₱325.1 million and ₱344.4 million, respectively, net of deferred tax liability of ₱158.4 million and ₱165.5 million. Previously, ROPOA were stated at the total outstanding exposure at the time of foreclosure or bid price, whichever is lower, less allowance for probable losses determined based on BSP provisioning requirements.

- PFRS 3, *Business Combination,* results in the cessation of the amortization of goodwill and requires an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted. The adoption of this standard resulted in an upward adjustment to surplus as of December 31, 2004 amounting to ₱23.6 million for the reversal of amortization of goodwill in 2004.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held-for-sale should be presented separately on the face of the statements of condition and the results of discontinued operations to be presented separately in the statements of income. The effect of adopting this standard is not material to the Bank's financial statements.

The following revised standards which became effective on January 1, 2005 were also adopted by the Bank:

- PAS 1, *Presentation of Financial Statements,* provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and specifies the disclosures about key sources of estimation uncertainty and judgments that management has made in the process of applying the entity's accounting policies.

- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors,* removes the concept of fundamental error and the allowed alternative to retrospective application of voluntary changes in accounting policies and retrospective restatement to correct prior period errors. It defines material omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

- PAS 10, *Events After the Balance Sheet Date,* provides a limited clarification of the accounting for dividends declared after the statement of condition date.

- PAS 16, *Property, Plant and Equipment,* provides additional guidance and clarification on recognition and measurement of items of property, plant and equipment. It also provides that each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item shall be depreciated separately.

- PAS 17, *Leases,* provides a limited revision to clarify the classification of a lease of land and buildings and prohibits expensing of initial direct costs in the financial statements of lessors.

- PAS 24, *Related Party Disclosures,* provides additional guidance and clarity in the scope of the standard, the definitions and the disclosures for related parties. It also requires disclosure of the compensation of key management and personnel by benefit types.

- PAS 33, *Earnings Per Share,* prescribes principles for the determination and presentation of earnings per share for entities with publicly traded shares, entities in the process of issuing ordinary shares to the public, and any entities that calculate and disclose earnings per share. The standard also provides additional guidance in computing earnings per share, including the effects of mandatorily convertible instruments and contingently issuable shares, among others.

- PAS 36, *Impairment of Assets,* requires an annual impairment test of an intangible asset with an indefinite useful life or an intangible asset not yet available for use and goodwill acquired in a business combination whether or not there is an indication of impairment.

- PAS 38, *Intangible Assets,* requires the assessment of the useful life of intangible assets at the individual asset level as having either a finite or indefinite life. Where an intangible asset has a finite life, it has to be amortized over its useful life. Amortization years and methods for intangible assets with finite useful lives are reviewed annually or where an indicator of impairment exists. An intangible asset assessed as having an indefinite useful life is not amortized, as there is no foreseeable limit to the year over which the asset is expected to generate net cash inflows for the Bank. However, an intangible with an indefinite useful life is reviewed annually to ensure the carrying value does not exceed the recoverable amount regardless of whether an indicator of impairment is present.

The adoption of the foregoing revised standards on the accompanying financial statements did not result in the restatement of the financial statements. Required disclosures were included in the financial statements, where applicable.

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

- PAS 19, *Employee Benefits - Actuarial Gains and Losses, Group Plans and Disclosures* - The revised disclosures from the amendments will be included in the Bank's financial statements when the amendments are adopted in 2006.

- PFRS 7, *Financial Instruments - Disclosures* - The revised disclosures on financial instruments provided by this standard will be included in the Bank's financial statements when the standard is adopted in 2007.

<u>Cash and Other Cash Items</u>
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks and interbank loans receivable that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

<u>Financial Assets</u>
All financial assets are initially recognized at fair value. Except for FVPL investments, the initial measurement of financial assets includes transaction costs. Effective January 1, 2005 the Bank classified its financial assets in the following categories: FVPL investments, loans and receivables, HTM investments and AFS investments. Management determines the classification of its investments at initial recognition and re-evaluates this designation (except for HTM investments and FVPL investments) at every reporting date. The classification depends on the purpose for which the financial assets were acquired and whether they are quoted in an active market.

FVPL Investments
This category has two sub-categories: financial assets held-for-trading (HFT) and those designated at fair value through profit or loss at inception. 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 HFT unless they are designated as hedges. FVPL investments are initially recorded at fair value and subsequently remeasured at fair value. Gains and losses arising from changes in the fair value of the financial assets are included in the statement of income in the period in which they arise.

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 Bank provides money, goods or services directly to a debtor with no intention of trading the receivable. These are carried at amortized cost using the effective interest rate method, less impairment in value.

HTM Investments
HTM investments are non-derivative financial assets that are quoted in an active market with fixed or determinable payments and fixed maturities that the Bank's management has the positive intention and ability to hold to maturity. Where the Bank to sell other than an insignificant amount of HTM investments, the entire category would be tainted and reclassified as AFS investments. These investments are carried at amortized cost using the effective interest rate method, less impairment in value.

AFS Investments
AFS investments are financial assets that are designated as AFS or are not classified in any of the preceding categories. AFS investments include financial assets not quoted in an active market when purchased and held indefinitely, but which the Bank anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. Financial assets may be designated under this category provided such are not held for trading. AFS investments are carried at fair market value. The effective yield component of AFS debt securities are reported in the statement of income. The unrealized gain or loss arising from the fair valuation of AFS investments are excluded from reported income and reported as a separate component of capital funds in the statements of condition until the investment is derecognized or until the investment is determined to be impaired, at which time the net unrealized gain or loss previously reported in capital funds is included in the statements of income.

AFS investments include other investments, which consist of unquoted equity investments where the Bank's ownership interest is less than 20% or where control is likely to be temporary. Such investments are initially recognized at cost, being the fair value of the investment at the time of acquisition or purchase, and including acquisition charges associated with the investment. Such investments are carried at cost due to the unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

Prior to January 1, 2005, trading and investment securities were accounted for as follows:

Trading Account Securities
TAS, which consist of government and private debt and equity securities, are purchased and held principally with the intention of selling them in the near term. These securities are carried at fair market value; realized and unrealized gains and losses on these instruments are recognized in Trading and Securities Gain - net in the statements of income. Interest earned on debt instruments is reported as Interest Income.

Available-for-Sale Securities
Securities are classified as ASS when purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the Bank anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. After initial recognition, investments which are classified as available-for-sale are measured at fair value. Gains or losses are recognized as a separate component of equity until the investment is sold, collected or otherwise disposed of, or until the investment is determined to be impaired, at which time the cumulative gain or loss previously reported in capital funds is included in the statements of income.

Investments in Bonds and Other Debt Instruments
IBODI are debt securities where the Bank has the positive intent and ability to hold to maturity. These securities are carried at amortized cost on a straight-line basis; realized gains and losses are included in Trading and Securities Gain - net in the statements of income.

Bank Premises, Furniture and Equipment
Bank premises, furniture and equipment are stated at cost less accumulated depreciation (except for leasehold improvements which is carried net of amortization) and any impairment in value. Depreciation is determined using the straight-line method over the estimated useful life of the respective assets. Leasehold improvements are amortized over the shorter of the estimated useful life of the improvements of five years or the terms of the related leases.

The initial cost of bank premises, furniture and equipment consists of its purchase price, including taxes, any directly attributable costs of bringing the asset to its working condition and location for its intended use and the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located. Expenditures incurred after the bank premises, furniture and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred.

In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as additional cost of bank premises, furniture and equipment. When assets are retired or otherwise disposed of, the cost, the related accumulated depreciation and any impairment in value are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statements of income.

The annual depreciation rates follow:

Building	4%
Furniture, fixtures and equipment	20%

The useful life and the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture and equipment. Each part of an item of Bank premises, Furniture and Equipment with a cost that is significant in relation to the total cost is depreciated separately.

The carrying values of bank premises, furniture and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statements of income (see accounting policy on Impairment of Nonfinancial Assets).

Investment Properties

Investment properties include ROPOA in settlement of loans and receivables from customers. Investment properties are recorded at fair value at acquisition date and subsequently carried at cost less accumulated depreciation and impairment in value. Transaction costs including nonrefundable taxes such as capital gains tax and documentary stamp tax that were paid by the Bank are capitalized as part of cost. Depreciation is computed using the straight-line method over the estimated useful life of 5 to 25 years. Previously, ROPOA were stated at the total outstanding exposure at the time of foreclosure or bid price, whichever is lower, less allowance for impairment losses determined based on BSP provisioning requirements.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statement of income in the year in which they arise.

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

Transfers are made to investment property when, and only when, there is a change in use, evidenced by ending of owner-occupation, commencement of an operating lease to another party or ending of construction or development. For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its depreciated cost at the date of change in use. If the property occupied by the Bank as an owner-occupied property becomes an investment property, the Bank accounts for such property in accordance with the policy stated under Property and Equipment up to the date of change in use.

Assets Held for Sale

Assets held for sale includes repossessed vehicles that are highly probable of being sold within one year and are included in the sales auction program for the year. Assets held for sale are stated at the lower of cost or net realizable value, which represents the estimated selling price less cost to sell.

Intangible Assets

Intangible assets include goodwill, software costs and license fees. Intangible assets acquired separately from a business are capitalized at cost. Intangible assets acquired as part of an acquisition of a business are capitalized separately from goodwill if the fair value can be measured reliably on initial recognition, subject to the constraint that, unless the asset has a readily ascertainable market value, the fair value is limited to an amount that does not create or increase any negative goodwill arising on the acquisition.

Software costs and license fees are amortized over a period of five years on a straight-line basis.

Goodwill was previously amortized on a straight-line basis over a 20-year period. However, effective January 1, 2004, goodwill is no longer amortized in accordance with PFRS 3.

The carrying values of intangible assets are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable (see accounting policy on Impairment of Nonfinancial Assets).

Income Taxes

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

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from excess minimum corporate income tax (MCIT) over the regular corporate income tax (RCIT) and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and carryforward of unused MCIT and unused NOLCO can be utilized. Deferred income tax, however, is not recognized when it arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss.

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

Deferred income tax assets and liabilities are measured at the tax rates that are applicable 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.

Impairment of Assets

An assessment is made at each statement of condition date to determine whether there is objective evidence that a specific financial or non-financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statements of income.

Impairment of financial assets

Assets carried at amortized cost

If there is objective evidence that an impairment loss on loans and receivables and HTM investments has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of the 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 use of an allowance account.

The Bank first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for assets that are not individually significant. If the Bank determined that no objective evidence of impairment exists for individually assessed financial asset, whether significant or not, the asset is included in a group of financial assets with similar credit risk characteristics (i.e., on the basis of the Bank's grading process that considers asset type, industry, geographical location, collateral type, past-due status and other relevant factors) and that group of assets is collectively assessed for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment for impairment.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statements of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

Assets Carried at Cost

If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such unquoted equity instrument has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

AFS Investments

If an AFS investment is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss on that financial asset previously recognized in profit or loss – is removed from equity and recognized in the statements of income.

Reversals in respect of equity instruments classified as AFS investments are not recognized in the statements of income. Reversals of impairment losses on debt instruments are reversed through the statements of income, if the increase in value of the instrument can be objectively related to an event occurring after the impairment loss was recognized in the statements of income.

Impairment of nonfinancial assets

Where an indicator of impairment exists, the Bank makes a financial estimate of recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's fair value less cost to sell and its value in use and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or group assets.

Where the carrying amount of an asset exceeds its recoverable amount, the asset is considered impaired and is written down to its recoverable amount. An impairment loss is recognized by a charge against current operations for the excess of the carrying amount of an asset over its recoverable amount. An impairment loss is charged to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

A previously recognized impairment loss is reversed by a credit to current operations, unless the asset is carried at a revalued amount in which case the reversal of the impairment loss is credited to the revaluation increment of the same asset, to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any accumulated depreciation and amortization) had no impairment loss been recognized for the asset in prior years.

<u>Derecognition of Financial Instruments</u>

Financial Asset

A financial asset (or, where applicable, a part of a financial asset or part of a group of financial assets) is derecognized when:

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

Financial Liability

A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expires.

<u>Income Recognition</u>

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

Interest Income

Interest on loans, trading and investment securities, and interest-bearing placements is recognized based on accrual accounting using the effective interest method. Prior to January 1, 2005, interest income on nonaccruing loans was recognized only to the extent of actual cash collections. Beginning 2005, interest income on impaired loans is recognized through accretion based on the rate used to discount future cash flows to their net present value, as discussed under the policy on Impairment of Financial Assets.

Loan Fees and Service Charges

Loan fees that are directly related to the acquisition and origination of loans are amortized using effective interest rate method over the term of the receivable. Fees related to the administration and servicing of a loan are recognized as income as the services are rendered.

Service charges and penalties are recognized only upon collection.

<u>Operating Leases</u>

Leases where the lessor retains substantially all the risks and benefits of ownership of an asset are classified as operating leases. Operating lease payments are recognized as an expense in the statements of income on a straight-line basis over the lease term.

The Bank is also a party to operating leases as a lessor. Operating lease payments are recognized as income in the statements of income on a straight-line basis over the lease term.

<u>Retirement Cost</u>

The Bank determines retirement cost under the projected unit credit cost method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The liability recognized in the statement of condition in respect of defined benefit pension plans is the present value of the defined benefit obligation in the statement of condition date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by independent actuaries using the projected unit credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government 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 retirement liability.

Past-service costs are recognized immediately in income, unless the changes to the pension plan are conditional on the employees remaining in service for a specified period of time (the vesting period). In this case, the past-service costs are amortized on a straight-line basis over the vesting period.

On the initial adoption of PAS 19, the cumulative effect of change in accounting policy includes all actuarial gains and losses that arose in earlier periods whether or not they fall within the 10% corridor. In subsequent periods, a portion of actuarial gains and losses is recognized as income or expense if the cumulative unrecognized actuarial gains and losses at the end of the previous reporting period exceeds 10% of the greater of the present value of the defined benefit obligation or the fair value of the plan assets. These gains and losses are recognized over the expected average remaining working life of the employees participating in the plan.

Provisions and Contingencies

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

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

Earnings Per Share

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

Subsequent Events

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

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3. Significant Accounting Judgments and Estimates

The preparation of the financial statements in accordance with PFRS requires the Bank to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

Estimates and judgments are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The following are the critical judgments and key assumptions that have a significant risk of material adjustment to the carrying amounts of assets and liabilities within the next financial year:

(a) Impairment losses of loans and receivables

The Bank reviews its loan portfolios to assess impairment at each statement of condition date. In determining whether an impairment loss should be recorded in the statements of income, the Bank makes judgments as to whether there is any observable data indicating that there is a measurable decrease in the estimated future cash flows from a portfolio of loans and receivables before the decrease can be identified with an individual loan and receivables in that portfolio. This evidence may include observable data indicating that there has been an adverse change in the payment status of borrowers in a group, or national or local economic conditions that correlate with

defaults on assets in the group.
As of December 31, 2005, loans and receivables amounted to ₱29.4 billion, net of related allowance for impairment losses amounting to ₱1.8 billion (Note 8).

(b) Impairment of AFS Investments
The Bank determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Bank evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of a deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. As of December 31, 2005, AFS investments are carried net of allowance for impairment loss amounting to ₱45.0 million (Note 7).

(c) HTM Investments
The Bank follows the guidance of PAS 39 on classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM investments. This classification requires significant judgment. In making this judgment, the Bank evaluates its intention and ability to hold such investments to maturity. If the Bank fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire portfolio as AFS. The investments would therefore be measured at fair value and not at amortized cost. No impairment losses were recognized on the HTM investments of the Bank as of December 31, 2005. As of December 31, 2005, the market value of HTM investments amounted to ₱4.2 billion (Note 7).

(d) Provision for income tax and recognition of deferred tax asset
Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Bank recognizes liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. As discussed in Note 20, recognized deferred tax assets (net of deferred tax liabilities) as of December 31, 2005 amounted to ₱638.9 million. The amount of deferred tax assets recognized by the Bank is based on the estimate of future taxable profits.

(e) Impairment of Non-Financial Assets
The Bank assesses impairment on assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The factors that the Bank considers important which could trigger an impairment review include the following:

- significant underperformance relative to expected historical or projected future operating results;
- significant changes in the manner of use of the acquired assets or the strategy for overall business; and
- significant negative industry or economic trends.

The Bank recognizes an impairment loss whenever the carrying amount of an asset exceeds its recoverable amount. The recoverable amount is the value in use. The net selling price is the amount obtainable from the sale of an asset in an arm's length transaction while value in use is the present value of estimated future cash flows expected to arise from the continuing use of an asset and from its disposal at the end of its useful life. Recoverable amounts are estimated for individual assets or, if it is not possible, for the cash-generating unit to which the asset belongs.

As of December 31, 2005, bank premises and investment properties have net book values of ₱1.6 billion and 2.3 billion, respectively (Notes 9 and 10).

(f) Present value of retirement obligation
The present value of the obligation depends on certain factors that are determined on an actuarial basis using a number of assumptions. These include, among others, discount rates, expected returns on plan assets and salary rate increase. Any changes in these assumptions will impact the carrying amount of retirement obligations. The assumed discount rates were determined using average market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of condition dates.

As of December 31, 2005, the present value of the defined benefit obligation of the Bank amounted to ₱372.8 million (see Note 25).

(g) *Fair value of investment properties*
The fair value of investment properties is determined based on valuations performed by experienced and competent appraisers as of the statement of condition date. As of December 31, 2005, net unrealized gain on initial measurement at fair value of investment properties of the Bank amounted to ₱543.9 million. Total carrying amount of investment properties amounted to ₱2.3 billion as of December 31, 2005 (Note 10).

(h) *Operating lease commitment*
The Bank has entered into commercial property leases on its investment property portfolio. The Bank has determined that they retained all the significant risks and rewards of ownership of these properties which are leased out on operating leases (Notes 10 and 20).

4. Fair Value Measurement

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

(a) *Cash and other cash items*
Fair values approximate carrying amounts.

(b) *Due from BSP and due from other banks*
Fair values approximate carrying amounts given the short-term nature of the instruments.

(c) *Investments in quoted debt and equity securities*
Fair values are generally based on quoted market prices.

(d) *Investments in unquoted debt securities*
Since the market prices are not readily available, the Bank estimated the fair values using adjusted quoted market prices of comparable investments or using the discounted cash flow methodology.

(e) *Investments in unquoted equity securities*
These are carried at cost less allowance for impairment losses due to unpredictable nature of future cash flows and the lack of other suitable methods of arriving at a reliable fair value.

(f) *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.

(g) *Deposit liabilities*
The estimated fair value of deposit liabilities which include noninterest-bearing deposits, is the amount repayable on demand.

(h) *Other borrowings and other liabilities*
Fair values approximate carrying amounts given the short-term nature of the liabilities.

Set out below is a comparison by category of carrying amounts and fair value of financial assets and liabilities as of December 31, 2005 not presented on the Bank's statement of condition at their fair values or where the fair value is presented, such fair value is determined based on valuation techniques described above (in thousand):

	Carrying Value	Fair Value
Financial Assets		
Cash and other cash items	₱808,728	₱808,728
HTM investments	3,927,251	4,196,140
Loans and receivables (Note 8)	29,369,241	29,227,051
Financial Liabilities		
Deposits liabilities	48,024,147	48,024,147

5. Financial Risk Management Policies and Objectives

a. *Credit Risk and Concentration of Assets and Liabilities and Off Balance Sheet Items*
Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Bank's exposure to credit risk arises primarily from lending activities and participation in payment transactions and securities settlement on the Bank's behalf and as agents for its clients. The Bank manages its credit risks through qualitative and quantitative aspects. Credit officers evaluate the credit quality of the counterparties. Potential losses associated with credit exposures are estimated. This process involves judgment and considers a number of variables including the credit quality of counterparties, tenor or the Bank's credit exposure, default probabilities and their volatilities, collateral values, expected recovery rates in the event of default as well as the diversification across counterparties and industries.

The Bank also assesses the adequacy of its provisions for impairment losses regularly. It has an automated loan grading system which sets up initial provision on a per-account basis based on each account's corresponding loan grade. The Bank's Credit Committee approves the upgrading and downgrading of loan accounts while the Risk Management Committee reviews the provisioning portfolio every month to ensure that adequate reserves have been established.

b. *Market Risk*
Market risk is the risk to earnings and capital arising from changes in the value of traded portfolios of financial instruments (trading market risk), from movements in interest rates (interest rate risk) and from an inability to meet obligations when they come due without incurring unacceptable losses (liquidity risk). The Bank's market risk originates primarily from holdings in peso and dollar denominated debt securities. Market risk management is implemented under a Value at Risk (VaR) based risk management framework. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given confidence level over a specified holding period. The Bank's VaR model assumes a 99% level of confidence over a one-day horizon, using a 0.985 exponential decay factor. Back testing is employed to verify the effectiveness of the VaR model and stress testing is also conducted, based on historical crisis period and on an ad hoc rate shock to estimate potential losses in a crisis situation.

	Average	**High**	**Low**
Interest rate risk	₱5,150,736	₱11,357,472	₱585,812
Foreign exchange risk	4,133,143	5,227,771	1,302,901
Total VaR	₱9,283,879	₱16,585,243	₱1,888,713

The following table shows the VaR of the Bank as of December 31, 2005:

c. *Interest Rate Risk*
The Bank follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates is kept within acceptable levels.

The following table provides the average effective interest rates by period of maturity or repricing as of December 31,

	Less than 3 months	**3 months to 1 year**	**Greater than 1 year**
Resources			
Due from BSP	2.45%	–%	–%
Due from other banks	0.76	–	–
FVPL investments	7.70	7.86	9.31
AFS investments	3.99	7.43	8.98
HTM investments	–	10.00	10.66
Loans and receivables	13.17	14.03	12.46
Liabilities			
Deposit liabilities	5.47	5.51	3.90

2005:

	Up to 1 month	1-3 months	3-6 months	6-12 months	Greater than 1 year	Total
			(in million)			
Assets						
Total loans	₱6,774	₱1,664	₱1,831	₱3,467	15,633	₱29,369
Total investments	1,369	200	247	97	14,877	16,790
Other resources	3,888	–	–	–	5,090	8,978
Total resources	₱12,031	₱1,864	₱2,078	₱3,564	35,600	₱55,137
Liabilities and capital						
Deposit liabilities	₱22,823	₱7,476	₱1,258	₱1,676	₱14,791	₱48,024
Other liabilities	3	–	–	–	1,791	1,794
Total liabilities	22,826	7,476	1,258	1,676	16,582	49,818
Capital funds	–	–	–	–	5,319	5,319
Total liabilities and capital funds	₱22,826	₱7,476	₱1,258	₱1,676	₱21,901	₱55,137
Asset-liability gap	(₱10,795)	(₱5,612)	₱820	₱1,888	₱13,699	₱–

The following table sets forth the asset-liability gap position of the Bank as of December 31, 2005:
The Risk Management Committee (RMC) is responsible for managing the structural interest rate exposure of the Bank. Its primary focus is to achieve a desired overall interest rate profile, which may change over time based on management's long-term view of interest rates and economic conditions. The RMC, with the support of the Administrative Risk Management Committee reviews the composition of the Bank's assets and liabilities including interest rate mismatch positions.

d. *Foreign Currency Risk*

Foreign currency liabilities generally consist of foreign currency deposits in the Bank's FCDU accounts made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party. The Bank's policy is to maintain foreign currency exposure within acceptable levels and within existing regulatory guidelines.

The table below summarizes the Bank's exposure to foreign exchange risk as of December 31, 2005. Included in the

Resources	
Due from other banks	$23,941
AFS investments	164,172
HTM investments	34,828
Other resources	18,527
Total resources	$241,468
Liabilities	
Deposit liabilities	$224,262
Accrued taxes, interest and other expenses	1,174
Other liabilities	11,720
Total liabilities	$237,156
Net exposure	$4,312

table are the Bank assets and liabilities at carrying amounts (in thousand USD).

e. Liquidity Risk

The Bank's policy on liquidity management emphasizes on three elements of liquidity, namely, cashflow management, ability to borrow in the interbank market, and maintenance of a stock of high quality liquid assets. These three approaches complement one another with greater weight being given to a particular approach, depending upon circumstances. The Bank's objective in liquidity management is to ensure that the Bank has sufficient liquidity to meet obligations under normal and adverse circumstances and is able to take advantage of lending and investment opportunities as they arise.

The main tool for monitoring the Bank's liquidity is the Balance Sheet Liquidity Model. Under the analysis, all assets are classified into either "liquid assets" or "illiquid assets," while all liabilities are split into "volatile liabilities" or "stable liabilities." Volatile liabilities are then subtracted from liquid assets to determine the Bank's Net Liquid Asset. The Bank applies the Balance Sheet Liquidity analysis for both "normal" and "stress" scenarios.

The Bank also utilizes Maximum Cumulative Outflow (MCO) reports, which are also called liquidity gap or maturity matching gap reports. The MCO is a useful tool in measuring and analyzing the Bank's cash flow projections and monitoring liquidity risks. The liquidity gap report shows the projected cash flows of assets and liabilities representing estimated funding sources and requirements under normal conditions, which also forms the basis for the Bank's Contingency Funding Plan (CFP). The CFP projects the Bank's funding position during both temporary and long-term liquidity changes to help evaluate the Bank's funding needs and strategies under changing market conditions.

The Asset and Liability Committee, supported by the Risk Management Office, is responsible for managing the liquidity of the Bank.

6. Segment Information

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

(a) Consumer Banking - principally handles individual customers' deposits, and provides consumer-type loans, overdrafts and fund transfer facilities;

(b) Corporate Banking - principally handles loans and other credit facilities, and deposit and current accounts for corporate and institutional customers; and

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

These segments are the bases on which the Bank reports its primary segment information. Other segments of the Bank comprise the operations and financial control. Transactions between segments are conducted at estimated market rates on an arm's length basis.

Primary segment information (by business segment) for the years ended December 31, 2005 and 2004 follows (in

	2005			
	Consumer Banking	**Corporate Banking**	**Treasury**	**Total**
Results of Operations				
Net interest income	**₱1,913,834**	**₱703,980**	**₱104,541**	**₱2,722,355**
Noninterest income	**395,913**	**146,344**	**182,676**	**724,933**
Total revenue	**2,309,747**	**850,324**	**287,217**	**3,447,288**
Noninterest expense	**(2,157,846)**	**(863,627)**	**(44,903)**	**(3,066,376)**
Income before income tax	**151,901**	**(13,303)**	**242,314**	**380,912**
Benefit from income tax	**–**	**–**	**–**	**265,446**
Net income	**₱151,901**	**(13,303)**	**₱242,314**	**₱646,358**
Statement of Condition				
Segment resources	**₱23,606,594**	**₱11,801,367**	**₱19,089,912**	**₱54,497,873**
Segment liabilities	**₱20,706,529**	**₱10,274,052**	**₱18,837,143**	**₱49,817,724**
Other Segment Information				
Capital expenditures	**₱387,817**	**₱92,228**	**₱1,864**	**₱481,909**
Depreciation and amortization	**₱132,886**	**₱31,602**	**₱639**	**₱165,127**

	2004 (As restated - Note 2)			
	Consumer Banking	Corporate Banking	Treasury	Total
Results of Operations				
Net interest income	₱1,400,493	₱545,483	₱15,148	₱1,961,124
Noninterest income	540,257	149,237	85,148	774,642
Total revenue	1,940,750	694,720	100,296	2,735,766
Noninterest expense	(1,682,464)	(585,836)	(12,095)	(2,280,395)
Income before income tax	258,286	108,884	88,201	455,371
Benefit from income tax	–	–	–	41,824
Net income	₱258,286	₱108,884	₱88,201	₱497,195
Statement of Condition				
Total resources	₱19,853,152	₱11,151,650	₱14,966,652	₱45,971,454
Total liabilities	₱17,407,242	₱9,617,713	₱14,676,358	₱41,701,313
Other Segment Information				
Capital expenditures	₱173,083	₱42,303	₱806	₱216,192
Depreciation and amortization	₱143,166	₱34,991	₱667	₱178,824

thousand pesos):
Total resources do not includes deferred tax assets amounting to ₱638.9 million and ₱192.1 million as of December 31, 2005 and 2004, respectively.

7. Fair Value Through Profit or Loss, Available-for-Sale and Held-to-Maturity Investments

FVPL investments include unrealized gain of ₱638.5 million as of December 31, 2005. TAS include net unrealized loss of ₱0.4 million as of December 31, 2004.

AFS investments include net unrealized gain of ₱638.5 million as of December 31, 2005. ASS are carried net of accumulated unrealized loss of ₱18.6 million as of December 31, 2004.

The details of other investments carried at cost under AFS investments follow. Prior to the adoption of PAS 39, such

Toyota Financials Services Philippines Corporation	₱25,000,000
Jaka Holdings	800,000
	₱25,800,000

investments are reported as Other investments - at cost under Other resources in the statements of condition (Note 11).

	2005	2004
Treasury notes	**₱2,747,846,736**	₱1,781,636,449
Government bonds (Note 21)	**871,405,073**	8,550,758,849
Private bonds (Note 8)	**300,000,000**	395,610,552
BSP Treasury bills	**7,999,568**	522,759,822
	3,927,251,377	11,250,765,672
Less allowance for impairment losses (Note 12)	**–**	62,146,858
	₱3,927,251,377	₱11,188,618,814

HTM investments as of December 31, 2005 and IBODI as of December 31, 2004 consists of the following:

	2005	2004
Treasury notes	**₱2,848,730,732**	₱1,755,933,540
Government bonds (Note 21)	**1,028,470,126**	8,497,610,816
Private bonds (Note 8)	**310,792,291**	397,114,107
BSP Treasury bills	**8,147,508**	555,737,087
	₱4,196,140,657	₱11,206,395,550

Market values of HTM investments as of December 31, 2005 and IBODI as of December 31, 2004, follow:
As of December 31, 2005 and 2004, foreign-currency denominated trading and investment securities bear nominal annual interest rates ranging from 10.71% to 12.81% in 2005 and from 10.00% to 18.25% in 2004 and peso-denominated trading and investment securities bear nominal annual interest rates ranging from 8.12% to 8.46% in 2005 and from 8.25% to 9.38% in 2004.

8. Loans and Receivables

	2005	2004
Receivables from customers		
Loans and discounts	**₱31,386,229,685**	₱26,074,259,049
Unearned discounts	**(2,056,381,786)**	(1,704,379,681)
Bills purchased	**124,694,607**	141,555,213
	29,454,542,506	24,511,434,581
Accrued interest receivable (Note 11)	**778,779,408**	–
Sales contract receivable (Note 11)	**538,527,828**	–
Accounts receivable (Note 11)	**333,950,292**	–
Unquoted debt security	**95,610,552**	–
	31,201,410,586	24,511,434,581
Unearned income (Notes 11 and 28)	**(71,866,626)**	–
Allowance for impairment losses (Note 12)	**(1,760,302,723)**	(862,282,646)
	₱29,369,241,237	₱23,649,151,935

This account consists of:
Restructured loans as of December 31, 2005 and 2004 amounted to ₱1,369.2 million and ₱1,021.6 million, respectively.

As of December 31, 2005 and 2004, 48.55% and 48.45% of the total receivables from customers were subject to periodic interest repricing, respectively. Remaining receivables earned annual fixed interest rates which averaged 19.50% in 2005

and 20.10% in 2004.
The breakdown of receivables from customers (gross of unearned discounts) as to secured and unsecured and as to

	2005	**%**	2004	%
Secured by:				
Real estate	**₱11,801,777,344**	**37.45**	₱10,025,526,936	38.24
Chattel	**11,017,613,455**	**34.96**	8,732,888,798	33.31
Deposit hold-out	**322,697,256**	**1.02**	443,804,158	1.69
Others	**991,633,650**	**3.16**	880,693,861	3.36
	24,133,721,705	**76.59**	20,082,913,753	76.60
Unsecured	**7,377,202,587**	**23.41**	6,132,900,509	23.40
	₱31,510,924,292	**100.00**	₱26,215,814,262	100.00

type of security follows:

	2005	2004
Secured	**₱1,152,199,340**	₱978,841,674
Unsecured	**840,572,934**	598,446,102
	₱1,992,772,274	₱1,577,287,776

As of December 31, 2005 and 2004, nonaccruing loans follow:
Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for impairment losses, provided that interest on said receivables shall not be accrued. As of December 31,

	2005	2004
Total NPLs	**₱1,673,468,199**	₱1,496,068,950
NPLs fully covered by allowance for impairment losses	**(353,845,000)**	(325,638,000)
	₱1,319,623,199	₱1,170,430,950

2005 and 2004, the nonperformimg loans (NPLs) of the Bank not fully covered by allowance for impairment losses follow:

	2005	**%**	2004	%
Other community, social and personal activities	**₱10,240,554,713**	**32.50**	₱10,939,562,400	41.73
Real estate	**6,204,239,975**	**19.69**	5,390,445,643	20.56
Wholesale and retail trade	**7,723,380,882**	**24.51**	4,705,249,748	17.95
Agriculture	**2,174,796,315**	**6.90**	1,590,303,623	6.07
Banks, insurance and other financial institutions	**1,651,033,315**	**5.24**	1,170,544,244	4.47
Public utilities	**1,383,986,669**	**4.39**	1,103,986,789	4.21
Manufacturing	**1,056,657,350**	**3.35**	853,510,742	3.25
Services	**472,864,754**	**1.50**	254,458,247	0.97
Mining and quarrying	**26,219,919**	**0.08**	16,193,234	0.06
Others	**577,190,400**	**1.84**	191,559,592	0.73
	₱31,510,924,292	**100.00**	₱26,215,814,262	100.00

As of December 31, 2005 and 2004, loan concentration as to economic activity follows (gross of unearned discounts):
Thrift banks are not covered by the loan concentration limit of 30% as prescribed by BSP.

The unquoted debt security represents investment in convertible notes issued by Victorias Milling Corporation. This investment is classified as loans and receivables in accordance with PAS 39. As of December 31, 2004, such investment is classified as IBODI.

9. **Bank Premises, Furniture and Equipment**

The composition and movements in the bank premises, furniture and equipment account follow:

	2005					
	Land	**Building**	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Total**	2004
Cost						
Balance at beginning of year	**₱73,749,955**	**₱1,266,872,174**	**₱764,259,998**	**₱148,071,518**	**₱2,252,953,645**	₱2,099,025,143
Acquisitions	**1,835,000**	**223,388,744**	**185,761,271**	**70,923,954**	**481,908,969**	216,192,392
Disposals/others		**(77,024,639)**	**(141,122,055)**	**(56,561,278)**	**(274,707,972)**	(62,263,890)
Transfers	**–**	**(214,917,570)**	**–**	**–**	**(214,917,570)**	–
Balance at end of year	**75,584,955**	**1,198,318,709**	**808,899,214**	**162,434,194**	**2,245,237,072**	2,252,953,645
Accumulated Depreciation						
Balance at beginning of year		**221,673,354**	**492,035,597**	**–**	**713,708,951**	595,333,807
Depreciation	**–**	**55,968,403**	**52,597,815**	**–**	**108,566,218**	139,899,653
Disposals	**–**	**(36,595,227)**	**(131,816,404)**	**–**	**(168,411,631)**	(21,524,509)
Transfers	**–**	**(17,225,395)**	**–**	**–**	**(17,225,395)**	–
Balance at end of year	**–**	**223,821,135**	**412,817,008**	**–**	**636,638,143**	713,708,951
Net Book Value	**₱75,584,955**	**₱974,497,574**	**₱396,082,206**	**₱162,434,194**	**₱1,608,598,929**	₱1,539,244,694

Depreciation and amortization amounted to P165.1 million in 2005 and ₱178.8 million in 2004 (includes amortization of leasehold improvements amounting to ₱56.6 million in 2005 and ₱38.9 million in 2004).

10. **Investment Properties**

This account consists of:

	2005			2004 (As restated
	Land	**Building Improvements**	**Treasury**	- Note 2)
Cost				
Balance at beginning of year	**₱1,613,778,988**	**₱588,108,403**	**₱2,201,887,391**	₱2,183,252,416
Additions	**257,814,864**	**210,129,893**	**467,944,757**	474,896,662
Disposals	**(266,802,763)**	**(131,245,691)**	**(398,048,454)**	(456,261,687)
Transfers	**–**	**214,917,570**	**214,917,570**	–
Balance at end of year	**1,604,791,089**	**881,910,175**	**2,486,701,264**	2,201,887,391
Accumulated Depreciation and Amortization				
Balance at beginning of year	**–**	**136,064,210**	**136,064,210**	117,843,152
Depreciation and amortization	**–**	**40,824,748**	**40,824,748**	33,376,143
Disposals	**–**	**(36,850,605)**	**(36,850,605)**	(15,155,085)
Transfers	**–**	**17,225,395**	**17,225,395**	–
Balance at end of year	**–**	**157,263,748**	**157,263,748**	136,064,210
Net Book Value	**₱1,604,791,089**	**₱724,646,427**	**₱2,329,437,516**	₱2,065,823,181

The aggregate market value of the investment properties as of December 1, 2005 and 2004 amounted to ₱2,736.2 million and ₱2,446.5 million, respectively.

11. **Other Resources**

This account consists of:

	2005	2004 (As restated - Note 2)
Intangible assets - net	**₱111,611,996**	₱118,957,606
Assets held-for-sale	**90,105,969**	–
Sundry debits	**50,572,322**	23,947,877
Prepaid expenses	**27,823,792**	26,534,929
Returned checks and other cash items	**21,477,052**	37,019,258
Accrued interest receivable (Note 16)	**–**	692,033,120
Sales contract receivable (Note 16)	**–**	386,512,812
Accounts receivable (Note 16)	**–**	251,133,965
Other investments - at cost (Note 16)	**–**	96,641,981
Miscellaneous	**150,147,002**	146,462,475
	451,738,133	1,779,244,023
Allowance for impairment losses (Note 12)	**(6,079,486)**	(219,889,581)
Unearned income (Note 28)	**–**	(38,645,553)
	₱445,658,647	₱1,520,708,889

Sales contract receivable earned interest rate ranging from 10.40% to 11.62% in 2004.

The composition and movements of intangible assets follow:

	2005				2004 (As restated - Note 2)
	Software Cost	**Goodwill**	**License Fees**	**Total**	
Balance at beginning of year	**₱46,524,268**	**₱53,558,338**	**₱18,875,000**	**₱118,957,606**	₱110,322,826
Additions	**11,429,403**	**–**	**6,757,468**	**18,186,871**	32,896,352
Amortization	**(18,967,286)**	**–**	**(6,565,195)**	**(25,532,481)**	(24,261,572)
Balance at end of year	**₱38,986,385**	**₱53,558,338**	**₱19,067,273**	**₱111,611,996**	P118,957,606

As of December 31, 2005, accrued interest receivable, accounts receivable and sales contract receivable, net of unearned income, are classified as Loans and Receivables while other investments are classified as AFS investments in accordance with PAS 39 (Notes 7 and 8).

In compliance with the new accounting standards and revised BSP manual of accounts, foreign currency notes and coins on hand are now classified as cash and cash equivalents.

Assets held-for-sale consists of repossessed vehicles that are highly probable of being sold within one year under the Bank's sales auction program. The management believes that the carrying amount will be recovered principally through a sale transaction.

Miscellaneous resources include stationeries and supplies on hand, unused documentary stamps, inter-office float items and other assets.

12. Allowance for Impairment Losses

Changes in the allowance for impairment losses follow:

	2005	2004 (As restated - Note 2)
Balance at beginning of year:		
IBODI	**₱62,146,858**	₱95,610,551
Loans and receivables	**862,282,646**	663,420,442
Other resources	**219,889,581**	151,377,486
	1,144,319,085	910,408,479
Provisions for the year charged against operations	**485,349,205**	233,910,606
Impairment loss charged to surplus (Note 2)	**181,734,207**	–
Others	**(45,020,288)**	–
Balance at end of year:		
IBODI (Note 7)	**–**	62,146,858
Loans and receivables (Note 8)	**1,760,302,723**	862,282,646
Other resources (Note 11)	**6,079,486**	219,889,581
	₱1,766,382,209	₱1,144,319,085

With the foregoing level of allowance for impairment losses, management believes that the Bank has sufficient level of allowance to take care of any losses that the Bank may incur from the noncollection or nonrealization of its receivables from customers and other risk assets.

13. Deposit Liabilities

Available reserves as of December 31, 2005 and 2004 follow:

	2005	2004
Cash	**₱739,315,885**	₱921,908,075
Due from BSP	**1,515,237,499**	1,959,139,050
HTM investments/IBODI	**714,929,537**	593,082,063
	₱2,969,482,921	₱3,474,129,188

Under existing BSP regulations, non-FCDU deposit liabilities are subject to liquidity reserve equivalent to 2% and statutory reserve of 6%. As of December 31, 2005 and 2004, the Bank was in compliance with such regulation.

As of December 31, 2005 and 2004, 60.82% and 71.06% of the deposit liabilities were subject to periodic interest repricing, respectively. Remaining deposits earned annual fixed interest rate which averaged 5.95% in 2005 and 4.75% in 2004.

14. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2005	2004
Accrued interest payable	**₱178,939,328**	₱184,210,411
Accrued other taxes and licenses payable	**48,930,522**	14,119,134
Accrued other expenses payable	**303,313,397**	167,336,643
	₱531,183,247	₱365,666,188

15. Other Liabilities

This account consists of:

	2005	2004 (As restated - Note 2)
Accounts payable (Note 16)	**₱290,701,257**	₱300,239,138
Dividends payable (Notes 16 and 22)	**245,617,193**	37,655,191
Net pension liability (Note 25)	**199,060,123**	202,721,352
Bills purchased-contra (Note 16)	**120,066,911**	137,067,612
Withholding taxes payable (Note 16)	**49,426,889**	35,888,285
Other credits (Note 16)	**45,552,666**	80,616,882
Sundry credits	**16,977,166**	25,261,370
Miscellaneous	**70,641,814**	36,474,834
	₱1,038,044,019	₱855,924,664

Accounts payable includes payable to suppliers and service providers and payments for principal, interest and other charges received from customers in advance.

Miscellaneous liability includes Due to BSP, due to treasurer of the Philippines and other liabilities.

16. Maturity Profile of Financial Resources and Financial Liabilities

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

	2005			2004 (As restated - Note 2)		
Financial Resources	**Due Within One Year**	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Due from BSP	**₱1,747,364,183**	**₱–**	**₱1,747,364,183**	₱1,958,275,032	₱–	₱1,958,275,032
Due from other banks	**1,398,497,354**	**–**	**1,398,497,354**	885,962,808	–	885,962,808
Interbank loans receivable	**–**	**–**	**–**	200,000,000	–	200,000,000
FVPL investments, at market	**65,565,274**	**566,073,975**	**631,639,249**	–	–	–
AFS investments, at market	**839,946,236**	**11,391,510,535**	**12,231,456,771**	–	–	–
HTM investments, at amortized cost - net	**–**	**3,927,251,377**	**3,927,251,377**	–	–	–
Loans and receivables, at gross (Note 8)	**7,177,257,080**	**26,080,535,292**	**33,257,792,372**	–	–	–
TAS, at market	**–**	**–**	**–**	38,425,084	33,444,123	71,869,207
ASS, at market	**–**	**–**	**–**	86,075,104	1,995,257,875	2,081,332,979
IBODI - net	**–**	**–**	**–**	783,415,804	10,405,203,010	11,188,618,814
Receivables from customers - at gross (Note 8)	**–**	**–**	**–**	6,605,702,345	19,610,111,917	26,215,814,262
Other resources (Note 11):						
Accrued interest receivable	**–**	**–**	**–**	393,927,264	298,105,856	692,033,120
Sales contract receivable	**–**	**–**	**–**	5,812,626	380,700,186	386,512,812
Accounts receivable	**–**	**–**	**–**	150,652,367	100,481,598	251,133,965
Other investments	**–**	**–**	**–**	292,562	96,349,419	96,641,981
	₱11,228,630,127	**₱41,965,371,179**	**₱53,194,001,306**	₱11,108,540,996	₱32,919,653,982	₱44,028,194,978

	2005			2004 (As restated - Note 2)		
Financial Liabilities	**Due Within One Year**	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Deposit liabilities						
Demand	**₱1,720,265,088**	**₱4,013,951,872**	**₱5,734,216,960**	₱2,071,542,212	₱–	₱2,071,542,212
Savings	**4,830,787,511**	**4,979,391,930**	**9,810,179,441**	24,247,860,215	–	24,247,860,215
Time	**26,701,914,871**	**5,777,835,970**	**32,479,750,841**	10,151,591,998	3,774,590,296	13,926,182,294
	33,252,967,470	**14,771,179,772**	**48,024,147,242**	36,470,994,425	3,774,590,296	40,245,584,721
Cashier's and gift checks	**188,149,629**	**–**	**188,149,629**	211,541,049	–	211,541,049
Accrued taxes, interest and other expenses	**531,183,247**	**–**	**531,183,247**	365,666,188	–	365,666,188
Accrued income tax payable	**36,200,228**	**–**	**36,200,228**	22,596,674	–	22,596,674
Other liabilities (Note 15):						
Accounts payable	**290,701,257**	**–**	**290,701,257**	300,239,138	–	300,239,138
Dividends payable	**245,617,193**	**–**	**245,617,193**	37,655,191	–	37,655,191
Bills purchased - contra	**120,066,911**	**–**	**120,066,911**	137,067,612	–	137,067,612
Withholding taxes payable	**49,426,889**	**–**	**49,426,889**	35,888,285	–	35,888,285
Other credits	**45,552,666**	**–**	**45,552,666**	80,616,882	–	80,616,882
	₱34,759,865,490	**₱14,771,179,772**	**₱49,531,045,262**	₱37,662,265,444	₱3,774,590,296	₱41,436,855,740

17.Miscellaneous Income

This account consists of:

	2005	2004
Rent (Note 18)	**₱36,708,543**	₱28,750,156
Foreign exchange gain (loss) - net	**(42,824,487)**	3,389,699
Recovery from accounts written-off	**5,016,852**	3,353,957
Income from trust operations	**1,932,087**	2,777,556
Others	**31,254,315**	55,331,971
	₱32,087,310	₱93,603,339

18.Leases

The Bank leases the premises occupied by its branches for periods ranging from 1 to 20 years renewable under certain terms and conditions. Various lease contracts include escalation clauses, most of which bear an annual rent increase of 10%. Rentals charged against operations under these lease contracts amounting to ₱186.6 million in 2005 and ₱151.2 million in 2004 are shown under Occupancy and Equipment-related Expenses in the statements of income.

Future minimum rentals payable under non-cancelable operating leases are as follows:

	2005	2004
Within one year	**₱145,185,307**	₱155,315,801
After one year but not more than five years	**575,074,619**	450,445,351
After more than five years	**256,307,277**	299,329,676
	₱976,567,203	₱905,090,828

The Bank entered into commercial property leases on its surplus office. These non-cancelable leases have remaining non-cancelable lease terms of between 1 and 5 years. As of December 31, 2005 and 2004, there is no contingent rental income. Rent income of the Bank related to these property leases amounted to ₱32.3 million in 2005 and ₱24.8 million in 2004.

Future minimum rentals receivable under non-cancelable operating leases are as follows:

	2005	2004
Within one year	**₱17,624,440**	₱2,471,969
After one year but not more than five years	**8,984,185**	902,888
	₱26,608,625	₱3,374,857

19.Miscellaneous Expenses

This account consists of:

	2005	2004
Advertising	**₱119,544,529**	₱36,064,500
Insurance	**119,321,334**	73,832,356
Information technology	**103,623,580**	57,446,158
Litigation	**77,575,837**	53,897,276
Communications	**61,071,037**	48,624,609
Stationery and supplies	**38,731,918**	22,707,055
Transportation and traveling	**38,122,199**	31,269,973
Management and professional fees	**36,417,598**	30,499,955
Repairs and maintenance	**33,597,472**	24,692,224
Commissions	**29,898,810**	23,289,567
Supervision and examination fees	**18,135,000**	11,262,046
Banking fees	**9,368,218**	2,083,353
Rewards and incentives	**6,435,295**	8,450,149
Membership fees and dues	**6,403,607**	4,126,093
Fines, penalties and other charges	**5,140,476**	17,734,078
Entertainment, amusement and recreation (Note 20)	**4,130,299**	4,293,736
Others	**41,437,693**	44,434,151
	₱748,954,902	₱494,707,279

Insurance expense includes premiums paid to the Philippine Deposit Insurance Corporation amounting to ₱99.0 million in 2005 and ₱61.5 million in 2004.

20. Income and Other Taxes

Under Philippine tax laws, the Bank is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax and documentary stamps taxes.

Income taxes include corporate income tax, discussed below, and final taxes paid at the rate of 20%, which is a final withholding tax on gross interest income from government securities, and other deposit substitutes.

Prior to June 30, 2005, the RCIT rate is 32%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. Republic Act (RA) No. 9337, An Act Amending National Internal Revenue Code, provides that effective July 1, 2005, the regular corporate income tax rate shall be 35% until January 1, 2009. Starting January 1, 2009, the regular corporate income tax shall be 30%. However such amendment was subject to restraining order which was subsequently lifted on October 28, 2005 and was in effect starting November 1, 2005.

Current tax regulations also provide for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulations, EAR expense allowed as a deductible expense for a service company is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. The regulations also provide for MCIT of 2% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10% income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units (OBUs) is taxed at 7.50%. RA No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

	2005	2004 (As restated - Note 2)
Current:		
Final tax	**₱86,996,607**	₱65,222,797
MCIT	**36,200,228**	22,596,674
	123,196,835	87,819,471
Deferred	**(388,642,974)**	(129,643,579)
	(265,446,139)	(₱41,824,108)

Net deferred tax assets consist of:

	2005	2004 (As restated - Note 2)
Temporary differences on:		
Allowance for impairment losses	**₱538,746,573**	₱148,260,423
Net unrealized gain on investment property	**(163,169,398)**	(176,161,632)
Net pension liability	**62,703,939**	64,870,833
Accumulated depreciation on investment property	**40,188,932**	43,540,546
Unamortized pension cost contribution	**37,929,189**	–
Accrued rent	**31,192,036**	22,007,293
NOLCO	**14,558,601**	73,246,084
Others	**(1,611,344)**	(25,822,711)
Carryforward benefits of MCIT	**78,379,761**	42,179,533
	₱638,918,289	₱192,120,369

Unrecognized deferred tax assets as of December 31, 2004 (as restated) consist of:

Temporary differences on:	
Allowance for probable losses	₱243,744,396
Unamortized past service costs	33,744,904
NOLCO	24,661,808
Unrealized loss on foreclosures	1,155,872
Carryforward benefits of MCIT	18,039,966
	₱321,346,946

Management believes that any probable loss from the nonrealization of the deferred tax assets will not have a material adverse effect on the Bank's financial statements.

Details of the Bank's NOLCO follow:

Inception Year	Amount	Applied	Balance	Expiry Year
2002	P77,068,149	₱77,068,149	₱–	2005
2003	26,203,985	26,203,985	–	2006
2004	202,690,028	161,094,026	41,596,002	2007
	₱305,962,162	₱264,366,160	₱41,596,002	

Details of the Bank's MCIT follow:

Inception Year	Amount	Applied	Balance	Expiry Year
2003	P19,582,859	₱–	₱19,582,859	2006
2004	22,596,674	–	22,596,674	2007
2005	36,200,228	–	36,200,228	2008
	₱78,379,761	₱–	₱78,379,761	

The reconciliation between the statutory income tax rate and effective income tax rate follows

	2005	2004 (As restated - Note 2)
Statutory income tax rate	**32.50%**	32.00%
Tax effect of:		
FCDU Income	**(72.43)**	–
Application of NOLCO	**(49.17)**	–
Nondeductible expense	**43.98**	7.94
Tax-paid and tax-exempt income	**(42.87)**	(49.55)
Expired MCIT	**4.74**	–
Others	**13.56**	1.07
Effective income tax rate	**(69.69%)**	(8.54%)

21.Trust Operations

Securities and other resources held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not resources of the Bank (see Note 26).

In connection with the trust functions of the Bank, government securities with face value of ₱2.1 million and ₱13.0 million as of December 31, 2005 and 2004, respectively, are deposited with the BSP in compliance with trust regulations.

Additionally, 10% of the Bank's net profit realized by the Bank from its trust operations is appropriated to surplus reserve until such reserve for trust functions amounts to 20% of the Bank's regulatory capital.

22. Capital Funds

Details of the Bank's dividend distributions follow:

	Dividends				
Date of declaration	Per share	Total amount	Date of BSP approval	Record date	Payment date
November 19, 2001	₱1.00	₱179,501,520	December 7, 2001	January 1, 2002	February 8, 2002
January 27, 2003	0.60	107,700,912	February 27, 2003	March 26, 2003	April 8, 2003
November 25, 2003	1.00	179,501,520	January 12, 2004	February 10, 2004	March 5, 2004
August 24, 2004	0.40	71,800,608	September 30, 2004	October 25, 2004	November 10, 2004
December 31, 2004	0.20	35,900,304	February 23, 2005	March 16, 2005	April 1, 2005
March 02, 2005	0.15	26,925,228	April 15, 2005	May 12, 2005	May 26, 2005
April 28, 2005	0.15	26,925,228	June 14, 2005	July 08, 2005	July 22, 2005
July 26, 2005	0.15	26,925,228	November 25, 2005	December 15, 2005	December 29, 2005
September 29, 2005	0.15	26,925,228	December 02, 2005	December 22, 2005	January 17, 2006
September 29, 2005	1.20	215,401,824	December 02, 2005	December 22, 2005	January 17, 2006

The determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank's "unimpaired capital" (regulatory net worth) as reported to the BSP, which is determined on the basis of regulatory accounting practices which differ from Philippine GAAP in some respects.

Under Section 9 of the Thrift Banks Act, the combined capital accounts of each bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets consist of total assets after exclusion of cash on hand, due from BSP, loans covered by hold out or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items as determined by the MB.

As of December 31, 2005 and December 31, 2004, the Bank's capital-to-risk assets ratio of 12.51% and 13.81% (as restated), respectively, were in compliance with the minimum requirements.

23. Earnings Per Share

The following table presents information used to calculate basic EPS:

	2005	2004 (As restated - Note 2)
a. Net income	**₱646,358,206**	₱497,195,381
b. Weighted average number of common shares	**179,501,520**	179,501,520
c. EPS (a/b)	**₱3.60**	₱2.77

As of December 31, 2005 and 2004, there were no shares of stock with dilutive effect on the basic EPS of the Bank.

24. Related Party Transactions

In the ordinary course of business, the Bank has loans and other transactions with its affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The General Banking Law limits the amount of direct credit accommodations to DOSRI, 70% of which must be secured and should not exceed the total of their respective deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total capital funds or 15% of the Bank's total loan portfolio.

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

The following table shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular and new DOSRI loans, other credit accommodations granted under said circular as of December 31, 2005 and 2004:

	2005	2004 (As restated - Note 2)
Total outstanding DOSRI accounts	**₱976,070,943**	₱1,713,257,285
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423 to total loans	**3.10%**	6.49%
Percent of new DOSRI accounts granted under BSP Circular No. 423 to total loans	**–**	–
Percent of unsecured DOSRI accounts to total DOSRI accounts	**35.32%**	25.34%
Percent of past due DOSRI accounts to total DOSRI accounts	**–**	–
Percent of nonperforming DOSRI accounts to total DOSRI accounts	**–**	–

As of December 31, 2005, the Bank has no loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are allowed a transition period of two years from the effectivity of the said circular until said circular or said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total interest income from these DOSRI loans amounted to ₱165.9 million and ₱202.8 million in 2005 and 2004 respectively.

Other significant transactions and outstanding balances of the Bank with Metrobank and its affiliates follow:

	2005	2004
Statement of condition accounts:		
Due from other banks - Metrobank	**₱1,172,270,729**	₱792,569,919
Interbank loans receivable - Metrobank	**–**	200,000,000
Deposit liabilities	**3,511,370,429**	85,779,597
Statement of income accounts:		
Interest income on due from other banks and interbank loans receivable	**31,047,087**	46,479,135
Interest expense on deposit liabilities	**–**	1,111,094
Interest expense on bills payable	**412,704**	8,779,781

The total assets of the retirement fund of employees amounting to ₱156.8 million and ₱98.0 million as of December 31, 2005 and 2004, respectively, is being managed by the Bank's trust department.

Compensation of key management personnel (covering assistant vice presidents and up) included under compensation and fringe benefits in the statements of income follows:

	2005	2004
Short-term employee benefits	**₱90,011,778**	₱84,245,277
Post-employment pension benefits	**2,967,800**	2,819,410
	₱92,979,578	₱87,064,687

Short-term employee benefits include salaries and other non-monetary benefits.

25. Retirement Plan

The Bank has a funded, noncontributory defined benefit plan covering substantially all of its employees. The benefits are based on years of service and final compensation. Actuarial valuation of the Bank is generally made every two years.

The principal actuarial assumptions used in determining retirement liability as of January 1, 2005 and 2004 are shown below:

	2005	2004
Discount rate	**14.47%**	12.33%
Expected rate of return on assets	**10.00%**	10.00%
Future salary increases	**10.00%**	11.00%

Changes in the present value of the defined benefit obligation are as follows:

	2005	2004
Present value of defined benefit obligation at beginning of year	**₱307,477,992**	₱279,965,004
Interest cost	**44,497,293**	34,511,286
Current service cost	**21,640,526**	23,244,055
Benefits paid	**(35,705,286)**	(50,000,000)
Actuarial gains on obligation	**34,848,877**	19,757,647
Present value of defined benefit obligation at end of year	**₱372,759,402**	₱307,477,992

Changes in the fair value of plan assets are as follows:

	2005	2004
Fair value of plan assets at beginning of year	**₱97,990,481**	₱85,232,645
Expected return	**9,799,048**	8,523,264
Contribution	**60,000,000**	60,000,000
Benefits paid	**(35,705,286)**	(50,000,000)
Actuarial gains on obligation	**24,687,231**	(5,765,428)
Fair value of plan assets at end of year	**₱156,771,474**	₱97,990,481

The actual return on plan assets amounted to ₱34.5 million and ₱2.8 million in 2005 and 2004, respectively.

The amounts recognized in the statements of condition are as follows:

	2005	2004
Present value of defined benefit obligation	**₱372,759,402**	₱307,477,992
Fair value of plan assets	**156,771,474**	97,990,481
Present value of unfunded obligation	**215,987,928**	209,487,511
Unrecognized actuarial losses	**(16,927,805)**	(6,766,159)
Net pension liability	**₱199,060,123**	₱202,721,352

The amounts included in Compensation and Fringe Benefits in the statements of income are as follows:

	2005	2004
Current service cost	**₱21,640,526**	₱23,244,055
Interest cost	**44,497,293**	34,511,286
Expected return on plan assets	**(9,799,048)**	(8,523,264)
	₱56,338,771	₱49,232,077

The movements in net retirement liability recognized in the statements of condition follow:

	2005	2004
Balance at beginning of year	**₱202,721,352**	₱213,489,275
Retirement expense	**56,338,771**	49,232,077
Contribution paid	**(60,000,000)**	(60,000,000)
Balance at end of year	**₱199,060,123**	₱202,721,352

26. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments and contingent liabilities such as guarantees and commitments to extend credit, which are not reflected in the accompanying financial statements. The Bank does not anticipate significant losses as a result of these transactions.

The following is a summary of the Bank's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2005	2004
Trust department accounts (Note 21)	**₱165,602,681**	₱79,772,207
Late deposits/payments received	**130,363,027**	100,987,844
Outward bills for collection	**137,589**	474,768
Items held for safekeeping	**96,497**	1,219,625
Others	**35,286**	1,843

In addition, the Bank has received tax assessments from the Bureau of Internal Revenue on two banking industry issues. Management and tax counsels believe that they have a valid defense against such claims. Accordingly, no provision has been recognized.

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

27. Financial Performance

The following basic ratios measure the financial performance of the Bank:

	2005	2004 (As restated - Note 2)
Return on average equity	**13.43%**	12.14%
Return on average assets	**1.20**	1.21
Net interest margin on average earning assets	**5.77**	5.58

28. Reclassification of Accounts

The following accounts in the 2004 statement of condition were reclassified to conform with the 2005 financial statements presentation:

Reclassified from:	Reclassified to:	Amount
Other Resources (foreign currency notes and coins)	Cash and Other Cash Items (foreign currency notes and coins)	₱60,657,711
Unearned income (shown under Other liabilities)	Unearned income (shown under Loans and Receivable in 2005 and Other Resources in 2004)	38,645,553

29. Other Matters

1. On September 29, 2005, the Bank's BOD approved the issuance of subordinated notes. Relative to this, on January 27, 2006, the Bank issued ₱2 billion, 10% Unsecured Subordinated Notes due 2016 (the Notes). The issuance of the Notes under the terms approved by the BOD was approved by the BSP on December 28, 2005.

   Among the significant terms and conditions of the issuance of the Notes are:

   a. Issue price at 100% of the principal amount;
   b. The Notes bear interest at the rate of 10% per annum from and including January 27, 2006 but excluding January 27, 2011. Interest shall be payable quarterly in arrears every 27th of January, April, July and October of each year, commencing April 27, 2006.

   c. The Notes will constitute direct, unconditional, and unsecured obligations of the Bank and claim in respect of the Notes shall be at all times pari passu and without any preference among themselves.

   d. Subject to satisfaction of certain regulatory approval requirements, the Bank may redeem all and not less than the entire outstanding Note, at a redemption price equal to the face value of the Notes together with accrued and unpaid interest based on the interest rate.

2. On February 6, 2006, the BOD approved the offering for subscription of 22,437,690 common shares (Offer Shares) of the Bank with a par value of ₱10 at an exercise price of ₱33.50 per share, by way of pre-emptive rights offering to existing shareholders of the Bank at the proportion of one (1) right share for every eight (8) existing common shares. The offer shares will come from the unissued authorized capital stock of the Bank. Any offer shares that may be left unsubscribed by the existing shareholders entitled to the Offer Shares, after the second round of offering, shall be purchased at the same price by its Parent Company, Metrobank.

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* *with ATM*

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Fax: (02) 742-2790
Email: banawe@psbank.com.ph

Balintawak *
Go Soc Bldg., 1238 EDSA, Balintawak,
Quezon City
Tel: (02) 362-8189, 362-8191
Fax: (02) 362-8187
Email: balintawak@psbank.com.ph

Boni Serrano *
25 Boni Serrano Ave., cor. Sunrise Drive,
Crame, Quezon City
Tel: (02) 724-5352, 727-1215
Fax: (02) 726-2930
Email: boniserrano@psbank.com.ph

Commonwealth *
Aguirre Building, 2211 Commonwealth Ave.,
Capitol District, Quezon City
Tel: (02) 932-2116, 952-2062, 931-6934
Fax: (02) 952-2066
Email: commonwealth@psbank.com.ph

Congressional Avenue *
45 Congressional Ave. Ext., Quezon City
Tel: (02) 924-5102, 920-8036
Fax: (02) 924-5103
Email: congressionalave@psbank.com.ph

Del Monte *
182-A Del Monte Ave., Bgy. St. Peter,
Quezon City
Tel: (02) 410-0900, 410-7037, 742-8272
Fax: (02) 415-3501
Email: delmonte@psbank.com.ph

E. Rodriguez *
SENECA Plaza, 1152 E. Rodriguez Sr. Ave.,
New Manila, Quezon City
Tel: (02) 705-1110, 721-0101, 724-3775
Fax: (02) 721-0701
Email: erodriguez@psbank.com.ph

Fairview *
95 Commonwealth Ave., East Fairview Park,
Quezon City
Tel: (02) 939-7520, 431-1533, 431-1534
Fax: (02) 938-2141
Email: fairview@psbank.com.ph

Farmers Plaza *
G/F Unit 8 Blk C Upper Farmers Plaza,
Araneta Center, Cubao, Quezon City
Tel: (02) 995-7674, 995-7672
Fax: (02) 995-7673
Email: farmersplaza@psbank.com.ph

Gilmore Heights *
Gilmore Heights Condominium, Granada
cor. Castilla Sts., Valencia, Quezon City
Tel: (02) 724-0210, 724-0230
Fax: (02) 724-0255
Email: gilmore@psbank.com.ph

Kamias *
PHA Building, 14 Kamias Road, Quezon City
Tel: (02) 925-8654, 925-8746
Fax: (02) 925-8653
Email: kamias@psbank.com.ph

Katipunan *
Ma Mon Luk Bldg., 309-B Katipunan Ave.,
Loyola Heights, Quezon City
Tel: (02) 929-0276, 426-7118, 426-6594
Fax: (02) 929-0275
Email: katipunan@psbank.com.ph

Lagro *
Blk 2 Lot 5, Sacred Heart Village, Quirino
Highway, Lagro, Quezon City
Tel: (02) 930-1826, 930-1827, 418-1048
Fax: (02) 939-3184
Email: lagro@psbank.com.ph

Libis *
G/F ICB Bldg., 187 E. Rodriguez Jr. Ave.,
Libis, Quezon City
Tel: (02) 421-1873, 421-1874
Fax: (02) 421-1875
Email: libis@psbank.com.ph

Mindanao Avenue *
Unit A & B, L bldg., 4 Mindanao Ave. cor.
Congressional Ave., Bahay Toro, Proj. 8,
Quezon City
Tel: (02) 920-0763, 920-0478
Fax: (02) 920-0576
Email: mindanaoave@psbank.com.ph

Novaliches *
877 Quirino Highway, Gulod, Novaliches,
Quezon City
Tel: (02) 930-0488, 936-3602, 419-0208
Fax: (02) 419-0209
Email: novaliches@psbank.com.ph

P. Tuazon *
247 P. Tuazon Ave. cor. 15th Ave.,
Murphy, Cubao, Quezon City
Tel: (02) 911-1119, 438-4686
Fax: (02) 911-1181
Email: ptuazon@psbank.com.ph

Quezon Avenue *
Jacinto Realty Building, 380 Quezon Ave.
cor. Sct. Reyes, Quezon City
Tel: (02) 374-4266, 374-4255
Fax: (02) 374-4233
Email: quezonave@psbank.com.ph

Roosevelt *
PSBank Bldg., 348 Roosevelt Ave.,
San Francisco Del Monte, Quezon City
Tel: (02) 373-6317, 372-2132, 414-5102
Fax: (02) 414-5097
Email: roosevelt@psbank.com.ph

Tandang Sora *
Amina Bldg., Tierra Bella, Tandang Sora
Ave., Quezon City
Tel: (02) 931-3276, 932-3346
Fax: (02) 932-3212
Email: tandangsora@psbank.com.ph

Timog *
G/F Castro Bldg., 58 Timog Ave.,
Quezon City
Tel: (02) 374-3691, 374-3692
Fax: (02) 373-7023
Email: timog@psbank.com.ph

West Avenue *
West City Plaza, 66 West Avenue,
Quezon City
Tel: (02) 371-9395, 411-0677
Fax: (02) 371-9396
Email: westave@psbank.com.ph

* *with ATM*

Branch Directory

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RIZAL

Antipolo *
75 Circumferential Road, Bgy. San Roque,
Antipolo City
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Fax: (02) 696-3595
Email: antipolo@psbank.com.ph

Cainta *
MOS Bldg., 17 Ortigas Ave. Ext., Bgy. San
Isidro, Cainta, Rizal
Tel: (02) 656-8290, 656-8284
Fax: (02) 656-8295
Email: cainta@psbank.com.ph

Taytay *
J.P Rizal Ave. cor. Ison St., Bgy. Dolores,
Taytay, Rizal
Tel: (02) 660-4755, 660-4756, 658-7264
Fax: (02) 658-7251
Email: taytay@psbank.com.ph

SAN JUAN

Greenhills *
3 Missouri St. cor. Nevada St., North East
Greenhills, Greenhills, San Juan
Tel: (02) 722-7575, 721-4191
Fax: (02) 722-8045
Email: greenhills@psbank.com.ph

N. Domingo *
Joyce Apartelle, 128 N. Domingo St.,
San Juan
Tel: (02) 726-2893, 726-2896
Fax: (02) 726-2894
Email: ndomingo@psbank.com.ph

San Juan *
5 F. Blumentritt St., Bgy. Pedro Cruz St.,
San Juan
Tel: (02) 724-9468, 725-7849, 725-7850
Fax: (02) 726-1090
Email: sanjuan@psbank.com.ph

Wilson *
Wilson cor. Barasoain Sts., San Juan
Tel: (02) 724-0306, 724-0337
Fax: (02) 724-0329
Email: wilson@psbank.com.ph

TAGUIG

Bonifacio Global City *
G/F Units 1 & 2, The Forum Bldg
31st cor. 2nd Sts.
Bonifacio Global City, Taguig
Tel: (02) 815-9754, 815-9796
Fax: (02) 815-9785
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VALENZUELA

Valenzuela *
Arty Subdivision, McArthur Highway cor. J.P.
Rizal St., Karuhatan, Valenzuela City
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NORTH LUZON

Angeles *
Miranda Ext. cor. Sadie Sts., San Nicolas,
Angeles City, Pampanga
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Baguio City, Benguet
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Email: baguio@psbank.com.ph

Baliwag *
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Baliwag, Bulacan
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Fax: (044) 766-1920
Email: baliwag@psbank.com.ph

Cabanatuan *
782-784 Melencio Street cor. Paco Roman
St., Cabanatuan City, Nueva Ecija
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Email: cabanatuan@psbank.com.ph

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PSBank Bldg., Arellano St., Poblacion,
Camiling, Tarlac
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Fax: (045) 934-0336
Email: camiling@psbank.com.ph

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G/F, CAP Building, Burgos St.,
Dagupan City, Pangasinan
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Fax: (075) 522-8574
Email: dagupan@psbank.com.ph

La Union *
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Quezon Avenue, San Fernando, La Union
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Fax: (072) 888-3279
Email: launion@psbank.com.ph

Laoag *
F.R. Castro St., Laoag City, Ilocos Norte
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Fax: (077) 770-3337
Email: laoag@psbank.com.ph

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Bulacan
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Fax: (044) 791-0446
Email: malolos@psbank.com.ph

Malolos - McArthur Highway *
Unit 2,3 & 4, Twins Plaza Commercial
Complex Km 42, McArthur Highway,
Bulihan, Malolos City, Bulacan
Tel: (044) 790-6279, 791-9811, 791-9810
Fax: (043) 791-9811
Email: malolosmcarthur@psbank.com.ph

Meycauayan *
PSBank Bldg., McArthur Highway, Calvario,
Meycauayan, Bulacan
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Fax: (044) 935-2765
Email: meycauayan@psbank.com.ph

Olongapo *
KT Tower, Lot 1147 Rizal Ave. cor. 18th St.,
East Bajac-Bajac, Olongapo City, Zambales
Tel: (047) 224-6681, 224-6682, 224-6689
Fax: (047) 224-6682
Email: olongapo@psbank.com.ph

Paniqui *
Paniqui Commercial Complex, McArthur
Highway Ext.
Poblacion Norte, Paniqui, Tarlac
Tel: (045) 931-0234, 931-1539
Fax: (045) 931-0934
Email: paniqui@psbank.com.ph

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San Fernando *
AMSCHO Bldg., McArthur Highway, Dolores
San Fernando, Pampanga
Tel: (045) 963-5353, 963-5354
Fax: (045) 961-3157
Email: sanfernando@psbank.com.ph

Sta. Maria *
Corazon de Jesus St., Poblacion, Sta. Maria, Bulacan
Tel: (044) 641-2279, 927-6156
Fax: (044) 641-2718
Email: stamaria@psbank.com.ph

Santiago *
G/F Insular Life Building
Maharlika Highway, Santiago City, Isabela
Tel: (078) 682-2013, 682-3001
Fax: (078) 682-1011
Email: santiago@psbank.com.ph

Tarlac *
PSBank Bldg., F. Tañedo St., Tarlac City, Tarlac
Tel: (045) 982-3513, 982-3669, 982-0837
Loans Desk: (045) 982-5522 to 24
Fax: (045) 982-3512
Email: tarlac@psbank.com.ph

SOUTH LUZON

Batangas *
P. Burgos St., Batangas City, Batangas
Tel: (043) 402-8888, 402-1521
Fax: (043) 723-0627, 402-1520
Email: batangas@psbank.com.ph

Binakayan *
PSBank Bldg., Tirona Highway, National Road, Binakayan, Kawit, Cavite
Tel: (046) 434-1647, 434-1627, (02) 529-8702
Fax: (02) 529-8702, (046) 434-4221
Email: binakayan@psbank.com.ph

Biñan *
A. Bonifacio St., Biñan, Laguna
Tel: (049) 411-3406, 511-9413, (02) 699-2390
Fax: (02) 699-2390
Email: binan@psbank.com.ph

Calamba *
G/F Andenson I Bldg., National Highway, Bgy. Parian, Calamba City, Laguna
Tel: (049) 545-5978, (02) 420-8220
Fax: (049) 545-5979
Email: calamba@psbank.com.ph

Candelaria *
Rizal cor. Argao Sts., Candelaria, Quezon
Tel: (042) 585-8443, 741-1263
Fax: (042) 585-8444
Email: candelaria@psbank.com.ph

Dasmariñas *
PSBank Bldg., E. Aguinaldo Highway cor. Mangubat St., Dasmariñas, Cavite
Tel: (046) 416-0331, 416-4476, (02) 529-6101
Fax: (02) 529-6101
Email: dasmarinas@psbank.com.ph

Imus *
Nueno Ave., Imus, Cavite
Tel: (046) 471-0095, 571-0298, (02) 529-8743
Fax: (046) 571-0232
Email: imus@psbank.com.ph

Legazpi City *
Gimenez Bldg., 176 Rizal St.,
Legazpi City, Albay
Tel: (052) 480-0948, 480-0950, 214-5442
Fax: (02) 429-1581
Email: legazpicity@psbank.com.ph

Lemery *
Ilustre Ave. cor. J.P. Rizal St., Lemery, Batangas
Tel: (043) 214-2615, 214-2288, 409-0350
Fax: (043) 411-1549
Email: lemery@psbank.com.ph

Lipa *
Lipa City Cathedral Compound, C.M. Recto Ave., Lipa City, Batangas
Tel: (043) 756-2745, 756-1711
Fax: (043) 756-1813, 756-7854
Email: lipa@psbank.com.ph

Los Baños *
PSBank Bldg., Lopez Ave., Batong Malaki, Los Baños, Laguna
Tel: (049) 536-2147, (02) 520-8305
Fax: (049) 536-1271
Email: losbanos@psbank.com.ph

Lucena *
Quezon Ave. cor. Evangelista St., Lucena City, Quezon
Tel: (042) 710-3481, (02) 250-8246
Fax: (042) 660-6342
Email: lucena@psbank.com.ph

Naga *
CAP Building, Panganiban Drive cor. Dinaga St., Naga City, Camarines Sur
Tel: (054) 472-0452, (02) 250-8099
Fax: (054) 811-5188
Email: naga@psbank.com.ph

San Pablo *
Rizal Ave., San Pablo City, Laguna
Tel: (049) 562-0853, (02) 520-6050
Fax: (049) 562-7610
Email: sanpablo@psbank.com.ph

San Pedro *
Casa Hacienda Commercial Center,
A. Mabini St., San Pedro, Laguna
Tel: (02) 847-8230, 808-1185, 847-2379
Fax: (02) 869-2266
Email: sanpedro@psbank.com.ph

Sta. Rosa *
Dragon Arcade, Balibago-Tagaytay
National Road, Laguna Bel-Air,
Bgy. Don Jose, Sta. Rosa, Laguna
Tel: (049) 541-0624, 541-0845
Fax: (049) 541-0747
Email: starosabalibago@psbank.com.ph

Tanauan *
PSBank Bldg., President Laurel Highway, Tanauan City, Batangas
Tel: (043) 778-1532, 778-1432
Fax: (043) 778-1018
Email: tanauan@psbank.com.ph

* *with ATM*

Branch Directory
VISAYAS - MINDANAO

VISAYAS

Bacolod *
A. Yu Bldg., Bonifacio St., cor. Locsin St., Bacolod City, Negros Occidental
Tel: (034) 435-0069, 708-9080, 433-8338
Fax: (034) 435-0060
Email: bacolod@psbank.com.ph

Cebu - Banilad *
Gaisano Country Mall, Banilad, Cebu City, Cebu
Tel: (032) 231-0948, 232-5007, 232-5009
Fax: (032) 231-2966
Email: banilad@psbank.com.ph

Cebu - Capitol *
Ground Flr., JRDC Bldg., Fuente Osmeña Blvd., Capitol Site, Cebu City, Cebu
Tel: (032) 254-7417, 254-7385
Fax: (032) 254-7583
Email: cebucapitol@psbank.com.ph

Cebu – Carbon *
Plaridel cor. Progreso Sts., Cebu City, Cebu
Tel: (032) 254-7711, 254-7712, 253-2412
Fax: (032) 255-0631
Email: carbon@psbank.com.ph

Cebu - Colon *
Pelaez near cor. Colon Sts., Cebu City, Cebu
Tel: (032) 255-7551, 255-7621, 255-7588
Fax: (032) 254-6483
Email: colon@psbank.com.ph

Cebu - Jones *
Osmeña Blvd. cor. Sanciangko St., Cebu City, Cebu
Tel: (032) 255-1761, 255-1971, 255-1483
Fax: (032) 255-1976
Email: jones@psbank.com.ph

Cebu - Taboan
C. Padilla cor. Tomas Abella Sts., Taboan, Cebu City, Cebu
Tel: (032) 261-1746, 261-1747
Fax: (032) 267-1745
Email: taboan@psbank.com.ph

Cebu - Uptown *
Alissa Bldg., Archbishop Reyes Ave., Cebu City, Cebu
Tel: (032) 232-7693, 232-7695, 232-7697
Fax: (032) 232-7699
Email: uptown@psbank.com.ph

Dumaguete City *
Dr. Vicente Locsin near cor. Real St., Dumaguete City, Negros Oriental
Tel: (035) 226-1582, 226-1583, 422-0200
Fax: (035) 226-1583
Email: dumaguetecity@psbank.com.ph

Iloilo - Iznart *
533 Iznart St., Iloilo City, Iloilo
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Fax: (033) 335-0938
Email: iznart@psbank.com.ph

Iloilo - Quezon *
23 Quezon St., Iloilo City, Iloilo
Tel: (033) 336-8249, 336-8247, 337-1558
Fax: (033) 336-8248
Email: iloiloquezon@psbank.com.ph

Mandaue - A.C. Cortes *
N&N Cortes Arcade, A.C. Cortes Ave., Mandaue City, Cebu
Tel: (032) 344-0581, 344-0582
Fax: (032) 344-0583
Email: mandaue@psbank.com.ph

Mandaue - Subangdaku *
Unit 101-102 G/F KRC Bldg., National Highway, Subangdaku, Mandaue City, Cebu
Tel: (032) 345-3341, 345-3342, 345-3343
Fax: (032) 345-3344
Email: mandaue-subangdaku@psbank.com.ph

Tacloban *
Tacloban Plaza Hotel, Justice Romualdez Ave., Tacloban City, Leyte
Tel: (053) 523-0887, 325-3554
Fax: (053) 325-3521
Email: tacloban@psbank.com.ph

Tagbilaran *
Carlos P. Garcia Ave., Tagbilaran City, Bohol
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Fax: (038) 411-4473
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MINDANAO

Cagayan de Oro *
Don Apolinar Velez. Cor. A. Mabini Streets, Cagayan De Oro City, Misamis Oriental
Tel: (088) 857-4183, 857-5966,
(08822) 725-184
Fax: (08822) 726-044
Email: cdo@psbank.com.ph

Davao – Madrazo *
PSBank Bldg., Cayetano Bangoy St. (formerly Ponciano Reyes St.), Davao City, Davao del Sur
Tel: (082) 222-5001, 222-4880, 305-6993
Loans Desk: (082) 305-0213, 224-5050
Fax: (082) 222-4279
Email: madrazo@psbank.com.ph

Davao – Monteverde *
88 T. Monteverde Avenue, Davao City, Davao del Sur
Tel: (082) 225-1118, 221-0646, 221-0647
Fax: (082) 221-0645
Email: monteverde@psbank.com.ph

Davao - Tagum *
PSBank Bldg., National Highway cor. Pioneer Ave., Tagum City, Davao del Norte
Tel: (082) 217-2901, (084) 400-1362
Fax: (082) 400-1361
Email: tagum@psbank.com.ph

Dipolog *
Lopez Bldg., Rizal Ave. cor. C.P. Garcia St., Dipolog City, Zamboanga del Norte
Tel: (065) 212-2927, 212-9297
Fax: (065) 212-6980
Email: dipolog@psbank.com.ph

General Santos *
Villanueva Bldg., Santiago Blvd., General Santos City, South Cotabato
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Email: gensantos@psbank.com.ph

Ozamis *
Rizal Ave. cor. Capistrano St., Ozamis City, Misamis Occidental
Tel: (088) 521-3277, 521-3477
Fax: (088) 521-3377
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Zamboanga *
Nuñez Avenue Extension, Camino Nuevo, Zamboanga City, Zamboanga del Sur
Tel: (062) 991-7271, 991-8125
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** with ATM*

Metrobank Group

DOMESTIC SUBSIDIARIES

FIRST METRO INVESTMENT CORPORATION
GT Tower International, Ayala Ave.
cor. H.V. dela Costa St., Makati City
Tel. Nos. 840-5751 to 56
FRANCISCO C. SEBASTIAN
President

TOYOTA MOTOR PHILIPPINES CORPORATION
Brgy. Pulong, Sta. Cruz
Sta. Rosa, Laguna
Tel. No. 825-8888

HIROSHI ITO
President

PHILIPPINE SAVINGS BANK
PSBank Center
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Sedeño St., Legaspi Village
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PASCUAL M. GARCIA III
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GT Tower International, Ayala Ave.
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ANNE MARIE YOUNG
President

PHILIPPINE AXA LIFE INSURANCE CORPORATION
Phil. AXA Life Center
Sen. Gil J. Puyat Ave. cor. Tindalo St.
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Tel. No. 885-0101

VICTOR P. QUISUMBING
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EDUARDO R. ALVAREZ
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President

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Chairman/Acting President

EMMANUEL R. QUE
Executive Vice President

MBTC TECHNOLOGY, INC.
PSBank Center
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Sedeño St., Legaspi Village
Makati City
Tel. No. 811-4855

JOSE RAYMUND O. VERGARA
President

FIRST METRO SECURITIES BROKERAGE CORPORATION
Unit 1515, Tower One
Ayala Triangle, Ayala Ave. cor.
Paseo de Roxas Ave., Makati City
Tel. Nos. 759-4133 to 34

FRANCISCO G. CO
President

GONZALO G. ORDONEZ
First Vice President

FIRST METRO TRAVELEX, INC.
Skyland Plaza
Sen. Gil J. Puyat Ave. cor.
Tindalo St., Makati City
Tel. Nos. 816-3701 to 10

LUCILLE M. CHABELDIN
President

Eusebio U. Lantin, Jr.
General Manager

TOYOTA MANILA BAY CORPORATION
Metropolitan Park
Roxas Blvd. cor. EDSA
Extension Blvd. 2000 Pasay City
Tel. Nos. 832-3408 to 10

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President/General Manager

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926 Aurora Blvd.
Cubao, Quezon City
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LEO J. FERRERIA
President/General Manager

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Worldwide Plaza
19 Des Voeux Road
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Tel. No. (852) 2877-9161
Fax No. (852) 2877-3569

Worldwide House Extension Office
Shop 201, 2nd Floor
Worldwide Plaza
19 Des Voeux Road
Central Hong Kong
Tel. No. (852) 2810-6686

MB REMITTANCE CENTRE LTD.
Star House Tsim Sha Tsui Office
Shop B17, Basement, Star House
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Managing Director

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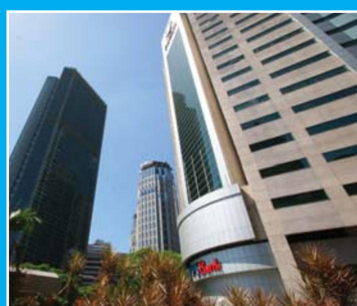

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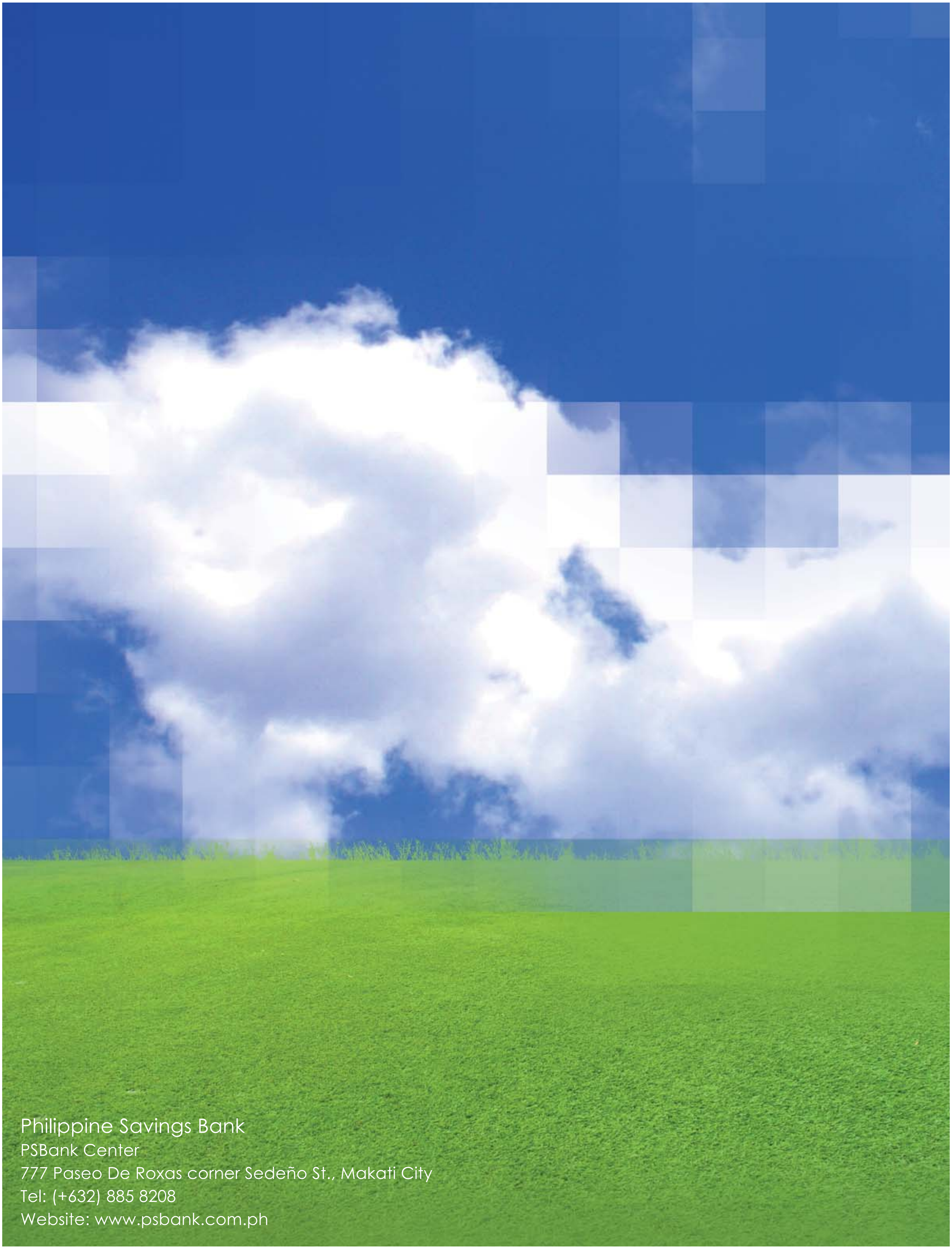

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