ANNUAL REPORT
2005

Providing Value Added Service to Businesses

OUR VISION

We are committed to be the bank of choice, known for financial strength and superior delivery of innovative products and services, driven towards total customer satisfaction.

OUR MISSION

We shall be guided by our chosen corporate values of Commitment, Integrity, Excellence, Leadership, and Teamwork in:

- developing long-term partnerships with clients through the delivery of responsive, innovative, and value-added products and services;
- providing the delivery channels that are relevant to our market to ensure convenience and increase the bank's accessibility;
- creating an employee work environment that fosters mutual respect, provides professional and personal growth, encourages creativity, is receptive to change, and is meritocratic;
- ensuring optimum returns for our stockholders, our suppliers, and our business partners.

MESSAGE FROM THE CHAIRMAN & PRESIDENT

VALUED RELATIONSHIPS

The past year has been a challenging but successful one for Asia United Bank, reflecting both a vibrant banking environment and a healthy performance of most of our major operations. Despite the political turmoil that gripped the country, a rise in oil prices, and an increase in global interest rates, the local banking industry continued to remain resilient, thanks to a robust Philippine economy.

By the end of 2005, the commercial banking system achieved remarkable growth in critical areas such as asset quality, as well as in lending and deposit base. Total deposits—the local commercial banking industry's main source of funding—rose to ₱2.783 trillion, representing a 6 % jump from ₱2.625 trillion the previous year. Growth in bank lending, on the other hand, registered a modest increase of 1.6% at Php1.518 trillion, with non-performing loans to total loans ratio dropping to 7.4% from 8.7% in 2004. These headways are considered outstanding, notwithstanding two important central bank measures that commercials banks had to contend with—the adoption of banking standards under the Basel II accord and the alignment of local accounting standards with international ones. These reforms are part of the initiatives of the Bangko Sentral ng Pilipinas to align existing regulations and policies with international standards.

The banking industry's performance benefited from the Philippines' economic upswing following an improvement in the country's fiscal state, the peso's surge that made it the top performing currency in Asia last year, and the easing of inflation. Asia United Bank's ability to identify and capitalize on these opportunities is rooted on the value we place in our relationships with our customers, stockholders, employees, and the communities we serve.

By leveraging the skills and market knowledge of our employees, we are able to respond to the needs of our customers by coming up with innovative products and services. This is a reflection of our sincere desire and dedication to help our customers in their personal and professional growth. Last year's launching of BizKit—a cash management package for small and medium-sized enterprises that includes automated cash handling tools to make financial processes more efficient and hassle-free—is just one of the many important manifestations of how much we value our customers, and by extension, our shareholders.

We believe Asia United Bank is nimble enough to adapt to changes in the market in order to meet the needs of our customers. And since the core of our business is driven by our relationship with our customers, we continually remind ourselves that we are only as good as our client think we are.

A GOOD YEAR

The past year was a landmark year for the bank and its subsidiaries. Consolidated net income rose by 47% to ₱715.5 million from ₱486.3 million in 2004. This resulted in an improvement in the group's consolidated capital fund, which grew by 19% to ₱5.08 billion. Total resources of the group jumped to ₱22.36 billion from 2004's level of ₱18.52 billion, representing a 21% increase. Total deposits likewise grew by 27% to ₱12.54 billion from ₱9.84 billion in 2004.

New products and services were offered in line with the bank's efforts to respond to the needs of our customers. Apart from BizKit, our lead product that aims to capture the interest of our customers, we have also launched the Preferred Cash Card, a re-loadable, PIN-based card that works like an ATM but does not require opening a deposit account. As a stored value card, it is being positioned as a virtual wallet that customers can use to load money so they can purchase goods from any Bancnet accredited merchants or withdraw cash from any Bancnet or Megalink ATMs.

To attract new customers and raise the bank's profile, we have relocated two branches to Malabon and Congressional Avenue in Quezon City and plan to open 10 more this year. Our existing branches are gearing up with localized marketing programs aimed at strengthening bonding activities with current and prospective clients. And with the help of our Information Technology Group, we have made banking transactions more efficient by updating our phonebanking and internet banking systems, embarking on a payroll uploading scheme, and creating a fully automated fund transfer service.

Our Trust and Investment Group ended 2005 with a remarkable performance, considering that 2005 was a transition year for the trust industry as Common Trust Funds were converted to Unit Investment Trust Funds. The shift to high value products allowed the bank to increase profitability as it raised revenues by more than 60%.

Meanwhile, revenues from Fixed Income Trading grew by more than 150% compared to the previous year's figure. The bulk of these gains came from our emerging market debt trading activity. The bank likewise expanded its foreign remittance tie-ups, resulting in a 38% volume increase for US dollar remittances and increasing by as much as 36% our volume transactions.

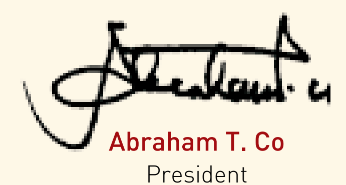
COMMITMENT AND DEDICATION

Although the banking industry is poised to achieve a healthier growth this year, Asia United Bank remains cautiously optimistic. And since the bank cannot control the business environment in which it operates, it expects to encounter bigger challenges this year. But we are confident in our ability to capitalize on these challenges and transform these into opportunities potentially available to us. We are committed to ensure that our tenets remain absolute: dedication to our customers, harnessing the potentials of our human resources, and preserving our culture of excellence.

The bank is determined not just to respond to changes in the market but to anticipate them so that we can best serve our customers, shareholders, employees and the communities where we operate. Although we are a relatively young bank, we are prepared to take both aggressive and conservative measures to address the demands of both our corporate and consumer clients.

We would like to thank our customers, shareholders, and employees. Their trust and confidence in the bank have allowed us to progress remarkably well. And with the generous blessings of God Almighty, we offer to Him our efforts, commitment and dedication as we take part in building our nation and ensuring a brighter tomorrow for future generations.

Jacinto L. Ng, Sr.
Chairman of the Board



Abraham T. Co
President

OPERATIONAL HIGHLIGHTS

COMMITMENT

ONE'S DEDICATION TO THE ACHIEVEMENT OF THE COMMON ORGANIZATIONAL OBJECTIVES

INSTITUTIONAL BANKING

Although the country's overall economy showed significant improvements last year, the slowdown brought about by the temporary weakening of the peso, high fuel prices and low consumer demand affected the group's performance. Business volume declined last year compared to the previous year as the bank tightened its granting of credit. However, the group was at par with its performance in 2004 in terms of net revenues generated. Despite the decrease in business volume, loan spreads were generally higher. Since the group was selective in its lending activities, it experienced minimal occurrence of non-performing assets.

The group intends to be more selective in its lending activity as it carefully identifies sunrise and sunset industries. Its cashflow lending will continue to dictate the acquisition of accounts with acceptable margins. The group will continue to exercise caution as it focuses on niche markets. This is largely due to prevailing credit conditions and the fact that the bank is one of the smaller commercial lenders in the market.

The group will continue to sustain and maximize its relations with clients even if it maintains very selective criteria in evaluating prospective new loans and apply stringent criteria.

TREASURY

It was a year of significant improvements for the Treasury Group in 2005. Last year the group focused on Emerging Debt Market Trading, where the bulk of the group's revenues came from. Meanwhile, revenues from Fixed Income Trading saw a growth rate of more than 150% in 2005 compared to the previous year's figure.

The group's Treasury Marketing Unit also showed tremendous potential as its revenues grew by more than 100%. The foreign exchange business, on the other hand, registered a slight drop in Net Income due to flat revenue growth and rising operating expenses. Meanwhile, the group ventured into new trading activities such as commodity trading.

PRIVATE BANKING

The management of financial portfolios of high networth individuals continued to be the main thrust of the Private Banking Group last year as it focused on deposit generation while increasing trade-related transactions.

To ensure the efficient management of the clients' investments, the group zeroed in on industries that were on the upswing—information technology, food, real estate development and steel. The real estate and steel sectors, for instance, were seen as good investment portfolios given the numerous ongoing constructions in Metro Manila as well as in key areas in nearby provinces. The global trend on the continued growth of information technology-related businesses was also a key factor on the group's decision to focus on this sector.

The group intends to improve its loan portfolio this year given the expected rosy economic outlook for 2006. But it will continue to exercise caution and adopt stringent measures in screening potential borrowers. It also plans to penetrate new industries as it boosts its marketing efforts to expand its clientele. The group remains committed in nurturing long-term relationships with clients by ensuring an effective and timely delivery of products and services and by providing solutions that respond to their specific needs.

INTEGRITY

DOING THE RIGHT THINGS AT THE RIGHT TIME, ALL THE TIME

BRANCH BANKING

In an effort to provide premium services to its customers, the Bank launched innovative products and services, relocated two branches to Malabon and Congressional Avenue in Quezon City, and have set in motion plans to open up 10 more branches to expand its reach in growth areas.

Its thrust in making Asia United Bank visible to as many Filipinos as possible have prompted the Branch Banking Group to strengthen its branches by coming up with branch-based marketing programs, such as sports tournaments for customers, to deepen its ties with current and prospective clients. Some branches, on the other hand, have focused on more specific customers, such as Filipino-Chinese clients, while others hosted various forums for their clients.

Additional training were also carried out for the bank's sales officers to ensure the efficient dissemination of accurate information particularly for its innovative products and services like the AUB Bizkit, a suite of cash management tools packaged in one business checking account, and the Preferred Cash Card, a re-loadable, PIN-based card primarily intended for payroll and remittance purposes.

The Branch Banking Group, in coordination with the Service Quality Unit, continued the implementation of service quality programs across the entire branch network to ensure that customer satisfaction standards are met at all times.

TRUST AND INVESTMENTS

The Trust and Investments Group faced a challenging year in 2005. For one, the task of converting Common Trust Funds into Unit Investment Trust Funds following a directive from the Bangko Sentral ng Pilipinas to phase out all CTFs affected the growth of the trust industry. Despite this major undertaking, the bank was one of the first financial institutions to secure the BSP's approval in converting CTFs to UITFs.

The Group's focus shifted from growing its CTFs into educating investors about UITFs and the inherent volatility of venturing into investments in the latter funds. While this hampered the growth of the business in terms of volume, the group zeroed in on high-value products instead. This resulted in increased profitability as the group was able to increase revenues in this area by more than 60%, while at the same time, managing its operational expenses.

The group successfully launched its UITF ahead of its competitors. By efficiently managing peso and US dollar-denominated fixed income funds, the bank's clients' investments enjoyed high returns and low volatility. Although the returns on fixed income instrument declined, the bank expanded its investment outlets to respond to the clients' needs. The bank will launch during the first quarter of 2006 its first equity index fund to provide clients with an alternative outlet in order to enhance their investments. It plans to allow its clients to combine their investments in the bank's Peso Investment Fund (fixed income UITF) with the equity fund, thus, allowing their clients to create a customized portfolio mix depending on their risk tolerance. This unique undertaking makes the bank the first financial institution to offer such flexibility on their UITFs.

REMITTANCE

Last year proved to be another good year for the Bank's remittance business as it implemented and introduced operational enhancements to surpass its performance in 2004. Thanks to collaborative efforts with the Marketing Division, Treasury, Information Technology, Branch Banking and other units of the bank, remittance volume in terms of US dollars rose by 38% over last year's figure while volume transactions increased by 36% compared to the previous year. The aforementioned increases pumped up the group's gross revenues by 52% from 2004. Net income, on the other hand, rose by 17%.

As part of its marketing efforts, the group established linkages with nine banks and remittance companies overseas to improve its services to OFWs. It also plans to establish correspondent banking relationships with other firms in strategic locations such as Italy, Singapore, Guam and Hawaii. The bank has so far established linkages with 36 banks and remittance firms.

The bank has also accredited four new couriers and expanded its distribution network by partnering with the Development Bank of the Philippines, Postal Bank, and LandBank for bank-to-bank and cash pick-up remittance arrangements. Efforts to expand the group's distribution network are in line with the bank's goal of increasing its volume of overseas transactions beginning on the second semester of 2006. The group sees tremendous potential in tapping sea-based OFWs, whose remittance inflows are estimated at US$2.0 billion a year.

Other innovative marketing strategies for 2006 include the introduction of new products for OFWs such as the Preferred Cash Card. To entice loyalty among its remittance customers, the bank intends to offer services and products such as loans for appliances and housing units, as well as facilitating SSS, PhilHealth, and Pag-Ibig transactions. It has also set up a round-the-clock call center to attend to the needs of its clients.

EXCELLENCE

BEYOND CUSTOMER EXPECTATIONS...A WAY OF LIFE

INFORMATION TECHNOLOGY

The Information Technology Group is slowly paving the road towards a full service electronic banking, as it provided critical support to most of the bank's projects and services. One of the bank's major initiatives in 2005, BizKit, was launched with the IT group developing the critical cash management systems that came with the product package. The product, a suite of cash management solutions aimed at small and medium-sized firms, include payroll organizer, an employee attendance management sub-system, a check warehousing that manages voluminous post-dated checks, an SSS Remitter, and a Financial Helper that processes, controls and monitors a firm's receivables and payables.

Another product, the Preferred Cash Card, also relied on the IT group's technical support for its successful implementation. The card was primarily designed to supplement the BizKit package, although non-BizKit users can use it as a "settlement card" or "family card" to transfer cash from one card to another.

In line with the bank's thrust to provide more convenient banking transactions, an enhanced internet banking system was introduced to allow customers to transfer funds and pay bills electronically. Selected corporate customers were also provided with a special facility to restrict internet banking usage to authorized persons and workstations. Such value-added facilities manifest the bank's resolve of providing efficient and secured banking services to its clients.
For its remittance operations, the IT group worked on the improvement of the bank's express remit system to allow its foreign partners the option to conduct online and real-time processing of remittance request instead of the traditional stand-alone processing. It also embarked on a salary loans origination sub-system to streamline the

LEADERSHIP

GUIDE TO ACCOMPLISH AND SUCCEED, LEAD BY EXAMPLE, INCITE FOLLOWING OUT OF RESPECT

processing of loan applications; a negative file sub-system to include records from the AMLA watchlist accounts and other individuals with high credit risk; and an image databank system for its branches to store and view photo images of clients for record-keeping purposes, as well as for monitoring suspicious-looking customers.

HUMAN RESOURCES

The Human Resources Group continued to strengthen its personnel's core values and competencies through training programs aimed at developing their organizational capability. In 2005, the group conducted in-house training programs for 17 bank officers. They were scheduled every quarter to ensure minimal interruption in work assignments. At the same time, 63 staff and officers attended specialized or public seminars to deepen their understanding of the banking industry. A total of 932 hours was spent training 1,002 bank employees.

The number of manpower count last year jumped to 482 compared to 447 the previous year. Seven participants graduated from its three-month Service Manager Program, while two specialist hires underwent rigorous training for six months on operations and treasury.

To ensure the efficiency of the bank's administrative functions, the group conducted a team building course for the Salary Loans Group and handled the three-month Service Manager Development Program for seven personnel. The core competencies of the bank's employees were periodically updated to guide their training and development.

The bank likewise embarked on measures to maintain and sustain its pool of talented employees by designing a career path for the different working groups.

RISK MANAGEMENT

The implementation of the Basel II accord and the alignment of local banks with the new international accounting standards are expected to open up opportunities for Asia United Bank to optimize economic capital through more efficient and effective risk management practices. These new yardsticks have forced the bank to institute measures aimed at making it more competitive. Improvements in operational processes, systems, and internal standards have been carried out not just to comply with international banking standards but to create an agile risk management infrastructure for the bank. This infrastructure will continue to evolve as the bank pursues risk diversification and remain true to its risk philosophy.

CREDIT RISK

With the risk management processes embedded in its day-to-day operations, the bank implemented last year its Credit Risk Rating System to strengthen its credit risk management practices. For instance, commercial accounts covered by an internal rating system are rated based on risk factors and categorized accordingly. This system serves as an indicator for the bank whether to increase or reduce, if not terminate, credit facilities extended to clients. It has also standardized the pricing of exposure to individual and group accounts, as well as facilitated impairment tests.

Along with improvements in systems for Account Profitability Analysis, the Bank has built the necessary foundation to assess and reassess credit exposures at the counter-party levels. At the same time, the risk/reward profile of individual exposure became the cornerstone of transaction proposals and approvals. The implementation of the bank's diversification strategies were efficiently carried out because of this granular assessment capability.

A payment rating system was also implemented to generate the necessary data for loss given default to validate the reliability of default rate assigned per risk category under the present CRRS.

The risk profile of the bank's assets changed in 2005. It altered its loan portfolio mix by reducing commercial exposure while increasing retail exposure. Although the investment portfolio of its treasury assets shifted to varied risk grades, it was still within the risk objectives set for the year. Under the standardized approach, the bank's book exposures as of December 31, 2005 were comprised mainly of sovereign exposures (21%), banks (15%), retail accounts (5%), and corporate (59%).

MARKET RISK AND CAPITAL STRUCTURE

The relevance and reliability of the Value at Risk (VaR) model in value creation was further enhanced when the bank added more information and data in its database and conducted back-testing procedures. This was manifested when the bank expanded and included foreign corporate eurobonds and structured products in its treasury asset portfolio. For treasury assets, the bank utilized applicable credit ratings of securities and counter-parties issued by three international rating agencies and a local rating agency.

As of December 31 last year, total market risk weighted exposures was 48% of gross risk-weighted assets. Of this figure, 4% comprised foreign exchange exposures while the remaining 96% were those sensitive to price movements. FX trading activities, on the other hand, had an efficiency rate of four times in the use of the portfolio's VaR limit. The bank employed a relatively low earnings/capital at risk usage since the average daily value at risk was only 42% of the risk appetite set for the subject trading activities.

The bank capitalized on the price movements of securities in its treasury asset portfolio to boost profit performance in 2005, giving it an efficiency rate of four times the VaR limit, as well as moderate earnings to capital-at-risk usage of 50% of the aforementioned limit. The total qualifying capital as of the end of last year consisted of a core capital of ₱4.5 billion and a tier 2 capital provided by the general loan loss provisions of about ₱102 million. The capital requirement for credit risk was ₱1.7 billion while that of market risk stood at ₱330 million.

The capital to risk asset ratio of the bank remained robust at 22.409%, more than twice the minimum statutory requirement of 10%.

RISK PHILOSOPHY

Effective risk management process and structure are key factors in responsible corporate governance in Asia United Bank.

The Management is cognizant that the preservation of the stockholders' capital relies heavily on the Corporation's appetite for risk, ability to establish opportunities and expertise to identify, control and quantify the attendant financial, operational, business and event risks in banking.

It strongly believes that adequate return of capital can only be ensured when activities are undertaken in terms of risk/return trade off.

TEAMWORK

EFFECTIVE...TOGETHER

Report of the Chief Audit Executive

Asia United Bank Corporation was granted authority to operate as Commercial Bank under MB Resolution No. 1149 dated September 3, 1997, and commenced operation on October 31, 1997.

As of December 31, 2005, the bank has twenty-six branches all over Metro Manila and in the key cities of Luzon, Visayas, and Mindanao.

For the year 2005, the Internal Audit Department performed internal audit assessments of all organization units, based on Audit Plans and Strategies under the Risk-Based Audit Approach in accordance with the Generally Accepted Auditing Standards as approved by the Audit Committee. Consequently, as in any normal business operations, the Audit Department noted some areas that needed improvement in the Bank's Internal Control Procedures. These were immediately raised to the Management and the necessary corrective actions were taken.

The current Internal Controls and Credit Policies of the Bank were consistently rated by the Bangko Sentral ng Pilipinas of a CAMEL rating of "4" (out of high of "5") for the past five years. The Bank's CAMEL rating of "4" indicates that AUB is a fundamentally sound financial institution. Moreover, the past due ratio of our loan portfolio is mere 7.9% way below the industry average of 9.43%.

The Internal Audit Department, together with the External Auditors, and the Audit Committee of AUB have ensured that good governance is practiced in the Bank as prescribed by Securities and Exchange Commission Circular No.2 and Bangko Sentral ng Pilipinas Circular No. 499 dated November 25, 2005 on the role of the Audit Committee and the External Auditors.

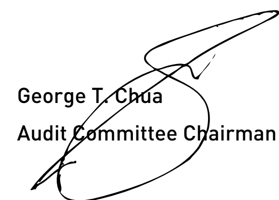
The Audit Committee will continue to assure depositors and stakeholders that Internal Control Procedures and Risk Management Practices will always be adequate and effective in guarding the assets of the bank.

Corporate Governance

Asia United Bank Corporation, under its Corporate Governance Manual submitted to Securities and Exchange Commission has fully complied with the requirements of Circular No. 296 dated 17 September 2001 as amended by Circular No. 370 dated 17 February 2003. All directors had completed its Corporate Governance Training required by Bangko Sentral ng Pilipinas.

For the year 2005, we have revised our Manual on Corporate Governance to fully comply with the BSP requirements. Correspondingly, we have also submitted to the Securities and Exchange Commission our Corporate Governance Manual Evaluation Sheet for year 2005 as required under SEC Circular No. 2 dated 5 April 2002, where the Bank has substantially complied with the requirements.

As part of the Bank's continuing Corporate Governance education and awareness program, a regular training of officers and staff were conducted in 2005 based on the approved Asia United Bank's Manual on Corporate Governance.



George T. Chua
Audit Committee Chairman

Statement of Management's Reponsibility for Financial Statements

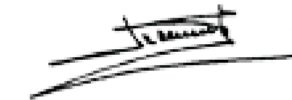
Securities and Exchange Commission
SEC Building, EDSA Greenhills
Mandaluyong, Metro Manila

The management of Asia United Bank Corporation is responsible for all information and representations contained in the financial statements for the years ended December 31, 2005 and 2004. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with appropriate consideration to materiality.

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

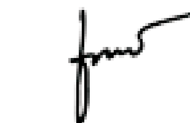
The Board of Directors reviews the financial statements before such statements are approved and submitted to the stockholders of the Company.

SyCip, Gorres, Velayo & Co., the independent auditors appointed by the Board of Directors, have audited the financial statements of the Company in accordance with auditing standards generally accepted in the Philippines and have expressed their opinion on the fairness of presentation upon completion of such audit, in their report to the Board of Directors.



Jacinto L. Ng, Sr.
Chairman of the Board

Abraham T. Co
Chief Executive Officer



Herminia C. Musico
Chief Financial Officer

Report of Independent Auditors

The Stockholders and the Board of Directors
Asia United Bank Corporation

We have audited the accompanying statements of condition of Asia United Bank Corporation and its Subsidiaries (the Group) and Asia United Bank Corporation (the Parent Company) as of December 31, 2005 and 2004, and the related statements of income, changes in capital funds and cash flows for the years then ended. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

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

SYCIP GORRES VELAYO & CO.

Ramon D. Dizon
Partner
CPA Certificate No. 46047
SEC Accreditation No. 0077-A
Tax Identification No. 102-085-577
PTR No. 4180833, January 2, 2006, Makati City

April 21, 2006

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES STATEMENTS OF CONDITION

	Group		Parent Company	
	December 31			
	2005	2004 (As restated)	**2005**	2004 (As restated)
RESOURCES				
Cash and Other Cash Items (Notes 11 and 22)	**₱414,862,653**	₱493,740,080	**₱412,835,925**	₱492,041,158
Due from Bangko Sentral ng Pilipinas (Notes 11, 15 and 22)	**373,719,537**	179,515,725	**373,719,537**	179,515,725
Due from Other Banks (Note 15)	**781,647,716**	564,052,630	**781,647,716**	564,052,630
Interbank Loans Receivable and Securities Purchased under Agreements to Resell (Notes 15 and 22)	**1,936,016,853**	1,964,495,391	**1,936,016,853**	1,964,495,391
Trading Account Securities - at market (Notes 2, 4, 15 and 22)	**–**	205,737,653	**–**	205,737,653
Available-for-Sale Financial Assets - at market (Notes 2, 4, 15 and 22)	**7,007,547,832**	–	**6,943,231,893**	–
Available-for-Sale Securities - at market (Notes 2 and 15)	**–**	2,161,950,244	**–**	2,161,950,244
Held-to-Maturity Financial Assets - at amortized cost (Notes 2, 4, 15 and 22)	**44,816,826**	–	**44,816,826**	–
Investments in Bonds and Other Debt Instruments - at amortized cost (Notes 2, 4, 11, 15 and 22)	**–**	820,242,862	**–**	807,349,223
Loans and Receivables - net (Notes 2, 5, 10, 11, 15, 22 and 24)	**11,115,939,443**	–	**10,883,656,538**	–
Receivables from Customers - net (Notes 2, 5, 10, 15, 22 and 24)	**–**	11,349,883,248	**–**	11,137,439,980
Equity Investments (Notes 2 and 6)	**–**	12,087,746	**51,100,000**	63,187,746
Bank Premises, Furniture, Fixtures and Equipment - net (Note 7)	**121,720,526**	89,154,311	**120,821,714**	88,642,267
Investment Properties - net (Notes 2 and 8)	**234,505,153**	235,600,680	**234,505,153**	235,600,680
Deferred Tax Assets - net (Notes 2 and 21)	**217,492,502**	186,997,054	**220,371,484**	189,335,001
Other Resources - net (Notes 2, 9, 10, 15 and 22)	**114,102,912**	255,326,932	**114,034,625**	255,477,888
	₱22,362,371,953	₱18,518,784,556	**₱22,116,758,264**	₱18,344,825,586

(Forward)

	Group		Parent Company	
	December 31			
	2005	2004 (As restated)	2005	2004 (As restated)
LIABILITIES AND CAPITAL FUNDS				
Liabilities				
Deposit Liabilities (Notes 11, 15 and 22)				
Demand	**₱3,263,361,902**	₱2,693,806,970	**₱3,273,106,704**	₱2,705,616,960
Savings	**3,931,711,185**	4,127,816,543	**3,932,146,722**	4,170,743,025
Time	**5,349,972,330**	3,019,553,220	**5,349,972,330**	3,019,553,220
	12,545,045,417	9,841,176,733	**12,555,225,756**	9,895,913,205
Bills Payable (Notes 12, 15 and 22)	**3,080,919,625**	2,525,436,770	**3,020,919,625**	2,465,436,770
Manager's Checks (Notes 15 and 22)	**39,960,118**	48,985,985	**39,960,118**	48,985,985
Accrued Taxes, Interest and Other Expenses (Notes 2, 13, 15 and 22)	**335,999,485**	233,997,744	**332,467,464**	230,717,877
Other Liabilities (Notes 2, 14, 15 and 22)	**1,275,669,155**	1,600,520,456	**1,228,009,504**	1,559,096,609
	17,277,593,800	14,250,117,688	**17,176,582,467**	14,200,150,446
Capital Funds				
Capital Stock (Note 16)	**2,400,000,000**	2,400,000,000	**2,400,000,000**	2,400,000,000
Surplus Reserves (Notes 16 and 23)	**22,743,227**	11,364,766	**22,743,227**	11,364,766
Surplus (Notes 2, 16 and 23)	**2,420,944,798**	1,732,849,054	**2,400,589,593**	1,719,729,484
Net Accumulated Unrealized Gains on Available-for-Sale Financial Assets (Note 4)	**117,037,376**	–	**116,842,977**	–
Net Accumulated Unrealized Gains on Available-for-Sale Securities (Note 4)	**–**	13,580,890	**–**	13,580,890
	4,960,725,401	4,157,794,710	**4,940,175,797**	4,144,675,140
Minority Interests	**124,052,752**	110,872,158	**–**	–
	5,084,778,153	4,268,666,868	**4,940,175,797**	4,144,675,140
	₱22,362,371,953	₱18,518,784,556	**₱22,116,758,264**	₱18,344,825,586

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES STATEMENTS OF INCOME

	Group		Parent Company	
	Years Ended December 31			
	2005	2004 (As restated)	2005	2004 (As restated)
INTEREST INCOME (Note 17)	**₱1,729,113,321**	₱1,487,489,470	**₱1,691,530,914**	₱1,460,506,658
INTEREST EXPENSE (Note 17)	**614,798,602**	517,521,932	**609,904,311**	516,156,469
NET INTEREST INCOME BEFORE PROVISION FOR IMPAIRMENT LOSSES	**1,114,314,719**	969,967,538	**1,081,626,603**	944,350,189
PROVISION FOR IMPAIRMENT LOSSES (Note 10)	**268,455,588**	219,468,385	**267,632,038**	218,380,671
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES	**845,859,131**	750,499,153	**813,994,565**	725,969,518
OTHER INCOME				
Trading and securities gain - net (Note 4)	**290,887,626**	113,030,466	**290,887,626**	113,030,466
Service charges, fees and commissions	**139,808,342**	102,233,170	**139,145,227**	101,964,973
Foreign exchange gain - net	**64,617,921**	45,284,012	**64,690,699**	45,094,516
Trust income (Note 23)	**52,794,337**	51,851,220	**52,794,337**	51,851,220
Gain on asset foreclosures and dacion transactions (Note 2)	**655,893**	30,314,974	**655,893**	30,314,974
Miscellaneous	**36,491,007**	18,952,278	**35,061,379**	18,176,611
	585,255,126	361,666,120	**583,235,161**	360,432,760
OTHER EXPENSES				
Compensation and fringe benefits (Note 19)	**218,110,347**	192,401,286	**215,832,734**	190,288,847
Taxes and licenses (Note 21)	**95,230,869**	63,546,472	**93,238,459**	61,872,587
Rent	**51,013,204**	45,509,977	**50,881,267**	45,324,011
Depreciation and amortization (Notes 7 and 8)	**44,694,388**	45,100,434	**44,281,156**	44,303,545
Insurance	**32,428,652**	27,543,795	**32,409,836**	27,508,481
Security, messengerial and janitorial	**28,918,318**	23,868,948	**28,839,259**	23,815,145
Transportation and travel	**17,279,042**	12,869,225	**17,175,249**	12,787,553
Power, light and water	**16,121,640**	12,123,969	**15,961,232**	12,015,045
Management and other professional fees	**15,969,804**	23,044,895	**15,695,016**	22,835,442
Freight expenses	**15,463,805**	12,545,224	**15,463,805**	12,545,224
Repairs and maintenance	**13,172,932**	12,308,162	**12,979,700**	12,189,286
Amortization of software costs and branch licenses (Note 9)	**5,274,400**	8,521,548	**5,274,400**	8,521,548
Loss on sale of investment properties	**3,037,927**	3,446,890	**3,037,927**	3,446,890
Miscellaneous (Note 20)	**109,914,736**	73,728,968	**108,676,486**	72,876,844
	666,630,064	556,559,793	**659,746,526**	550,330,448
INCOME BEFORE INCOME TAX	**764,484,193**	555,605,480	**737,483,200**	536,071,830
PROVISION FOR INCOME TAX (Note 21)	**48,979,060**	69,336,530	**41,981,199**	63,480,201
NET INCOME	**₱715,505,133**	₱486,268,950	**₱695,502,001**	₱472,591,629
Attributable to:				
Equity Holders of the Parent Company	**₱702,737,636**	₱477,745,958	**₱695,502,001**	₱472,591,629
Minority Interests	**12,767,497**	8,522,992	**–**	–
	₱715,505,133	₱486,268,950	**₱695,502,001**	₱472,591,629

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN CAPITAL FUNDS

	Group						
	Capital Stock	Surplus Reserves	Surplus	Net Accumulated Unrealized Gains on Available-for-Sale Financial Assets/ Securities	Total	Minority Interest	Total Equity
			For the Year Ended December 31, 2005				
Balance at December 31, 2004, as previously reported	₱2,400,000,000	₱11,364,766	₱1,702,425,131	₱13,580,890	₱4,127,370,787	₱110,872,158	₱4,238,242,945
Effect of changes arising from transition to Philippine Financial Reporting Standards (PFRS) (Note 2)	–	–	30,423,923	–	30,423,923	–	30,423,923
Balance at December 31, 2004, as restated	2,400,000,000	11,364,766	1,732,849,054	13,580,890	4,157,794,710	110,872,158	4,268,666,868
Cumulative effect of change in accounting policy for financial instruments (Note 2)	–	–	(3,263,431)	–	(3,263,431)	–	(3,263,431
Balance at January 1, 2005	2,400,000,000	11,364,766	1,729,585,623	13,580,890	4,154,531,279	110,872,158	4,265,403,437
Gain on available-for-sale financial assets transferred to income	–	–	–	(290,793,402)	(290,793,402)	–	(290,793,402)
Changes in fair value of available-for-sale financial assets	–	–	–	394,249,888	394,249,888	413,097	394,662,985
Total income directly recognized in equity	–	–	–	103,456,486	103,456,486	413,097	103,869,583
Net income	–	–	702,737,636	–	702,737,636	12,767,497	715,505,133
Total income for the year	–	–	702,737,636	103,456,486	806,194,122	13,180,594	819,374,716
Transfer from surplus to surplus reserves (Notes 16 and 22)	–	11,378,461	(11,378,461)	–	–	–	–
Balance at December 31, 2005	**₱2,400,000,000**	**₱22,743,227**	**₱2,420,944,798**	**₱117,037,376**	**₱4,960,725,401**	**₱124,052,752**	**₱5,084,778,153**
			For the Year Ended December 31, 2004				
Balance at December 31, 2003, as previously reported	₱2,400,000,000	₱6,179,644	₱1,249,992,804	₱10,166,239	₱3,666,338,687	₱102,349,166	₱3,768,687,853
Effect of changes arising from transition to PFRS (Note 2)	–	–	10,295,414	–	10,295,414	–	10,295,414
Balance at December 31, 2003, as restated	2,400,000,000	6,179,644	1,260,288,218	10,166,239	3,676,634,101	102,349,166	3,778,983,267
Gain on available-for-sale securities transferred to income	–	–	–	(112,400,866)	(112,400,866)	–	(112,400,866)
Changes in fair value of available-for-sale securities	–	–	–	115,815,517	115,815,517	–	115,815,517
Total income directly recognized in equity	–	–	–	3,414,651	3,414,651	–	3,414,651
Net income, as restated	–	–	477,745,958	–	477,745,958	8,522,992	486,268,950
Total income for the year	–	–	477,745,958	3,414,651	481,160,609	8,522,992	489,683,601
Transfer from surplus to surplus reserves (Note 22)	–	5,185,122	(5,185,122)	–	–	–	–
Balance at December 31, 2004, as restated	₱2,400,000,000	₱11,364,766	₱1,732,849,054	₱13,580,890	₱4,157,794,710	₱110,872,158	₱4,268,666,868

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CHANGES IN CAPITAL FUNDS

	Parent Company				
	Capital Stock	Surplus Reserves	Surplus	Net Accumulated Unrealized Gain on Available-for-Sale Financial Assets/ Securities	Total Capital Funds
			For the Year Ended December 31, 2005		
Balance at December 31, 2004, as previously reported	₱2,400,000,000	₱11,364,766	₱1,702,668,030	₱13,580,890	₱4,127,613,686
Effect of changes arising from transition to Philippine Financial Reporting Standards (PFRS) (Note 2)	–	–	17,061,454	–	17,061,454
Balance at December 31, 2004, as restated	2,400,000,000	11,364,766	1,719,729,484	13,580,890	4,144,675,140
Cumulative effect of change in accounting policy for financial instruments (Note 2)	–	–	(3,263,431)	–	(3,263,431)
Balance at January 1, 2005	2,400,000,000	11,364,766	1,716,466,053	13,580,890	4,141,411,709
Gain on available-for-sale financial assets transferred to income	–	–	–	(290,793,402)	(290,793,402)
Changes in fair value of available-for-sale financial assets	–	–	–	394,055,489	394,055,489
Total income directly recognized in equity	–	–	–	103,262,087	103,262,087
Net income	–	–	695,502,001	–	695,502,001
Total income for the year	–	–	695,502,001	103,262,087	798,764,088
Transfer from surplus to surplus reserves (Notes 16 and 22)	–	11,378,461	(11,378,461)	–	–
Balance at December 31, 2005	**₱2,400,000,000**	**₱22,743,227**	**₱2,400,589,593**	**₱116,842,977**	**₱4,940,175,797**
			For the Year Ended December 31, 2004		
Balance at December 31, 2003, as previously reported	₱2,400,000,000	₱6,179,644	₱1,250,419,794	₱10,166,239	₱3,666,765,677
Effect of changes arising from transition to PFRS (Note 2)	–	–	1,903,183	–	1,903,183
Balance at December 31, 2003, as restated	2,400,000,000	6,179,644	1,252,322,977	10,166,239	3,668,668,860
Gain on available-for-sale securities transferred to income	–	–	–	(112,400,866)	(112,400,866)
Changes in fair value of available-for-sale securities	–	–	–	115,815,517	115,815,517
Total income directly recognized in equity	–	–	–	3,414,651	3,414,651
Net income, as restated (Note 2)	–	–	472,591,629	–	472,591,629
Total income for the year	–	–	472,591,629	3,414,651	476,006,280
Transfer from surplus to surplus reserves (Note 22)	–	5,185,122	(5,185,122)	–	–
Balance at December 31, 2004, as restated	₱2,400,000,000	₱11,364,766	₱1,719,729,484	₱13,580,890	₱4,144,675,140

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Group		Parent Company	
	Years Ended December 31			
	2005	2004 (As restated)	2005	2004 (As restated)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	**₱764,484,193**	₱555,605,480	**₱737,483,200**	₱536,071,830
Adjustments for:				
Provision for impairment losses (Note 10)	**268,455,588**	219,468,385	**267,632,038**	218,380,671
Unrealized fair value adjustment on derivatives (Note 20)	**88,937,870**	–	**88,937,870**	–
Depreciation and amortization (Notes 7 and 8)	**44,694,388**	45,100,434	**44,281,156**	44,303,545
Amortization of software costs and branch licenses (Note 9)	**5,274,400**	8,521,548	**5,274,400**	8,521,548
Loss on sale if investment properties	**3,037,927**	3,446,890	**3,037,927**	3,446,890
Gain on asset foreclosure and dacion transactions	**(655,893)**	(30,314,974)	**(655,893)**	(30,314,974)
Gain on sale of bank premises, furniture, fixtures and equipment	**(135,329)**	(1,024,403)	**(135,329)**	(1,024,403)
Operating income before changes in operating resources and liabilities	**1,174,093,144**	800,803,360	**1,145,855,369**	779,385,107
Decrease (increase) in the amounts of:				
Financial assets at fair value through profit and loss	**5,837,653**	–	**5,837,653**	–
Trading account securities	**–**	130,516,054	**–**	130,516,054
Loans and receivables	**1,078,710,476**	–	**1,099,373,664**	–
Receivables from customers	**–**	(1,125,415,510)	**–**	(1,087,681,224)
Other resources	**(34,355,218)**	47,702,242	**(34,135,975)**	46,374,243
Increase (decrease) in the amounts of:				
Deposit liabilities	**2,703,868,684**	615,060,747	**2,659,312,551**	640,734,996
Manager's checks	**(9,025,867)**	(21,209,271)	**(9,025,867)**	(21,209,271)
Accrued taxes, interest and other expenses	**105,158,001**	53,178,876	**105,549,294**	53,736,532
Other liabilities	**(320,465,589)**	871,415,627	**(326,701,395)**	856,332,768
Net cash generated from operations	**4,703,821,284**	1,372,052,125	**4,646,065,294**	1,398,189,205
Income taxes paid	**(79,240,377)**	(54,196,001)	**(73,426,998)**	(48,260,362)
Net cash provided by operating activities	**4,624,580,907**	1,317,856,124	**4,572,638,296**	1,349,928,843
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in the amounts of:				
Available-for-sale financial assets	**(4,805,684,491)**	**–**	**(4,754,869,686)**	–
Available-for-sale securities	**–**	(1,330,218,786)	**–**	(1,330,218,785)
Held-to-maturity financial assets	**(179,557)**	**–**	**(179,557)**	–
Investments in bonds and other debt instruments	**–**	1,612,819,639	**–**	1,612,992,421
Additions to bank premises, furniture, fixtures and equipment (Note 6)	**(77,232,151)**	(44,983,814)	**(76,432,151)**	(44,875,714)

(Forward)

	Group		Parent Company	
	Years Ended December 31			
	2005	2004 (As restated)	2005	2004 (As restated)
Proceeds from sale of investment properties	**₱7,076,441**	₱24,717,367	**₱7,076,441**	₱24,717,367
Proceeds from sale of bank premises, furniture, fixtures and equipment	**398,929**	4,402,904	**398,929**	4,402,904
Net cash provided by (used in) investing activities	**(4,875,620,829)**	266,737,310	**(4,824,006,024)**	267,018,193
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from bills payable	**14,570,605,542**	28,091,958,604	**14,570,605,542**	28,076,958,604
Payments of bills payable	**(14,015,122,687)**	(29,157,901,739)	**(14,015,122,687)**	(29,157,901,739)
Net cash provided by (used in) financing activities	**555,482,855**	(1,065,943,135)	**555,482,855**	(1,080,943,135)
NET INCREASE IN CASH AND CASH EQUIVALENTS	**304,442,933**	518,650,299	**304,115,127**	536,003,901
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	**493,740,080**	453,833,745	**492,041,158**	434,781,221
Due from Bangko Sentral ng Pilipinas (BSP)	**179,515,725**	279,454,313	**179,515,725**	279,454,313
Due from other banks	**564,052,630**	742,639,720	**564,052,630**	742,639,720
Interbank loans receivable and securities purchased under agreements to resell	**1,964,495,391**	1,207,225,749	**1,964,495,391**	1,207,225,749
	3,201,803,826	2,683,153,527	**3,200,104,904**	2,664,101,003
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	**414,862,653**	493,740,080	**412,835,925**	492,041,158
Due from BSP	**373,719,537**	179,515,725	**373,719,537**	179,515,725
Due from other banks	**781,647,716**	564,052,630	**781,647,716**	564,052,630
Interbank loans receivable and securities purchased under agreements to resell	**1,936,016,853**	1,964,495,391	**1,936,016,853**	1,964,495,391
	₱3,506,246,759	₱3,201,803,826	**₱3,504,220,031**	₱3,200,104,904

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES NOTES TO FINANCIAL STATEMENTS

1. **General Information**

Asia United Bank Corporation (the Parent Company) was granted authority as a commercial bank under the Monetary Board (MB) Resolution No. 1149 dated September 3, 1997 and commenced operations on October 31, 1997.

The Parent Company is a domestic corporation registered with the Securities and Exchange Commission (SEC) on October 3, 1997. The Parent Company provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to enter into regular financial derivatives as a means of reducing and managing the Parent Company's and its customers' foreign exchange exposure.

The Parent Company's principal place of business is at the Ground Floor, Parc Royale Condominium, Doña Julia Vargas Avenue, Pasig City. The Parent Company operates through its 26 domestic branches as of December 31, 2005 and 2004.

The accompanying consolidated financial statements of the Group and of the Parent Company as of and for the years ended December 31, 2005 and 2004 were approved and authorized for issue by the Audit Committee, as designated by the Board of Directors (BOD) on April 21, 2006.

2. **Summary of Significant Accounting Policies**

Basis of Financial Statement Preparation

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

These financial statements are prepared under the historical cost convention modified by the fair value measurement of available-for-sale (AFS) financial assets and certain derivative instruments in 2005 and available-for-sale securities (ASS) and trading account securities (TAS) in 2004.

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

The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in their original currencies. For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the Philippine Dealing System weighted average rate (PDSWAR) for the year (for resources and liabilities) and at the PDSWAR prevailing on transaction dates (for income and expenses). Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated resources and liabilities are credited to or charged against current operations.

The Group applied PFRS 1, *First-time Adoption of PFRS*, in preparing its financial statements with January 1, 2004 as the date of transition. The Group's PFRS adoption date is January 1, 2005. The Group applied the accounting policies set forth below to all the years presented, except those relating to the classification and measurement of financial instruments. An explanation of how the transition to PFRS has affected the reported financial position, financial performance and cash flows of the Group and the Parent Company is provided below.

Explanation of Transition to PFRS

The transition to PFRS resulted in certain changes to the Group's previous accounting policies (referred to in the following explanations and tables as "previous GAAP"). The comparative figures for 2004 were restated to reflect the changes in accounting policies discussed below resulting from transition to PFRS, except those relating to financial instruments. The Group has made use of the optional exemption available under PFRS 1, and as allowed by the SEC, to apply Philippine Accounting Standard (PAS) 32, *Financial Instruments: Disclosure and Presentation* and PAS 39, *Financial Instruments: Recognition and Measurement*, to financial instruments outstanding as of January 1, 2005. The adjustments required for the differences between the previous GAAP and PAS 32 and PAS 39 are determined and recognized directly against the January 1, 2005 surplus and net accumulated unrealized gains on available-for-sale (AFS) financial assets, presented in the capital funds.

In particular, the Group elected to apply the following exemptions from full retrospective application with respect to financial instruments:

Exemption from restatement of comparative financial information for PAS 32 and PAS 39

The Group elected to apply this exemption. It applies previous GAAP rules with respect to measurement of derivatives, financial assets and financial liabilities for the comparative information for 2004.

Exemption from designation of financial assets and financial liabilities

The Group reclassified various debt and equity securities as financial assets at fair value through profit and loss (FVPL), AFS and held-to-maturity (HTM) financial assets as of January 1, 2005. The classification of these financial assets were not restated for the comparative information presented in 2004.

Exemption in respect of derecognition of financial assets and liabilities

Financial assets and financial liabilities derecognized before January 1, 2004 are not recognized. The application of the exemption from restating comparatives for PAS 32 and PAS 39 means that the Group recognized from January 1, 2005 any financial assets and financial liabilities derecognized since January 1, 2004 that do not meet the PAS 39 derecognition criteria. Management did not choose to apply the PAS 39 derecognition criteria to an earlier date.

Prior to transition to PFRS, the Group prepared its financial statements until December 31, 2004 in compliance with previous Statements of Financial Accounting Standards/International Accounting Standards.

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

Reconciliation of Selected Accounts in the Consolidated Statements of Condition

		At January 1, 2004 (date of transition)			At December 31, 2004 (end of last period presented under previous GAAP)		
Selected Accounts	Notes	Previous GAAP	Effect of Transition to PFRS	PFRS	Previous GAAP	Effect of Transition to PFRS	PFRS
Assets							
Investment properties - net	b	₱–	₱18,557,465	₱18,557,465	₱–	₱235,600,680	₱235,600,680
Real and other properties owned or acquired -net	b	13,161,219	(13,161,219)	–	203,631,801	(203,631,801)	–
Deferred tax assets - net	d	211,482,735	(4,844,901)	206,637,834	201,314,194	(14,317,140)	186,997,054
Liabilities							
Accrued taxes, interest and other expenses	a	204,675,473	(23,909,869)	180,765,604	266,257,728	(32,259,984)	233,997,744
Other liabilities	a	688,598,041	14,165,800	702,763,841	1,581,032,656	19,487,800	1,600,520,456
Capital Funds							
Capital stock		2,400,000,000	–	2,400,000,000	2,400,000,000	–	2,400,000,000
Surplus reserves		22,743,227	–	22,743,227	11,364,766	–	11,364,766
Surplus	c	1,249,992,804	10,295,414	1,260,288,218	1,702,425,131	30,423,923	1,732,849,054
Net unrealized gains on available-for-sale securities		10,166,239	–	10,166,239	13,580,890	–	13,580,890

Reconciliation of Selected Accounts in the 2004 Consolidated Statement of Income

Selected Accounts	Notes	Previous GAAP	Effect of Transition to PFRS	PFRS
		For the Year Ended December 31, 2004		
Other income				
Gain on asset foreclosures and dacion transactions	b	₱–	₱30,314,974	₱30,314,974
Other expenses				
Compensation and fringe benefits	a	195,429,401	(3,028,115)	192,401,286
Depreciation and amortization	b	44,804,983	295,451	45,100,434
Loss on sale of investment properties	b	–	3,446,890	3,446,890
Income before income tax		530,974,970	24,630,510	555,605,480
Provision for income tax	d	59,864,291	9,472,239	69,336,530
Net income		471,111,679	15,158,271	486,268,950

The above effects of the transition to PFRS on the consolidated statements of condition at January 1, 2004 and December 31, 2004 and on the 2004 consolidated statements of income represent the effect of transition to PFRS on the parent company financial statements. The transition to PFRS has no material effect on the financial statements of the subsidiaries. Apart from the foregoing adjustments on the above table, an additional decrease in surplus was made amounting to ₱8.4 million and ₱13.4 million at January 1, 2004 and December 31, 2004, respectively, in the parent company financial statements to adjust the investments in subsidiaries. Equity investments decreased by the same amount as of January 1, 2004 and December 31, 2004. The Parent Company net income also decreased by ₱5.0 million, representing the reversal of equity in net earnings of subsidiaries for the year. These adjustments in the parent company financial statements resulted from the adoption of PAS 27, *Consolidated Financial Statements and Accounting for Investments in Subsidiaries*, which requires that investments in subsidiaries in the separate financial statements be accounted for at cost or in accordance with PAS 39. Equity method is no longer allowed in the separate financial statements. The Parent Company has adopted the cost method in accounting for investments in subsidiaries.

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

a. PAS 19, *Employee Benefits*, provides for the accounting for long-term and other employee benefit. The standard requires the projected unit credit method in determining the retirement benefits of the employees and a change in the manner of computing retirement expense relating to past service cost and actuarial gains and losses. The standard also requires the immediate recognition of short-term compensated absences (such as vacation leave credits) which have vested to the employees as of statement of condition date at their undiscounted amounts. These would include even those compensated absences which are expected to occur beyond twelve months after the end of the period in which the employees render the related employee services.

   As of December 31, 2005, the Group has no formal retirement plan. The actuarial valuation prepared by an independent actuary is based on the requirements under Mandatory Retirement Law, Republic Act (R.A.) No. 7641. The adoption of PAS 19 resulted in reduction of pension obligation by ₱9.7 million and ₱12.8 million, which increased surplus by ₱6.6 million and ₱8.7 million as of January 1, 2004 and December 31, 2004, respectively, net of related deferred income tax effect. Net income in 2004 increased by ₱2.1 million, net of related deferred income tax effect.

   Accrued retirement expense was reclassified from accrued taxes, interest and other expenses account to other liabilities account to conform with the current year classification amounting to ₱23.9 million and ₱32.3 million as of January 1, 2004 and December 31, 2004, respectively.

b. PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits companies to choose either the fair value model or cost model in accounting for investment property. Investment properties under PFRS may include land and buildings which were acquired through dacion or foreclosure (previously considered as Real and Other Properties Owned or Acquired or ROPOA). Such assets, being acquired through a nonmonetary exchange, should be recorded at their fair market values at initial recognition, including any costs directly attributable to their acquisition. The Group adopted the cost model for its investment properties. Under the cost model, the assets are carried at cost, less accumulated depreciation and any accumulated impairment in value.

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

Description	January 1, 2004	December 31, 2004
Reclassification from ROPOA	₱13,161,219	₱203,631,801
Gains on asset foreclosures and dacion transactions	6,175,494	36,490,468
Accumulated depreciation recognized on ROPOA treated as investment properties	(779,248)	(1,074,699)
Adjustment to recorded income from ROPOA dispositions	–	(3,446,890)
	₱18,557,465	₱235,600,680

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

Description	January 1, 2004	December 31, 2004
Adjustment to recognize pension obligation	₱9,744,069	₱12,772,184
Measurement of equity investments at cost	(8,392,231)	(13,362,469)
Gains on asset foreclosures and dacion transactions	6,175,494	36,490,468
Accumulated depreciation recognized on ROPOA treated as investment properties	(779,248)	(1,074,699)
Adjustment to recorded income from ROPOA dispositions	–	(3,446,890)
Decrease in net deferred tax assets resulting from the above adjustments	(4,844,901)	(14,317,140)
	₱1,903,183	₱17,061,454

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

Description	January 1, 2004	December 31, 2004
Other liabilities (item a)	₱3,118,102	₱4,087,099
Investment properties (item c)	1,726,799	10,230,041
	₱4,844,901	₱14,317,140

   The 2004 movement of effect on net deferred tax assets amounting to ₱9.5 million increased the provision for income tax in 2004 of the same amount.

Effect on the Consolidated Statements of Cash Flows for 2004

There are no material differences between the statements of cash flows prepared under PFRS and previous GAAP.

Impact of New Accounting Standards on Financial Instruments

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

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of a company's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, a company should continue to measure financial assets at their fair values, except for loans and receivables and HTM financial assets, which are measured at cost or amortized cost using the effective interest rate (EIR) method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as at FVPL and derivatives, which are subsequently measured at fair value.

  The adoption of the provision of PAS 39 on the use of the EIR method and the classification and related measurement of financial assets and financial liabilities resulted in a decrease in surplus amounting to ₱4.6 million as of January 1, 2005.

  Under PAS 39, if there is objective evidence that an impairment on loans and receivables and other financial assets carried at amortized cost are incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of future cash flows. Prior to January 1, 2005, the allowance for probable losses on receivables from customers and other risk assets was determined based on management criteria and BSP requirements. The adoption of the provision of PAS 39 on impairment of financial assets has no material effect on surplus and on the adequacy of allowance for probable losses as of January 1, 2005.

  PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instrument to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the statement of condition as either an asset or a liability measured at its fair value. Derivatives that are not hedges are adjusted to fair value through income. If a derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of derivatives are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in capital funds until the hedged item is recognized in income. A company must formally document, designate, and assess the effectiveness of derivative transactions that receive hedge accounting treatment. The Group adopted the fair value valuation method for all its derivative transactions. The effect of adopting the fair valuation method resulted in an increase to surplus amounting to ₱1.3 million as of January 1, 2005.

  As allowed by the SEC and under PFRS 1, the cumulative adjustments required for differences between the previous GAAP and PAS 32 and PAS 39 are determined and recognized directly against the January 1, 2005 surplus and the cumulative unrealized gain of AFS financial assets presented in capital funds. Reclassifications were also made to the financial assets as of January 1, 2005 to conform with the classification requirements under PAS 32.

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

Account Description	Previous GAAP	Reclassification	PFRS
Trading account securities	₱205,737,653	(₱205,737,653)	₱–
Financial assets at FVPL	–	5,837,653	5,837,653
ASS	2,161,950,244	(2,161,950,244)	–
AFS financial assets	–	2,186,931,629	2,186,931,629
Investment in bonds and other debt instruments (IBODI)	820,242,862	(820,242,862)	–
HTM financial assets - net	–	44,637,269	44,637,269
Receivables from customers - net	11,349,883,248	(11,349,883,248)	–
Loans and receivables - net	–	12,478,187,947	12,478,187,947
Equity investments (Note 6)	12,087,746	(12,087,746)	–
Other resources - net	255,326,932	(165,692,745)	89,634,187

b. The net adjustment to surplus, net of related deferred income tax, as of January 1, 2005 consists of:

Description	
Remeasurement of amortized cost of loans and receivables, AFS and HTM financial assets using the EIR method	(₱4,611,203)
Mark-to-market adjustment of forward contracts	1,347,772
	(₱3,263,431)

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

- PAS 1, *Presentation of Financial Statements*;
- PAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*;
- PAS 10, *Events after Balance Sheet Date*;
- PAS 17, *Leases*;
- PAS 24, *Related Party Disclosures*;
- PAS 30, *Disclosure in the Financial Statements of Banks and Similar Institution*;
- PAS 36, *Impairment of Assets*; and
- PFRS 5, *Noncurrent Assets Held for Sale and Discontinued Operations.*

Standards Effective After 2005
The Group did not early adopt the following standards and amendments that have been approved but are not yet effective:

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

- PFRS 7, *Financial Instruments: Disclosures*, will be included in the Group's financial statements when it adopts the standard in 2007.

Basis of Consolidation
The Group's financial statements include the accounts of the Parent Company and the following subsidiaries, which financial policies and operations are controlled by the Parent Company together with the common major shareholders of the Parent Company and the subsidiaries:

Subsidiary	Principal Activities	Country of Incorporation	Effective Percentage of Ownership
Asia United Leasing and Finance Corporation (AULFC)	Leasing and financing business	Philippines	39%
Asia United Forex Corporation (AUFC)	Foreign exchange services	- do-	32%

Subsidiaries are consolidated from the date on which control is transferred to the Group and cease to be consolidated from the date on which control is transferred out of the Group.

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

The financial statements of the Group are prepared using uniform accounting policies for like transactions and other events in similar circumstances.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, and interbank loans receivable and securities purchased under agreements to resell with maturities of three months or less from original dates of placements that have insignificant risk of changes in value.

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

Financial Assets and Financial Liabilities
Accounting Policy Effective January 1, 2005
All financial assets and financial liabilities are initially recognized at fair value. Except for financial assets and financial liabilities at FVPL, the initial measurement of financial assets and financial liabilities includes certain transactions costs. The Group classifies its financial assets in the following categories: financial assets at FVPL, AFS financial assets, HTM financial assets and loans and receivables. The classification depends on the purpose for which the financial assets were acquired and whether they are quoted in an active market. The Group determines the classification of its financial assets at initial recognition and re-evaluates this designation at every reporting date, except for financial assets at FVPL and HTM financial assets.

(a) *Financial assets at FVPL*
A financial asset is classified in this category if acquired principally for the purpose of selling in the short-term or if so designated by management.

Financial assets at FVPL are carried at fair value. Realized and unrealized gains and losses on these financial assets are recognized as trading and securities gain in the statement of income. Interest earned on debt instruments classified as financial assets at FVPL is reported as interest income. Quoted market prices, when available, are used to determine the fair value of trading instruments. If the securities are not traded, a calculated price is used based on the last done rate, or the indicative bid or bid rates from brokers or market makers, whichever is available.

As of December 31, 2005, the Group has no financial assets at FVPL.

(b) *AFS financial assets*
Financial assets not quoted in an active market are classified as AFS financial assets when purchased and held indefinitely, but which the Group anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors. AFS also include all other financial assets that are not classified as financial assets at FVPL, HTM financial assets or loans and receivables. Financial assets may be designated under this category provided that such are not held for trading. AFS financial assets include investments in unquoted equity investments where the Group's ownership interest is less than 20% or where control is likely to be temporary.

AFS financial assets are carried at fair market value. The effective yield component of AFS debt securities are reported in statement of income. The unrealized gains or losses arising from the fair valuation of AFS financial assets are excluded from reported income and reported as a separate component of capital funds until the financial asset is derecognized or until the financial asset is determined to be impaired at which time the net unrealized gains or losses previously reported in the capital funds are included in the statement of income. Interest income is accrued based on the EIR method. For unquoted equity investments classified as AFS financial assets, the Group carries such investments at cost, less any accumulated impairment in value, due to unpredictable nature of future cash flows and the lack of other suitable methods for arriving at a reliable fair value.

(c) *HTM financial assets*
HTM financial assets are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has both the positive intention and ability to hold to maturity.

These securities are carried at amortized cost using the EIR method, less any accumulated impairment in value. An allowance for probable losses is established by a charge to income to reflect other-than-temporary impairment in value. The cost of HTM financial asset used for determining the gain or loss on sale of such investment is determined based on the specific identification method.

When a debt security is transferred from AFS financial asset to HTM financial asset, the unrealized holding gain or loss at the date of transfer is maintained as a separate component of capital funds and is amortized over the remaining life of the security as an adjustment of yield in a manner consistent with the amortization of premium or accretion of discount.

(d) *Loans and receivables*
Loans and receivables include non-derivative financial resources with fixed or determinable payments that are not quoted in an active market and for which the Group has no intention of trading.

Loans and receivables are carried at amortized cost using the EIR, reduced by unearned discounts and capitalized interest on restructured loans and allowance for impairment losses. Gains and losses are recognized in the statement of income when the loans and receivables are derecognized or impaired.

(e) *Derivative financial instruments*
The Group is a party to derivative instruments, particularly forward exchange contracts, with off-balance sheet risk. Such derivative financial instruments are stated at fair value through profit and loss.

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

Prior to January 1, 2005, the Group classified its financial assets into TAS, ASS, IBODI, receivable from customers, other investments and other derivative financial instruments.

(a) *Trading Account Securities*
TAS consist of government and private debt and equity securities purchased and held principally with intention of selling them in the near term. These securities are carried at fair market value; realized and unrealized gains and losses on these instruments are recognized in trading and securities gain - net in the statement of income. Interest earned on debt instruments is reported as interest income in the statement of income.

(b) *Available-for-Sale Securities*
Securities are classified as ASS when purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the Group anticipates selling in response to liquidity requirements or in anticipation of changes in interest rates or other factors. ASS are carried at fair market value and any unrealized gains or losses are reported as a separate component of capital funds. Realized gains and losses are included in trading and securities gain in the statement of income.

(c) *Investments in Bonds and Other Debt Instruments*
IBODI are debt securities where the Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost; amortization of premium or accretion of discount is included in interest income while realized gains and losses are included in trading and securities gain - net in the statement of income. An allowance for probable losses, if any, is established by a charge against income to reflect other-than-temporary impairment in value.

(d) *Receivables from Customers and Allowance for Probable Losses*
Receivables from customers are stated at outstanding balances, reduced by unearned discounts and allowance for probable losses.

Unearned discounts are recognized as income over the terms of the receivables. Interest income on nondiscounted loans is accrued as earned, except in the case of nonaccuring loans as required under existing BSP regulations.

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

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

(f) *Derivative financial instruments*
For derivative contracts designated and qualified as a hedge, the discount or premium is amortized over the term of the contract and the revaluation gains or losses are deferred or recognized as income or expense over the terms of the hedged instruments. Derivative contracts which are not designated or do not qualify as hedges are marked-to-market with revaluation gains and losses credited to or charged against current operations.

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

- The rights to receive cash flows from the asset have expired;
- The Group retains the right to receive cash flows from the asset, but has assumed an obligation to pay them in full without material delay to a third party under a 'pass-through' arrangement;
- The Group has transferred its rights to receive cash flows from the asset and either has transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

Residual Value of Leased Assets and Deposits on Finance Leases
The residual value of leased equipment is the estimated proceeds from the disposal of the leased asset at the end of the lease term which approximates the amount of guaranty deposit paid by the lessee, at the inception of the lease. At the end of the lease term, the residual value is generally applied against the guaranty deposit of the lessee.

Investments in Subsidiaries
Investments in subsidiaries of the Parent Company are accounted for using the cost method of accounting. A subsidiary is an enterprise that is controlled by the Parent Company. Under the cost method, the Parent Company recognizes income from the investment only to the extent that it receives distributions from accumulated profits of the subsidiary arising after the date of acquisition. Distributions in excess of such profits are regarded as recovery of investment and are recognized as a reduction of cost of the investment.

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

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any accumulated impairment in value. The initial cost of bank premises, furniture, fixtures and equipment consists of its purchase price, including import duties, taxes and any directly attributable costs of bringing the assets to their working condition and location for their intended use. Expenditures incurred after the assets have been put into operation, such as repairs and maintenance are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the assets. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization and any accumulated impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Depreciation and amortization are computed using the straight-line method over the estimated useful lives of the respective assets.

Estimated useful lives of bank premises, furniture, fixtures and equipment are as follows:

Building	40 years
Furniture, fixtures and equipment	3 years
Transportation equipment	5 years
Leasehold rights and improvements	5 years or the terms of the related leases, whichever is shorter

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

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

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

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

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

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

Depreciation is calculated on a straight-line basis using the remaining useful lives from the time of acquisition of the investment properties. Remaining useful lives of the buildings range from 18 to 33 years.

Computer Software
Computer software, included in software and branch licenses under Other Resources, represents deferred software costs that are amortized over five years on a straight-line basis.

Income Taxes
Current Income Tax
Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws to compute the amount are those that are enacted or substantially enacted by the balance sheet date.

Deferred Income Tax
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 resources and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences. Deferred income tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from the excess of minimum corporate income tax (MCIT) over the regular income tax and unused net operating loss carryover (NOLCO), to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carryforward of unused tax credits from MCIT and unused NOLCO can be utilized.

Deferred tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries.

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

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

Impairment of Financial Assets
Accounting Policy Effective January 1, 2005
An assessment is made at each statement of condition date as to whether there is objective evidence that a specific financial asset may be impaired. If such evidence exists, any impairment loss is recognized in the statement of income.

(a) Assets Carried at Amortized Cost. If there is objective evidence that an impairment loss on loans and receivables and HTM financial assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition). The carrying amount of the asset shall be reduced either directly or through use of an allowance account. The amount of the loss shall be recognized in the statement of income.

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

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of similar credit characteristics (i.e., asset type, collateral type, past due status aged into months outstanding 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. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment loss was recognized, the previously recognized impairment loss is reversed by adjusting the allowance account. Any subsequent reversal of an impairment loss is recognized in the statement of income, to the extent that the carrying value of the asset does not exceed its amortized cost at the reversal date.

(b) Assets Carried at Cost. If there is objective evidence that an impairment loss on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

(c) AFS Financial Assets. If an AFS financial asset is impaired, an amount comprising the difference between its cost (net of any principal payment and amortization) and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from capital funds and recognized in the statement of income. If, in a subsequent period, the fair value of the debt instrument classified as AFS financial asset increases and the increase in value can be objectively related to an event occurring after the impairment loss was recognized in profit or loss, the impairment loss is reversed in the statement of income.

Accounting Policy Effective Prior to January 1, 2005
The accounting policy for probable losses, particularly on receivables from customers, represents management's estimate of probable losses inherent in the portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable values based on fair market value of underlying collaterals, prospect of support from guarantors, subsequent collections, and evaluations made by the BSP. The BSP observes certain criteria and guidelines based largely on classification of loans in establishing specific loan loss reserves.

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

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

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

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

Foreign Exchange Translation and Transactions
Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at prevailing PDSWAR at the end of each year. Income and expense items are translated at PDSWAR prevailing on transaction dates. Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated resources and liabilities are credited to or charged against current operations.

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

Interest Income
Interest income on loans is recognized based on accrual accounting using EIR method. In 2004 and prior years, interest income on nonaccruing loans was recognized only to the extent of actual cash collections. Beginning 2005, interest income on impaired loans is recognized through accretion based on the rate used to discount future cash flows to their net present value.

Interest on interest-bearing placements and securities is recognized on a time proportion basis using the EIR method.

Unearned Discount
Unearned discount is recognized as income over the life of the loans and receivables using the EIR method and shown as a deduction from loans and receivables.

Lease and finance income
The excess of aggregate rentals and estimated residual value (gross finance lease receivable) of the leased asset over the cost of the leased asset constitutes unearned lease income. The unearned lease income is amortized over the term of the lease using the EIR method.

Finance charges are included in the face value of the loans and receivables financed and with a corresponding credit to the unearned finance income. This is amortized to income over the term of the financing agreement using the EIR method.

Fees and Commissions
Generally, fees and commissions are recognized on the accrual basis. Commitment fees are recognized as earned as a percentage of unavailed credit lines, as appropriate.

Service Charges and Penalties
Service charges and penalties are recognized only upon collection or accrued where there is reasonable certainty as to its collectibility.

Pension Cost
The cost of providing benefits under the defined benefit plans is determined using the projected unit credit actuarial valuation method. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses at the end of the previous reporting year exceeded 10% of the higher of the defined benefit obligation and the fair value of plan assets at that date. These gains or losses are recognized over the expected average remaining working life of the employees participating in the plans.

The past service cost is recognized as an expense on a straight-line basis over the average period until the benefits become vested. If the benefits are already vested immediately following the introduction of, or changes to, a pension plan, past service cost is recognized immediately.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and actuarial gains and losses not recognized reduced by past service cost not yet recognized and the fair value of plan assets out of which the obligations are to be settled directly.

As of December 31, 2005, the Group has no formal retirement plan yet. The Group recognizes pension cost based on the requirements of R.A. 7641.

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

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

3. **Management's Use of Judgments and Estimates**

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

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

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

The amount and timing of recorded provision for any period would differ if the Group made different judgments or utilized different estimates. An increase in allowance for impairment losses would increase provision for impairment losses and decrease the resources.

As of December 31, 2005, the Group and the Parent Company's loans and receivables amounted to ₱11.1 billion and ₱10.9 billion, net of allowance for impairment losses amounting to ₱609.1 million and ₱604.2 million, respectively. Provision for impairment losses in 2005 amounted to ₱268.5 million for the Group and ₱267.6 million for the Parent Company.

Fair value of financial instruments
The fair values of financial instruments that are not quoted in active markets are determined by using valuation techniques. Where valuation techniques (for example, models) are used to determine fair values, they are validated and periodically reviewed by qualified personnel independent of the area that created them. All models are certified before they are used, and models are calibrated to ensure that outputs reflect actual data and

comparative market prices. To the extent practical, models use only observable data, however areas such as credit risk (both own and counterparty), volatilities and correlations require management to make estimates. Changes in assumptions about these factors could affect reported fair value of financial instruments. Refer to Note 22 to financial statements for summary of fair value of financial assets and financial liabilities.

Impairment of AFS financial assets
The Group determines that AFS financial assets are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows. The Group and the Parent Company's AFS financial assets as of December 31, 2005 amounted to ₱7.0 billion and ₱6.9 billion, respectively.

HTM financial assets
The Group follows the guidance of PAS 39 on classifying non-derivative financial resources with fixed or determinable payments and fixed maturity as HTM financial assets. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances – for example, selling an insignificant amount close to maturity – it will be required to reclassify the entire portfolio to AFS financial assets. The investments would therefore be measured at fair value and not at amortized cost. If the entire HTM financial assets portfolio is tainted, the carrying value would increase by ₱0.8 million, with a corresponding entry in the unrealized gain on AFS financial assets, presented as part of capital funds. As of December 31, 2005, HTM financial assets amounted to ₱44.8 million.

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

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

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

In determining the present value of estimated future cash flows expected to be generated from the continued use of the assets, the Group is required to make estimates and assumptions that can materially affect the financial statements.

As of December 31, 2005, the carrying value of investment properties amounted to ₱234.5 million, while the carrying value of bank premises, furniture, fixtures and equipment amounted to ₱121.7 million for the Group and ₱120.8 million for the Parent Company.

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

Contingencies
The Group is currently involved in various legal proceedings. The estimate of the probable costs for the resolution of these claims has been developed in consultation with outside counsel handling the Group's defense in these matters and is based upon an analysis of potential results. The Group currently does not believe that these proceedings will have a material adverse effect on its financial position. It is possible, however, that future results of operations could be materially affected by changes in the estimates or in the effectiveness of the strategies relating to these proceedings (Note 25).

4. Debt and Equity Securities Classified as Financial Assets

TAS as of December 31, 2004 consist of:

Government securities	₱5,837,653
Private bonds and commercial papers	199,900,000
	₱205,737,653

TAS as of December 31, 2004 include net unrealized gain of ₱1,055.

The Group's AFS financial assets as of December 31, 2005 and AFS securities as of December 31, 2004 consist of:

	2005	2004
Private bonds and commercial papers	**₱5,985,489,644**	₱1,362,343,624
Government securities	**1,009,970,442**	799,606,620
Equity shares	**12,087,746**	–
	₱7,007,547,832	₱2,161,950,244

The Group's AFS financial assets as of December 31, 2005 and AFS securities as of December 31, 2004 include unrealized gain of ₱117.0 million and ₱13.6 million, respectively.

HTM financial assets as of December 31, 2005 and IBODI as of December 31, 2004 consist of:

	2005	2004
Treasury notes	**₱44,816,826**	₱552,815,442
Private bonds and commercial papers	**–**	241,074,689
Others	**–**	26,352,731
	₱44,816,826	₱820,242,862

The 85.9% of the total loans and receivables as of December 31, 2005 and 73.3% of the total receivables from customers as of December 31, 2004 are subject to periodic interest repricing.

The aggregate market value of HTM financial assets as of December 31, 2005 and IBODI as of December 31, 2004 amounted to ₱46.2 million and ₱653.3 million, respectively.

5. Loans and Receivables and Receivables from Customers

The loans and receivables as of December 31, 2005 and receivables from customers as of December 31, 2004 consist of:

	Group		Parent Company	
	2005	2004	2005	2004
Loans and discounts	**₱7,991,326,880**	₱9,201,227,650	**₱7,991,326,880**	₱9,201,227,650
Finance lease receivables	**166,410,296**	158,302,119	**–**	–
Loans and receivables financed	**108,678,251**	100,371,264	**–**	–
	8,266,415,427	9,459,901,033	**7,991,326,880**	9,201,227,650
Unearned discounts and unearned lease/ finance income	**252,215,031**	187,552,176	**212,247,948**	145,452,591
	8,014,200,396	9,272,348,857	**7,779,078,932**	9,055,775,059
Customers' liabilities under acceptances and letters of credit/trust receipts	**1,687,345,488**	1,701,696,062	**1,687,345,488**	1,701,696,062
Unquoted debt securities	**1,151,642,334**	–	**1,151,642,334**	–
Bills purchased	**550,278,982**	924,572,333	**550,278,982**	924,572,333
Accrued interest receivable	**156,820,116**	–	**154,472,952**	–
Interbank loans	**85,770,301**	–	**85,770,301**	–
Accounts receivable	**78,558,431**	–	**78,790,074**	–
Sales contract receivable	**463,345**	–	**463,345**	–
	11,725,079,393	11,898,617,252	**11,487,842,408**	11,682,043,454
Allowance for impairment losses (Note 10)	**609,139,950**	548,734,004	**604,185,870**	544,603,474
	₱11,115,939,443	₱11,349,883,248	**₱10,883,656,538**	₱11,137,439,980

Unquoted debt securities consist of certain government bonds and private bonds and commercial papers.

Interbank loans receivable included in loans and receivables are those with original maturity of beyond one year.

Loans and receivables amounting to ₱564.5 million as of December 31, 2005 and receivables from customers amounting to ₱836.7 million as of December 31, 2004 have been rediscounted under the BSP, Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Social Security System (SSS) rediscounting facilities (Note 12).

The 85.9% of the total loans and receivables as of December 31, 2005 and 73.3% of the total receivables from customers as of December 31, 2004 are subject to periodic interest repricing.

The details of the secured and unsecured loans and receivables as of December 31, 2005 and receivables from customers as of December 31, 2004 are as follows:

	Group			
	2005		2004	
	Amount	**%**	Amount	%
	(In Thousands)			
Secured:				
Deposit hold-out and others	**₱4,006,838**	**33**	₱2,188,142	18
Real estate	**2,246,798**	**19**	1,542,594	13
Chattel	**264,107**	**2**	268,887	2
	6,517,743	**54**	3,999,623	33
Unsecured	**5,459,551**	**46**	8,086,546	67
	₱11,977,294	**100**	₱12,086,169	100

	Parent Company			
	2005		2004	
	Amount	**%**	Amount	%
	(In Thousands)			
Secured:				
Deposit hold-out and others	**₱3,838,313**	**33**	₱1,383,843	12
Real estate	**2,223,872**	**19**	2,164,638	18
Chattel	**183,450**	**1**	194,125	2
	6,245,635	**53**	3,742,606	32
Unsecured	**5,454,456**	**47**	8,084,890	68
	₱11,700,091	**100**	₱11,827,496	100

As of December 31, 2005 and 2004, information on the concentration of credit as to industry follows:

	Group			
	2005		2004	
	Amount	**%**	Amount	%
	(In Thousands)			
Wholesale and retail trade	**₱2,648,170**	**22**	₱2,717,220	23
Manufacturing (various industries)	**2,131,229**	**18**	2,299,099	19
Real estate, renting and business services	**1,539,379**	**13**	1,722,434	14
Public utilities	**993,654**	**8**	1,154,550	10
Financial intermediaries	**846,753**	**7**	896,830	7
Agriculture, fisheries and forestry	**417,203**	**4**	603,932	5
Others	**3,400,906**	**28**	2,692,104	22
	₱11,977,294	**100**	₱12,086,169	100

	Parent Company			
	2005		2004	
	Amount	**%**	Amount	%
	(In Thousands)			
Wholesale and retail trade	**₱2,596,313**	**22**	₱2,262,151	19
Manufacturing (various industries)	**2,098,231**	**18**	2,671,966	23
Real estate, renting and business services	**1,458,330**	**13**	1,625,804	14
Public utilities	**993,654**	**9**	1,154,550	10
Financial intermediaries	**834,554**	**7**	882,820	7
Agriculture, fisheries and forestry	**399,553**	**3**	586,276	5
Others	**3,319,456**	**28**	2,643,929	22
	₱11,700,091	**100**	₱11,827,496	100

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

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

	2005	2004
Total NPLs	**₱935,290,000**	₱957,589,763
Less NPLs fully covered by allowance for impairment losses	**103,444,149**	3,610,465
	₱831,845,851	₱953,979,298

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

	2005	2004
Secured	**₱662,003,796**	₱679,782,822
Unsecured	**273,286,204**	277,806,941
	₱935,290,000	₱957,589,763

Restructured loans and discounts amounted to ₱65.2 million and ₱24.8 million as of December 31, 2005 and 2004, respectively.

The table below presents the breakdown of gross and net investment in finance receivables by contractual maturity dates as of December 31, 2005 and 2004:

	2005	2004
Gross investment in finance lease receivables due:		
Within one year	**₱70,651,434**	₱20,600,163
Beyond one year but not beyond five years	**95,758,862**	137,701,956
	166,410,296	158,302,119
Less unearned leasing income	**20,404,793**	20,415,234
	₱146,005,503	₱137,886,885
Net investment in finance lease receivables:		
Within one year	**₱70,182,010**	₱19,947,027
Beyond one year but not beyond five years	**75,823,493**	117,939,858
	₱146,005,503	₱137,886,885

As of December 31, 2005 and 2004, past-due finance lease receivables amounted to ₱7.3 million and ₱4.8 million, respectively.

The table below presents the breakdown of loans receivables financed by contractual maturity dates as of December 31, 2005 and 2004:

	2005	2004
Due within one year	**₱57,545,346**	₱8,224,889
Beyond one year but not beyond five years	**18,085,023**	92,146,375
Beyond five years	**33,047,882**	–
	₱108,678,251	₱100,371,264

As of December 31, 2005 and 2004, past-due loans and receivables financed amounted to ₱4.8 million and ₱0.6 million, respectively.

6. **Equity Investments**

As of December 31, 2005 and 2004, equity investments of the Parent Company as of December 31, 20045 and 2004 consist of:

	2005	2004 (As restated)
Equity investments in subsidiaries:		
Acquisition cost:		
Asia United Leasing and Finance (AULFC) Corporation (39% owned)	**₱35,100,000**	₱35,100,000
Asia United Forex Corporation (AUFC) (32% owned)	**16,000,000**	16,000,000
	51,100,000	51,100,000
Other investments:		
Bancnet, Inc.	**–**	6,587,646
Philippine Clearing House Corporation	**–**	5,000,100
Others	**–**	500,000
	–	12,087,746
	₱51,100,000	₱63,187,746

As of December 31, 2004, equity investments of the Group represent the other investments above amounting to ₱12.1 million. As of January 1, 2005, the above investments were reclassified to AFS financial assets in 2005 in compliance with PAS 39 (see Note 2).

7. **Bank Premises, Furniture, Fixtures and Equipment**

The components and movements in this account are as follows:

	Group					
	Building	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Total**	2004
Cost:						
Balances at January 1	₱3,608,000	₱145,341,716	₱85,112,487	₱63,914,567	**₱297,976,770**	₱257,778,290
Additions	-	27,872,455	27,355,696	22,004,000	**77,232,151**	44,983,814
Disposals/ reclassifications	-	(7,144,859)	-	(16,420,000)	**(23,564,859)**	(4,765,176)
Balances at December 31	3,608,000	166,069,312	112,468,183	69,498,567	**351,644,062**	297,996,928
Accumulated Depreciation and Amortization:						
Balances at January 1	15,033	108,636,912	58,986,320	41,184,194	**208,822,459**	₱165,424,309
Depreciation and amortization	90,200	23,885,529	10,819,242	9,607,365	**44,402,336**	44,804,983
Disposals/ reclassifications	-	(7,144,859)	-	(16,156,400)	**(23,301,259)**	(1,386,675)
Balances at December 31	105,233	125,377,582	69,805,562	34,635,159	**229,923,536**	208,842,617
Net Book Value	₱3,502,767	₱40,691,730	₱42,662,621	₱34,863,408	**₱121,720,526**	₱89,154,311

	Parent Company					
	Building	**Furniture, Fixtures and Equipment**	**Leasehold Improvements**	**Transportation Equipment**	**Total**	2004
Cost:						
Balances at January 1	₱3,608,000	₱144,977,841	₱84,545,711	₱60,420,567	**₱293,552,119**	₱253,041,490
Additions	–	27,872,455	27,355,696	21,204,000	**76,432,151**	44,875,714
Disposals/ reclassifications	–	(7,141,406)	–	(15,820,000)	**(22,961,406)**	(4,365,085)
Balances at December 31	3,608,000	165,708,890	111,901,407	65,804,567	**347,022,864**	293,552,119
Accumulated Depreciation and Amortization:						
Balances at January 1	15,033	108,370,773	58,429,719	38,094,327	**204,909,852**	161,188,342
Depreciation and amortization	90,200	23,841,854	10,809,067	9,247,983	**43,989,104**	44,008,094
Disposals/ reclassifications	–	(7,141,406)	–	(15,556,400)	**(22,697,806)**	(986,584)
Balances at December 31	105,233	125,071,221	69,238,786	31,785,910	**226,201,150**	204,909,8521
Net Book Value	₱3,502,767	₱40,637,669	₱42,662,621	₱34,018,657	**₱120,821,714**	₱88,642,267

8. **Investment Properties**

The components and movements in this account follow:

	Land	**Buildings and Improvements**	**2005 Total**	2004 Total
Cost:				
At January 1	₱231,280,924	₱5,304,522	**₱236,585,446**	₱19,336,713
Additions	8,370,000	940,893	**9,310,893**	245,502,922
Disposals	(9,809,500)	(345,926)	**(10,155,426)**	(28,254,189)
At December 31	229,841,424	5,899,489	**235,740,913**	236,585,446
Accumulated Depreciation and Amortization:				
At January 1	–	984,766	**984,766**	779,247
Depreciation and amortization	–	292,052	**292,052**	295,451
Disposals	–	(41,058)	**(41,058)**	(89,932)
At December 31	–	1,235,760	**1,235,760**	984,766
Net Book Value	₱229,841,424	₱4,663,729	**₱234,505,153**	₱235,600,680

The Group's investment properties consist entirely of real estate properties and improvements thereon acquired in settlement of loans and receivables.

The aggregate fair value of the investment properties amounted to ₱350.6 million and ₱345.9 million as of December 31, 2005 and 2004, respectively.

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

9. **Other Resources**

This account consists of:

	Group		Parent Company	
	2005	2004	**2005**	2004
Returned checks and other cash items	**₱41,194,322**	₱11,473,168	**₱41,194,322**	₱11,473,168
Software costs and branch licenses - net	**12,264,304**	9,178,863	**12,264,304**	9,178,863
Prepaid expenses	**6,702,470**	8,521,620	**6,702,470**	8,521,620
Accounts receivable	**–**	101,438,759	**–**	101,977,458
Accrued interest receivable	**–**	100,693,649	**–**	100,508,691
Sales contract receivable	**–**	3,902,285	**–**	3,902,285
Miscellaneous	**53,941,816**	60,460,536	**53,873,529**	60,257,751
	114,102,912	295,668,880	**114,034,625**	295,819,836
Less allowance for impairment losses (Note 10)	**–**	40,341,948	**–**	40,341,948
	₱114,102,912	₱255,326,932	**₱114,034,625**	₱255,477,888

As of December 31, 2005 and 2004, miscellaneous assets include mark-to-market of forward contracts amounting to ₱30.6 and ₱1.0 million, respectively. In addition, accrued interest receivable, sales contract receivable and accounts receivable and the related allowance for impairment losses are reclassified to loans and receivables in compliance with PAS 39.

The components of and movements of software costs and branch licenses are as follows:

	Deferred Software Costs	Branch Licenses	2005 Total	2004
Cost:				
Balances at January 1	₱48,848,426	₱12,750,000	**₱61,598,426**	₱63,773,320
Additions	8,359,841	–	**8,359,841**	1,357,568
Transfers	–	–	–	(3,532,462)
Balances at December 31	57,208,267	12,750,000	**69,958,267**	61,598,426
Accumulated Amortization:				
Balances at January 1	39,669,563	12,750,000	**52,419,563**	44,957,753
Amortization	5,274,400	–	**5,274,400**	8,521,548
Transfers	–	–	–	(1,059,738)
Balances at December 31	44,943,963	12,750,000	**57,693,963**	52,419,563
Net Book Value	₱12,264,304	₱–	**₱12,264,304**	₱9,178,863

10. **Allowance for Impairment Losses**

Changes in the allowance for impairment losses are as follows:

	Group		Parent Company	
	2005	2004	**2005**	2004
Balances at beginning of year:				
Loans and receivables	**₱589,075,952**	₱–	**₱584,945,422**	₱–
Receivables from customers	**–**	544,569,966	**–**	542,233,414
Other resources	**–**	40,341,947	**–**	40,341,948
	589,075,952	584,911,913	**584,945,422**	582,575,362
Provision for impairment losses	**268,455,588**	219,468,385	**267,632,038**	218,380,671
Write-off	**(248,391,590)**	(215,304,346)	**(248,391,590)**	(216,010,611)
	20,063,998	4,164,039	**19,240,448**	2,370,060
Balances at end of year:				
Loans and receivables	**609,139,950**	–	**604,185,970**	–
Receivables from customers	**–**	548,734,004	**–**	544,603,474
Other resources	**–**	40,341,948	**–**	40,341,948
	₱609,139,950	₱589,075,952	**₱604,185,970**	₱584,945,422

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

11. **Deposit Liabilities**

Of the total deposit liabilities of the Parent Company as of December 31, 2005 and 2004, 52.6% and 44.0%, respectively, are subject to periodic interest repricing. The remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.0% to 1% in 2005 and 2004; for foreign currency-denominated deposit liabilities, annual fixed interest rate is 1% in 2005 and 2004.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to liquidity reserves equivalent to 10%, which increased to 11% starting July 15, 2005, and statutory reserves equivalent to 10%. Available reserves based on the latest report to the BSP in December 2005 and 2004 are as follows:

	2005	2004
Cash and other cash items	**₱421,449,499**	₱470,832,290
Due from BSP	**370,539,728**	175,389,168
Loans and receivables	**619,638,467**	–
IBODI	**–**	484,394,109
	₱1,411,627,694	₱1,130,615,567

As of December 31, 2005 and 2004, the Parent Company is in compliance with such regulation.

12. **Bills Payable**

This account consists of:

	Group		Parent Company	
	2005	2004	**2005**	2004
Foreign banks	**₱1,263,112,812**	₱1,366,768,176	**₱1,263,112,812**	₱1,366,768,176
Local banks	**1,178,903,000**	285,364,000	**1,118,903,000**	225,364,000
BSP	**60,400,000**	1,521,207	**60,400,000**	1,521,207
Other	**578,503,813**	871,783,387	**578,503,813**	871,783,387
	₱3,080,919,625	₱2,525,436,770	**₱3,020,919,625**	2,465,436,770

Interbank borrowings are subject to annual fixed interest rates ranging from 0.9% to 5.6% in 2005 and from 0.9% to 3.6% in 2004.

Bills payable - others mainly represents funds obtained from the LBP, DBP, and SSS which the Group relends to borrowers availing of the financing programs of the LBP, DBP and SSS.

As of December 31, 2005 and 2004, bills payable to the BSP and others totaling to₱638.9 million and ₱859.6 million, respectively, are secured by loans and receivables amounting to ₱564.5 million as of December 31, 2005 and receivables from customers amounting to ₱836.7 million as of December 31, 2004.

13. **Accrued Taxes, Interest and Other Expenses**

This account consists of:

	Group		Parent Company	
	2005	2004 (As restated)	**2005**	2004 (As restated)
Accrued interest payable	**₱184,166,110**	₱142,503,676	**₱182,458,388**	₱140,145,306
Accrued other expenses	**145,537,493**	82,041,926	**144,853,235**	81,617,023
Income tax payable	**6,295,882**	9,452,142	**5,155,841**	8,955,548
	₱335,999,485	₱233,997,744	**₱332,467,464**	₱230,717,877

14. **Other Liabilities**

This account consists of:

	Group		Parent Company	
	2005	2004 (As restated)	**2005**	2004 (As restated)
Bills purchased - contra	**₱513,817,311**	₱865,651,732	**₱513,817,311**	₱865,651,732
Acceptances payable	**497,933,048**	193,375,244	**497,933,048**	193,375,245
Accounts payable	**86,645,393**	119,451,557	**86,645,393**	119,795,188
Payment orders payable	**44,454,562**	35,246,140	**44,454,562**	35,246,140
Accrued retirement	**₱25,102,300**	₱19,487,800	**₱25,102,300**	₱19,487,800
Withholding taxes payable	**10,019,382**	8,883,823	**10,019,382**	8,883,823
Margin deposits	**4,104,279**	268,541,244	**4,104,279**	268,541,244
Miscellaneous	**93,592,880**	89,882,916	**45,933,229**	48,115,437
	₱1,275,669,155	₱1,600,520,456	**1,228,009,504**	₱1,559,096,609

15. **Financial Resources and Financial Liabilities**

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

	Group					
	2005			2004		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Resources						
Due from BSP	**₱373,720**	**₱–**	**₱373,720**	₱179,516	₱–	₱179,516
Due from other banks	**781,648**	**–**	**781,648**	564,053	–	564,053
Interbank loans receivable and securities purchased under agreements to resell	**1,936,017**	**–**	**1,936,017**	1,964,495	–	1,964,495
TAS, at market	**–**	**–**	**–**	5,838	199,900	205,738
AFS financial assets, at market	**464,177**	**6,543,371**	**7,007,548**	–	–	–
ASS, at market	**–**	**–**	**–**	14,591	2,147,359	2,161,950
HTM financial assets, at amortized cost	**44,817**	**–**	**44,817**			
IBODI, at amortized cost	**–**	**–**	**–**	–	820,243	820,243
Loans and receivables - at gross amounts	**8,601,767**	**3,375,527**	**11,977,294**	–	–	–
Receivables from customers - at gross	**–**	**–**	**–**	9,027,961	3,058,208	12,086,169
Other resources:						
Accrued interest receivable	**–**	**–**	**–**	100,694	–	100,694
Accounts receivable	**–**	**–**	**–**	101,439	–	101,439
Miscellaneous	**41,115**	**–**	**41,115**	56,019	–	56,019
	₱12,243,261	**₱9,918,898**	**₱22,162,159**	₱12,014,606	₱6,225,710	₱18,240,316

	Group					
	2005			2004		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Liabilities						
Deposit liabilities	**₱11,018,967**	**₱1,526,078**	**₱12,545,045**	₱8,766,643	₱1,074,534	₱9,841,177
Bills payable	**1,239,303**	**1,841,617**	**3,080,920**	1,653,653	871,784	2,525,437
Accrued taxes, interest and other expenses	**335,999**	**–**	**335,999**	233,998	–	233,998
Manager's checks	**39,960**	**–**	**39,960**	48,986	–	48,986
Other liabilities	**1,275,669**	**–**	**1,275,669**	1,600,520	–	1,600,520
	₱13,909,898	**₱3,367,695**	**₱17,277,593**	₱12,303,800	₱1,946,318	₱14,250,118

	Parent Company					
	2005			2004		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Resources						
Due from BSP	**₱373,720**	**₱–**	**₱373,720**	₱179,516	–	₱179,516
Due from other banks	**781,648**	**–**	**781,648**	564,053	–	564,053
Interbank loans receivable and securities purchased under agreements to resell	**1,936,017**	**–**	**1,936,017**	1,964,495	–	1,964,495
TAS, at market	**–**	**–**	**–**	5,838	199,900	205,738
AFS financial assets, at market	**464,177**	**6,479,055**	**6,943,232**			
ASS, at market	**–**	**–**	**–**	14,591	2,147,359	2,161,950
HTM financial assets, at amortized cost	**44,817**	**–**	**44,817**			
IBODI, at amortized cost	**–**	**–**	**–**	–	807,349	807,349
Loans and receivables - at gross amounts	**8,473,572**	**3,226,519**	**11,700,091**	–	–	–
Receivables from customers - at gross amounts	**–**	**–**	**–**	8,999,136	2,828,360	11,827,496
Other resources:	**–**	**–**	**–**			
Accrued interest receivable	**–**	**–**	**–**	100,509	–	100,509
Accounts receivable	**–**	**–**	**–**	101,977	–	101,977
Sales contract receivable	**–**	**–**	**–**	3,902	–	3,902
Miscellaneous	**41,115**	**–**	**41,115**	60,258	–	60,258
	₱12,115,066	**₱9,705,574**	**₱21,820,640**	₱11,994,275	₱5,982,968	₱17,977,243
Financial Liabilities						
Deposit liabilities	**₱11,029,148**	**1,526,078**	**₱12,555,226**	₱8,821,379	₱1,074,534	₱9,895,913
Bills payable	**1,179,303**	**1,841,617**	**3,020,920**	1,593,653	871,784	2,465,437
Manager's checks	**39,960**	**–**	**39,960**	48,986	–	48,986
Accrued taxes, interest and other expenses	**332,467**	**–**	**332,467**	230,718	–	230,718
Other liabilities	**1,192,888**	**–**	**1,192,888**	1,530,725	–	1,530,725
	₱13,773,766	**₱3,367,695**	**₱17,141,461**	₱12,225,461	₱1,946,318	₱14,171,779

16. **Capital Funds**

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

Under current banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risks assets consist of total resources after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board. Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio is to be inclusive of a market risk charge.

Following BSP Circular No. 360, the capital-to-risk assets ratio of the Parent Company as of December 31, 2005 and 2004 is 26.59% and 24.53%, respectively, which is in compliance with the minimum requirement.

The Parent Company's authorized capital stock amounted to ₱5.0 billion, consisting of 50 million shares, with a par value of ₱100 per share. As of December 31, 2005 and 2004, issued and outstanding capital stock amounted to ₱2.4 billion, consisting of 24 million shares.

On December 16, 2005, the BOD approved an appropriation of a portion of the Parent Company's surplus amounting to ₱10.0 million as self-insurance for cash in vault. Accordingly, such amount was transferred from surplus to surplus reserve.

17. **Interest Income and Interest Expense**

	Group		Parent Company	
	2005	2004	**2005**	2004
Interest Income				
Loans and receivables	**₱1,051,020,544**	₱–	**₱1,023,410,939**	₱–
Receivables from customers	**–**	1,079,441,835	**–**	1,053,521,015
Available-for-sale and held-to-maturity financial assets	**595,810,807**	–	**585,338,016**	–
Trading and investment securities	**–**	368,357,445	**–**	366,183,550
Interbank loans receivable and securities purchased under agreements to resell	**58,244,415**	32,561,174	**58,244,415**	32,561,174
Deposits with banks and others	**24,037,555**	7,129,016	**24,537,544**	8,240,919
	₱1,729,113,321	₱1,487,489,470	**₱1,691,530,914**	₱1,460,506,658
Interest Expense				
Deposit liabilities	**₱453,750,134**	₱394,390,394	**₱454,759,010**	₱397,846,382
Bills payable and other borrowings	**161,048,468**	123,131,538	**155,145,301**	118,310,087
	₱614,798,602	₱517,521,932	**₱609,904,311**	₱516,156,469

18. **Leases**

The Parent Company leases the premises it occupies, including its head office and branches, as well as those of its subsidiaries. The lease periods range from 3 to 15 years, renewable upon mutual agreement of the parties. Various lease contracts include escalation clauses, most of which bear an annual rent increase at 10%.

As of December 31, 2005 and 2004, the future minimum rentals (in millions) are as follows:

	2005	2004
Within one year	**₱46.2**	₱30.0
After one year but not more than five years	**127.0**	104.7
	₱173.2	₱134.7

19. **Retirement Plan**

As of December 31, 2005, the Group has no formal retirement plan yet. The Group recognizes retirement cost based on the requirements of R.A 7641. The latest actuarial valuation on the Group's retirement based on R.A. 7641 was made on April 7, 2006.

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

	2005	2004
Discount rate	**13.42%**	11.52%
Future salary increase rate	**6.64%**	6.64%

The amounts recognized in the statements of condition are as follows (Note 14):

	2005	2004
Present value of funded obligation	**₱28,028,300**	₱16,544,300
Unrecognized actuarial gains (losses)	**(2,926,000)**	2,943,500
Net retirement liability	**₱25,102,300**	₱19,487,800

The movements in the net pension liability follow:

	2005	2004
Balance at January 1	**₱19,487,800**	₱14,165,800
Retirement expense	**5,614,500**	5,322,000
Balance at December 31	**₱25,102,300**	₱19,487,800

The amounts included in compensation and fringe benefits in the statements of income are as follows:

	2005	2004
Current service cost	**₱3,579,300**	₱3,689,700
Interest cost	**2,219,400**	1,632,300
Net actuarial gains recognized during the year	**(184,200)**	–
Net retirement expense	**₱5,614,500**	₱5,322,000

20. **Miscellaneous**

This account consists of:

	Group		Parent Company	
	2005	2004	**2005**	2004
Postage, telephone, cables and telegrams	**₱16,970,801**	₱9,198,144	**₱16,780,747**	₱9,169,181
Advertising and publicity	**15,189,071**	8,015,785	**15,129,471**	7,943,935
Stationery and supplies used	**14,351,996**	9,850,295	**14,238,660**	9,850,295
Entertainment, amusement and recreation (Note 21)	**12,085,581**	7,576,194	**11,605,508**	7,245,334
Information technology	**9,807,510**	8,228,823	**9,807,510**	8,228,823
BSP supervision fees	**7,685,135**	5,047,684	**7,684,925**	5,047,684
Fuel and lubricants	**6,041,751**	4,211,519	**5,852,844**	4,211,519
Membership fess and dues	**4,292,761**	3,088,601	**4,279,261**	3,088,601
Brokerage fees	**2,483,387**	1,598,189	**2,483,387**	1,598,189
Miscellaneous	**21,006,743**	16,913,734	**20,814,173**	16,493,283
	₱109,914,736	₱73,728,968	**₱108,676,486**	₱72,876,844

21. **Income and Other Taxes**

Provision for income tax consists of:

	Group		Parent Company	
	2005	2004 (As restated)	**2005**	2004 (As restated)
Current				
Final tax	**₱45,311,956**	₱26,451,869	**₱39,042,050**	₱21,922,269
Regular	**30,772,161**	23,243,881	**30,585,241**	22,553,833
	76,084,117	49,695,750	**69,627,291**	44,476,102
Deferred	**(27,105,057)**	19,640,780	**(27,646,092)**	19,004,099
	₱48,979,060	₱69,336,530	**₱41,981,199**	₱63,480,201

The components of deferred tax assets are as follows:

	Group		Parent Company	
	2005	2004 (As restated)	**2005**	2004 (As restated)
Deferred tax asset (liability) on:				
Allowance for impairment losses	**₱210,599,566**	₱186,020,470	**₱208,865,638**	₱184,698,700
Unrealized foreign exchange loss - net	**13,941,529**	1,509,859	**13,941,529**	1,509,859
Fair value adjustment on derivatives	**(10,708,210)**	–	**(10,708,210)**	–
Accrued rent expense	**9,530,275**	7,120,387	**9,530,275**	7,120,387
Fair value adjustment on asset foreclosures and dacion transactions - net of accumulated depreciation	**(8,788,438)**	(10,230,041)	**(8,788,438)**	(10,230,041)
Pension liability	**7,530,690**	6,236,096	**7,530,690**	6,236,096
Leasing income differential between finance and operating lease method	**(4,612,910)**	(3,659,717)	**–**	–
	₱217,492,502	₱186,997,054	**₱220,371,484**	₱189,335,001

A reconciliation of income before income tax computed at the statutory tax rate to provision for income tax follows:

	Group		Parent Company	
	2005	2004 (As restated)	**2005**	2004 (As restated)
Statutory income tax	**₱248,457,362**	₱177,793,754	**₱239,682,040**	₱171,542,986
Additions (reductions) in income tax resulting from:				
FCDU income	**(142,976,578)**	(94,736,424)	**(142,976,578)**	(94,736,424)
Tax-paid and tax-exempt income	**(59,355,140)**	(23,043,590)	**(58,261,538)**	(22,278,467)
Effect if change in income tax rate	**(19,329,197)**	–	**(19,555,744)**	–
Nondeductible interest expense	**19,606,831**	8,838,428	**19,560,892**	8,807,078
Change in unrecognized deferred tax assets	**(789,765)**	385,145	–	–
Others – net	**3,365,547**	99,217	**3,532,127**	(145,028)
Provision for income tax	**₱48,979,060**	₱69,336,530	**₱41,981,199**	₱63,480,201

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

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

RA No. 9337

RA No. 9337 was enacted into law amending various provisions in the existing 1997 National Internal Revenue Code. On October 18, 2005, the Supreme Court has rendered its final decision declaring the validity of the RA No. 9337. Among the reforms introduced by the said RA, which became effective on November 1, 2005, are as follows:

- Increase in the corporate income tax rate from 32% to 35% with a reduction thereof to 30% beginning January 1, 2009;
- Increase in VAT rate from 10% to 12% effective February 1, 2006, as authorized by the Philippine President pursuant to the recommendation of the Secretary of Finance;
- Revision of invoicing and reporting requirements for VAT;
- Expansion of scope of transactions subject to VAT; and,
- Provision of thresholds and limitations on the amounts of VAT credits that can be claimed.

The regular corporate income tax rate is 32% until October 31, 2005 and 35% starting November 1, 2005 (see discussion above on RA 9337). Interest allowed as a deductible expense is reduced by an amount equivalent to 38%/42% of interest income subjected to final tax. In addition, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for a service company like the Group is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. The regulations also provide for MCIT of 2% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Group's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10% gross income tax. In addition, interest income on deposit placements with other FCDUs and offshore banking units is subject to a 7.5% final tax. Republic Act No. 9294, which became effective in May 2004, provides that the income derived by the FCDU from foreign currency transactions with non-residents, Offshore Banking Units (OBUs), local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% income tax.

22. Financial Instruments

Financial Risk Management Objectives and Policies

The main purpose of the Parent Company's financial instruments is to fund its operations and capital expenditures. The Bank's financial instruments consist mainly of government securities, private bonds and commercial papers, loans and receivables, deposit liabilities and bills payable. The Parent Company is also an active participant in the interbank market and has interbank loans and repurchase agreements. The Parent Company enters into over-the-counter (OTC) derivatives, mainly spot and forward exchange contracts, as a service to customers and as a means of reducing and managing the Parent Company's foreign exchange risks.

The Parent Company's policy is to undertake risk positions consistent with its risk philosophy. Financial instruments are entered into within the acceptable risk and return trade off parameters and consistent with the Parent Company's risk objectives set for the year. Capital is rationally allocated based on risk assumed. This capital allocation policy underlies the risk limits imposed by the BOD that guide the management team in its risk taking activities.

The Parent Company's risk management system is an ongoing process that starts from goal setting, which is consistent with the Parent Company's overall risk philosophy, to revalidation of the risk methodologies.

The Parent Company has a well-defined risk functional hierarchical structure to reflect the top-down approach to a focused risk management system. The BOD appointed a chief risk officer and created Risk Policy Committee (RPC) to ensure that risk management objectives are achieved. Each of the risk functional units has well-defined roles in the Bank's risk management system and structure.

The risk taking units, consisting of the Branch Banking, Treasury Dealing, Account Management, Private Banking and Trust Banking, are principally involve in the determination of growth opportunities and, together with the Risk Management Division (RMD), and Asset, Liability and Risk Management Committee (ALRMC), evaluate the business risks and define the risk tolerance of the Parent Company with the approval of the BOD.

The RMD is principally tasked to quantify the risk by utilizing various methodologies. The Risk Control and Compliance Units, consisting of the Loans, Trade, Legal, Credit Administration and Policy, and Treasury Operations are principally responsible for the limit compliance monitoring and control. The internal control system of the Parent Company and the periodic audit review ensure that the risk control functions are administered consistently. The periodic budget review ensures that the actual risk performance of the Parent Company is reported and noted by the BOD. The RMD is responsible for model revalidation at least on an annual basis before a new set of risk limits is submitted for approval for the ensuing year.

The main risks arising from the Parent Company's financial instruments are credit risk, liquidity risk, market risk, interest rate risk and foreign currency risk. The BOD reviews and approves the policies for managing each of these risks and these are summarized below.

(a) *Credit Risk and Concentration of Assets and Liabilities*

Credit risk is the risk of financial loss due to one party to a financial instrument failing to discharge an obligation. The management of credit risk is the principal responsibility of the Credit Committee (Crecom) and the Executive Committee (Excom). The Crecom ensures that the credit risk policies are complied when approving loan proposals, while the Excom ensures that the credit policies are consistent with the policies covering market, operations, legal, business and event risks.

The Parent Company extends credit to parties that pass the Parent Company's minimum risk acceptance criteria, and after the Parent Company has performed extensive credit verification and investigation procedures. The Parent Company manages credit risk by setting and monitoring credit limits per individual facility, borrower and related entities, an3d industry. The Parent Company extends credit on a secured basis whenever possible and ensures that the terms and collateral are appropriate to the nature of credit accommodation extended to clients.

The Parent Company has established a credit risk rating system that is duly approved by the regulatory body. The credit risk rating system has two components, namely: a) Borrower Risk Rating, which provides an assessment of the credit worthiness of the borrower, and b) Facility Risk Rating, which provides an assessment of the specific facility as enhanced by security arrangements such as security, collateral and credit covenants.

Credit exposures are monitored on an ongoing basis to ensure that exposure to bad debts will not be significant and that concentration risk is mitigated and managed. Sensitivity to changes in risk factors such as economic, political and geopolitical situations are evaluated and monitored continuously.

For credit risk in respect of treasury assets, consisting of highly marketable traded securities and derivative instruments, it is the Parent Company's policy that issuers of these financial instruments must have credit rating by independent credit rating agency of no lower than two (2) notches below investment grade. The Parent Company does not invest in securities issued by foreign entities if cross border risk is high.

Concentrations indicate the relative sensitivity of the Parent Company's performance to developments affecting a particular industry. Information on the credit concentration as to industry is presented in Note 5 to the financial statements.

(b) *Liquidity Risk*

The Parent Company s primary objective is to ensure payment of maturing financial obligations and commitments as these fall due and be able to fund contingency requirements as well when these arise.

The management of liquidity, capital and the balance sheet involves all line business. The ALRMC ensures that at all times, the Parent Company maintains adequate liquidity, has sufficient capital and appropriate funding. The balance between cost and liquidity as well as any issues among line business are resolved by the ALRMC.

It is the Parent Company's policy that proprietary trading and investment position are taken from the Parent Company's long-term deposits. A significant portion of the Parent Company's deposits can be considered long-term, due to a relatively high rollover ratio of its term deposits and its current and savings account. The high-yielding securities, which are relative easy to liquidate in the event a fund need arises, are used to match the duration profile of the deposits. It is the Parent Company policy that liquidity risk exposure be limited to what the Parent Company can fund given its available sources of funds. The subject exposure should not exceed the maximum cumulative outflow limits approved for the given period.

(c) *Market Risk*

Market risk is the risk of loss that may result from changes in the price of a financial product. The Parent Company's exposure to market risk originates from its holdings of debt securities, equities, derivatives and instruments denominated in foreign currencies.

The RMD is principally task to quantify the risk utilizing methodologies such as Value at Risk (VaR), Volatility Studies, Stress Testing, Factor Sensitivity and Marked-to-Market Benchmarks as prescribed by the BSP and the Bankers Association of the Philippines. The VaR limits are the amounts that define the Parent Company's tolerance for accepting price risk-related losses in its portfolios that are marked-to-market. VaR limits and Management Action Triggers are set for each price taking unit and all higher level business units.

The VaR method is a procedure for estimating the probability of portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. Under normal market conditions, the Parent Company estimates the potential decline not to exceed the calculated capital at risk using 99% confidence level and maximum of three (3) day defeasance period. To ensure that the VaR model is reliable, back-testing procedures are done periodically to determine how many times the hypothetical and actual daily losses exceeded the computed daily VaR.

Below is a table showing the VaR of the Parent Company for the year ended December 31, 2005 (amounts in millions):

Portfolio	Average	High	Low
Government securities	₱5.563	₱17.791	₱ 0.737
Eurobonds	US$0.804	US$1.473	US$0.233
Foreign exchange	US$0.141	US$0.230	US$0.022

(d) *Interest Rate Risk*

The Parent Company's main source of income is from intermediation activities as it invests funds deposited by clients and lent by other financial intermediaries at certain costs. The volatility of this source of income comes from changes in interest rates in the market. It is the Bank's policy to manage these risk exposures within tolerable level to preserve the economic value of its capital. The Parent Company keeps its net interest rate exposure within the earning at risk limit setforth for a given period.

As of December 31, 2005, 78% of the Parent Company's total loan portfolio comprised of loans and receivables that are repriceable within one year period, while repriceable liabilities within the same period is about 60% of total liabilities. Majority of both these repriceable assets and liabilities are subject to floating rates and therefore susceptible to interest rate fluctuations. Interest rates on loans and receivables are benchmarked against applicable reference rates such as the 91-day treasury bills, short-term Phibor rates, 30-day Libor, and Mart 1 FXTN rates. Applicable credit risk premium is added to the applicable benchmark rate. This pricing mechanism enables the Parent Company to keep net interest rate exposure within acceptable limit.

The Parent Company is focused on achieving stability by increasing core deposits and diversifying liquidity sources in order to provide adequate resources to meet banking requirements of customers. A minimal interest of 1% is paid on current and savings accounts, which as of December 31, 2005 accounted for 38% of total deposit liabilities. Rates on term-deposit accounts, which constituted 62% of total deposit liabilities, are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special savings accounts are usually priced by reference to prevailing market rates for short and long-term deposits. These reference rates include the 91-day treasury bill rate, Phibor rates, FXTNs and other money market instruments or, in the case of foreign currency deposits, LIBOR and prevailing dollar deposit rates of peer banks in the local industry.

The following provides the weighted EIR for each significant class of financial instruments:

AFS financial assets
In 2005, the average EIR for peso-denominated and US-dollar denominated AFS financial assets with maturity of less than a year ranges from 8.17% to 9.61% and from 1.93% to 4.19%, respectively, while the EIR of those with maturity of more than a year is 10.54% and 7.08%, respectively.

HTM financial assets
In 2005, the average EIR for HTM financial assets with maturity of less than a year is 10.46%.

Loans and receivables
In 2005, the average EIR for peso-denominated and US-dollar denominated loans and receivables with maturity of less than a year ranges from 11.54% to 17.04% and from 6.29% to 8.18%, respectively, while the EIR of those with maturity of more than a year is 16.72% and 7.08%, respectively.

Deposits liabilities
In 2005, the average EIR for peso-denominated and US-dollar denominated deposit liabilities with maturity of less than a year ranges from 2.52% to 6.15% and from 3.57% to 5.08%, respectively, while the EIR of those with maturity of more than a year is 12.78% and 4.99%, respectively.

Bills payable
In 2005, the average EIR for peso-denominated and US-dollar denominated bills payable with maturity of less than a year ranges from 7.46% to 9.93% and from 4.08% to 5.51%, respectively, while the EIR for peso-denominated bills payable with maturity of more than a year is 8.45%.

The Parent Company utilizes the economic perspective approach to measure the sensitivity of the Bank's net worth to fluctuations in interest rates. This analysis provides the Parent Company with a measure of the impact of changes in interest rates on the net interest sensitive positions of the Parent Company. The repricing gap is calculated by distributing the accounts into tenor buckets according to the time remaining to the next repricing date and then obtaining the difference between the total of the repricing (interest sensitive) resources and repricing (interest sensitive) liabilities. For purposes of gap analysis, the repricing characteristics use for capital accounts and CASA accounts are similar.

A gap is considered negative when the amount of interest rate sensitive liabilities exceeds the amount of interest rate sensitive resources. A gap is considered positive when the amount of interest rate sensitive resources exceeds the amount of interest rate sensitive liabilities. Accordingly, during a period of rising interest rates, a bank with a positive gap would be better positioned than one with a negative gap to invest in or hold higher yielding assets more quickly than it would need to refinance its interest-bearing liabilities. During a period of falling interest rates, a bank with a positive gap would tend to see its assets repricing at a faster rate than one with a negative gap, which may restrain the growth of its net income or result in a decline in net interest income.

The following table sets forth the resource-liability gap position of the Parent Company as of December 31, 2005 (amounts in million):

	Up to 1 month	→ 1 to 3 months	→ 3 to 6 months	→6 to 12 months	→12 months	Total
Resources						
Total loans and receivables	₱2,006	₱1,430	₱585	₱2,915	₱4,764	₱11,700
AFS and HTM financial assets	6,091	–	–	45	852	6,988
Placements with other banks	3,091	–	–	–	–	3,091
Total resources	11,188	1,430	585	2,960	5,616	21,779
Liabilities						
Deposit liabilities	3,019	2,734	1,289	951	4,562	12,555
Bills payable	962	326	772	460	501	3,021
Total liabilities	3,981	3,060	2,061	1,411	5,063	15,576
Resource-liability gap	₱7,207	(₱1,630)	(₱1,476)	₱1,549	(₱553)	₱6,203

As of December 31, 2005, the weighted average duration of the Parent Company's resources was approximately 2,079 days and the weighted average duration of the Parent Company's liabilities was approximately 2,198 days. The Parent Company also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on the Parent Company's networth. This is done by modeling the impact of various changes in interest rates to the Parent Company's net interest positions.

Given the repricing position of the resources and liabilities of the Parent Company as of December 31, 2005, if interest rates decreased by 10 basis points, the Parent Company would expect annualized net interest income to increase by ₱25 million and correspondingly decrease by the same amount if interest rates increased by 10 basis points. This sensitivity analysis is performed for risk management purposes and assumes no other changes in the repricing structure. Actual changes in net interest income will vary from the model.

(e) *Foreign Currency Exchange Risk*
The Parent Company's foreign currency exchange risk originates from its holdings of foreign currency denominated assets (foreign exchange assets) and foreign currency denominated liabilities (foreign exchange liabilities).

Foreign exchange liabilities generally consist of foreign currency deposits in the Parent Company's FCDU and foreign currency denominated borrowings in the FCDU and regular books of the Parent Company. Foreign exchange liabilities are used to fund the Parent Company's foreign currency denominated loans and securities portfolio in the FCDU. The Parent Company maintains at least 100% asset cover to match the foreign exchange assets with the foreign exchange liabilities held through FCDU and maintains 30% liquidity cover as required under current BSP regulations.

The Parent Company's policy is to maintain net open foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Company believes that its profile of foreign currency exposure on its resources and liabilities is within limits for financial institutions engaged in the same type of businesses in which the Parent Company is engaged.

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

	USD	Other Currencies	Total
Resources			
Cash and other cash items	$863,493	$–	$863,493
Due from other banks	12,723,183	768,111	13,491,294
Interbank loans receivable	12,867,724	–	12,867,724
AFS financial assets	114,405,332	–	114,405,332
HTM financial assets	4,050,000	–	4,050,000
Loans and receivables	30,268,984	6,143,267	36,412,251
Total resources	175,178,716	6,911,378	182,090,094
Liabilities			
Deposit liabilities	110,115,394	35,712	110,151,106
Bills payable	28,564,430	1,740,040	30,304,470
Accrued interest and other expenses	938,900	9,614	948,514
Other liabilities	9,722,285	73,707	9,795,992
Total liabilities	149,341,009	1,859,073	151,200,082
Currency forwards	24,000,000	–	–
Net exposure	$1,837,707	$5,052,306	$6,890,012

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

	Carrying Value	Fair Value
Resources		
Cash and other cash items	₱412,835,925	₱412,835,925
Due from BSP and other banks	1,155,367,253	1,155,367,253
Interbank loans receivable and securities purchased under agreement to resell	1,936,016,853	1,936,016,853
AFS financial assets	6,943,231,893	6,943,231,893
HTM financial assets	44,816,826	46,187,270
Loans and receivables	10,884,887,992	10,883,656,538
Total resources	₱21,377,156,742	₱21,377,295,732
Liabilities		
Deposit liabilities	₱12,555,225,756	₱12,555,225,756
Bills payable	3,020,919,625	3,007,571,855
Manager's checks	39,960,118	39,960,118
Accrued interest and other expenses	288,536,671	288,536,671
Other liabilities	1,228,009,504	1,228,009,504
Total liabilities	₱17,132,651,674	₱17,119,303,904

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

Cash and other cash items, due from BSP and other banks, interbank loans receivable and securities purchased under agreement to resell – The carrying amounts approximate fair values considering that these accounts consist mostly of overnight deposits and floating rate placements.

Debt securities - Fair values are generally based upon quoted market prices. If the market prices are not readily available, fair values are estimated using either values obtained from independent parties offering pricing services or adjusted quoted market prices of comparable investments or using the discounted cash flow methodology. The prevailing interest rates used range from 6.250% to 9.970% for peso denominated securities and from 1.929% to 9.036% for dollar-denominated securities.

Equity securities – The Parent Company's investments in equity securities are limited to shares of stocks in related companies and unquoted equity securities for which no reliable basis for fair value measurement is available. These investments are carried at cost, less any accumulated impairment in value.

Loans and receivables - Fair values of loans and receivables are estimated using the discounted cash flow methodology, using the Parent Company's current incremental lending rates for similar types of loans and receivables. Prevailing rates used for consumer and commercial loans range from 12.07% to 36.76% and from 4.85% to 16.104%, respectively.

Derivative instruments - Fair values are estimated based on quoted market prices, prices provided by independent parties or accepted valuation models.

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

Liabilities - Fair values of liabilities, other than deposit liabilities, are estimated using the discounted cash flow methodology using the Parent Company's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued.

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

	Notional Amount	Derivative Asset	Derivative Liability
Freestanding:			
Currency forwards	US$ 24,000,000	₱30,598,346	₱3,459

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

Balance at beginning of year	(₱2,846,791)
Net changes in fair value of derivatives	(88,937,870)
Fair value of settled instruments	122,379,548
Balance at end of year	₱30,594,887

As of December 31, 2005, the Parent Company has no significant embedded derivatives.

The discussion above pertains only to the financial instruments of the Parent Company as the financial assets and financial liabilities of the subsidiaries are not material compared to consolidated financial assets and financial liabilities.

23. **Trust Operations**

Securities and other properties held by the Parent Company in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not resources of the Parent Company. In connection with the trust functions of the Parent Company, government securities owned by the Parent Company with face value amounting to ₱45.0 million as of December 31, 2005 and 2004 are deposited with the BSP.

In compliance with existing banking regulations, the Parent Company transferred from surplus free to surplus reserve ₱1.4 million in 2005 and ₱5.2 million in 2004, corresponding to 10% of the net profit realized from its trust operations. The total amount of surplus appropriated for trust operations shall not exceed 20% of the Parent Company's authorized capital stock and cannot be paid out as dividends.

24. **Related Party Transactions**

In the ordinary course of business, the Parent Company has various transactions with its related parties and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Parent Company, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks.

Under current banking regulations, the aggregate amount of loans to DOSRI should not exceed the total capital funds or 15% of the total loan portfolio of the Group, whichever is lower. In addition, the amount of direct credit accommodations to DOSRI, of which 70% must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in the Group.

The following table shows information relating to DOSRI loans:

	2005	2004
Total outstanding DOSRI loans	**₱332,775,000**	₱632,650,569
Percent of DOSRI loans to total loans	**3.22%**	5.35%
Percent of unsecured DOSRI loans to total DOSRI loans	**1.35%**	29.79%
Percent of past due DOSRI loans to total DOSRI loans	**–**	–
Percent of nonperforming DOSRI loans to total DOSRI loans	**–**	–

The balances of loans and receivables as of December 31, 2005 and receivables from customers as of December 31, 2004 and interest income in respect of related parties are as follows:

	Loans and receivables	**Receivables from customers**	**Interest Income**	
	2005	2004	**2005**	2004
Manila Bay Development Corp.	**₱266,400,000**	₱335,500,000	**₱27,390,079**	₱34,346,149
Omnipack Industrial Corp.	**61,875,000**	84,375,000	**5,227,930**	6,494,311
Sucre Enterprises	**4,500,000**	–	**264,566**	–
Republic Biscuit Corp.	**–**	156,818,745	**–**	–
Asia Pacific Timber & Plywood Corp.	**–**	52,765,824	**1,710,982**	3,626,366
J. Victory Dy Sun	**–**	2,991,000	**212,664**	390,656
JBC Foods	**–**	200,000	**–**	–
Superior Steel Manufacturing Co.	**–**	–	**–**	411,299
	₱332,775,000	₱632,650,569	**₱34,806,221**	₱45,268,781

The balances of deposit liabilities and interest expense in respect of related parties are as follows:

	2005	2004
Deposit liabilities	**₱241,674,154**	₱1,200,510,648
Interest expense	**7,198,431**	17,531,054

The balances of commitments in respect of related parties are as follows (Note 24):

	2005	2004
Asia Pacific Timber & Plywood Corp.		
Unused commercial letters of credit	**₱–**	₱2,502,735
Republic Biscuit Corp.		
Outward bills for collection	**–**	519,423
	₱–	₱3,022,158

Compensation and benefits of key management personnel amounted to ₱46,142,102 in 2005 and ₱41,745,325 in 2004.

25. **Commitments and Contingent Liabilities**

In the normal course of the Parent Company's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying financial statements. The Parent Company does not anticipate material unreserved losses as a result of these transactions.

The Parent Company has several loan-related suits and claims that remain unsettled. It is not practical to estimate the potential financial impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

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

	2005	2004
Trust department accounts (Note 23)	**₱4,313,351,202**	₱4,130,613,564
Outstanding guarantees issued	**665,608,992**	871,893,005
Unused commercial letters of credit	**435,592,498**	1,110,891,048
Standby letters of credit	**250,452,417**	163,075,381
Inward bills for collection	**73,323,330**	124,850,130
Outward bills for collection	**66,453,726**	40,509,172
Late deposits/payments received	**29,250,006**	7,573,489
Others	**49,679**	39,253

26. **Financial Performance**

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

	Group		**Parent Company**	
	2005	2004 (As restated)	**2005**	2004 (As restated)
Return on average equity	**15.69%**	12.43%	**15.26%**	12.20%
Return on average assets	**3.50**	2.69	**3.26**	2.60
Net interest margin on average earning assets	**6.11**	6.06	**6.03**	5.99

27. **Notes to Statements of Cash Flows**

Supplemental cash flow disclosures follow:

	Group		**Parent Company**	
	2005	2004	**2005**	2004
Interest received	**₱1,667,500,152**	₱1,534,454,128	**₱1,635,500,152**	₱1,507,267,381
Interest paid	**572,908,704**	477,837,291	**572,908,704**	477,680,632

BOARD OF DIRECTORS

(As of March 31, 2006)

Jacinto L. Ng, Sr.
Chairman

Lin Hong Dow
Director

Yi Tien Lin
Director

Abraham T. Co
Director and President

Luis U. Ang
Director

Phoebe Teng
Director

Jonathan C. Ng
Director

George T. Chua
Director

Atty. Lily K. Gruba
Director

Atty. Ma. Pilar Martinez-Caedo
Corporate Secretary

MANAGEMENT TEAM
(As of March 31, 2006)

Abraham T. Co
President

Manuel A. Gomez
Executive Vice-President

Victor Y. Lim, Jr.
Executive Vice-President

Isabelita M. Papa
Executive Vice-President

Antonio V. Agcaoili, Jr.
Senior Vice-President

Francisco M. Caparros, Jr.
Senior Vice-President

Ronald Joseph D. Fernandez
Senior Vice-President

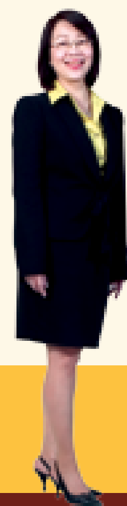
Rustico C. Nazareno Jr.
Senior Vice-President

Willy G. Ng
Senior Vice-President

Sandy W. Tan
Senior Vice-President

Emmanuel L. Benitez
First Vice-President

Rodelio A. Cayetano
First Vice-President


Christine T. Chan
First Vice-President

Andrew A. Chua
First Vice-President

Florante C. Del Mundo
First Vice-President

Herminia C. Musico
First Vice-President

Vice-President

Melissa G. Adalia
Domingo F. Claro
Ma. Teresa M. Copo
Eduardo M. Dayrit
Florante V. Fajardo
Lourdes D. Foronda
Joselito R. Jacob
Ferdinand G. La Chica
Zenaida S. Librea
Gilbert L. Lim
Filonilo S. Macalino
Remedios F. Madrid
Ven V. Martelino
Leila S. Quijano
Belinda C. Rodriguez
Wilfredo E.Rodriguez, Jr.
Lilia P. Santos
Gilda D. Tiongco

Assistant Vice-President

Reynaldo T. Boringot
Ronald B. Bugayong
Melchor M. Cubillo
Pablito P. Flores
Sandra S. Gaw
Rodolfo C. Mateo
Ana Lina S. Palma
Lingling Ponce
Sheila Pilar D. Ruiz De Luzuriaga
Farley O. Silva
Janice C. Tajan
Catherine C. Uy

Senior Manager

Virginia A. Abrigo
Ma. Isabel V. Antonio
Orlindo T. Bartolome
Leah Y. Chua
Norwen M. Gonio
Rolando L. Libunao
Zita M. Los Baños
Patricio B. Mercado
Rachelle D. Ng
Albert T. Reyes
Eduardo Arsenio C. Roldan
John Hilarion C. Salas
Amelia S. Sison
Andy L. Tan

Manager

Ernesto C. Ancheta
Editha N. Baronia
Jeanie A. Calabon
Rosalia C. Ching
Irene T. Ching
Jason A. Choa
Lily-Ann M. Chua
Vina Y. Co
Alvin Teodoro P. Dayauon
James A. De Guzman
Heidi H. Dee
Lani Victoria C. De Leon
Robert Frederick P. Dy
Ma. Concepcion M. Figueroa
Alfonso C. Go III
Mary Grace T. Lanuza
Christopher Gene C. Lapuz
Michael D. Lim
Nerysha M. Lo
Marie Antonette R. Miguel
Grace C. Ong
Lupo B. Ortiz Jr.
John Walvine C. Rata
Danilo S. Roque
Mimi T. Tan To-Santos

PRODUCTS & SERVICES

Deposit Account Products
Preferred Peso Checking
Preferred Peso Savings
Preferred Savings Plus
Preferred Time Deposit
Preferred Money Max 5
Preferred Dollar Savings
Preferred Dollar Time Deposit

Cash Management Services
AUB BizKit Checking Account
- Payroll Organizer
- Check Maker
- Check Banker
- SSS Remitter
- Financial Helper

Trust and Investment Services
Employee Benefit Trust
- Provident Fund
- Pension Fund

Fund Management
- Individual/Corporate Portfolio Management
- Pre-Need Fund Management
- Unit Investment Trust Fund Management
  - AUB Peso Investment Fund
  - AUB Equity Investment Fund
  - AUB Gold Dollar Fund

Estate Planning
- Guardianship
- Living Trust
  - AUB Gold Chest Plan
- Testimonial Trust

Special Corporate Services
- Escrow Agency
- Custodianship Services
- Mortgage Trust Indentures

Treasury Services
Fixed-Income Trading and Distribution
- Local Currency Treasury Bills/Treasury Notes/Bonds
- Fixed Floating Rate Corporate Notes
- Short and Long - Term Commercial Papers
- US$-denominated Certificates of Deposit
- US$-denominated US Treasuries
- US$-denominated Eurobonds/Notes
- US$-denominated Credit-Linked Notes

Foreign Exchange Trading
- Spot Trading
- Currency Swaps and Forwards
- Cash (Notes)Handling

Credit and Loan Facilities
Short Term Working Capital Loans
Trade Financing Facilities
- Domestic Letters of Credit with Trust Receipt Facility
- Import Letters of Credit with Trust Receipt Facility
- Packing Credit or Export Loans versus LCs or Pos

Domestic Bills Purchase Line
Foreign Loan/Financing Packages
Corporate Salary Loan Program
BSP US$/Peso Rediscounted Loans
Specialized Lending Facilities
- DBP Funded
  - Industrial Guarantee Loan (IGLF)
  - Japan Export-Import Bank Facility (JEXIM)
  - Japan Export-Import Bank Facility (JEXIM)
  - Industrial and Support Services Expansion Program (ISSEP II)
  - Environmental Infrastructure Support Credit Program (EISCP I
- SSS Funded
  - SSS-GSIS Financing Program
  - Financing Program for Tourism
  - Hospital Financing Program
  - Financing program for Educational Institution
  - Housing Loan Program
  - Development Program
- Syndicated Medium & Long-Term Loans
- Documents Against Acceptance (DA)
- Documents Against Payment (DP)
- Open Account (TT)

International Banking Services
- Letters of Credit/Collection of Clean and Documentary Bill
- Foreign and Domestic Remittance
- Purchase and Sale of Foreign Exchange

Auxiliary Services
- Preferred ATM
- Preferred Cash
- Preferred PhoneBanking
- Preferred Online Banking
- Safe Deposit Box
- Deposit Pick-up Service
- Manager's Check/Gift Checks
- Fund Transfer (TT/DD)

AUB Branches

METRO MANILA

Annapolis
Unit 102, Intrawest Center, 33 Annapolis St., Greenhills, San Juan, MM
Tel. 744-3193
744-1966

Arranque
692-694 T. Alonzo cor Soler Sts., Sta. Cruz, Manila
Tel. 735-8013
735-7988
Branch Manager: Heidi Dee

Ayala Alabang
G/F Casa Vicente Bldg. Supermarket Drive, Alabang Commercial Center, Alabang Muntinlupa City
Tel. 850-2159
850-2319
Branch Manager: Florante Fajardo

Binondo
567-569 Quintin Paredes St., Binondo
Tel. 243-9782
243-9784
Branch Manager: Catherine Chua - Uy

Bonifacio Global City
Net2 Square, 3rd Ave corner 28th Street Crescent Park West, Bonifacio Global City, Taguig City
Branch Manager: Analina Palma

Caloocan
222-226 5th Ave., Rizal Ave. Extension, Grace Park, Caloocan City
Tel. 364-2019
364-2070
Branch Manager: Sandy W. Tan

Congressional
177 Congressional Ave. Bahay Toro Q. C.Diliman, Quezon City
Tel. 929-6822
920-9686
Branch Manager: Christine Tan

Del Monte
269 Del Monte Avenue, Bgy. Manresa, Quezon City
Tel. 412-5010
Tel. 365-6943
Branch Manager: Sandra S. Gaw

Divisoria
Co Cuanco & Sons Bldg. Unit 800-802, Tabora corner M. de Santos Sts., Divisoria, Manila
Tel. 244-2974
244-2975
Branch Manager: Grace C. Ong

EDSA- Caloocan
500 E delos Santos Ave. Caloocan City
Tel. 367-8358
367-8191
Branch Manager: Rey Boringot

Ermita
G/F, Ermita Center, Roxas Boulevard corner Sta. Monica St., Ermita, Manila
Tel. 523 - 6747
523 - 5138
Branch Manager: Isabel Antonio

Gil Puyat
G/F Morning Star Bldg., Gil Puyat Ave., Makati City
Tel. 899-4288
899-3483
Branch Manager: Farley O. Silva

Las Piñas
R C Sicam Building, Alabang Zapote Road, Las Piñas City
873-8056
873-8171
875-1265
875-1269
Branch Manager: Moises Lampano

Malabon
121 Governor Pascual Avenue Acacia, Malabon City
Tel. 285-4597
285-4469
Brtanch Manager: Ernie Ancheta

Novaliches
847 Quirino Highway, Barangay Gulod, Novaliches, Quezon City
Tel. 930-9566
930-9565
Branch Manager: Margaret Chua

Parc Royale
G/F Parc Royale Bldg., Dona Julia Vargas Ave., Ortigas Center, Pasig City
Tel. 638-6888
635-0465
Branch Manager: Grace Lanuza

Pasig
#1 Mercedes Ave., cor C. Raymundo Ave., Caniogan, Pasig City
Tel. 643-8294
641-2078
Branch Manager: Lupo Ortiz, Jr.

Rufino
G/F Feliza Bldg., 109 V.A. Rufino St., Legaspi Village, Makati City
Tel. 840-2640
752-0441
Branch Manager: Robbie Dy

Valenzuela
209 - 211 MacArthur Highway, Karuhatan, Valenzuela City
Tel. 291-3297
432-5003
Branch Manager: Amelia Sison

PROVINCIAL

Angeles
1276 Miranda St., Angeles City
Tel. (045) 887-2710
(045) 625-9331
Branch Manager: Pablito Flores

Biñan
E+S Biñan Sales Center Building Old Natiional Highway Bo. San Antonio, Binan Laguna
Tel. (049) 411-7110
(049) 511-4310
Branch Manager: Patricio B. Mercado

Cagayan de Oro
9000 C.M. Recto Ave., Lapasan, Cag. de Oro City
Tel. (088) 856-8009
(088) 856-6625
Branch Manager: Gloria Rosete

Cebu
Lianting Center, Pres. Sergio Osmena Blvd, corner F. Gonzales St., Cebu City
Tel. (032) 414-8800
(032) 414-8700
Branch Manager: Gilbert M. Lim

Davao-J.P. Laurel
Central Plaza I, J.P. Laurel Ave., Davao City
Tel. (082) 300-2088
(082) 221-9651
Branch Manager: Nerysha Lo

Davao-Monteverde
GF, Lao Bldg, Suazo cor. Monteverde Sts. Davao City
Tel. (082) 222-6431
(082) 222-4084
(082) 222-4716
Branch Manager: Mike Lim

Iloilo
J.T. ONG BUN Bldg., Ledesma St. Iloilo City
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