Certified Public Accountants

Punongbayan & Araullo

REPORT OF INDEPENDENT ACCOUNTANTS

The Board of Directors and the Stockholders
Rizal Commercial Banking Corporation
and Subsidiaries
Yuchengco Tower, RCBC Plaza
6819 Ayala Avenue, Makati City

We have audited the accompanying consolidated statement of condition of Rizal Commercial Banking Corporation (the "Parent Company") and subsidiaries (together hereinafter referred to as the "Group") as of December 31, 2005, and the related consolidated statements of income, changes in capital funds and cash flows for the year then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audit. We did not audit the financial statements as of and for the year ended December 31, 2005 of the following subsidiaries included in consolidation, namely, RCBC California International, Inc., RCBC Telemoney Europe, New Pacific Resources Management (SPV-AMC), Inc. and RCBC International Finance Limited and its subsidiary, RCBC Investment Limited. The combined accounts of these consolidated subsidiaries are deemed not material as they relate to the consolidated 2005 resource and revenue accounts. In addition, the financial statements of certain associates, the investments in which are accounted for in the consolidated financial statements using the equity method, were audited by other auditors; however, the 2005 total carrying value of the Group's investments in and share in net earnings/losses of these associates are also considered not significant in relation to the consolidated total resources as at the end of 2005 and the net results for the current year. The financial statements of the Group as of and for the year ended December 31, 2004 were audited by other auditors whose report dated March 28, 2005 expressed a qualified opinion on those financial statements with respect to the (a) staggered booking of the additional allowance for impairment as discussed in the fourth paragraph and (b) accounting for transfers of certain non-performing loans (NPLs) to special purpose vehicles (SPVs) as discussed in the third paragraph. The qualified opinion of the other auditors covered the 2004 consolidated financial statements prior to their restatement as a result of a prior period adjustment and the Group's transition to Philippine Financial Reporting Standards (PFRSs) discussed in Note 2, and prior to the revision of our qualified opinion on the 2004 financial statements of a subsidiary with respect to the matters discussed in the fourth and fifth paragraphs, which also affect the 2004 consolidated financial statements of the Group.

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

As discussed in Note 10 to the consolidated financial statements, the Parent Company and its subsidiary, RCBC Savings Bank, Inc. (RSB), transferred to certain SPVs certain NPLs totalling P3,589 million in 2005 and P4,456 million in 2004, in exchange primarily for subordinated/SPV notes and partly for cash under separate "sale and purchase" agreements pursuant to Republic Act No. 9182 (the SPV Act) and Bangko Sentral ng Pilipinas (BSP) Resolution No. 135. In recording the transfers of the NPLs to the SPVs, the Parent Company and RSB derecognized the NPLs from their respective financial records. In addition, the Parent Company and RSB deferred the recognition of the required additional allowance for impairment and the losses as determined on the NPLs transferred, which additional allowance for impairment and losses are being amortized over a period of 10 years in accordance with BSP Resolution No. 135. One of the significant conditions in the terms of the subordinated/SPV notes from one of the SPVs is that the amount and timing of payment of the subordinated/SPV notes are dependent on the collections to be made by the SPV on the NPLs transferred. Under generally accepted accounting principles (GAAP) in the Philippines, this is indicative of an incomplete transfer of the risks and rewards of ownership of the NPLs to the SPV. GAAP in the Philippines requires that (a) an entity retaining majority of the residual risks and rewards of certain assets of the SPV should reflect in its financial statements its proportionate interest in such SPV and (b) an entity should substantially transfer all the risks and rewards of ownership of an asset before such asset could be derecognized. GAAP in the Philippines, likewise, require the full recognition of the required additional allowance for impairment and the losses determined on the NPLs transferred in the period the losses were determined, instead of amortizing it over future periods. The effects of these matters on the consolidated financial statements are discussed in Note 10 to the consolidated financial statements.

On August 21, 2003, the BSP issued Memo Circular No. 398 regarding credit card receivables which became effective on December 1, 2003. The BSP Circular prescribes, among others, the standard valuation reserves requirements for delinquent and potentially noncollectible credit card receivables. Based on this BSP Circular, Bankard Inc. (Bankard), a subsidiary of RCBC Capital Corporation (RCBC Capital), a wholly owned subsidiary of the Parent Company, has requested and obtained BSP approval for it to stagger the booking of the P3.6 billion required additional allowance for impairment as of December 31, 2003 over a period of seven years starting 2004. However, under GAAP in the Philippines, the required additional allowance for impairment should have been taken up in the statement of condition as of December 31, 2003 and charged against the operations in 2003 and affected prior years, with the amount pertaining to years prior to 2003 taken up as an adjustment to retained earnings as at January 1, 2003. We were initially engaged as Bankard's auditors in 2003. In our previous reports dated March 22, 2005 (covering the 2004 and 2003 Bankard's financial statements) and April 6, 2004 (covering the 2003 Bankard's financial statements), we qualified our opinion because of the effects on those financial statements of the staggering of the recognition of the required additional allowance for impairment of P3.6 billion determined in 2003. Our previous reports also indicated, among others, that such required additional allowance should have been charged against Bankard's operations in 2003 in accordance with GAAP in the Philippines. However, in connection with the current review of the allowance for impairment as of December 31, 2005 and the staggered recognition of the required additional allowance determined in 2003, it was ascertained that the full P3.6 billion required additional allowance determined in 2003 did not pertain wholly to 2003, but a significant portion of such amount pertained to 2002 and prior years. As subsequently determined, of the required additional allowance of P3.6 billion, P749.4 million pertained to 2003 and P2.852 billion pertained to 2002 and prior years, as disclosed in Note 10 to the consolidated financial statements. We have satisfied ourselves as to the reasonableness of these amounts. Accordingly, our present report covering Bankard's financial statements for 2005 and 2004 now includes an indication that the required additional allowance should have been charged against the operations in 2003 and 2002 and prior years. Note 10 includes the disclosures of the effects of this matter on the 2005 and 2004 consolidated financial statements.

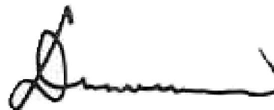
As discussed in Note 2 to the consolidated financial statements, the Group has transitioned to PFRSs and has adopted the relevant new and revised accounting standards, which include Philippine Accounting Standard (PAS) 39, *Financial Instruments: Recognition and Measurement*, and PAS 32, *Financial Instruments: Disclosures and Presentation*. PAS 39 prescribes, among others, the criteria for derecognition of financial assets. Under those derecognition criteria, the credit card receivables sold by Bankard to the Parent Company and other third parties, as discussed in Note 10, which receivables Bankard had derecognized, would not have qualified for derecognition. Hence, the receivables sold and the related liability representing the considerations received from the Parent Company and other third parties would have been presented in Bankard's statement of condition and measured at their respective amortized costs. The effects of this departure from GAAP on the consolidated statement of condition as of December 31, 2005 and 2004 are more fully described in Note 10 to the consolidated financial statements. This matter also impacts the 2004 statement of condition of Bankard (hence, our present opinion on Bankard's 2004 financial statements is now qualified with respect to this matter) and, accordingly, the 2004 consolidated statement of condition of the Group.

As of December 31, 2005, Bankard's deferred tax assets arising from allowance for impairment amounted to P518 million as disclosed in Note 25 to the consolidated financial statements. Bankard's management believes that it will be able to utilize the benefits of the deferred tax assets in the future. The balance of Bankard's deferred tax assets increased significantly due to the additional amounts recognized under the staggered recognition of the additional allowance for impairment discussed in the fourth paragraph, which is in addition to the annual provisioning for impairment that Bankard is required to make in accordance with BSP Circular No. 398. Such additional amounts are much higher than the accounts written off in the current and prior years. Further, Bankard's regular corporate income taxes for prior years have been lower than the computed minimum corporate income taxes for those years, which indicates that the level of its taxable income that is subject to the regular tax rate is not sufficient enough for it to be able to utilize the benefits of its deferred tax assets. To comply with GAAP in the Philippines, Bankard should not have recognized the additional deferred tax assets arising from the additional allowance for impairment in 2005 amounting to P214 million and should have written off or derecognized, also in 2005, the balance of the deferred tax assets as of December 31, 2004, relating to such allowance for impairment as of this date, amounting to P304 million, which would have decreased the reported consolidated net income of the Group in 2005 by P518 million.

In our opinion, except for the effects on the 2005 consolidated financial statements of the matters discussed in the third to sixth paragraphs, the 2005 consolidated financial statements referred to above present fairly in all material respects, the consolidated financial position of Rizal Commercial Banking Corporation and subsidiaries as of December 31, 2005, and the results of their operations and their cash flows for the year then ended in conformity with generally accepted accounting principles in the Philippines.

We also audited the adjustments described in Note 2 that were applied to restate the 2004 consolidated financial statements as a result of the Group's transition to PFRSs. In our opinion, such adjustments are appropriate and have been properly applied.

PUNONGBAYAN & ARAULLO



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BIR NA 08-002511-7-2005 (Dec. 27, 2005 to 2008)

April 3, 2006

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CONDITION
DECEMBER 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousand Philippine Pesos)

	Notes		2005		2004
RESOURCES					
CASH AND OTHER CASH ITEMS	6	P	5,389,129	P	5,151,778
DUE FROM BANGKO SENTRAL NG PILIPINAS	6		3,032,805		2,854,752
DUE FROM OTHER BANKS	6		3,226,059		5,318,690
INVESTMENT SECURITIES					
Financial Assets at Fair Value Through Profit or Loss	7		7,348,503		7,324,843
Held-to-Maturity Investments	8		24,323,163		22,324,914
Available-for-Sale Securities	9		10,852,853		3,087,590
LOANS AND RECEIVABLES - Net	10		100,166,021		107,753,998
INVESTMENTS IN ASSOCIATES - Net	11		2,073,615		1,941,505
BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT - Net	12		3,464,533		3,561,587
INVESTMENT PROPERTY - Net	13		11,533,065		11,820,750
DEFERRED TAX ASSETS	25		2,356,484		2,265,514
OTHER RESOURCES - Net	14		10,971,262		8,230,140
TOTAL RESOURCES		P	184,737,492	P	181,636,061

Forward

	Notes	2005	2004
LIABILITIES AND CAPITAL FUNDS			
DEPOSIT LIABILITIES	15		
Demand		P 7,712,349	P 8,356,277
Savings		52,675,292	51,470,988
Time		72,892,594	77,431,286
Total Deposit Liabilities		133,280,235	137,258,551
BILLS PAYABLE	16	14,855,330	16,929,873
BONDS PAYABLE	17	7,210,396	
OUTSTANDING ACCEPTANCES PAYABLE		275,347	288,304
DUE TO OTHER BANKS		10,697	484,942
ACCRUED TAXES, INTEREST AND OTHER EXPENSES	18	2,484,747	2,169,946
OTHER LIABILITIES	19	7,922,631	7,604,284
SUBORDINATED DEBT	20	5,472,129	5,000,000
Total Liabilities		171,511,512	169,735,900
CAPITAL FUNDS			
Attributable to Parent Company Shareholders:			
Capital Stock		6,329,640	6,331,440
Capital Paid in Excess of Par		2,118,688	2,118,688
Revaluation Reserves on Available-for-Sale Securities		39,570	1,822)
Accumulated Translation Adjustment		163,360	182,526
Reserve for Trust Business		223,774	199,902
Share in Additional Paid-in Capital of an Associate		532,583	532,583
Surplus		3,793,639	2,395,752
		13,201,254	11,759,069
Minority Interest		24,726	141,092
Total Capital Funds		13,225,980	11,900,161
TOTAL LIABILITIES AND CAPITAL FUNDS		P 184,737,492	P 181,636,061

See Notes to Consolidated Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF INCOME
FOR THE YEAR ENDED DECEMBER 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousand Philippine Pesos, Except Per Share Data)

	Notes	2005	2004
INTEREST INCOME ON			
Loans and receivables	10	P 9,934,464	P 9,306,550
Trading and investment securities	8, 9	4,591,876	2,361,165
Others		196,511	145,410
		14,722,851	11,813,125
INTEREST EXPENSE ON			
Deposit liabilities	16	4,688,265	4,601,175
Bills payable and other borrowings	18	2,868,220	2,012,419
		7,556,485	6,613,594
NET INTEREST INCOME		7,166,366	5,199,531
IMPAIRMENT LOSSES		1,566,678	2,212,965
NET INTEREST INCOME AFTER IMPAIRMENT LOSSES		5,599,688	2,986,566
OTHER OPERATING INCOME			
Trading and securities gain - net		1,073,012	1,043,681
Trust fees		328,336	355,155
Foreign exchange gains (losses) - net		15,060	219,535
Commissions and other income	7	2,639,920	3,020,306
		4,056,328	4,638,677
OTHER OPERATING EXPENSES			
Compensation and fringe benefits	23	2,151,805	2,055,511
Occupancy and equipment-related	24	1,424,563	1,413,588
Taxes and licenses		901,441	744,427
Depreciation and amortization		349,226	312,229
Miscellaneous		2,873,113	1,991,113
		7,700,148	6,516,868
INCOME BEFORE TAX		1,955,868	1,108,375
TAX EXPENSE	25	437,583	20,595
NET INCOME		1,518,285	1,087,780
NET LOSS ATTRIBUTABLE TO MINORITY INTEREST		115,131	158,091
NET INCOME ATTRIBUTABLE TO PARENT COMPANY'S SHAREHOLDERS		P 1,633,416	P 1,245,871
Earnings Per Share	29	P 2.58	P 1.97

See Notes to Consolidated Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CHANGES IN CAPITAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousand Philippine Pesos)

	Notes	Preferred Stock	Common Stock	Capital Paid in Excess of Par	Revaluation Reserves on Available-for-Sale Securities	Accumulated Translation Adjustment	Reserve for Trust Business	Share in Additional Paid in Capital of an Associate	Surplus	Capital Funds: Attributable to Parent Company Shareholders	Capital Funds: Minority Interest	Capital Funds: Total
Balance at January 1, 2004												
As previously reported		21,850	P 6,329,640	2,118,688	4,809	188,559	P 174,773	532,583	3,075,276	12,446,178	304,098	P 12,750,276
Effects of transition to PFRS (other than PAS 3 and PAS 39), net of tax		-	-	-				-	(1,710,377	(1,710,377)	(4,915)	(1,715,292)
As restated		21,850	6,329,640	2,118,688	4,809	188,559	174,773	532,583	1,364,899	10,735,801	299,183	11,034,984
Net loss directly recognized in capital funds relatin fair value losses on available-for-sale securities					6,631)					6,631)		6,631)
Translation adjustment for the year						6,033)				6,033)		6,033)
Net income for the year									1,245,871	1,245,871	158,091)	1,087,780
Redemption of preferred shares		20,050)								20,050)		20,050)
Cash dividends									(189,889)	189,889)		189,889)
Transfer from surplus to reserve for trust business		-			-	-	25,129		(25,129)			
		(20,050)	-	-	(6,631)	(6,033)	25,129		1,030,853	1,023,268	(158,091)	865,177
Balance at December 31, 2004		P 1,800	P 6,329,640	P 2,118,688	(P 1,822)	P 182,526	P 199,902	P 532,583	P 2,395,752	P 11,759,069	P 141,092	P 11,900,161
Balance at January 1, 2005												
As previously reported		1,800	6,329,640	2,118,688	1,822)	P 182,526	P 199,902	P 532,583	4,241,283	13,604,600	143,794	P 13,748,394
Effects of transition to other PFRS net of tax									1,845,531)	(1,845,531)	2,702)	(1,848,233)
Effect of adoption of PAS 32 and PAS 39 at January 1, 2005		(1,800)	-	-					(211,657)	(213,457)	-	(213,457)
Balance at January 1, 2005 as restated			6,329,640	2,118,688	(1,822)	182,526	199,902	532,583	2,184,095	11,545,612	141,092	11,686,704
Net income directly recognized in capital funds relating to fair value gains on available-for-sale securities, net of tax					41,392					41,392	(1,235)	40,157
Translation adjustment for the year						19,166)				19,166)		19,166
Net income for the year									1,633,416	1,633,416	(115,131)	1,518,285
Transfer from surplus to reseve for trust business		-	-	-	-	-	23,872		(23,872)	-	-	-
		-	-	-	41,392	(19,166)	23,872		1,609,544	1,655,642	(116,366)	1,539,276
Balance at December 31, 2005			P 6,329,640	P 2,118,688	P 39,570	P 163,360	P 223,774	P 532,583	P 3,793,639	P 13,201,254	P 24,72	P 13,225,98

See Notes to Consolidated Financial Statement

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
CONSOLIDATED STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED DECEMBER 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousand Philippine Pesos)

	2005	2004
CASH FLOWS FROM OPERATING ACTIVITIES		
Income before tax	P 1,955,868	P 1,108,375
Adjustments for:		
Impairment losses	1,566,678	2,212,965
Amortization of deferred charges	217,342	15,712
Depreciation and amortization	349,226	312,229
Equity in net earnings of associates	(259,531)	179,935)
Fair value gains on financial assets	(63,221)	(80,940)
Dividend income	(10,216)	
Gain on disposal of assets	(5,371)	(556,658)
Operating income before working capital changes	3,750,775	2,831,748
Decrease (increase) in financial assets at fair value through profit and loss	552,493	2,535,344)
Decrease in loans and receivables	6,231,701	10,507,390
Decrease (increase) in investment property	166,610	(3,755,947)
Decrease (increase) in deferred tax assets	14,062	(292,921)
Decrease (increase) in other resources	(3,569,982)	1,370,451
Decrease in deposit liabilities	(3,978,316)	(808,881)
Decrease in outstanding acceptances payable	(12,954)	(165,321)
Decrease in due to other banks	(474,245)	(294,293)
Increase (decrease) in accrued taxes, interest and other expenses	153,458	(216,777)
Increase (decrease) in other liabilities	531,822	(128,180)
Cash generated from (used in) operations	3,365,424	6,511,925
Cash paid for taxes	(457,735)	(183,063)
Net Cash From Operating Activities	2,907,689	6,328,862
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from disposals of bank premises, furniture, fixtures and equipment	364,219	283,963
Cash dividends received	127,421	199,416
Decrease (increase) in available-for-sale securities	(7,719,591)	223,037
Decrease (increase) in held-to-maturity investments	(1,998,249)	(5,954,997)
Acquisitions of bank premises, furniture, fixtures and equipment	(494,569)	(422,873)
Proceeds from disposal of investment in associates		1,684,140
Net Cash Used in Investing Activities	(9,720,769)	3,987,314)

Forward

	2005	2004
CASH FLOWS FROM FINANCING ACTIVITIES		
Net proceeds from bonds payable	7,210,396	
Payments of bills payable	(2,074,543)	(2,618,566)
Net Cash From (Used in) Financing Activities	5,135,853	2,618,566)
NET DECREASE IN CASH AND CASH EQUIVALENTS	(1,677,227)	(277,018)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR		
Cash and other cash items	5,151,778	3,607,101
Due from Bangko Sentral ng Pilipinas	2,854,752	3,999,202
Due from other banks	5,318,690	5,995,935
	13,325,220	13,602,238
CASH AND CASH EQUIVALENTS AT END OF YEAR		
Cash and other cash items	5,389,129	5,151,778
Due from Bangko Sentral ng Pilipinas	3,032,805	2,854,752
Due from other banks	3,226,059	5,318,690
	P 11,647,993	P 13,325,220

See Notes to Consolidated Financial Statements.

RIZAL COMMERCIAL BANKING CORPORATION AND SUBSIDIARIES
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
DECEMBER 31, 2005
(With Comparative Figures for 2004)
(Amounts in Thousand Philippine Pesos, Except Per Share Data)

1. CORPORATE INFORMATION

Rizal Commercial Banking Corporation (the "Parent Company") holds interest in the following subsidiaries and associates.

Subsidiaries/Associates	Country of Incorporation	Explanatory Notes	Effective Percentage of Ownership 2005	2004
Subsidiaries:				
RCBC Savings Bank, Inc. (RSB)	Philippines	(a)	100.00	100.00
RCBC Forex Brokers Corporation	Philippines		100.00	100.00
RCBC Telemoney Europe	Italy		100.00	100.00
RCBC California International, Inc. (RCBC California)	California, USA	(b)	100.00	100.00
RCBC International Finance Limited (RCBC IFL)	Hongkong		99.99	99.99
RCBC Investment Ltd.	Hongkong	(c)	100.00	100.00
RCBC Capital Corporation (RCBC Capital)	Philippines	(d)	99.91	99.85
RCBC Securities, Inc. (RSI)	Philippines	(e)	100.00	100.00
Bankard Inc. (Bankard)	Philippines	(f)	72.70	72.70
New Pacific Resources Management (SPV-AMC), Inc. (NPRMI)	Philippines	(g)	100.00	100.00
Associates:				
RCBC Land, Inc.(RLI)	Philippines		49.00	49.00
YGC Corporate Services, Inc.	Philippines		40.00	40.00
Luisita Industrial Park Co.	Philippines		35.00	35.00
Subic Power Corporation (SPC)	Philippines		26.50	26.50
Nippon Life Insurance Co. of the Phils., Inc. (NLICP)	Philippines		20.00	20.00
Honda Cars Phils., Inc. (HCPI)	Philippines		12.88	12.88
Roxas Holdings, Inc. (RHI)	Philippines		3.68	3.68

(a) Parent Company made an additional investment amounting to P500 million on January 13, 2005
(b) Includes 31% ownership of RCBC IFL
(c) A wholly owned subsidiary of RCBC IFL
(d) Parent Company made an additional investment amounting to P400 million on October 4, 2005
(e) A wholly owned subsidiary of RCBC Capital
(f) A 72.70% owned subsidiary of RCBC Capital
(g) Subsidiary incorporated in 2004, not yet in commercial operations as of December 31, 2005

The Parent Company is a universal bank engaged in all aspects of banking. It provides products and services related to traditional loans and deposits, trade finance, domestic and foreign fund transfers or remittance, cash management, treasury, and trust and custodianship services. The Parent Company also enters into forward currency contracts as an accommodation to its clients and as a means of managing its foreign exchange exposures. The Parent Company and its subsidiaries (the "Group") are engaged in all aspects of traditional banking, investment banking, retail financing (credit cards, auto loans and mortgage/ housing loans), leasing, and stock brokering. At the end of 2005, the Parent Company has 179 business centers and 5 extension offices within and outside of the Philippines.

The Parent Company's common shares are listed in the Philippine Stock Exchange (PSE) and is a 54.19% owned subsidiary of Pan Malayan Management and Investment Corporation (PMMIC), a company incorporated and domiciled in the Philippines. PMMIC is the holding company of the flagship institutions of the Yuchengco Group of Companies.

The registered address of the Parent Company is at Yuchengco Tower, RCBC Plaza, 6819 Ayala Avenue, Makati City.

The accompanying financial statements for the year ended December 31, 2005 (including the comparatives for the year ended December 31, 2004) were approved and authorized for issue by the Parent Company's Board of Directors (BOD) on April 3, 2006.

2. TRANSITION TO PHILIPPINE FINANCIAL REPORTING STANDARDS

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

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

a. PFRSs (corresponding to IFRSs);
b. Philippine Accounting Standards or PASs (corresponding to IASs); and,
c. Interpretations [corresponding to Interpretations issued by the International Financial Reporting Interpretations Committee (IFRIC) and Standing Interpretations Committee (SIC)].

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

Except as allowed under PAS 32, *Financial Instruments: Disclosure and Presentation,* and PAS 39, *Financial Instruments: Recognition and Measurement,* and except for the requirements of PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, the Group's financial statements for 2005 and the comparatives presented for 2004, comply with all presentation and disclosure requirements of the relevant PFRSs applicable for accounting periods commencing on or after January 1, 2005. However, Bankard has not complied with the application of derecognition criteria for financial assets prescribed by PAS 39 (see Note 10.1). As allowed under PFRS 1, the Parent Company and RSB opted to apply PAS 32 and PAS 39 in 2005 with January 1, 2005 as its transition date for these accounting standards. Accordingly, the Parent Company and RSB have not restated their 2004 financial statements with respect to the effects of transition to PAS 32 and PAS 39 at January 1, 2005. As required by PFRS 1, the requirements of PFRS 5 were applied in accordance with the specific transitional provisions of PFRS 5, also prospectively starting with the 2005 accounts only.

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

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

Except for the Surplus and Preferred Stock accounts, there were no necessary adjustments to the other Capital Funds accounts in the opening PFRS consolidated statement of condition as of January 1, 2004 and the comparatives prepared for the year ended December 31, 2004.

2.1 Reconciliations

a. The reconciliation of the Group's capital funds reported under previous Philippine GAAP to its capital funds under PFRS are summarized as follows:

	Notes	December 31, 2004	January 1, 2004
Surplus, as previously reported		**P 4,241,283**	**P 3,075,276**
Prior period adjustment relating to additional impairment on receivables	2.9	(14,911)	(21,789)
		4,226,372	3,053,487
PFRS adjustments:			
Remeasurement of loans and receivables	2.2	263,422)	308,153)
Recognition of transitional asset and write-off of deferred charges relating to a special retirement plan	2.3	397,361)	380,947)
Recognition of depreciation and impairment losses on investment property	2.4	(387,433)	242,358)
Reversal of amortization and write-off of goodwill	2.5	(605,281)	(602,754)
Recognition of compensated absences	2.6	(175,505)	(153,676)
Deferred tax assets on transition adjustments	2.8	(1,618)	(700)
		(1,830,620)	(1,688,588)

Forward

Surplus under PFRS	2,395,752	1,364,899
Total adjustments to Capital Funds	1,845,531)	(1,710,377)
Capital Funds under previous GAAP	13,604,600	12,446,178
Capital Funds under PFRS	P 11,759,069	P 10,735,801

b. The remeasurements of items in the opening PFRS consolidated statements of condition as of January 1, 2004 and the comparative financial year as of December 31, 2004 is summarized as follows:

	Notes	Previous GAAP	Effects of Transition	PFRS
January 1, 2004				
Changes in assets:				
Interbank loans receivable	2.1	P 26,071,627	(P 26,071,627)	P
Trading and investment securities	2.1	23,055,595	(23,055,595)	
Financial assets at fair value through profit or loss	2.1	-	4,658,153	4,658,153
Held-to-maturity investments	2.1	-	17,769,184	17,769,184
Available-for-sale securities	2.1	-	2,465,600	2,465,600
Loans and receivables	2.1	94,245,128	29,370,620	123,615,748
Investments in associates	2.1	3,785,404	(1,762,212)	2,023,192
Real and other properties acquired (ROPA)	2.1	8,307,161	(8,307,161)	-
Investment property	2.1	-	8,064,803	8,064,803
Deferred tax assets	2.8	1,972,811	(700)	1,972,111
Other resources	2.1	7,297,219	(4,696,175)	2,601,044
		164,734,945	(1,565,110)	163,169,835
Change in liabilities:				
Other liabilities	2.1	7,981,318	150,182	8,131,500
Minority interest		304,098	(4,915)	299,183
		P 156,449,529		P154,739,152
Total adjustment to Capital Funds			(P 1,710,377)	

	Notes	Previous GAAP	Effects of Transition	PFRS
December 31, 2004				
Changes in assets:				
Interbank loans receivable	2.1	P 16,847,814	(P 16,847,814)	P
Trading and investment securities	2.1	32,176,411	(32,176,411)	
Financial assets at fair value through profit or loss	2.1	-	7,324,843	7,324,843
Held-to-maturity investments	2.1	-	22,324,914	22,324,914
Available-for-sale securities	2.1	-	3,087,590	3,087,590
Loans and receivables	2.1	87,113,094	20,640,904	107,753,998
Investments in associates	2.1	2,537,408	(595,903)	1,941,505
Bank premises, furniture, fixtures and equipment	2.1	3,840,158	(278,571)	3,561,587
Real and other properties acquired	2.1	12,436,795	(12,436,795)	-
Investment property	2.1	-	11,820,750	11,820,750
Deferred tax assets	2.8	2,267,132	(1,619)	2,265,514
Other resources	2.1	12,713,269	(4,483,129)	8,230,140
		169,932,081	(1,621,242)	168,310,839
Changes in liabilities:				
Accrued taxes, interest and other liabilities	2.1	2,167,091	2,855	2,169,946
Other liabilities	2.1	7,380,148	224,136	7,604,284
		9,547,239	226,991	9,774,230
Minority interest		143,794	(2,702)	141,092
		P160,241,048		P158,395,517
Total adjustment to Capital Funds			(P 1,845,531)	

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

	Notes	Previous GAAP	Effects of Transition	PFRS
Interest income	2.2	P 12,073,477	(P 260,352)	P 11,813,125
Interest expense	2.2	6,322,657	290,937	6,613,594
Net interest income		5,750,820	(551,289)	5,199,531
Impairment losses	2.4	2,436,885	(223,920)	2,212,965
Net interest income after impairment losses		3,313,935	(327,369)	2,986,566
Other operating income	2.3	4,324,751	313,926	4,638,677
Other operating expenses	2.6	(6,392,900)	(123,968)	(6,516,868)
Income before tax		1,245,786	(137,411)	1,108,375
Tax expense	2.8	21,995	(1,400)	20,595
Net income		1,223,791	(136,011)	1,087,780
Net loss attributable to minority interest		157,234	857	158,091
Net income attributable to Parent Company's shareholders		P 1,381,025	(P 135,154)	P 1,245,871

2.1 *Revised Structure of Consolidated Statement of Condition and Consolidated Statement of Income*

The Bank has restated its previous consolidated statement of condition and consolidated statement of income structure on transition to PFRS. The main changes may be summarized as follows:

a. Resources classified as Trading and Investment Securities under the previous GAAP are now presented under a separate consolidated statement of condition line item Investment Securities classified as either Financial Assets at Fair Value Through Profit or Loss, Held-to-Maturity Investments, or Available-for-Sale Securities, based on the Group's designation and intention on the said investments;

b. Assets foreclosed by the Group from borrowers were reclassified from ROPA as presented under previous GAAP to their appropriate consolidated statement of condition line item as either Investment Property, Non-current Assets Held for Sale, or Investment Securities - Available-for-Sale Securities;

c. Interbank Loans Receivable and certain Other Resources accounts (such as Accrued Interest Receivable, Sales Contract Receivables and Accounts Receivables) previously presented as separate line items under previous GAAP were reclassified as part of Loans and Receivables;

d. Mandatorily redeemable preferred shares previously presented as part of Capital Funds under the previous GAAP are now presented as part of Other Liabilities. Cumulative dividends declared and not declared were recognized as interest expense with the any unpaid portion presented also as part of Other Liabilities; and

e. Under PFRS, the fair value measurement of derivatives is presented under Financial Assets at Fair Value Through Profit or Loss if the fair values are positive and under Derivative Liabilities if the fair values are negative rather than showing the net amount under the Other Resources or Other Liabilities account as was done under previous GAAP statement of condition.

2.2 *Measurement of Loans and Receivables at Amortized Cost*

Long-term non-interest bearing receivables of a subsidiary with indefinite repayment dates were measured under the previous GAAP at the outstanding balance of the receivables. Under PFRS, loans and receivables are measured at amortized cost using the effective interest method. The discount rate used of 9% was determined by reference to the market interest rate of comparable financial instrument at the date of inception of the receivable. This resulted in the recognition of day-one loss amounting to P402,398 and interest income of P94,245 in the surplus as of January 1, 2004. The related interest income recognized in 2004 amounted to P44,731, which resulted in the increase of net income for that year. The related adjustment to surplus as of December 31, 2004 amounted to P263,422.

2.3 *Full Recognition of Defined Benefit Asset*

Under PFRS, the Group's obligation under post-employment defined benefit plan are actuarially determined using the projected unit credit method. The adoption of this new standard resulted in the recognition of net transitional asset amounting to P31,069 as of January 1, 2004. This transitional asset was recognized retrospectively in the Group's opening PFRS consolidated statement of condition. In addition, the Parent Company also charged against surplus as of January 1, 2004 and December 31, 2004 special retirement plan payments previously recognized as deferred charges amounting to P417,365 and P395,879, respectively. The total adjustments to Surplus as of January 1, 2004 and December 31, 2004 amounted to P380,947 and P397,361, respectively.

2.4 *Classification and Measurement of Investment Property*

Under the previous GAAP, real and other properties acquired from borrowers through foreclosure were stated at cost (which is the lower of the outstanding loan balance and bid price) less allowance for impairment. Under PFRS, the Group is required to classify its ROPA into appropriate accounts, either as investment property, non-current assets held for sale, bank premises, furniture, fixtures and equipment, or other non-financial assets. ROPA classified as investment property is carried at cost less accumulated depreciation while those classified as non-current assets held for sale are carried at the lower of cost or fair value less cost to sell. As a result of the adoption of the new standard, the Group classified certain ROPA as Investment Property and adopted the cost model. The total carrying value of the ROPA now classified as Investment Property amounted to P11,820,750 as of December 31, 2004. Total adjustment to Surplus as of January 1, 2005 and 2004 amounted to P387,433 and P242,358, respectively, representing accumulated depreciation and impairment losses.

2.5 *Reversal of Amortization and Write-off of Goodwill*

Under previous GAAP, certain subsidiary's Goodwill account was amortized on a straight-line basis over its useful life of 20 years. Under PFRS, Goodwill is no longer amortized but instead must be tested for impairment annually, or more frequently if indication that it might be impaired. The subsidiary reversed, on its opening PFRS statement of condition at January 1, 2004, the 2004 annual amortization amounting to P15,280 and wrote-off the remaining Goodwill in 2004 amounting to P2,963. In addition, another subsidiary of the Parent Company recorded goodwill under previous GAAP and has been tested for impairment and was determined to be fully impaired at the date of transition to PFRS. In accordance with PFRS, goodwill amounting to P608,244 and P587,474 for January 1, 2005 and 2004, respectively, was written-off. Total adjustment to Surplus of January 1, 2005 and 2004 amounted to P605,281 and P602,754, respectively.

2.6 *Recognition of Compensated Absences*

PAS 19, *Employee Benefits,* requires the recognition of compensated absences or leave benefits in the period when the service of an employee was rendered. As a result of the adoption of the new accounting standard, the Group accrued leave benefits amounting to P175,505 and P153,676 as of January 1, 2005 and 2004, respectively.

2.7 Revaluation of Financial Instruments

Under previous accounting practice, amounts contracted for derivatives are recorded as contingent accounts and were not included in the consolidated statement of condition except for marked-to-market valuation of forward contracts and revaluation of the notional amount of foreign currency forwards based on the spot rate at the statement of condition date and amortization of the expected gains/losses (premium or discount) of foreign currency forwards over the term of the contract. Under PAS 39, derivatives are initially recognized at fair value on the date on which a derivative contract is entered into and are subsequently measured at fair value. All derivatives are carried as assets when the fair value is positive and as liabilities when fair value is negative. This resulted in the recognition of losses from changes in fair market revaluation of the Group's derivatives amounting to P213,457 taken up as an adjustment to Surplus at January 1, 2005.

2.8 Deferred Tax Assets on Transition Adjustments

The deferred tax expense recognized by the Group which related to the temporary differences arising from PFRS adjustments amounted to P1,618 and P700 in December 31, 2004 and January 1, 2004, respectively.

2.9 Impairment on Receivables

As a result of the current review of the required allowance for impairment on receivables from customers as of December 31, 2005 of RSI (a subsidiary), an additional allowance for impairment pertaining to 2004 and previous years was recognized as prior period adjustment. Accordingly, the balances of RSI's retained earnings (and, consequently, the Group's capital funds) as of December 31, 2004 and at January 1, 2004 were reduced by P14,911 and P21,789, respectively.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

3.1 Basis of Preparation of Financial Statements

The consolidated financial statements of Rizal Commercial Banking Corporation and subsidiaries have been prepared in accordance with the generally accepted accounting principles as set forth in the PFRSs, except for the staggered recognition of the additional allowance for impairment and losses (see Note 10), the derecognition of certain non-performing loans transferred and credit card receivables sold (see Note 10), and the recognition of deferred tax assets (see Note 25).

The financial statements have been prepared on a historical cost basis, except for the revaluation of certain financial assets and financial liabilities and derivative contracts. The measurement bases are more fully described in the accounting policies below.

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

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

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

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

2006	
PAS 19 (Amendment)	Employee Benefits
PAS 39 (Amendment)	Cash Flow Hedge Accounting of Forecast Intra-group Transaction
PAS 39 (Amendment)	The Fair Value Option
PAS 39 and PFRS 4 (Amendment)	Financial Guarantee Contracts
PFRS 1 (Amendment)	First-time Adoption of Philippine Financial Reporting Standards
PFRIC 4	Determination whether an Arrangement Contains a Lease
2007	
PAS 1 (Amendment)	Presentation of Financial Statements
PFRS 7	Financial Instruments: Disclosures

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

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

- PAS 39 (Amended), *The Fair Value Option.* This amendment changes the definition of financial instruments classified at fair value through profit or loss and restricts the ability to designate financial instruments as part of this category. The Group believes that this

amendment should not have a significant impact on the classification of financial instruments, as the Group should be able to comply with the amended criteria for the designation of financial instruments at fair value through profit and loss. The Group will apply this amendment from annual periods beginning January 1, 2006.

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

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

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

3.3 Principles of Consolidation and Investment in Associates

The consolidated financial statements comprise the financial statements of the Parent Company and its subsidiaries (see listing in Note 1) as of and for the years ended December 31, 2005 and 2004. The financial statements of subsidiaries are prepared for the same reporting year as the Parent Company, using consistent accounting policies, except that in their transitioning to PFRS , the Parent Company and RSB opted to apply PAS 32 and PAS 39 in 2005 (see Note 2). The other subsidiaries applied PAS 32 and PAS 39 retroactively, and the related transition adjustment (not considered material to the consolidated financial statements) was carried over in the consolidation.

The Parent Company accounts for its investments in subsidiaries and associates, and minority interest as follows:

- *Investment in Subsidiaries.* Subsidiaries are all entities over which the Parent Company has the power to control the financial and operating policies generally accompanying a shareholding of more than one half of the voting rights. The existence and effect of potential voting rights that are currently exercisable or convertible are considered from the date in which the Parent Company controls another entity. Subsidiaries are fully consolidated from the date on which

the Parent Company obtains control. They are de-consolidated from the date the control ceases.

In addition, acquired subsidiaries are subject to application of the purchase method of accounting. This involves the revaluation at fair value of all identifiable assets and liabilities, including contingent liabilities of the subsidiary, at the acquisition date, regardless of whether or not they were recorded in the financial statements of the subsidiary prior to acquisition. On initial recognition, the assets and liabilities of the subsidiary are included in the consolidated statement of condition at their revalued amounts, which are also used as the bases for subsequent measurement in accordance with the Group accounting policies. Goodwill represents the excess of acquisition cost over the fair value of the Parent Company's share of the identifiable net assets of the acquired subsidiary at the date of acquisition.

All intercompany balances and transactions with subsidiaries, including the unrealized profits arising from intra-group transactions, have been eliminated in full. Unrealized losses are eliminated unless costs cannot be recovered.

- *Transactions with Minority Interests.* The Group applies a policy of treating transactions with minority interests as transactions with parties external to the Group. Disposals to minority interests result in gains and losses for the Group that are recorded in the consolidated statement of income. Purchases from minority interests may result in goodwill, being the difference between any consideration paid and the relevant share acquired of the carrying value of net assets of the subsidiary.

- *Investment in Associates.* Associates are those entities over which the Group is able to exert significant influence but which are neither subsidiaries nor interest in a joint venture. Investments in associates are initially recognized at cost and subsequently accounted for using the equity method. Under the equity method, the Group recognizes in its consolidated statement of income its share in the earnings or losses of the associates. The cost of the investment is increased or decreased by the Group's equity in net earnings or losses of the associates since the date of acquisition. Dividends received are recorded as reduction in the carrying values of the investments.

  Acquired investments in associates are also subject to purchase accounting. However, any goodwill or fair value adjustment attributable to the share in the associate is included in the amount recognized as investment in associates. All subsequent changes to the share of interest in the equity of the associate are recognized in the Group's carrying amount of the investment. Changes resulting from the profit or loss generated by the associate are charged against Commission and Other Income in the Group's consolidated statements of income and therefore affect net results of the Group. These changes include subsequent depreciation, amortization or impairment of the fair value adjustments of assets and liabilities. Items that have been directly recognized in the associate's equity, for example, resulting from the associate's accounting for available-for-sale financial assets, are recognized in consolidated equity of the Group. Any non-financial income related equity movements of the associate that arise, for example, from the distribution of dividends or other transactions with the associate's shareholders, are charged against the proceeds received or granted. No effect on the Group's net result or equity is recognized in the course of these transactions. However, when the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

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

3.4 Segment Reporting

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

3.5 Cash and Cash Equivalents

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

3.6 Financial Assets

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

Purchases and sales of financial assets at fair value through profit or loss, held-to-maturity investments and available-for-sale financial assets are recognized on trade date, the date on which the Group commits to purchase or sell the asset. Loans and receivables are recognized when cash is advanced to the borrowers.

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

- *Financial Assets Through Profit or Loss.* This category includes financial assets that are either classified as held for trading or are designated by the Group to be carried at fair value through profit or loss upon initial recognition. A financial asset is classified in this category if acquired principally for the purpose of selling it in the short term or if so designated by management. Derivatives are also categorized as 'held for trading' unless they are designated as hedges.

  Subsequent to initial recognition, the financial assets included in this category are measured at fair value with changes in fair value recognized in profit or loss. Financial assets originally

designated as financial assets at fair value through profit or loss may not subsequently be reclassified.

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

  Loans and receivables are subsequently measured at amortized cost using the effective interest method, less discount and impairment losses. Impairment loss is provided when there is objective evidence that the Group will not be able to collect all amounts due to it in accordance with the original terms of the loans or receivables. The amount of impairment loss is determined as the difference between the carrying amount of loans or receivables and the present value of estimated cash flows.

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

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

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

- *Available-for-sale Financial Assets.* This includes non-derivative financial assets that are either designated to this category or do not qualify for inclusion in any of the other categories of financial assets.

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

  In the case of impairment, any loss previously recognized in equity is transferred to the income statement. Losses recognized in the consolidated statement of income on equity investments are not reversed through the consolidated statement of income. Losses recognized in prior period income statements resulting from the impairment of debt instruments are reversed through the income statement

For investments that are actively traded in organized financial markets, fair value is determined by reference to stock exchange quoted market bid prices at the close of business on the statement of condition date. For investments where there is no quoted market price, fair value is determined by reference to the current market value of another instrument which is substantially the same or is calculated based on the expected cash flows of the underlying net asset base of the investment.

Gains and losses arising from changes in the fair value of the financial assets at fair value through profit or loss category are included in Trading and Securities Gain - net account in the consolidated statement of income in the period in which they arise. Gains and losses arising from changes in the fair value of available-for-sale financial assets are recognized directly in equity, until the financial asset is derecognized or impaired at which time the cumulative gain or loss previously recognized in equity shall be recognized in profit or loss. However, interest calculated using the effective interest method is recognized in the consolidated statement of income. Dividends on available-for-sale equity instruments are recognized in the statement of income when the entity's right to receive payment is established. Non-compounding interest and other cash flows resulting from holding financial assets are recognized in profit or loss when received, regardless of how the related carrying amount of financial assets is measured.

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

3.7 Impairment of Financial Assets

The Group assesses at each consolidated statement of condition date whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses incurred if, and only if, there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "loss event") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated. Objective evidence that a financial asset or group of assets is impaired includes observable data that comes to the attention of the Group about the following loss events:

a. significant financial difficulty of the issuer or obligor;

b. a breach of contract, such as a default or delinquency in interest or principal payments;

c. the Group granting to the borrower, for economic or legal reasons relating to the borrower's financial difficulty, a concession that the lender would not otherwise consider;

d. it becoming probable that the borrower will enter bankruptcy or other financial reorganization;

e. the disappearance of an active market for that financial asset because of financial difficulties; or

f. observable data indicating that there is a measurable decrease in the estimated future cash flows from a group of financial assets since the initial recognition of those assets, although the decrease cannot yet be identified with the individual financial assets in the group,

including: adverse changes in the payment status of borrowers in the group, or national or local economic conditions that correlate with defaults on the assets in the group.

- *Assets Carried at Amortized Cost*

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

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

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

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

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

  Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their

magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan/receivable is uncollectible, it is written off against the related allowance for impairment. Such loan/receivable is written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off decrease the amount of impairment losses in the consolidated statement of income.

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

- *Assets Carried at Fair Value*

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

- *Assets Carried at Cost*

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

3.8 Derivative Financial Instruments and Hedge Accounting

The Parent Company and certain subsidiaries are parties to various foreign currency forward contracts and cross-currency swaps. These contracts are entered into as a service to customers and as a means of reducing or managing the Parent Company's and certain subsidiaries' foreign exchange and interest rate exposure as well as for trading purposes. Amounts contracted are recorded as contingent accounts that are not included in the consolidated statement of condition.

Derivatives are initially recognized as Financial Assets at Fair Value Through Profit or Loss at fair value on the date on which a derivative contract is entered into and are subsequently remeasured at their fair value. Fair values are obtained from quoted market prices in active markets and valuation techniques, including discounted cash flow models and options pricing models, as appropriate. The change in fair value of derivative financial instruments is recognized in profit or loss, except when their effects qualify as a hedging instrument. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative.

The best evidence of the fair value of a derivative at initial recognition is the transaction price (i.e., the fair value of the consideration given or received) unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument (i.e., without modification or repackaging) or based on a valuation technique whose variables include only data from observable markets. When such evidence exists, the Parent Company and certain subsidiaries recognize the profits at initial recognition.

Certain derivatives embedded in other financial instruments, such as credit default swaps in a credit linked note, are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value, with changes in fair value recognized as Trading and Securities Gain in the consolidated statement of income.

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

3.9 Bank Premises, Furniture, Fixtures and Equipment

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

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

Buildings	20-25 years
Furniture, fixtures and equipment	3-15 years

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

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

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

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

3.10 Offsetting Financial Instruments

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

3.11 Investment Property

Investment property pertains to land, buildings or condominium units foreclosed or acquired by the Group as payment from defaulting borrowers not held for sale in the next twelve months.

Investment property is initially recognized at cost, which includes acquisition price plus directly attributable cost incurred such as legal fees, transfer taxes and other transaction costs. Subsequent to initial recognition, investment property is stated at cost less accumulated depreciation and any impairment losses.

The Group adopted the cost model in measuring its investment property, hence, is carried at cost less accumulated depreciation and any impairment in value. Depreciation and impairment loss are recognized in the same manner as in Bank Premises, Furnitures, Fixtures and Equipment.

3.12 Intangible Assets

Goodwill represents the excess of the cost of acquisition over the fair value of the RSB's acquisition of certain assets and branch licenses and assumption of certain liabilities of Capitol Development Bank at the date of acquisition. Goodwill is classified as intangible asset with indefinite useful life and, thus, not subject to amortization but would require an annual test for impairment. Goodwill is subsequently carried at cost less accumulated impairment losses. Goodwill is allocated to cash generating units for the purpose of impairment testing.
Each of those cash generating units is represented by each primary reporting segment.

Computer software licenses are capitalized on the basis of the costs incurred to acquire and bring to use the specific software. These costs are amortized on the basis of the expected useful lives (three to five years).

Costs associated with developing or maintaining computer software programs are recognized as an expense as incurred. Costs that are directly associated with the production of identifiable and unique software products controlled by the Group, and that will probably generate economic benefits exceeding costs beyond one year, are recognized as intangible assets. Direct costs include software development employee costs and an appropriate portion of relevant overheads.

Computer software development costs recognized as assets are amortized using the straight-line method over their useful lives (not exceeding five years).

3.13 Assets Held-for-Sale

Assets held-for-sale include real and other properties acquired through repossession or foreclosure or purchase that certain subsidiaries intend to sell within one year from the date of classification as held-for-sale.

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

3.14 Financial Liabilities

Financial liabilities include deposit liabilities, bills payable, trade and other payables, derivative financial liabilities and other liabilities.

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

Financial liabilities are recognized initially at their nominal value and subsequently measured at amortized cost less settlement payments.

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

Preferred shares, which carry mandatory coupons or are redeemable on a specific date or at the option of the shareholder, are classified as financial liabilities and are presented as part of Other Liabilities in the consolidated statement of condition. The dividends on these preference shares are recognized in the consolidated statement of income as interest expense on an amortized cost basis using the effective interest method.

Derivative financial liabilities represent the cumulative changes in net fair value losses arising from the Group's foreign currency forward transactions.

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

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

3.15 Provisions

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

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

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

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

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

A subsidiary, under its rewards program, offers monetized rewards to active cardholders. Provisions for rewards are recognized at a certain rate of cardholders' credit card availments, determined by management based on actual redemption experience. At present, the subsidiary has not set a prescription period for the redemption of the reward points.

3.16 Revenue Recognition

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

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

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

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

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

- Finance charges are recognized on credit card revolving accounts, other than those accounts classified as installment, as income as long as those outstanding account balances are not over 90 days past due. Finance charges on installment accounts, first year and renewal membership fees are recognized as income when billed to cardholders. Purchases by cardholders which are collected on installment are recorded at the cost of items purchased.

- Late payment fees are billed on delinquent credit card receivable balances until 179 days past due. These late payments are recognized as income upon collection.

- Loan fees, service charges and penalties are recognized as earned over the terms of the credit lines granted to each borrower. Loan syndication fees are recognized upon completion of all syndication activities and where there are no further obligations to perform under the syndication agreement. Service charges and penalties are recognized only upon collection or accrued where there is a reasonable degree of certainty as to its collectibility.

- Discounts earned, net of interchange costs, are recognized as income upon presentation by member establishments of charges arising from Bankard and non-Bankard (associated with MasterCard, JCB and VISA labels) credit card availments passing through the credit terminals of Bankard. These discounts are computed based on agreed

rates and are deducted from amounts remitted from member establishments. Interchange costs pertain to the other credit card companies' share in Bankard's merchant discounts whenever their issued credit cards transact in a Bankard terminal.

- Profit from assets sold or exchanged is recognized when the title to the assets is transferred to the buyer or as gross profit is realized in the case of sale accounted for as installment sale, or when the collectibility of the entire sales price is reasonably assured.

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

3.17 Leases

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

Group as Lessor – Leases, wherein the Group substantially transfers to the lessee all risks and benefits incidental to ownership of the leased item, are classified as finance leases and are presented as receivable at an amount equal to the Group's net investment in the lease. Finance income is recognized based on the pattern reflecting a constant periodic rate of return on the Group 's net investment outstanding in respect of the finance lease. Leases, which do not transfer to the lessee substantially all the risks and benefits of ownership of the asset are classified as operating leases. Operating lease collections are recognized as income in the consolidated statement of income on a straight-line basis over the lease term.

3.18 Functional Currency and Foreign Currency Transactions

- *Functional and Presentation Currency*

  Items included in the financial statements of the Group are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The consolidated financial statements are presented in Philippine pesos, which is the Group's functional currency.

- *Transaction and Balances*

  Except for the foreign subsidiaries and accounts from the Group's foreign currency-denominated unit (FCDU), the accounting records of the Group are maintained in Philippine pesos. Foreign currency transactions during the period are translated into the functional currency at exchange rates which approximate those prevailing at transaction dates. Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at prevailing Philippine Dealing System closing rates (PDSCR) at the statement of condition date.

  For financial reporting purposes, the accounts of the FCDU, which are maintained in Philippine pesos, are translated into their equivalents in Philippine pesos based on PDSCR

prevailing at the end of the year (for resources and liabilities) and at the average PDSCR for the year (for income and expenses).

Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary resources and liabilities denominated in foreign currencies are recognized in the statement of income, except when deferred in equity as qualifying cash flow hedges and qualifying net investment hedges. Translation differences on on-monetary items, such as equities held at fair value through profit or loss, are reported as part of the fair value gain or loss. Translation differences on non-monetary items, such as equities classified as available-for-sale financial assets, are recognized as part of the unrealized gain or loss in the market value of available-for-sale securities presented in equity.

- *Translation of Financial Statements of Foreign Subsidiaries*

  The results and financial position of all the foreign subsidiaries (none of which has the currency dependency of a hyperinflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

  a. Assets and liabilities for each statement of condition presented are translated at the closing rate at the date of that statement of condition;

  b. Income and expenses for each income statement are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transactions dates, in which case income and expenses are translated at the dates of the transactions); and

  c. All resulting exchange differences are recognized as a separate component of capital funds.

  On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to capital funds. When a foreign operation is sold, such exchange differences are recognized in the consolidated statement of income as part of the gain or loss on sale.

3.19 Impairment of Non-financial Assets

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

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

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

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

3.20 Employee Benefits

- *Retirement Benefit Obligations*

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

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

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

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

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

and are included in current liabilities or current assets as they are normally of a short term nature.

- *Compensated Absences*

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

3.21 Income Taxes

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

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.

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

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

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

3.22 Related Parties

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

3.23 Capital Funds

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

Capital paid in excess of par includes any premiums received on the initial issuance of capital stock. Any transaction costs associated with the issuance of shares are deducted from additional paid-in capital, net of any related income tax benefits.

Change in fair value of available-for-sale securities comprises the net gains and losses due to the revaluation of available-for-sale financial assets.

Reserve for trust business represents the accumulated amount set aside under Section 66 of Republic Act No. 337, as amended, requiring the Parent Company to carry to surplus 10% of its net profits accruing from trust business since the last preceding dividend declaration until the surplus shall amount to 20% of authorized capital stock. The reserve shall not be paid out in dividends; but losses accruing in the course of the trust business may be charged against this account.

Surplus includes all current and prior period results as disclosed in the consolidated statement of income.

3.24 Earnings Per Share

Basic earnings per share is determined by dividing the net income for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year, after giving retroactive effect to any stock dividends declared in the current year.

3.25 Trust Activities

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

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.

4.1 Critical Accounting Estimates and Assumptions

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

- *Impairment Losses on Loans and Receivables*

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

- *Fair Value of Derivatives and Other Financial Instruments*

  The fair value of financial instruments that are not traded in an active market (for example, over-the-counter derivatives) is determined by using valuation techniques. Where valuation techniques are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All valuation models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and comparative market prices. To the extent practical, models use observable data. However, areas such as credit risk (both own and counterparty), volatilities and correlations, require management to make estimates. Changes in assumptions could affect reported fair value of financial instruments. The Group uses its judgment to select a variety of methods and make assumptions that are mainly based on market conditions existing at each statement of condition date. The Group has used discounted cash flow analysis for available-for-sale financial assets that were not traded in active markets.

4.2 Critical Accounting Judgments

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

- *Held-to-Maturity Investments*

  The Group follows the guidance of PAS 39 in classifying non-derivative financial assets with fixed or determinable payments and fixed maturity as held-to-maturity. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments at maturity other than for the allowed specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire class into available-for-sale financial assets. The investments would then be measured at fair value and not at amortized cost.

- *Impairment of Available-for-Sale Financial Assets*

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

- *Fair Values of Financial Assets and Liabilities*

  The following table summarizes the carrying amounts and fair values (in million Philippine Pesos) of those financial assets and liabilities not presented on the Group's statement of condition at their fair values. Bid prices are used to estimate fair values of assets, whereas offer prices are applied for liabilities.

	2005		2004	
	Cost	Fair Value	Cost	Fair Value
Due from BSP	P 3,033	P 3,033	P 2,855	P 2,855
Due from Other Banks	3,226	3,226	5,319	5,319
Held-to-Maturity Investments	24,323	30,354	22,325	24,950
Loans and Receivables	100,166	100,166	107,754	107,367
Deposit Liabilities:				
Demand	7,712	7,712	8,356	8,356
Time	72,892	72,892	77,431	77,431
Savings	52,675	52,675	51,471	51,471

5. SEGMENT INFORMATION

The Group's operating businesses are recognized and managed separately according to the nature of services provided (primary segments) and the different markets served (secondary segments) with a segment representing a strategic business unit. The Group's business segments follow:

- *Commercial Banking* – principally handles the business centers offering a wide range of financial products and services to the commercial "middle market" customers. Products offered include individual customer's deposits, term loans, revolving credit lines, overdraft facilities, trade finance, payment remittances, and foreign exchange transactions.

- *Corporate Business Development* – principally handles loans and other credit facilities and deposit and current accounts for corporate and institutional customers.

- *Financial Management* – principally provides money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

- *Others* – consists of the Parent Company's various support group and consolidated subsidiaries.

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

Segment revenues and expenses that are directly attributable to primary business segment and the relevant portions of the Group's revenues and expenses that can be allocated to that business segment are accordingly reflected as revenues and expenses of that business segment.

For secondary segment, revenues and expenses are attributed to geographic areas based on the location of the resources producing the revenues, and in which location the expenses are incurred.

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

	2005				
	Commercial Banking Group	Corporate Business Development Group	Financial Management Group	Others	Total
Results of operations					
Net interest income	P 3,495	P 1,434	P 1,002	P 1,235	P 7,166
Non-interest income	365	656	1,287	1,748	4,056
Total revenue	3,860	2,090	2,289	2,983	11,222
Non-interest expense	2,005	417	288	6,556	9,266
Income before income tax	1,855	1,673	2,001	(3,573)	1,956
Income tax provision		-		438	438
Minority interest in net loss (income)				115	115
Net income (loss)	P 1,855	P 1,673	P 2,001	(P 3,896)	P 1,633
Statement of condition					
Total Assets	P 65,868	P 24,587	P 13,128	P 81,154	P 184,737
Total Liabilities	P 65,868	P 15,249	P 1,205	P 89,189	P 171,511
Other segment information					
Capital expenditures	P 66	P 7	P 7	P 415	P 495
Depreciation and amortization	P 61	P 14	P 6	P 268	P 349

	2004				
	Commercial Banking Group	Corporate Business Development Group	Financial Management Group	Others	Total
Results of operations					
Net interest income	P 2,079	P 200	P 1,108	P 1,813	P 5,200
Non-interest income	635	144	1,234	2,626	4,639
Total revenue	2,714	344	2,342	4,439	9,839
Non-interest expense	1,706	187	191	6,646	8,730
Income before income tax	1,008	157	2,151	(2,207)	1,109
Income tax provision				21	21
Minority interest in net loss (income)				158	158
Net income (loss)	P 1,008	P 157	P 22,151	(P 2,070)	P 1,246
Statement of condition					
Total Assets	P 42,663	P 30,301	P 56,798	P 51,874	P 181,636
Total Liabilities	P 46,908	P 4,860	P 28,864	P 89,104	P 169,736
Other segment information					
Capital expenditures	P 49	P 5	P 2	P 367	P 423
Depreciation and amortization	P 105	P 19	P 9	P 179	P 312

Secondary information (by geographical location) as of and for the years ended December 31, 2005 and 2004 (in million Philippine pesos) follow:

	Philippines		United States		Asia and Europe	
	2005	2004	**2005**	2004	**2005**	2004
Results of operations						
Total revenues	**P 18,556**	P 16,256	**P 117**	P 108	**P 106**	P 88
Total expenses	**16,950**	15,188	**103**	90	**94**	86
Net income (loss)	**P 1,606**	P 1,225	**P 14**	P 18	**P 13**	P 2
Statement of condition						
Total assets	**P 184,179**	181,120	**P 232**	P 172	**P 326**	P 344
Total liabilities	**P 171,265**	169,517	**P 157**	103	**P 89**	116
Other Segment Information						
Capital expenditures	**P 487**	P 418	**P 5**	P 4	**P 3**	P 1
Depreciation and amortization	**P 344**	P 309	**P 2**	P 2	**P 3**	P 1

6. CASH AND CASH EQUIVALENTS

The balance of this account represents the following:

	2005	2004
Cash and other cash items	P 5,389,129	P 5,151,778
Due from BSP	3,032,805	2,854,752
Due from other banks	3,226,059	5,318,690
	P 11,647,993	P 13,325,220

The balance of Due from Other Banks represents regular deposits with the following:

	2005	2004
Local banks	P 1,928,829	P 2,944,826
Foreign banks	1,297,230	2,373,864
	P 3,226,059	P 5,318,690

Interest rates on these deposits range from 1% to 7% per annum in 2005 and 2004.

The breakdown of this account by currency is shown below:

	2005	2004
Philippine pesos	P 262,863	P 274,535
Foreign currencies	2,963,196	5,044,155
	P 3,226,059	P 5,318,690

7. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

This account is composed of the following:

	2005	2004
Government bonds	P 3,867,114	P 7,192,104
Derivative financial assets	646,160	
Other debt securities	2,695,760	31,774
Equity securities		
Quoted	138,918	95,413
Unquoted	551	5,552
	P 7,348,503	P 7,324,843

The carrying amounts of the above financial assets are classified as follows:

	2005	2004
Held-for-trading	P 2,726,300	P 7,324,843
Designated as fair value through profit or loss on initial recognition	4,622,203	
	P 7,348,503	P 7,324,843

Financial assets at fair value through profit or loss represent various treasury bills and other securities issued by the government and other private corporations earning annual interest of 8.4% to 19% and 8.5% to 19% in 2005 and 2004 , respectively, (peso denominated); and 2.38% to 10.63% and 3.83% to 10.63% in 2005 and 2004, respectively, (foreign currency denominated).

All amounts presented have been determined directly by reference to published price quoted in an active market.

Fair value of government bonds have been determined directly by reference to published closing prices available from electronic financial data service providers which were based on price quoted or actually dealt in an active market.

Fair values of derivative financial assets are determined through valuation techniques using net present value computation. Derivatives instruments used by the Bank include foreign currency short term forwards and cross-currency swaps. Foreign currency forwards represent commitments to purchase/sell on a future date at a specific exchange rate. Foreign currency short term swaps are simultaneous foreign currency spot and forward deals with tenor of one year. The aggregate contractual or notional amount of derivatives financial instruments and the aggregative fair values of derivative financial assets and liabilities as of December 31, 2005 are set out below:

	Notional	Fair Values	
	Amount	Assets	Liabilities
Currency swaps	(P 6,357,698)	P 512,561	P
Currency forwards/futures	1,658,698	51,283	7,565
Credit default swaps	-	82,316	-
	P 4,699,000	P 646,160	P 7,565

The Group recognized the increase in value of financial assets designated as at fair value through profit or loss of P372,673 in 2005 and P80,940 in 2004, which was included under the line item Commission and Other Income in the consolidated statement of income.

8. HELD-TO-MATURITY INVESTMENTS

The balance of this account is composed of the following:

	2005	2004
Government bonds	P 22,929,515	P 19,986,998
Corporate bonds	86,186	88,822
Debt securities	1,307,462	2,249,094
	P 24,323,163	P 22,324,914

The maturity profile of the Held-to-Maturity Investments follows:

	2005	2004
Due within one year	P 8,351,186	P 6,003,710
Due beyond one year	15,971,977	16,321,204
	P 24,323,163	P 22,324,914

Also, certain government securities are deposited with BSP as security for the Group's faithful compliance with its fiduciary obligations in connection with the Bank's trust operations (see Note 26).

The fair value is ascertained by determining the net present value of estimated future cash flows. Interest rates on these investments range from 4.375% to 16% per annum in 2005 and 3.83% to 10.63% per annum in 2004.

Changes in the Held-to-Maturity Investments account are summarized below:

	2005	2004
Balance at December 31, 2004	P 22,324,914	P
Adoption of PAS 32/39	(10,844,973)	
Balance at January 1	11,479,941	17,769,558
Additions	31,185,200	13,932,568
Maturities	(18,363,970)	(9,512,844)
Amortization/accretion of discount or premium	21,992	135,632
Balance at end of year	P 24,323,163	P 22,324,914

9. AVAILABLE-FOR-SALE SECURITIES

This account is composed of the following:

	2005	2004
Debt securities	P 2,943,526	P 383,124
Government bonds	7,544,078	2,046,045
Equity securities	924,831	949,623
	11,412,435	3,378,792
Allowance for impairment	(559,582)	(291,202)
	P 10,852,853	P 3,087,590

Available-for sale securities include government bonds and other debt securities which earn interest of 4.575% to 13% per annum in 2005 and 5% to 13% per annum in 2004.

Changes in available-for-sale financial assets are as follows:

	2005	2004
Balance at December 31, 2004	P 3,087,590	P
Effects of adoption of PAS 32 and PAS 39	7,088,162	
Balance at January 1	10,175,752	2,609,252
Additions	7,193,784	1,871,517
Impairment losses	(268,380)	(43,130)
Fair value gains (losses)	41,392	(6,631)
Sale/disposal	(6,289,695)	(1,343,418)
	P 10,852,853	P 3,087,590

10. LOANS AND RECEIVABLES

This account consists of the following:

	2005	2004
Loans:		
Loans and discounts	P 70,964,691	P 85,496,368
Customers' liabilities on acceptances, import bills and trust receipts	5,771,574	6,956,681
Bills purchased	2,455,642	2,706,055
Securities purchased under reverse repurchase agreements	564,000	72,000
	79,755,907	95,231,104
Unearned discount	(461,729)	(447,431)
Prompt payment discount	(1,070,467)	(1,114,381)
Allowance for impairment	(8,888,560)	(9,909,406)
	69,335,151	83,759,886
Other receivables:		
Interbank loans receivables	24,550,518	16,847,814
Credit card receivables	9,682,014	9,020,993
Accrued interest receivables	1,837,126	2,294,020
Accounts receivables	898,942	1,127,416
Sales contract receivables	421,237	293,122
Miscellaneous	739,052	834,789
	38,128,889	30,418,154
Allowance for impairment	(3,324,167)	(2,339,678)
Credit card receivables sold	(3,973,852)	(4,084,364)
	30,830,870	23,994,112
	P 100,166,021	P 107,753,998

Included in these accounts are nonperforming loans amounting to about P8,481,712, net of allowance of P1,009,882 as of the end of 2005 and P10,575,934, net of allowance of P2,186,872 as of the end of 2004.

The fair values of these financial assets are not individually determined as their carrying amounts are reasonable approximation of fair value.

The Group's concentration of credit as to industry follows:

	2005			
Manufacturing (various industries)	P 17,726,458	22%	P 18,083,238	20%
Financial intermediaries	12,279,515	15%	19,294,875	21%
Wholesale and retail trade	10,833,725	14%	9,017,183	10%
Real estate, renting and other related activities	24,140,823	30%	21,577,423	23%
Other community, social and personal activities	7,597,684	10%	12,238,239	13%
Transportation and communication	1,655,044	2%	2,120,237	2%
Agriculture, fishery, and forestry	1,082,132	1%	938,992	1%
Others	4,440,526	6%	11,960,917	10%
	P 79,755,907	100%	P 95,231,104	100%

The BSP considers that loan concentration exists when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio.

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

	2005	2004
Secured		
Real estate mortgage	P 32,970,122	P 30,666,803
Chattel mortgage	8,837,953	10,845,150
Deposit hold-out	8,014,755	5,843,500
Other securities	9,500,596	20,375,154
	59,323,426	67,730,607
Unsecured	20,432,481	27,500,497
	P 79,755,907	P 95,231,104

A reconciliation of the allowance for impairment at the beginning and end of 2005 and 2004 is shown below:

	2005	2004
Balance at beginning of year	P 12,249,084	P 11,553,354
Provisions during the year	225,929	1,289,741
Accounts written-off	(262,286)	(594,011)
	P 12,212,727	P 12,249,084

The maturity profile of the Loans and Discounts account follows:

	2005	2004
Due within one year	P 42,434,576	P 54,950,769
Due beyond one year	37,321,331	40,280,335
	P 79,755,907	P 95,231,104

10.1 Bankard

On August 21, 2003, the BSP issued Memo Circular No. 398 which became effective on December 1, 2003. The BSP Circular prescribes, among others, the standard valuation reserves requirements for delinquent and potentially non-collectible credit card receivables. Based on this BSP Circular, the Company has determined that the required allowance for impairment in the amount of P3,602,000 on the total credit card receivable portfolio as of December 31, 2003 would have a significant impact on the 2003 financial statements of Bankard if the whole amount would be recognized as of December 31, 2003. Bankard's management requested an approval from the BSP to allow the staggered booking of the required allowance for impairment in 2003 over a period of seven years starting in 2004.

The BSP, through its letter dated January 14, 2004, informed Bankard that the Monetary Board, under its Resolution No. 1872 dated December 22, 2003, has granted its request to stagger the booking of the valuation reserves of P3,602,000 over seven years. Also, Resolution No. 1872 requires it to infuse fresh capital equal to the amount of valuation reserves booked in accordance with the terms of the BSP approval. On December 29, 2005, the Parent Company made a fresh capital infusion amounting to P190,474 to comply with this BSP requirement.

The BSP-approved staggered booking of valuation reserves over the seven year period is shown below:

Year	Percentage	Amount
2004	5	P 180,100
2005	5	180,100
2006	18	648,360
2007	18	648,360
2008	18	648,360
2009	18	648,360
2010	18	648,360
	100	P 3,602,000

Based on a separate determination made by Bankard of the required valuation reserves as of December 31, 2003 following the provisions of the BSP Circular, the computed required additional allowance for impairment approximates the BSP-approved amount of P3,602,000. However, in connection with the current review of the allowance for impairment as of December 31, 2005, it was ascertained that this required additional allowance of P3,602,000 determined in 2003 did not pertain wholly to 2003, but a significant portion of such amount

pertained to 2002 and prior years. Based on Bankard's recomputation, of the required additional allowance, P749,355 pertained to 2003 and P2,852,645 pertained to 2002 and prior years. In computing these amounts, the rules under BSP Circular No. 398 were applied.

Of the BSP-approved amount of P3,602,000, Bankard recognized additional impairment loss amounting to P180,100 for each of the years ended December 31, 2005 and 2004, following the staggered amortization of the required allowance for impairment determined in 2003 as approved by the BSP. Philippine GAAP, however, require the full recognition of required allowance for impairment against current operations in the period such losses were determined. Had Bankard recognized the required allowance for impairment in the period the losses were determined in accordance with Philippine GAAP, both the balances of the Loans and Receivables account and Surplus account would have decreased by P3,241,800 and P3,421,900 as of December 31, 2005 and 2004, respectively. The consolidated net income would have increased by P180,100 for each of the years ended December 31, 2005 and 2004 since the annual amortization of the required allowance for impairment for those periods would not have been necessary.

The balances of the credit card receivables of Bankard as of December 31, 2005 and 2004 are net of the accounts sold to the Parent Company and other third parties, with RCBC Capital acting as its financial broker to the other third parties, which Bankard has derecognized in its books.

In 2005, Bankard has transitioned to PFRSs and has adopted the relevant new and revised accounting standards, which include PAS 39 and PAS 32. PAS 39 prescribes, among others, the criteria for the derecognition of financial assets. Under those derecognition criteria, the credit card receivables sold by the Company to the Parent Company and other third parties would not have qualified for derecognition. Had the credit card receivables sold not been derecognized, as of December 31, 2005 and 2004, the Groups Loans and Receivables, and Trade and Other Payables accounts would have been increased by P3,973,852 and P4,084,364, respectively, (net of outstanding credit card receivables sold to the Parent Company amounting to P472,466 and P483,950 as of December 31, 2005 and 2004, respectively). The effects of the derecognition on the Group's reported net income for the years ended December 31, 2005 and December 31, 2004 could not be quantified.

10.2 Special Purpose Vehicle (SPV) Transactions

In accordance with the provisions of Republic Act No. 9182 (the SPV Act) and BSP Resolution No. 135, the Parent Company entered into "sale and purchase" agreements with SPVs, namely, Philippine Investments One Inc. (PIOI) on August 25, 2004 and April 12, 2005, Global Ispat Holdings and Global Steelworks International (collectively referred herein as the Global SPVs) on October 15, 2004; and Asian Pacific Recoveries (SPV-AMC) Corporation (Asian Pacific Recoveries) on February 21, 2005. The agreements cover the transfer of specific NPLs amounting to P3,770,948 and P1,433,228 in 2004 and 2005, respectively to PIOI ; P685,561 to Global SPVs in 2004; and P2,070,064 to Asian Pacific Recoveries in 2005. The agreement with the Global SPVs was made in conjunction with other participating banks.

In addition, RSB also entered into a separate "sale and purchase" agreement with PIOI on February 3, 2005 for the transfer of specific NPLs amounting to P85,745.

In relation to such transactions, the BSP has informed the Parent Company and RSB that the allowance for impairment amounting to P2,225,558 and P163,814 on the NPLs transferred to

PIOI and the Global SPVs, respectively, in 2004; and P1,297,077 to PIOI and P245,477 to Asian Pacific Recoveries in 2005, shall be "freed" and used only for general loan loss provision and/or for specific provision of loan accounts that may be classified in the future.

The Certificates of Eligibility, obtained for purposes of availing of the tax exemptions and privileges on the NPLs transferred to PIOI, the Global SPVs and Asian Pacific Recoveries under the SPV Act, were completely issued by the BSP to the Parent Company on November 5, 2004 and June 26, 2005, October 13, 2004, and June 26, 2005, respectively, and to RSB on June 26, 2005.

The significant terms and conditions of the "sale and purchase" agreements with PIOI, among others, follow:

- The SPV shall issue 10-year subordinated/SPV notes in exchange for the NPLs transferred. The issuance of the subordinated/SPV notes constitutes full settlement for the NPLs transferred.

- The subordinated/SPV notes are subordinated in priority of payment to the senior notes and any other working capital notes of the SPV.

- The amount and schedule of payment of the subordinated/SPV notes shall be contingent and dependent on the amount and timing of collections to be made by the SPV on the NPLs transferred, subject to the rights and privileges of the SPV's other creditors.

In addition, the SPV note issued by PIOI to the Parent Company relative to the April 12, 2005 "sale and purchase" agreement shall have a maturity of 10 years. Interest shall accrue on the amount of the aggregate allocated loan asset amount and shall be payable for each quarter in arrears in reckoning date at an interest rate equal to the 91-day rate for Philippine treasury bills per annum.

The significant terms and conditions of the Parent Company's "sale and purchase" agreement with the Global SPVs, among others, follow:

- The SPVs shall pay cash up front and issue 8-year zero-coupon subordinated notes to the Parent Company and other participating banks in exchange for the NPLs transferred. The issuance of the subordinated notes and the upfront cash payment to the Parent Company constitute full settlement for the NPLs transferred.

- The subordinated notes shall be issued to the Parent Company and other participating banks in two tranches, namely, Tranche A and Tranche B. The subordinated notes shall be secured by a first-ranking mortgage and security interest over the plant assets of the Global SPVs and standby letters of credit to be delivered by the Global SPVs from time to time in accordance with the agreement subject to the rights and privileges of the SPVs' other creditors.

- The amount and schedule of payment of the subordinated notes to the Parent Company and other participating banks shall be based on the repayment schedule set forth in the "sale and purchase" agreement.

The significant terms and conditions of the Parent Company's "sale and purchase" agreement with Asian Pacific Recoveries, among others, follow:

- The SPV shall pay P20 million as bid deposit.

- On closing date, the SPV shall pay the Parent Company the purchase price balance by wire transfer in full settlement of the NPLs transferred.

- SPV acknowledges and agrees that if there is occurrence of a default by any obligor under any loan document, SPV will remain bound by all terms and conditions to purchase all the loans in the transaction without any adjustment or alteration in the purchase price unless the Bank removes loans from the transaction prior to closing.

The significant terms and conditions of RSB's "sale and purchase" agreement with PIOI, among others, follow:

- PIOI shall pay RSB the sum of ten thousand pesos which shall form part of the total purchase price and the balance shall become due and payable under the SPV Note with a face value of P85,735. The issuance of the SPV note to RSB constitutes full settlement for the NPLs transferred.

- The amount and schedule of payment of SPV note shall be contingent and dependent on the amount and timing of collections to be made by the SPV on the NPLs transferred.

- At any time after the lapse of 10 years after the issue date, the Board of Directors of PIOI, may in its reasonable judgment, determine that there is no further material income to be gained in pursuing collection of the NPLs, and thereafter pass a resolution to desist from any further collection efforts thereon, and to write off the remaining uncollected balance due in such NPLs. Upon passage of such board resolution, the SPV Note shall be cancelled, and of no further effect. PIOI shall immediately notify the RSB of such resolution, subject to the terms and conditions of the Agreement.

The face value of the subordinated/SPV notes issued by PIOI in 2005 amounted to P1,504,631 and P3,770,948 in 2004; the SPV note issued by Global SPVs amounted to P548,930 in 2004. In addition to the subordinated notes, the Global SPV also paid cash to the Parent Company amounting to P27,439 in 2004 and PIOI paid cash amounting to P14,332 for the 2005 transfer. In recording the transfers of the NPLs, the Parent Company and RSB derecognized the NPLs from their financial records and recorded the subordinated/SPV notes as part of Available-for-Sale Securities (unquoted debt securities) at their fair values as of the dates of issuance.

However, one of the significant conditions stated in the terms of the subordinated/SPV notes from PIOI is that the amount and timing of payment of the subordinated/SPV notes are dependent on the collections to be made by PIOI on the NPLs transferred. Under Philippine GAAP, this is indicative of an incomplete transfer of the risks and rewards of ownership of the NPLs from the Parent Company and RSB to PIOI. Philippine GAAP require that (a) the entity retaining majority of the residual risks and rewards of ownership of certain assets of SPV should reflect in its financial statements its proportionate interest in such SPV and (b) an entity should

substantially transfer all the risks and rewards of ownership of an asset before such asset could be derecognized.

As permitted under BSP Resolution No. 135, the Parent Company and RSB has deferred over 10 years the recognition of the required additional allowance for impairment as determined from the NPLs transferred to PIOI, and the losses determined from the NPLs transferred to the Global SPVs and Asian Pacific Recoveries, totaling to P1,604,587 in 2005 and P1,955,768 in 2004. The schedule of amortization of the required additional allowance for impairment and losses as prescribed under BSP Resolution No. 135 shall be 5% for the first three years, 10% for the next four years, and 15% for the remaining three years. The Parent Company recorded the amortization determined in accordance with BSP Resolution No. 135 amounting to P257,785 in 2005 (charged against the "freed" allowance for impairment as discussed above) and P15,712 in 2004 (charged against 2004 operations). In addition, the Parent Company recorded in 2005 an additional amortization of P37,556, on top of the amount of amortization prescribed by BSP Resolution No. 135. RSB, on the other hand, recorded in 2005 amortization amounting to P1,786 against current operation.

While the accounting treatment discussed above is allowed under BSP Resolution No. 135, Philippine GAAP, however, require the full recognition of the required additional allowance for impairment and losses against current operations in the period such impairment and losses were determined instead of capitalizing it as deferred charges and amortizing it over future periods.

Had the Parent Company and RSB reflected in their financial statements their interest in PIOI and not derecognized the NPLs transferred in accordance with Philippine GAAP, the gross balance of the Group's Loans and Receivables account as of December 31, 2005 and 2004 would have increased by P5,547,706 in 2005 and P3,770,948, respectively. The Group's Deferred Charges (part of Other Resources account) would have decreased by P6,714,432 in 2005 and P3,864,428 in 2004 arising from the transfers of the NPLs. Also, had the Parent Company and RSB fully recognized the required additional allowance for impairment and losses amounting to P1,565,245 in 2005 and P1,940,056 in 2004 as determined at the time the NPLs were transferred in accordance with Philippine GAAP, the Group's net income would have decreased by the same amount, respectively.

11. INVESTMENTS IN ASSOCIATES

The components of the carrying values of investments in associates accounted for under the equity method are as follows:

	% Interest Held	2005	2004
Acquisition costs:			
RCBC Land, Inc. (RLI)	49.00	P 921,552	P 921,552
Subic Power Corp. (SPC)	26.50	240,190	240,190
Nippon Life Insurance Co. of the Philippines (NLICP)	20.00	200,000	200,000
Roxas Holdings, Inc. (RHI)	3.68	101,665	101,665
Honda Cars Philippines, Inc. (HCPI)	12.88	91,050	91,050
Luisita Industrial Park Corporation	35.00	52,500	52,500
YGC Corporate Services	40.00	5,070	5,070
		1,612,027	1,612,027
Equity in net earnings (losses):			
Balance at beginning of year		(150,605)	(140,994)
Equity in net earnings		259,531	179,935
Dividends		(127,421)	(180,878)
Disposals			(8,668)
Balance at end of year		(18,495)	(150,605)
		1,593,532	1,461,422
Share in additional paid-in capital of an associate		532,583	532,583
		2,126,115	1,994,005
Allowance for impairment		(52,500)	(52,500)
		P 2,073,615	P 1,941,505

The equity in net earnings of associates is included in Commissions and Other Income in the consolidated statement of income.

The following table presents financial information (for which the 2005 information for RLI and SPC were based on unaudited financial statements) on the significant associates as of and for the years ended December 31, 2005 and 2004:

	Assets	Liabilities	Revenues	Income (Loss)
2005:				
RLI	P 2,072,182	P 37,923	P 129,596	(P 95,221)
SPC	3,017,532	1,576,442	1,734,260	694,443
NLICP	2,539,627	1,356,886	536,284	1,932
2004:				
RLI	P 2,358,770	P 216,810	P 503,980	(P 145,663)
SPC	3,408,497	2,019,487	1,826,200	634,837
NLICP	2,066,928	858,079	170,645	(8,662)

The Parent Company under a shareholders agreement, agreed with another stockholder of HCPI, to commit and undertake to vote as a unit the shares of stock thereof, which they proportionately own and hold, and to regulate the conduct of the voting and the relationship between them with respect to their exercise of their voting rights. As a result of this agreement, the Parent Company would be able to exercise significant influence over the operating and financial policies of HCPI. Thus, HCPI has been accounted for using the equity method.

RCBC Capital entered into an agreement with another stockholder of RHI to commit and undertake to vote as a unit the shares of stock of RHI, representing 54.68% of the outstanding capital stock thereof, which they respectively own and hold, to regulate the conduct of the voting and the relationship between them with respect to the exercise of the voting rights. Thus, notwithstanding the RCBC Capital's ownership of only 3.68% in RHI, its investment is carried under the equity method of accounting.

On May 13, 2004, the Parent Company sold its 8.2% investment in China Banking Corporation, resulting in a gain of P509.69 million included in Commissions and Other Income in the 2004 consolidated statement of income.

On September 30, 2004, the Parent Company disposed its stockholdings in Securities Clearing Corporation of the Philippines, resulting in a loss of P0.45 million deducted in Commissions and Other Income in the 2004 consolidated statement of income.

12. BANK PREMISES, FURNITURE, FIXTURES AND EQUIPMENT

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

	Land	Buildings	Furniture Fixtures and Equipment	Leasehold Rights and Improvements	Total
Balance at January 1, 2005, net of accumulated depreciation and amortization	P 1,107,717	P 1,089,788	P 571,205	P 792,877	P 3,561,587
Additions	2,504	9,831	431,168	51,066	494,569
Disposals	(22,103)	(8,564)	(205,342)	(6,388)	(242,396)
Depreciation and amortization charge for the year	(-)	(55,030)	(224,157)	(70,039)	(349,227)
Balance at December 31, 2005, net of accumulated depreciation and amortization	P 1,088,118	P 1,036,025	P 572,874	P 767,516	P 3,464,533
December 31, 2005					
Cost or valuation	P 1,088,118	P 1,502,533	P 2,556,308	P 786,649	P 5,933,608
Accumulated depreciation and amortization	(-)	(466,508)	(1,983,434)	(19,133)	(2,469,075)
Net carrying amount	P 1,088,118	P 1,036,025	P 572,874	P 767,516	P 3,464,533
Balance at January 1, 2004, net of accumulated depreciation and amortization	P 956,230	P 1,138,165	P 856,258	P 845,557	P 3,796,210
Additions	186,767	32,546	178,958	24,602	422,873
Disposals	(35,280)	(28,546)	(217,920)	(10,704)	(292,450)
Depreciation and amortization charge for the year	(.)	(52,377)	(246,091)	(66,578)	(365,046)
Balance at December 31, 2004, net of accumulated depreciation and amortization	P 1,107,717	P 1,089,788	P 571,205	P 792,877	P 3,561,587
December 31, 2004					
Cost or valuation	P 1,107,717	P 1,502,855	P 3,118,964	P 1,066,985	P 6,796,521
Accumulated depreciation and amortization	(-)	(413,067)	(2,547,759)	(274,108)	(3,234,934)
Net carrying amount	P 1,107,717	P 1,089,788	P 571,205	P 792,877	P 3,561,587

Under BSP rules, investments in bank premises, furniture, fixtures and equipment should not exceed 50% of the respective unimpaired capital of the Parent Company and RSB. As of December 31, 2005 and 2004, the Parent Company and RSB has satisfactorily complied with this BSP requirement.

13. INVESTMENT PROPERTY

A reconciliation of the carrying amounts at the beginning and end of 2005 and 2004, and the gross carrying amounts and the accumulated depreciation and amortization of investment property are as follows:

	2005	2004
Balance at January 1, net of accumulated depreciation	P 11,820,750	P 8,247,417
Additions	666,381	5,048,694
Disposal	(783,650)	(768,910)
Depreciation and amortization charges for the year	(170,416)	(706,451)
Balance at December 31, net of accumulated depreciation	**P 11,533,065**	P 11,820,750
December 31		
Cost	P 13,928,620	P 13,577,834
Accumulated depreciation	(2,395,555)	(1,757,084)
Net carrying amount	**P 11,533,065**	P 11,820,750

In November 2003, RSB entered into a memorandum of Agreement (MOA) with certain borrowers for the settlement of their indebtedness with RSB amounting to P4.1 billion through dacion of certain real properties. Under the MOA, the transfer of the properties may be effected through the creation of special purpose companies (SPCs). On June 17, 2004, RSB entered into another MOA setting the guidelines in creating the SPC as well as the ultimate assignment to RSB of the shares of stock of the SPCs. On various dates in 2005 and 2004, certain SPCs were incorporated and created, covering certain real properties with carrying values of P2,472,830 and P1,938,234 in 2005 and 2004, respectively, being assigned to the SPCs. Moreover, the shares of stock of certain SPCs were transferred to RSB in 2005 and 2004. The remaining properties covered by the MOA are yet to be transferred to specific SPCs, and the ultimate assignment of the corresponding shares of stock of these specific SPCs to RSB has also not been effected.

The real properties, although assigned to the incorporated SPCs or will be incorporated SPCs, are recognized by RSB as part of Investment Property on the basis that the SPCs are merely transitory holders of the assets while RSB is looking for ways to eventually dispose of such assets. This treatment is consistent with the letter of the BSP to RSB which emphasized that the dacioned properties be recorded as ROPA-Real Properties, and which were subsequently reclassified as Investment Property when RSB transitioned to PFRSs. In addition, the management of RSB believes that there is no transfer of risks and rewards over the properties as the management and control of these assets still rest with RSB.

14. OTHER RESOURCES

Other resources consist of the following:

	2005	2004
Deferred charges – net (see Note 10)	P 7,699,783	P 5,242,171
Foreign currency notes and coins on hand	932,576	718,158
Prepaid expenses	528,924	510,324
Miscellaneous checks and other cash items	319,658	283,344
Goodwill - net	268,655	268,655
Inter-office float items	195,809	132,843
Returned checks and other cash items	137,587	460,684
Unused stationery and supplies	89,942	52,560
Miscellaneous	948,390	700,504
	11,121,324	8,369,243
Allowance for impairment	(150,062)	(139,103)
	P 10,971,262	P 8,230,140

Deferred charges mainly represent the unamortized balance of the required additional allowance for impairment and losses as determined from the asset exchanges of the Parent Company's and RSB's NPLs to certain SPVs; these are amortized over a period of 10 years in accordance with BSP Resolution No. 135 (see Note 10.2). In addition, this account also includes the cost of software, net of accumulated amortization. The following shows the movement in the Group's Deferred Charges account.

	2005	2004
Balance at beginning of year	P 5,242,171	P 612,716
Additions during the year	3,263,400	4,910,966
Amortization during the year	(805,788)	(281,511)
	P 7,699,783	P 5,242,171

15. DEPOSIT LIABILITIES

The following is the breakdown of the deposit liabilities:

	2005	2004
Savings	P 52,675,292	P 51,470,988
Demand	7,712,349	8,356,277
Time	72,892,594	77,431,286
	P 133,280,235	P 137,258,551

The maturity profile of the deposit liabilities follows:

	2005	2004
Within one year	P 128,933,628	P 134,921,787
Beyond one year, within five years	4,346,607	2,336,764
	P 133,280,235	P 137,258,551

Deposit liabilities are in the form of savings, demand and time deposit accounts with annual interest rates of 1% to 6.75% in 2005 and 1% to 8.5% in 2004.

Under existing BSP regulations, non-FCDU deposit liabilities of the Group are subject to liquidity reserves equivalent to 11% and 10% as of December 31, 2005 and 2004, respectively, and statutory reserves of 10% and 9% as of December 31, 2005 and 2004. As of December 31, 2005 and 2004, the Group is in compliance with such regulations.

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

	2005	2004
Cash and other items	P 4,839,877	P 4,424,249
Due from BSP	2,796,332	2,854,752
Held-to-maturity financial assets	8,225,316	7,386,712
	P 15,861,525	P 14,665,713

16. BILLS PAYABLE

This account consists of borrowings from:

	2005	2004
Foreign banks	P 13,589,956	P 14,837,973
Local banks	669,708	311,544
BSP	217,322	81,764
Others	378,344	1,698,592
	P 14,855,330	P 16,929,873

The maturity profile of bills payable follows:

	2005	2004
Within one year	P 10,953,051	P 13,212,402
Beyond one year, within five years	3,902,279	3,717,471
	P 14,855,330	P 16,929,873

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Peso borrowings are subject to annual fixed interest rates ranging from 3.16% to 11% in 2005 and 6.75% to 14.5% in 2004, while foreign currency-denominated borrowings are subject to annual fixed interest rates ranging from 2.50% to 6.91% in 2005 and 2.10% to 7.85% in 2004.

Bills payable include rediscounting availments from the BSP amounting to P424,890 and P81,760 as of December 31, 2005 and 2004, respectively. Such investments are collateralized by the assignment of certain loans amounting to P592,370 and P290,170 as of December 31, 2005 and 2004, respectively.

17. BONDS PAYABLE

On February 23, 2005, the Parent Company issued to local and foreign entities (excluding those in the United States of America) unsecured bonds (Global Notes) with a principal amount of US$150,000 at an issue price at 99.67% and bearing an interest of 6.875% per annum. The Global Notes, unless previously redeemed or cancelled, will be redeemed on February 24, 2010. The Parent Company, at the option of the holder of the Global Notes, will redeem the Global Notes on February 23, 2008 at its principal amount. Interest will be payable semi-annually in arrears on February 23 and August 23 of each year commencing on August 23, 2005, except that the last payment of the interest will be on February 24, 2010. As of December 31, 2005, the peso equivalent of the outstanding bond issue amounted to P7,210,396.

18. ACCRUED INTEREST, TAXES AND OTHER EXPENSES

The composition of this account follows:

	2005	2004
Accrued interest payable	P 948,549	P 784,153
Taxes payable	127,325	87,530
Others	1,408,873	1,298,263
	P 2,484,747	P 2,169,946

19. OTHER LIABILITIES

Other liabilities consist of the following:

	2005	2004
Accounts payable	P 3,461,566	P 2,912,245
Bills purchased - contra	1,687,770	1,135,752
Manager's checks	878,903	1,041,000
Unearned income	683,847	573,650
Sundry credits	364,123	862,634
Payment orders payable	167,304	175,900
Withholding taxes payable	102,413	124,319
Due to BSP	83,623	79,525
Guaranty deposits	57,836	95,964
Derivatives with negative fair values	7,565	-
Miscellaneous	427,681	603,295
	P 7,922,631	P 7,604,284

20. SUBORDINATED DEBT

On June 20, 2003, the Parent Company's BOD approved the issuance of P 5 billion unsecured subordinated notes (the "Notes") with the following significant terms and conditions:

a. The Notes shall mature on July 11, 2013, provided that they are not previously redeemed.

b. Subject to satisfaction of certain regulatory approval requirements, the Parent Company may, on July 11, 2008, redeem all of the outstanding notes at redemption price equal to 100% of the face value of the Notes together with accrued and unpaid interest thereon.

c. The Notes bear interest at the rate of 12% per annum and shall be payable semi-annually on January 11 and July 11 each year, commencing January 11, 2004.

d. Unless the Notes are previously redeemed, the interest rate from 2008 to 2013 will be reset at the equivalent of the five-year MART1 FXTN as of July 11, 2008 multiplied by 80% plus

5.59% per annum. Such stepped-up interest shall be payable semi-annually commencing 2009.

The Notes were issued on July 11, 2003 and were fully subscribed.

21 MATURITY PROFILE OF FINANCIAL RESOURCES AND FINANCIAL LIABILITIES

The following tables present other financial resources and liabilities accounts (not disclosed elsewhere) by contractual maturity and settlement dates as of December 31, 2005 and 2004.

	2005			2004		
Financial Resources	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Due from BSP	P 3,032,805	P	P 3,032,805	P 2,854,752		P 2,854,752
Due from other banks	3,226,059		3,226,059	5,318,690		5,318,690
Other Resources:						
Deferred charges	-	7,699,783	7,699,783		5,242,171	5,242,171
Foreign currency notes and coins on hand	932,576		932,576	718,158		718,158
Returned checks and other cash items	137,587		137,587	460,684		460,684
Prepaid expenses	528,924		528,924	510,324		510,324
Miscellaneous checks and other cash items	319,658		319,658	283,344		283,344
Inter-office float items	195,809		195,809	132,843		132,843
Unused stationery and supplies	89,942		89,942	52,560		52,560
Miscellaneous	948,390		948,390	700,504		700,504
	P 9,411,750	P 7,699,783	P 17,111,533	P 11,031,859	P 5,242,171	P16,274,030

Financial Liabilities	2005 Due Within One Year	2005 Due Beyond One Year	2005 Total	2004 Due Within One Year	2004 Due Beyond One Year	2004 Total
Deposit liabilities	P 128,933,628	P 4,346,607	P 133,280,235	P 134,921,787	P 2,336,764	P137,258,551
Bills payable	10,953,051	3,902,279	14,855,330	13,212,402	3,717,471	16,929,873
Bonds payable	-	7,210,396	7,210,396			
Outstanding acceptances payable	275,347		275,347	288,304		288,304
Due to other banks	10,697		10,697	484,942		484,942
Accrued taxes, interest and other expenses	2,484,747		2,484,747	2,169,946		2,169,946
Subordinated debt	-	5,472,129	5,472,129		5,000,000	5,000,000
Other Liabilities:						
Accounts payable	3,461,566		3,461,566	2,912,245		2,912,245
Manager's checks	878,903		878,903	1,041,000		1,041,000
Sundry credits	364,123		364,123	862,634		862,634
Payment orders payable	167,304		167,304	175,900		175,900
Withholding taxes payable	102,413		102,413	124,319		124,319
Guaranty deposits	57,836		57,836	95,964		95,964
Due to BSP	83,623		83,623	79,525		79,525
Miscellaneous	427,681		427,681	603,295		603,295
	P 152,442,486	P 16,689,844	P 169,132,330	P 156,972,263	P 11,054,235	P 168,026,498

22. CAPITAL FUNDS

Capital stock as of December 31, 2005 and 2004 consists of:

	Shares		Amount	
	2005	2004	2005	2004
Preferred stock				
Authorized – 200,000,000 shares				
Issued and outstanding	180,000	180,000		
As previously stated			P 1,800	P 1,800
Effects of adoption of PAS 32 and PAS 39 at January 1, 2005			(1,800)	
As restated			P -	P 1,800
Common stock				
Authorized – 700,000,000 shares				
Issued and outstanding	632,964,018	632,964,018	P 6,329,640	P 6,329,640

The authorized capital of the Parent Company is P9 billion, divided into the following classes of shares:

Seven hundred million (700 million) common shares of stock with par value of ten pesos (P10.00) per share; and

b. Two hundred million (200 million) preferred shares of stock with par value of ten pesos (P10.00) per share.

Preferred shares have the following features:

a. Entitled to cumulative dividends at floating rate based on the weighted average rate of 91-day treasury bill rate;

b. Nonconvertible;

c. Redeemable five years from date of issue subject to prior approval of the BSP and the shares to be redeemed are replaced with at least an equivalent amount of newly paid-in shares; and

d. Non-participating and non-voting.

Common shares may be transferred to Philippine and foreign nationals and shall, at all times, not be less than 60% and not more than 40% of the voting stock, be beneficially owned by Philippine nationals and by foreign nationals, respectively.

The determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) required and reported to the BSP, determined on the basis of regulatory accounting policies,

which differ from Philippine GAAP in some aspects. Specifically, under existing banking regulations, the combined capital accounts of the Parent Company should not be less than an amount equal to 10% of its risk assets.

Risk assets is defined as total resources less cash and other cash items, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items as determined by the Monetary Board.

A portion of the Group's surplus corresponding to the undistributed equity in net earnings of its associates totaling P1.28 billion and P1.13 billion as of December 31, 2005 and 2004, respectively, is not currently available for distribution as dividends.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio (CAR) is to be inclusive of a market risk change. As of December 31, 2005 and 2004, CAR were determined to be 13.71% and 15.81%, respectively.

22.1 Dividend Declaration

On August 1, 2005, the Parent Company's BOD approved the declaration of cash dividends amounting to P0.30 per share or total P189.9 million to shareholders of Common Class A shares, subject to BSP approval. As of December 31, 2005, the Parent Company has not received BSP's approval of the cash dividend declaration.

On October 25, 2004, the BOD of the Parent Company approved the declaration and payment of cash dividends to stockholders amounting to P0.30 per share or an aggregate of P189.9 million to stockholders of record as of January 19, 2005. The BSP approved the Parent Company's dividend declaration on December 23, 2004. The Parent Company paid the cash dividends on February 2, 2005.

23. EMPLOYEE BENEFITS

Expenses recognized for employee benefits are analyzed below:

	2005	2004
Salaries and wages	P 1,226,257	P 1,196,061
Retirement - defined benefit plan	107,947	142,617
Social security costs	57,289	55,493
Compensated absences	97,661	67,318
Bonuses	364,648	350,668
Other short-term benefits	298,003	243,354
	P 2,151,805	P 2,055,511

The Parent Company and its subsidiaries maintain a tax-qualified, noncontributory retirement plan that is being administered by a trustee covering all of their respective regular full-time employees.

The Parent Company and its subsidiaries obtained an updated actuarial valuation as of January 1, 2004 to ascertain their transitional liability or asset as of that date in accordance with PAS 19. Their transition to PAS 19 is discussed in Note 2. Actuarial valuations are made every two years to update the retirement benefit costs and the amount of contributions.

The amounts of retirement benefit asset (presented as part of Other Resources - Miscellaneous) recognized in the consolidated financial statements are determined as follows:

	2005	2004
Fair value of plan assets	P 1,132,890	P 992,494
Present value of the obligation	(922,515)	(796,877)
Excess of plan assets	210,375	195,617
Unrecognized actuarial gains	(177,278)	(164,598)
Retirement benefit asset	P 33,097	P 31,019

The amounts of retirement benefit expense recognized in the consolidated statement of income are as follows:

	2005	2004
Current service costs	P 51,019	P 54,660
Interest costs	110,394	96,759
Expected return on plan assets	(85,214)	60,946)
Net transition obligation recognized	24,232	24,232
Retirement expense (income) due to ceiling	(19,107)	38,489
Net actuarial gains (losses) recognized during the year	26,623	(10,577)
Retirement benefit expense	P 107,947	P 142,617

For determination of the pension liability, the following actuarial assumptions were used:

	2005	2004
Discount rates	12%	14%
Expected rate of return on plan assets	8%	8%
Expected rate of salary increases	3%	5%

24. LEASE CONTRACTS

The Parent Company and certain subsidiaries lease some of the premises occupied by their respective branches/business centers. The Group's rental expense (included in Occupancy and Equipment-Related account in the consolidated statement of income) based on the lease contracts amounted to P338.3 million in 2005 and P359.7 million in 2004, of which P297.4

million in 2005 and P293.4 million in 2004 pertains to the Parent Company. The lease periods are from 1 to 25 years. Most of the lease contracts contain renewal options, which give the Parent Company and its subsidiaries the right to extend the lease on terms mutually agreed upon by both parties.

As of December 31, 2005, future minimum rentals payable under non-cancelable operating leases follow:

Within one year	P	342,786
After one year but not more than five years		1,119,513
More than five years		202,574
	P	1,664,873

25. INCOME AND OTHER TAXES

Under Philippine tax laws, the Parent Company and its domestic subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the consolidated statement of income), as well as income taxes. Percentage and other taxes paid consist principally of the gross receipts tax (GRT) and documentary stamp taxes. In 2003, the Parent Company and its financial intermediary subsidiaries were subjected to the value-added tax (VAT) instead of GRT. However, effective January 1, 2004 as prescribed under Republic Act (RA) No. 9238, the Parent Company and certain subsidiaries were again subjected to GRT instead of VAT. RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004.

The liability of the Parent Company and certain subsidiaries for GRT is based on the related regulations issued by the authorities. Income taxes include the corporate income tax discussed below, and final tax paid at the rate of 20%, which represents the final withholding tax on gross interest income from government securities and other deposit substitutes.

Under current tax regulations, the regular corporate income tax rate (RCIT) applicable is 32% up to October 31, 2005, 35% up to December 31, 2008, and will be reduced to 30% thereafter. Interest allowed as a deductible expense is reduced by an amount equivalent to certain percentage of interest income subjected to final tax. Minimum corporate income tax (MCIT) of 2% on modified gross income is computed and compared with the regular income tax. Any excess of the MCIT over the regular corporate income tax is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, Group net operating loss carry over (NOLCO) is allowed as a deduction from taxable income in the next three years.

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

Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

The Parent Company's foreign subsidiaries are subject to income and other taxes based on the enacted tax laws of the countries where they operate.

Tax expense consists of:

	2005	2004
Current:		
RCIT	P 87,881	P 74,792
MCIT	64,391	35,389
Final withholding tax	390,343	203,636
Deferred tax income	(105,032)	(293,222)
Tax expense recorded in consolidated statement of income	P 437,583	P 20,595

The reconciliation of statutory income tax to tax expense follows:

	2005	2004
Statutory income tax at 35% and 32%	P 641,786	P 354,834
Adjustments for income subjected to lower income tax rates	381,504	340,834
Tax effects of:		
Increase in deductible temporary differences due to change in RCIT rate	(130,807)	-
Unrecognized deductible temporary differences	480,655	1,306,946
Income subjected to final tax	(408,084)	(548,239)
Non-taxable income	(641,524)	(847,693)
Non-deductible interest expense	24,227	7,871
Impairment loss on investments in associates	24,799	21,740
Non-deductible expenses	94,357	98,650
Others	(29,330)	(714,348)
Tax expense reported in consolidated statement of income	P 437,583	P 20,595

The components of deferred tax assets (liabilities) as of December 31 follow:

	2005	2004
Allowance for impairment	P 2,351,849	P 2,147,095
Unamortized past services costs	5,696	14,150
Unrealized foreign exchange differences	(1,061)	616
NOLCO		96,712
MCIT		6,941
	P 2,356,484	P 2,265,514

The balance of deferred tax assets as of December 31, 2005 include that of Bankard amounting to P518,004 as of December 31, 2005. Under Philippine GAAP, deferred tax assets shall be recognized only to the extent that it is probable that the taxable income will be available against which the benefits of the deferred tax assets can be utilized. Had this been complied with by Bankard, the deferred tax assets on allowance for impairment of P214,060 in 2005 would not have been recognized in 2005, and the balance of the deferred tax assets on allowance for impairment as of December 31, 2004 of P303,944 would have been written off. Bankard's management, however, believes that Bankard will be able to utilize the benefits of the deferred tax assets in the future.

The Group did not set up deferred tax liabilities on accumulated translation adjustment, particularly those relating to its foreign subsidiaries, since their reversal can be controlled, and it is probable that the temporary difference will not reverse in the foreseeable future.

In light of the provision of PAS 12, the Parent Company and certain subsidiaries have taken a conservative position by not recognizing deferred tax assets (liabilities) on certain temporary differences. Accordingly, the deferred tax assets on the following temporary differences were not set up:

	2005	2004
NOLCO	P 9,987,765	P 9,094,633
Allowance for impairment	4,235,099	6,456,276
MCIT	133,297	89,093
Unamortized past service cost	(26,165)	30,696
	P 14,329,996	P 15,670,698

Details of the NOLCO of the Group follow;

Inception Year	Amount	Used/ Expired	Balance	Expiry Year
2002	P 3,059,270	P 3,059,270	P -	2005
2003	2,007,755	-	2,007,755	2006
2004	5,306,613		5,306,613	2007
2005	3,629,720		3,629,720	2008
	P 14,003,358	P 3,059,270	P 10,944,088	

Details of the MCIT of the Group follow:

Inception Year	Amount	Used/ Expired	Balance	Expiry Year
2002	P 23,098	P 23,098	P	2005
2003	33,666		33,666	2006
2004	35,270		35,270	2007
2005	67,302		67,302	2008
	P 159,336	P 23,098	P 136,238	

26. TRUST OPERATIONS

Securities and properties (other than deposits) held by the Parent Company and RSB in fiduciary or agency capacities for their respective customers are not included in the accompanying financial statements, since these are not resources of the Parent Company and RSB. The Group's trust total resources amounted to P47,405,843 and P 58,437,982 as of December 31, 2005 and 2004, respectively. The Parent Company's total trust resources amounted to P46,512,797 and P57,242,059 as of December 31, 2005 and 2004, respectively.

In connection with the trust operations of the Parent Company and RSB, government securities with a total face value of P548,000 (Group) and P535,000 (Parent Company), P585,000 (Group) and P575,000 (Parent Company) as of December 31, 2005 and 2004, respectively, are deposited with the BSP in compliance with existing trust regulations.

In compliance with existing BSP regulations, 10% of the Parent Company's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business equals 20% of the Parent Company's regulatory capital. The surplus reserve is shown as Reserve for Trust Business in the statements of changes in capital funds.

27. RELATED PARTY TRANSACTIONS

In the ordinary course of business, the Group has loan transactions with each other, their other affiliates, and with certain directors, officers, stockholders, and related interests (DOSRIs). Under existing policies of the Group, these loans are made substantially on the same terms as loans to other individuals and business of comparable risks.

Under current BSP regulations, the amount of individual loans to a DOSRI, 70% of which must be secured, should not exceed the amount of his deposit and book value of his investment in the Parent Company and/or any of its lending and nonbanking financial subsidiaries. In the aggregate, loans to DOSRIs, generally, should not exceed the total capital funds or 15% of the total loan portfolio of the Parent Company and/or any of its lending and nonbanking financial subsidiaries, whichever is lower.

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 and guarantees granted under said circular as of December 31, 2005 and 2004:

		2005		2004
Total outstanding DOSRI loans	**P**	**13,473,000**	P	13,624,000
Percent of DOSRI accounts granted prior to the effectivity of BSP Circular No. 423 to the total loans		**13.61%**		11.03%
Percent of DOSRI accounts to total loans		**16.89%**		13.60%
Percent of unsecured DOSRI accounts to total DOSRI accounts		**4.42%**		2.92%
Percent of past due non-DOSRI accounts to total loans				
Percent of nonaccruing non-DOSRI accounts to total loans				

The following table shows information as of December 31, 2005 relating to the loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines not considered DOSRI accounts prior to the issuance of said circular but are considered DOSRI accounts under Circular No. 423 which allowed a transition period of two years from the effectivity of said circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

Total outstanding non-DOSRI accounts prior to BSP Circular No. 423	P	2,528,000
Percent of unsecured non-DOSRI accounts prior to BSP Circular No. 423 to total loans		3.17%
Percent of past due non-DOSRI accounts prior to BSP Circular No. 423 to total loans		nil
Percent of nonaccruing non-DOSRI accounts prior to BSP Circular No. 423 to total loans		nil

27.1 Key Management Personnel Compensation

The key management personnel compensation follow

		2005		2004
Short-term benefits	P	**73,710**	P	102,391
Post-employment benefits		**65,149**		34,925
Termination benefits		**571**		235
Other long-term benefits		**14,410**		12,194
	P	**153,840**	P	149,745

28. COMMITMENTS AND CONTINGENCIES

In the normal course of operations of the Group, there are various outstanding commitments and contingent liabilities such as guarantees, commitments to extend credit, tax assessments, etc., which are not reflected in the accompanying consolidated financial statements. Management does not anticipate losses from these transactions that will adversely affect the Group's operations.

Several suits and claims remain unsettled. In the opinion of management, the suits and claims, if decided adversely, will not involve sums with a material effect on the Parent Company and its subsidiaries' financial position or operating results.

The following is a summary of contingencies and commitments arising from off-statement of condition items at their equivalent peso contractual amounts as of December 31, 2005 and 2004:

	2005	2004
Trust department accounts	P 47,405,843	P 58,437,982
Forward exchange sold	15,645,919	11,520,082
Forward exchange bought	10,937,206	6,183,637
Unused commercial letters of credit	6,877,595	4,973,021
Inward bills for collection	5,505,705	10,685,442
Outstanding guarantees issued	2,562,899	2,717,215
Spot exchange sold	880,737	1,939,327
Spot exchange bought	368,289	1,025,237
Late deposits/payments received	281,481	809,911
Outward bills for collection	189,701	110,864
Traveler's check unsold	32,395	34,125
Items held for safekeeping/collateral	71	536

Forward exchange sold includes the Parent Company's outstanding long-term cross currency swap contracts wherein it is committed to sell US dollars and buy Philippine pesos in the future at a precontracted rate from two counterparty banks, with an aggregate notional amount of P6,350,000 or US$118.55 million as of December 31, 2005 and 2004. The Parent Company then invested the proceeds from the cross currency swap contracts in interbank placements with various foreign banks. The US dollar placements have a "credit link" to underlying securities that would be received by the Parent Company in lieu of the US dollar funds it originally invested in case of a credit default event as defined in the agreement between the Parent Company and its counterparties.

In 2004, the BIR assessed the Parent Company, together with a number of other banks in the Philippines, for documentary stamp tax (DST) in connection with its special savings accounts. The BIR has claimed that such account is equivalent to a "certificate of deposit" for tax purposes and is subject to DST under local tax regulations. The BIR has assessed the Parent Company the basic tax, surcharges, penalties and interest thereon of 20% per annum with respect to DST payable over the past five years. The Parent Company has filed a protest to this claim, and believes that it has a valid defense.

The BIR has also sent the Parent Company, as well as other banks, a series of demand letters for the payment of deficiency GRT and DST on certain accounts of the Parent Company's FCDU. The BIR's assessment of the deficiency GRT and DST of the FCDU was based on the deletion of the phrase "shall be exempt from all taxes" in Section 24, now Sections 27 and 28 of the Philippine Tax Code. The Parent Company, however, argued that the removal of the exemptions from GRT and DST was not contemplated under the Comprehensive Tax Reform Program and that the deletion of the phrase "shall be exempt from all taxes" is the result of the inaccurate drafting of the amendment of the tax provisions of FCDUs rather than of legislative intent. The Parent Company has filed a protest to the BIR's claim and believes that it has a valid defense.

RCBC Capital has filed an arbitration claim with the International Chamber of Commerce against a local bank relating to RCBC Capital's acquisition of Bankard. RCBC Capital is seeking a rescission of the sale or compensation for damages. The arbitral tribunal for this claim has been formed and the terms of reference have been agreed upon. The ultimate outcome of this claim is not presently determinable.

29. EARNINGS PER SHARE

The following reflects the income and per share data used in the basic earnings per share (EPS) computations (amounts in thousand Philippine pesos, except basic EPS):

	2005	2004
a. Net income attributable to Parent Company's shareholders	P **1,633,416**	P 1,245,871
b. Weighted average number of outstanding common shares	**632,964**	632,964
c. Basic EPS (a/b)	P **2.58**	P 1.97

30. SELECTED FINANCIAL PERFORMANCE INDICATORS

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

	2005	2004
Return on average capital funds (ROE)	**13.43%**	10.86%
Return on average assets (ROA)	**0.85%**	0.71%
Net interest margin	**4.95%**	3.90%

As discussed in Note 10, in 2003, Bankard deferred the booking of the required additional allowance for impairment amounting to P3.602 billion to be staggered over seven years starting in 2004. Had Bankard fully recognized the required additional allowance for impairment in the period the losses were determined in accordance with Philippine GAAP, the Group's net income would have increased by P180,100 for each of the year 2005 and 2004, since the annual amortization of the required additional allowance for impairment for the same periods would not have been necessary; with corresponding proportionate effects on the EPS (see Note 29), ROE and ROA indicated above.

As discussed in Note 10, the Parent Company and RSB deferred the booking of the required additional allowance for impairment and losses amounting to P1,604,587 in 2005 and P1,955,768 in 2004 as determined from the NPLs transferred to be amortized over ten years. While the accounting treatment is allowed under BSP Resolution No. 135, Philippine GAAP, however, requires the full recognition of the required additional allowance for impairment and losses in the period such losses were determined. Had the Parent Company and RSB fully recognized the required additional allowance for impairment and losses as part of current operations in

accordance with Philippine GAAP, the Group's 2005 and 2004 net income would have decreased by P1,565,245 and P1,940,056, respectively; with corresponding proportionate effects on the EPS (see Note 29), ROE and ROA as indicated above.

As discussed in Note 25, Bankard's deferred tax assets arising from allowance for impairment amounted to P518 million. Had Bankard not recognized in 2005 the deferred tax assets on allowance for impairment arising in 2005 of P214,060 and written-off the balance of the deferred tax assets on allowance for impairment as of December 31, 2004 of P303,944 to comply with Philippine GAAP, the Group's 2005 net income would have decreased by P 518,004; with corresponding proportionate effects on the 2005 EPS (see Note 29), ROI and ROA as indicated above.

31. RISK MANAGEMENT POLICIES AND OBJECTIVES

31.1 Parent Company's Policies and Objectives

- *Strategy in Using Financial Statements*

By their nature, the Parent Company's activities are principally related to the use of financial instruments including derivatives with certain duration constraints. The Parent Company accepts deposits from customers at fixed and floating rates, and for various periods, and seeks to earn above-average interest margins by investing these funds in high-quality assets. Strategies to increase margins may include the use of short-term funds for investing in marketable fixed-income securities for longer periods at higher rates, while maintaining sufficient liquidity to meet all claims that might fall due. The Parent Company has a small portfolio of equity securities.

Within limits and parameters set by BSP regulations, the Parent Company's has interest rate, foreign exchange and credit derivatives exposure. Short-term foreign currency forward contracts are entered into mostly in the context of swap transactions where an offsetting spot position is taken at the same time. There are outstanding longer-term, cross-currency swaps where the Parent Company is committed to pay fixed-rate interest and principal in US dollars and is entitled to receive fixed-rate interest and principal in Pesos. The major portion of these closely match, in terms of interest rate characteristics, tenor and amount, the local currency Capital Notes issued in 2003 on the one hand, and certain foreign currency denominated assets on the other. Foreign currency-denominated assets include credit-linked notes where the underlying of the embedded derivative is Republic of the Philippines sovereign debt.

The Parent Company's Risk Management Committee has overall responsibility for the Parent Company's risk management system and sets risks management policies across the full range of risks to which the Parent Company is exposed. The Parent Company's Risk Management Committee, subject to BOD confirmation, places limits on the level of exposure that can be taken positions.

- *Credit Risk*

Credit risk is the risk that the counterparty in a transaction may default, and arises from lending, trade finance, treasury, derivatives and other activities undertaken by the Parent Company. The

Parent Company manages its credit risk through a system of policies, processes and authorities that underlie the practices of all credit-originating and borrowing relationship management units. In developing and implementing these, senior management is assisted by the Credit Risk Division (CRD) under the Corporate Risk Management Services Group (CRISMS), which is independent of the risk-taking units of the Parent Company.

CRD assists senior management, in that regard: (a) to develop portfolio mix and risk profile objectives; (b) to establish risk concentration limits accepted at the level of the single borrower, related-borrower group, domestic geography, industry segments, and sovereign jurisdiction; and (c) by continuous monitoring of the actual credit risk portfolio from the perspective of those objectives and limits. In performing this function, CRD works hand in hand with the business units and the Parent Company's Corporate Planning Group.

At the individual borrower level, exposure to credit risk is managed via adherence to a set of policies, the most notable features of which, in this context, are: (a) credit approving authority, except as noted below, is not exercised by a single individual but rather, through a hierarchy of limits, is effectively exercised collectively; (b) branch managers have limited approval authority only for credit exposure related to deposit-taking operations in the form of bills purchased; (c) an independent credit risk assessment by CRD of large corporate and middle-market borrowers, summarized into a borrower risk rating, is provided as input to the credit decision-making process; and (d) borrower credit analysis is performed at origination and at least annually thereafter.

Impairment provisions are recognized for losses that have been incurred at the statement of condition date. Significant changes in he economy, or in a particular industry segments that represents a concentration in the Parent Company's portfolio, could result in losses that are different from those provided for at the statement of condition date. Management therefore carefully monitors the changes and adjusts its exposure to such credit risk, as necessary.

- *Market and Liquidity Risk*

The Parent Company's exposure to market risk, or to the risk of future losses from changes in the prices of financial instruments, relates primarily to its holdings of debt securities and derivatives. The Parent Company manages this risk by identifying, analyzing and measuring relevant market risk factors. Jointly with the risk taking units, the CRISMS recommends various limits to the Risk Management Committee, which in turn, recommends BOD approval of such limits. These include:

Value-at-risk - this is computed at the 99% confidence level for a one-day holding period for foreign exchange positions and for a 10-day holding period for debt securities;

Stop loss - for each trading position this is set as a percentage of the budgeted annual income for the relevant trading activity;

Nominal position - the exposure limit in terms of the nominal outstanding amount; for the net foreign currency position the Parent Company adheres to the BSP-mandated overbought position limit;

Off-market rate limit - defines the acceptable range of prices around the prevailing market rate, within which traders must deal;

Single-transaction limit - the maximum amount of a single transaction that a duly authorized treasury trader may execute

Maximum cumulative outflow limit - the maximum net outflow for a specified time bracket in the schedule of maturing assets and liabilities prepared for liquidity management purposes; and

Earnings-at-risk - the potential adverse impact of interest rate movements on net interest income, considering the interest rate repricing characteristics of the Parent Company's assets and liabilities.

The Asset/Liability Committee, composed of the Chief Executive Officer, the Corporate Vice-Chairman, the Chief Operating Officer, the Chairman of RSB, the President of RSB, and all senior executives in charge of business units and of financial control and corporate planning, oversees the market and liquidity risk management processes. Chaired by the Head of the Financial Markets Group, it meets weekly to: (a) be appraised of the Parent Company's market risk and liquidity position vis-a-vis the external environment, (b) make asset/liability allocation, structure and pricing policy decisions, (c) be assured that no breaches of limits have occurred, or if any limit has been breached, to provide direction regarding the disposition of the relevant position; and (d) approve or endorse to the Executive Committee, as the case may be, transactions with significant market / liquidity risk exposure or new products involving such risk exposure.

31.4 Foreign Exchange Risk

Net foreign exchange exposure is the difference between foreign currency assets and foreign currency liabilities. The Parent Company manages its exposure to the effects of fluctuations in the foreign currency exchange rates by limiting such exposure to within the existing regulatory guidelines and at levels that it believes to be relatively conservative for the size of its business. BSP regulations impose a cap of 2.5% of net worth, or US$5,000, whichever is lower, on the consolidated excess foreign exchange holdings of banks in the Philippines.

Internally, the Parent Company's foreign exchange exposure is also managed according to the limits approved by the BOD as endorsed by the Risk Management Committee. At the end of each day, the Parent Company reports to the BSP as its compliance with the regulatory foreign currency exposure limits. In addition, it also submits to the BSP the respective foreign currency positions of its subsidiaries.

In performing its functions as described above, the Asset/Liability Committee also oversees the management of the Parent Company's foreign exchange exposure.

A summary of the Group's significant financial resources and liabilities accounts as to foreign and peso denominated balances as of December 31, 2005 and 2004 are as follows:

	Foreign Currency	Peso	Total
As of December 31, 2005			
Resources:			
Due from other banks	P 2,963,196	P 262,863	P 3,226,059
Financial assets at fair value fair value through profit or loss	4,529,195	2,819,308	7,348,503
Available-for-sale financial securities	3,196,289	7,656,564	10,852,853
Held-to-maturity investments	17,545,597	6,777,566	24,323,163
Loans and receivables	36,104,488	64,061,533	100,166,021
Other resources	2,944,257	8,027,005	10,971,262
Liabilities:			
Deposit liabilities	38,974,298	94,305,937	133,280,235
Bills payable	13,853,000	1,002,330	14,855,330
Bonds payable	7,210,000	396	7,210,396
Other liabilities	2,574,740	5,347,891	7,922,631
Subordinated debt	-	5,472,129	5,472,129
As of December 31, 2004			
Resources:			
Due from other banks	P 5,044,155	P 274,535	P 5,318,690
Financial assets at fair value fair value through profit or loss	3,766,322	3,558,521	7,324,843
Available-for-sale financial securities	1,395,023	1,692,567	3,087,590
Held-to-maturity investments	11,274,158	11,050,756	22,324,914
Loans and receivables	44,784,419	62,969,579	107,753,998
Other resources	1,203,215	7,026,925	8,230,140
Liabilities:			
Deposit liabilities	44,662,674	92,595,877	137,258,551
Bills payable	16,229,000	700,873	16,929,873
Other liabilities	643,769	6,960,515	7,604,284
Subordinated debt	-	5,000,000	5,000,000

31.2 Subsidiaries Policies and Objectives

The Subsidiaries have essentially the same risk management policies and objectives as that of the Parent Company. The subsidiaries risk management is coordinated with the Parent Company, in close cooperation with their respective BOD.