2004 Annual Report

Asia United Bank

Table of Contents

Our Vision

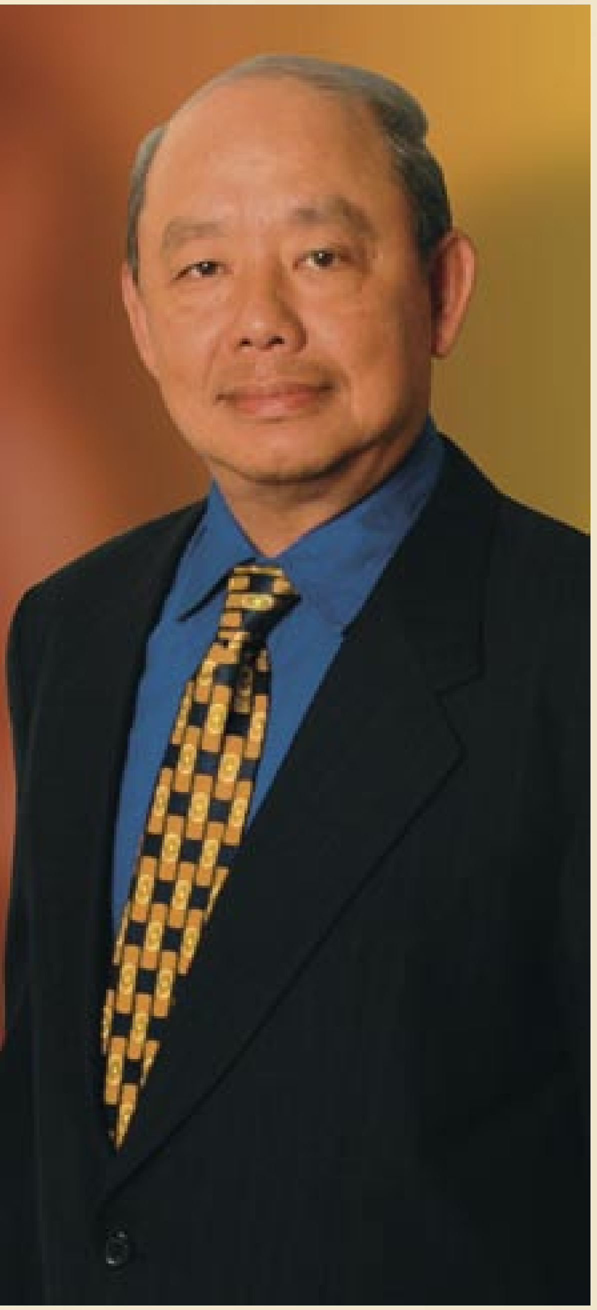
We are committed to be the bank of choice, known for financial strength and superior delivery of innovative products and services, driven towards total customer satisfaction.

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 & the President



Perspective

2004 proved to be an extraordinary year for global economic recovery. While elections in many countries—most notably the presidential election in the US—created an early atmosphere of uncertainty, the resolution of these events led to the strongest worldwide growth rate in nearly three decades. Led by burgeoning powerhouse China, Asian countries boasted the year's best-performing economies, with developing nations growing at the fastest rate ever in the last two decades.

The Philippines struggled under political issues, not to mention repeated hammering from an onset of catastrophic typhoons toward the end of the year. Nevertheless, the country continued to thrive economically, with gross domestic product growth accelerating to 6.1%, a significant increase from 2003's figure of 4.7%. Although major economic drivers remained the same ones as last year—agriculture, manufacturing, and services—total exports leaped from the previous growth of 4.4% to a very encouraging 14.0%.

The banking industry continued its stable performance, and began to make reasonable headway in diminishing its nationwide burden of bad debts, bringing the percentage of nonperforming assets down to 13.8% from 15.0% in 2003. Since bad debt is perceived to be the primary encumbrance weighing down Philippine banking, this decrease is a positive sign of foreseeable improvement across the industry.

Introspective

Though not without its trials, 2004 was a good year for Asia United Bank as well. The bank posted a net income of Php457 million, translating to a healthy return on average equity of 11.81% versus industry average of 7.6%. This brought the bank's total capital funds to Php4.1 billion fromPhp3.7 billion the previous year. Total resources improved by almost a billion pesos to Php 18.5 billion from Php17.6 billion.

The year also marked a dramatic step forward for our e-banking program, with fully half of our divisions launching or enhancing online facilities for client use. We continued to explore and integrate alternative channels for delivering our services to clients—including SMS notification for remittance transactions and our phonebanking capability. Internally, the bank made effective use of technological innovation to streamline processes, improve communications, and strengthen infrastructure across the board.

Externally, the bank also promoted IT proliferation through a partnership with Microsoft Philippines, Intel Microelectronics Philippines, and the Department of Education. Designed to make computers available for public school teachers, the partnership offers affordable personal computers through an easy Php800-a-month three-year installment plan. This not only furthered the cause of advancing national computer education, it incidentally opened the doors to 500,000 potential AUB customers among Philippine public school and Department of Education personnel.

Other endeavors made to attract new clients and raise the bank's profile included the establishment of no less than 18 new tie-ups with foreign banks and remittance companies—benefiting our Remittance Group—and the addition of two new correspondent banks, namely United Overseas Bank and Fortis Bank. These may be taken as a signifier of our bank's growing recognition among the international banking community.

On the local front, we outstripped all our competitors among BancNet member banks in terms of enrolling new client companies to the network's SSSNet online remittance payment facility—only a year after our Special Services Unit was formed to manage such functions. To develop a pool of potential officers, our Officer Development Program was launched in 2004, honing a founding class of seven promising staff members for future supervisory assignments in light of our projected expansion needs.

Prospective

Despite the general economic exuberance of 2004, worldwide growth is expected to slow down to a more sedate level in 2005. The prognosis is still positive, however, and Asia United Bank takes a cautiously optimistic stance with its plans for the year. We will be expanding our branch network into several strategic locations, as well as exploring new growth opportunities in Asset Management. We will also ramp up our sales force accordingly to accommodate these moves.

The bank will continue to develop new and better products and services, many of which are already scheduled for introduction or re-launching during the year. We are also prepared with a number of forthcoming systems that will simplify or otherwise improve current processes, including the full automation of our trade products. We will be seeking even more tie-ups to enhance our remittance service, and have put plans in motion to build closer relationships with communities of overseas workers.

As has always been the case with Asia United Bank, relationships are truly the core of our business. We are dedicated to supporting our clients with our best efforts and a sincere desire to help them achieve the best in their personal and professional growth. We would therefore like to thank them, our Board of Directors, our stockholders, officers, and staff for their continued support and confidence in the bank.

With the enduring blessings of the Almighty, Asia United Bank renews its commitment to building and sustaining mutually satisfying relationships as the bank of choice for both its internal and external customers.

Jacinto L. Ng, Sr. Chairman of the Board	**Abraham T. Co** President

The Values of AUB

are guiding principles that serve to nurture the bank's character, from which good business practices emanate. Rather more personal than corporate, these values again take on a deeper meaning in the context of how we view business as a personal pursuit of building relationships.

Commitment

one's dedication to the achievement of the common organizational objectives

Institutional Banking Group

Despite a necessarily cautious approach to lending activities, the majority of the bank's Institutional Banking units met or exceeded targets for 2004—in particular, the Salary Loans unit achieved a 139% year-end bookings increase from the previous year. This impressive performance was largely due to the Group's unanimous emphasis on establishing good rapport and developing income opportunities with trusted clients; as well as reducing and satisfactorily resolving delinquent accounts.

By sustaining and maximizing relationships with existing clientele, the Institutional Banking Group was able to be very selective in evaluating prospective new loans, applying stringent criteria and confining its activities to industries that continue to be healthy and thrive despite a challenging economic environment. In 2004, these included telecommunications, food, computers, manufacturing, petroleum-based and steel industries, and services such as call centers and related businesses.

On the trade finance front, the Group expanded its correspondent bank network in 2004 with the inclusion of global entities United Overseas Bank and Fortis Bank. The latter was particularly significant as an indicator of AUB's widening credibility and acceptance—despite its status as a relative newcomer—in the international banking system.

The Group endeavored to further increase this credibility by striving to consistently meet turnaround times with its trade products; as well as by providing clients with alternatives to cost-cutting and recommendations for resolving transaction issues, either with suppliers or through the Group's correspondent banks. In so doing, the Group underscored its determination to translate the goals of management to a level comparative to that of larger, more established banks.

For 2005, the Group intends to explore less conventional growth areas, having developed specialized parameters for assessing candidates from provincial markets and selected government institutions that are free of previous debt. It will continue to exercise a policy of prudence in regard to new clients, while at the same time ramping up sales and customer retention through innovative marketing promotions and the e-Loans Internet lending facility.

2005 will likewise see the complete automation of import and export trade products, allowing clients to securely submit product applications and access transaction status and statistics information through the World Wide Web.

Treasury

Given the general lack of sound trading opportunities in the domestic and Eurobond markets, the Treasury Group concentrated its efforts on product and credit diversification, exploring growth opportunities among its existing and newly-integrated assets. The investment mix was expanded to include structured products, taking full advantage of the 2004 Circular which permitted the classification of these as Foreign Currency Deposit Unit (FCDU) assets.

A continued emphasis on more products and credits is expected to result in significant improvement in Trading Revenues and overall performance by year-end.

Private Banking

In 2004, the Private Banking Group continued to manage the financial portfolios of its high-net worth clients, at the same time addressing their other financial requirements. Because of volatile economic conditions, the Group exercised caution in lending, catering to existing clientele and carefully screening potential borrowers.

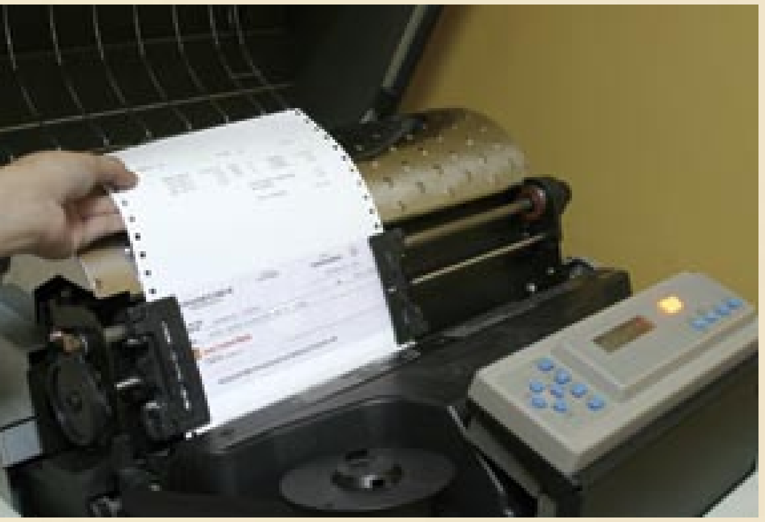
Loyalty, unabashed and unquestionable, in the tradition of more rustic days, is what makes a partnership sweeter and more precious.

Following through from previous years, trade-related transactions continued to be the primary focus for the Group. Efforts were concentrated on generating more deposits, including current and savings accounts, special savings accounts, and fixed-income and trust investments. These endeavors resulted in a significant growth of the Group's portfolio of accounts by year-end.

In 2005, the Private Banking Group will continue its marketing efforts to expand its client base. Deposit generation and trade-related transactions will still form the main thrust for the Group, along with active cross-selling of other bank products and services that will complement and enhance the financial activities of Private Banking clientele.

Branch Banking

In 2004, the Branch Banking Group (BBG) intensified the offering of cash management services such as payroll, post-dated check warehousing and online payment facility for SSS to generate low-cost current and savings deposits. Through these special services, a total of Php288.6 million in payments and disbursements was facilitated. Thus, together with efforts coming from the branch sales force, the Group was able to surpass the majority of its targets for the year, resulting in a total BBG deposit level of Php8.5 billion.



Accelerating its e-banking program, the Group introduced Internet banking at a number of pilot branches, enabling faster and more convenient account access for clients, as well as improving productivity at the selected branches. At provincial branches, payment of utility bills via intranet was likewise introduced, allowing for systematic collection and transmission of payments. A new bills purchase system increased safety, control, and transparency for approval and availments; while the implementation of automatic General Ledger posting resulted in faster end-of-day turn-around time throughout the branch network.

In 2004, the Branch Banking Group became an active participant and driver of the bank's core values through the creation of the Service Quality Council. With the aim of building a better, service-oriented working environment, the Council helped standardize three key result areas for all branch personnel: sales, service, and risk management.

Trust and Investments

Since its inception, the Trust and Investments Group has recorded an average annual growth of 67% for volume and 87% for revenue. It continued this tradition of excellence in 2004, exceeding its set targets by over 16% for volume and over 40% for revenue.

Focusing on high-revenue products to provide optimal returns for stakeholders, the Group continued to provide professional fund management services with global standards in mind. Accordingly, it launched its e-trust website in 2004, further solidifying AUB's reputation as a truly full-service trust provider. The Group will continue to increase client awareness of the e-trust facility, and expects a significant improvement to the site in 2005, allowing clients to inquire on trust accounts directly through the Internet.

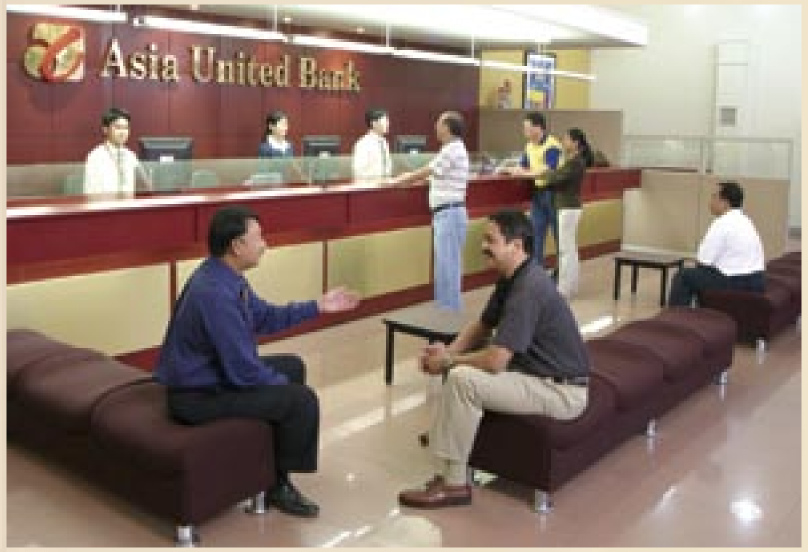
Further developments will include the re-launching of the improved AUB Gold Dollar Fund and AUB Peso Investment Fund (formerly the AUB Common Trust Fund). The improvements on both funds are in line with the BSP mandate to convert all Common Trust Funds into Unit Trust Funds. These shall provide investors with more transparency and shall allow clients to reap the highest potential returns from the Funds. Likewise, the Group shall focus on re-introducing the AUB Gold Chest Plan (a multipurpose endowment plan/revocable living trust account) to increase client awareness in the field of estate planning. The Trust and Investments Group will continue to provide pioneering, value-added products, and expects to coordinate with other bank units to create comprehensive product offerings that promote 'one-stop' banking at AUB.

Integrity

doing the right things at the right time, all the time

Remittance

2004 was a dynamic and productive year for the Remittance Group, resulting in a 70% growth rate, or a 133% achievement of its established target. This performance may be attributed to the Group's prompt delivery capability and competitive pricing, enabling it to build up its client base despite fierce competition from bigger, more established peer banks. The Group also added a total of 18 new tie-ups and 4 local courier services to its growing remittance network, opening AUB's services to thousands of overseas workers stationed in different regions around the world.



Additionally, the Group implemented various features that improved remittance operations and marketing, including the establishment of a pre-departure orientation seminar (PDOS) for outbound overseas workers. Other innovations were more technological in nature, such as SMS notification of transactions, systems interfacing with numerous foreign partners, and automated transaction information updates on the bank's website.

The Remittance Group will continue to implement and introduce operational enhancements in 2005, as well as maximizing market awareness and customer loyalty through promotions, the pre-departure orientation seminars, and building relationships with overseas worker associations in the Philippines and abroad. Future tie-ups in development include banks and remittance companies in Amsterdam, Germany, Austria, North America, the United Kingdom, the Middle East, and the Asia-Pacific.

Information Technology

Through the Information Technology Group, AUB has been steadily progressing toward full-service e-banking capability. With core systems in place, the Remittance Group was able

Excellence

beyond customer expectations…
a way of life

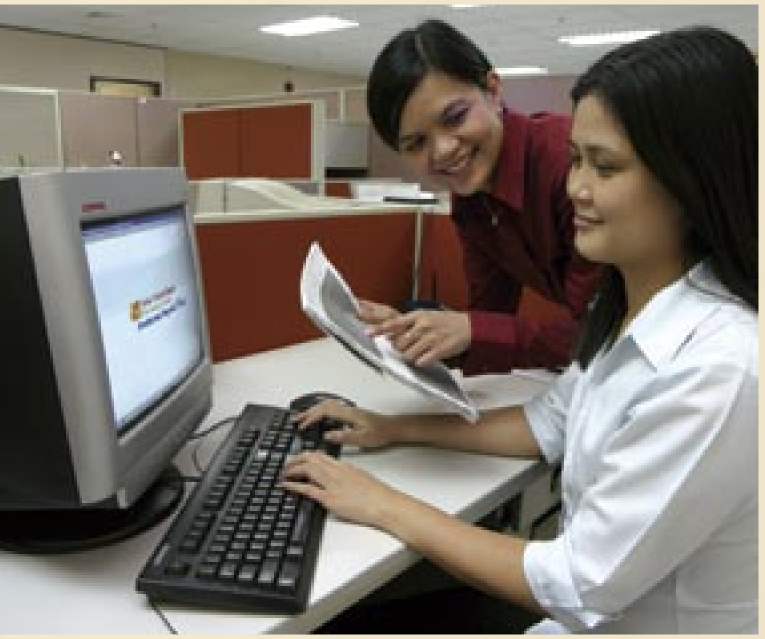
to offer SMS notification of incoming remittances for their clients, while foreign remittance partners were enabled to check their statements of account and transaction status online. Similarly, Trade Finance benefited from a web-based client access system, as well as online application and tracking for Letters of Credit. The new Post Dated Check (PDC) Warehousing System allowed clients to request warehousing of their postdated checks, make amendments on deposit instructions, and view check status over the Internet. Internet banking was also introduced in selected bank branches, and the e-Loans and e-trust websites were launched for the Institutional Banking and Trust and Investments Groups.

Further activities focused on developing IT solutions to support other new products and services, process improvements, and cost-efficient technology infrastructure for branch network expansion. Among these were the full General Ledger interface of Branch Source Document Transmittal Summary (BSDTS), resulting in faster and more accurate recording of entries in the bank's accounting ledger; development and installation of the Furniture Fixtures & Equipment (FF & E) system, providing better monitoring of the bank's fixed assets; consolidation of production servers to improve response time and availability; and upgrading of the bank's Internet connection from 512 kbps to 768 kbps.

The Group's implementation strategy has been to develop the most critical applications in-house, rather than purchasing expensive, ready-made software packages. This has resulted not only in significant cost savings, but in customized applications that strategically address the bank's specific business requirements. Upcoming developments following this policy include the New ATM Switch System, the New Accounting System, Cash Card, Cash Management System, Text Remit, Salary Loan Origination Sub-system, and a comprehensive redesign of the Checking and Savings Account product offering.

Human Resources

The Human Resources Department continued to equip personnel with progressive competencies by providing an array of training and development programs. A total of 244 hours was spent training 241 staff members, with external consultants invited to conduct seminars on sales, credit and collection, and problem-solving and decision-making. Internally, the Frontliner Boot Camp was offered to all branch officers and staff in order to standardize work procedures and perspectives; while the Officer Development Program was launched to groom a starting class of seven high-potential staff members for positions of greater responsibility, anticipating the bank's expansion and succession personnel requirements.



Administratively, Human Resources also reviewed the bank's compensation platform, rationalizing existing benefits and devising a new Salary Structure in order to be more responsive to current working conditions, as well as to attract more quality candidates for hire. The Department continued to use targeted selection and competency-based interviewing techniques as effective tools for faster recruitment, ending the year with a total of 451 AUB employees—a manpower growth of 9.2% as compared to 2003.

AUB plans to open a number of new branches in 2005. Along with the projected increase in business activities for the Salary Loans unit, this will entail a substantial undertaking in recruitment and hiring for the year. The Department also intends to maximize its use of existing automated systems, such as Workforce (Employees' 201) and the Propay payroll system.

Leadership

guide to accomplish and succeed, lead by example, incite following out of respect

Risk Management

Meeting the Challenge of the Global Implementation of the New Capital Accord (Basel 2)

In June 2004, the Basel Committee on Banking Supervision (BCBS) released the 'International Convergence of Capital Measurement and Capital Standards: A Revised Framework' (BASEL II), which marked a critical milestone in assessing the capital adequacy of banks under a more stringent yardstick. The local regulator, Bangko Sentral ng Pilipinas, has required the local banks to comply with the standardized approach to credit risk as part of its implementation plans for the new international capital standards.

In response to the growing prerequisites of the global and local regulators, Asia United Bank Corporation has since directed its risk management improvement initiatives towards the development of risk infrastructure required under this environment. In 2004, the bank focused on the documentation of the credit risk rating system and the enhancement of the information system that will be capable of maintaining the database critical to an effective credit risk management. The Central Credit Liability System was enhanced to capture and generate data that will be useful and responsive to estimating the Probability of Default for a given exposure once enough data is available. The enhancement was aimed to develop a sound basis for credit default estimate so as to optimize capital under the risk management framework. This basis will begin with the build-up of internal and external data relevant to the reliable measure of credit risk. Accordingly, the Bank has taken the initial steps towards the aforementioned goal.

The bank has also started major organizational changes in lending operations when it created the Remedial Management Department and the Consumer Lending Operations Department. Reporting lines were clarified and the dichotomy of the commercial and consumer lending functions was clearly established in 2004. All these management decisions were not only driven by the risk strategy of diversifying the bank's exposure but also in line with the risk-sensitive nature of the new capital regulations. The Risk Management Team of the bank is fully aware that ***what lies beneath the seemingly stringent regulations is a potential for value creation and optimization of economic capital through stronger credit risk management practices.***

Initial Pay-off of the Risk Diversification Strategy

In 2004, AUB expanded its horizon when the two major components of its risk position had undergone changes in terms of the underlying assets. On one hand, the trading

portfolio expanded the list of securities eligible for proprietary purposes. On the other hand, aggressive consumer lending increased retail exposure. The business strategy resulted in moderate increase in the degree of aggregate credit risk based on the present statutory risk weights. Nonetheless, the portfolio changes are still well within the parameters of interest rate and liquidity risks established by the Board of Directors. The underlying risk decisions were taken in line with the Bank's policy with respect to asset and liability management, which is to maximize the net interest income, returns on assets, and return on equity.

The gross yield on trading portfolio, particularly for dollar-denominated assets, was up by 109 basis points that partially covered for the subdued gains in trading operations. Trading opportunities during the year in review were constrained by market movements, principally affected by domestic and geo-political factors. The increased volatility of the trading portfolio was captured by the higher Value at Risk (VaR) compared to 2003.

On the loan portfolio, the beneficial effects of the risk diversification came in the form of higher yield in the loan portfolio, as well as in reduction of the concentration risk

Teamwork

effective… together

in the commercial exposure, specifically the manufacturing sector. Comparative yields for 2003 and 2004 showed an improvement of 64 basis points in the gross yield.

The capital-to-risk asset ratio of the bank remained robust at 22.42% or more than twice the minimum statutory requirement of 10%.

Encouraged by the foregoing, the Bank shall continue to track the path to growth under a stable and consistent implementation of risk improvement initiatives necessitated by the new global standards in banking. It shall continue to abide by its risk philosophy.

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.

Inspiration, respect, and trust are earned. Inspiration is something more ethereal, something that touches your heart and soul to go beyond what you thought you could.

Family, the most basic unit in society, is bound not just by ties of blood but shared goals, an understanding and respect of each other's roles and importance in the scheme of things.

Report of the Chief Audit Executive

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

As of December 31, 2004, the bank has twenty-six branches all over Metro Manila and in the key cities of Luzon, Visayas, and Mindanao.

For the year 2004, the Internal Audit Department performed internal audit assessments of all organizational units, based on the Audit Plans and Strategies 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 have been consistently rated by the Bangko Sentral ng Pilipinas at a CAMEL rating of '4' (out of a high of '5') for the past six years. The bank's CAMEL rating of '4' indicates that AUB is a fundamentally sound financial institution. Moreover, the past due ratio of its loan portfolio is a mere 8.8%—way below the industry average of 16%.

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 the Securities and Exchange Commission Circular No. 2 on the role of the Audit Committee and the External Auditors.

The Audit Committee will continue to assure depositors and stakeholders that Internal Control Procedure 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 the 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 have completed its Corporate Governance Training required by Bangko Sentral ng Pilipinas.

Correspondingly, on February 1, 2005, Asia United Bank Corporation submitted to the Securities and Exchange Commission its Corporate Governance Manual Evaluation Sheet for year 2004 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 was conducted in 2004 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, 2004 and 2003. 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 and Subsidiaries
Ground Floor, Parc Royale Condominium
Doña Julia Vargas Avenue, Pasig City

We have audited the accompanying statements of condition of Asia United Bank Corporation and Subsidiaries (the Group) and of Asia United Bank Corporation (the Parent Company) as of December 31, 2004 and 2003, 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, 2004 and 2003, 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. 1195850, January 3, 2005, Makati City

February 24, 2005

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CONDITION

	Group		Parent Company	
	December 31			
	2004	2003 (As restated- Note 2)	**2004**	2003 (As restated- Note 2
RESOURCES				
Cash and Other Cash Items (Note 9)	**₱412,634,720**	₱453,833,745	**₱410,935,797**	₱434,781,221
Due from Bangko Sentral ng Pilipinas (Notes 9 and 13)	**179,515,725**	279,454,313	**179,515,725**	279,454,313
Due from Other Banks (Note 13)	**564,052,630**	742,639,720	**564,052,630**	742,639,720
Interbank Loans Receivable and Securities Purchased under Agreements to Resell (Note 13)	**1,964,495,391**	1,207,225,749	**1,964,495,391**	1,207,225,749
Trading Account Securities - at market (Notes 3 and 13)	**205,737,653**	336,253,707	**205,737,653**	336,253,707
Available-for-Sale Securities - at market (Notes 3 and 13)	**2,161,950,244**	828,316,807	**2,161,950,244**	828,316,808
Investments in bonds and Other Debt Instruments - at amortized cost (Notes 3, 9 and 19)	**820,242,862**	2,433,062,500	**807,349,223**	2,420,341,644
Receivables from Customers - net (Notes 4, 10, 13 and 20)	**11,349,883,248**	10,659,124,072	**11,137,439,980**	10,483,327,375
Equity Investments (Note 5)	**12,087,746**	12,087,746	**76,550,215**	71,579,977
Bank Premises, Furniture, Fixtures and Equipment - net (Note 6)	**89,154,311**	92,353,981	**88,642,267**	91,153,148
Real and Other Properties Owned or Acquired	**203,631,801**	13,161,219	**203,631,801**	13,161,219
Deferred Income Tax - net (Note 18)	**201,314,194**	211,482,735	**203,652,141**	213,184,001
Other Resources - net (Notes 7 and 13)	**336,252,056**	312,915,893	**336,583,249**	310,373,679
	₱18,500,952,581	₱17,581,912,187	**₱18,340,536,316**	₱17,431,792,561
LIABILITIES AND CAPITAL FUNDS				
Deposit Liabilities (Notes 9, 13 and 20)				
Demand	**₱2,693,806,970**	₱1,958,534,999	**₱2,705,616,960**	₱1,968,853,054
Savings	**4,127,816,542**	4,123,123,672	**4,170,743,025**	4,141,867,841
Time	**3,019,553,220**	3,144,457,314	**3,019,553,220**	3,144,457,314
	9,841,176,732	9,226,115,985	**9,895,913,205**	9,255,178,209

(Forward)

	Group		Parent Company	
	December 31			
	2004	2003 (As restated- Note 2)	2004	2003 (As restated- Note 2
Bills Payable (Notes 10 and 13)	**₱2,525,436,770**	₱3,591,379,905	**₱2,465,436,770**	₱3,546,379,905
Acceptances Payable (Note 13)	**193,375,245**	212,298,096	**193,375,245**	212,298,096
Manager's Checks	**48,985,985**	70,195,256	**48,985,985**	70,195,256
Accrued Taxes, Interest and Other Expenses (Notes 11 and 13)	**266,257,728**	209,228,988	**262,977,861**	204,675,473
Other Liabilities (Notes 12 and 13)	**1,387,657,412**	502,640,933	**1,346,233,564**	476,299,945
	14,262,889,872	13,811,859,163	**14,212,922,630**	13,765,026,884
Minority Interest in Consolidated Subsidiaries	**110,449,023**	103,287,347	**–**	–
Capital Funds				
Capital Stock (Note 14)	**2,400,000,000**	2,400,000,000	**2,400,000,000**	2,400,000,000
Surplus Reserves (Note 19)	**11,364,766**	6,179,644	**11,364,766**	6,179,644
Surplus (Notes 2 and 19)	**1,702,668,030**	1,250,419,794	**1,702,668,030**	1,250,419,794
Net Unrealized Gain on Available-for-sale Securities (Note 3)	**13,580,890**	10,166,239	**13,580,890**	10,166,239
	4,127,613,686	3,666,765,677	**4,127,613,686**	3,666,765,677
	₱18,500,952,581	₱17,581,912,187	**₱18,340,536,316**	₱17,431,792,561

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF INCOME

	Group		Parent Company	
	Years Ended December 31			
	2004	2003 (As restated- Note 2)	2004	2003 (As restated- Note 2)
INTEREST INCOME ON				
Receivables from customers (Notes 4 and 20)	**₱1,079,441,835**	₱868,341,170	**₱1,053,521,015**	₱860,782,402
Trading and investment securities (Note 3)	**368,357,445**	263,106,818	**366,183,550**	259,423,166
Interbank loans receivable and securities purchased under agreements to resell	**32,561,174**	22,711,636	**32,561,174**	22,711,636
Deposits with banks and others	**7,129,016**	1,595,311	**8,240,919**	3,266,978
	1,487,489,470	1,155,754,935	**1,460,506,658**	1,146,184,182
INTEREST EXPENSE ON				
Deposit liabilities (Note 20)	**394,390,394**	333,941,666	**397,846,382**	335,653,572
Bills payable and other borrowings	**123,131,538**	134,234,645	**118,310,087**	133,170,096
	517,521,932	468,176,311	**516,156,469**	468,823,668
NET INTEREST INCOME BEFORE PROVISION FOR PROBABLE LOSSES	**969,967,538**	687,578,624	**944,350,189**	677,360,514
PROVISION FOR PROBABLE LOSSES (Note 8)	**219,468,385**	260,341,814	**218,380,671**	260,239,524
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOSSES	**750,499,153**	427,236,810	**725,969,518**	417,120,990
OTHER INCOME				
Trading and securities gain - net (Note 3)	**113,030,466**	325,260,116	**113,030,466**	325,260,116
Service charges, fees and commissions	**102,233,169**	74,176,383	**101,964,973**	74,155,085
Trust income	**51,851,220**	34,960,642	**51,851,220**	34,960,642
Foreign exchange gain - net	**45,284,012**	45,503,755	**45,094,516**	45,328,867
Equity in net income of subsidiaries (Note 5)	**–**	–	**4,970,238**	3,022,173
Miscellaneous	**18,772,043**	14,246,050	**18,176,611**	2,551,656
	331,170,910	494,146,946	**335,088,024**	485,278,539

(Forward)

	Group		Parent Company	
	Years Ended December 31			
	2004	2003 (As restated- Note 2)	2004	2003 (As restated- Note 2)
OTHER EXPENSES				
Compensation and fringe benefits (Note 16)	**₱195,429,401**	₱166,316,373	**₱193,316,962**	₱164,407,276
Taxes and licenses (Note 18)	**63,546,472**	2,095,860	**61,872,587**	1,912,955
Rent (Note 15)	**45,509,977**	42,634,181	**45,324,011**	42,441,473
Depreciation and amortization (Note 6)	**44,804,983**	43,949,831	**44,008,094**	43,017,151
Insurance	**27,543,795**	22,391,630	**27,508,481**	22,353,120
Security, messengerial and janitorial	**23,868,949**	21,311,264	**23,815,145**	21,261,525
Management and other professional fees	**23,044,895**	11,368,773	**22,835,442**	11,341,450
Transportation and travel	**12,869,225**	11,521,321	**12,787,553**	11,456,979
Freight expenses	**12,545,224**	8,769,323	**12,545,224**	8,769,323
Repairs and maintenance	**12,308,162**	10,800,141	**12,189,286**	10,649,660
Power, light and water	**12,123,969**	10,525,648	**12,015,045**	10,426,405
Amortization of software costs and branch licenses	**8,521,548**	14,270,348	**8,521,548**	14,095,537
Miscellaneous (Note 17)	**73,728,968**	71,571,183	**72,876,844**	69,246,850
	555,845,568	437,525,876	**549,616,222**	431,379,704
INCOME BEFORE INCOME TAX	**525,824,495**	483,857,880	**511,441,320**	471,019,825
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 18)	**59,864,291**	(1,598,251)	**54,007,962**	(5,901,677)
INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	**465,960,204**	485,456,131	**457,433,358**	476,921,502
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	**8,526,846**	8,534,629	**–**	–
NET INCOME	**₱457,433,358**	₱476,921,502	**₱457,433,358**	₱476,921,502

See accompanying Notes to Financial Statements.

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

	Years Ended December 31	
	2004	2003 (As restated- Note 2)
CAPITAL STOCK - ₱100 par value (Note 14)		
Authorized - 50,000,000 shares		
Issued - 24,000,000 shares	**₱2,400,000,000**	₱2,400,000,000
SURPLUS RESERVES (Note 19)		
Balance at beginning of year	**6,179,644**	1,065,706
Transfer from surplus free	**5,185,122**	5,113,938
Balance at end of year	**11,364,766**	6,179,644
SURPLUS (Note 14)		
Balance at beginning of year, as previously reported	**1,263,264,652**	788,143,270
Effect of change in accounting for leases (Note 2)	**(12,844,858)**	(9,531,040)
Balance at beginning of year, as restated	**1,250,419,794**	778,612,230
Net income	**457,433,358**	476,921,502
Transfer to surplus reserve (Note 19)	**(5,185,122)**	(5,113,938)
Balance at end of year	**1,702,668,030**	1,250,419,794
NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE SECURITIES (Note 3)	**13,580,890**	10,166,239
	₱4,127,613,686	₱3,666,765,677

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES
STATEMENTS OF CASH FLOWS

	Group		Parent Company	
	Years Ended December 31			
	2004	2003 (As restated-Note 2)	2004	2003 (As restated-Note 2)
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	**P525,824,495**	P483,857,880	**P511,441,320**	P471,019,825
Adjustments for:				
Provision for probable losses (Note 8)	**219,468,385**	260,341,814	**218,380,671**	260,239,524
Depreciation and amortization (Note 6)	**44,804,983**	43,949,831	**44,008,094**	43,017,151
Amortization of software costs and branch licenses (Note 7)	**8,521,548**	14,270,348	**8,521,548**	14,095,537
Gain on sale of bank premises, furniture, fixtures and equipment	**(1,024,403)**	(1,125,271)	**(1,024,403)**	(1,109,090)
Unrealized market valuation gain on trading account securities	**(1,055)**	(3,240,855)	**(1,055)**	(3,240,855)
Equity in net income of subsidiaries (Note 5)	**–**	–	**(4,970,238)**	(3,022,173)
Changes in operating resources and liabilities:				
Decrease (increase) in the amounts of:				
Receivables from customers	**(1,100,698,143)**	(2,091,588,717)	**(1,062,963,858)**	(2,023,431,685)
Trading account securities	**130,517,109**	(331,553,825)	**130,517,109**	(331,553,825)
Other resources	**(31,857,711)**	(125,977,168)	**(34,731,118)**	(118,015,552)
Increase (decrease) in the amounts of:				
Deposit liabilities	**615,060,747**	1,985,776,285	**640,734,996**	1,959,924,627
Manager's checks	**(21,209,271)**	30,095,732	**(21,209,271)**	30,095,732
Accrued taxes, interest and other expenses	**62,373,425**	47,260,162	**62,086,649**	45,731,332
Acceptances payable	**(18,922,851)**	–	**–**	–
Other liabilities	**883,651,311**	188,158,924	**851,010,768**	170,073,832
Net cash generated from operations	**1,316,508,569**	500,225,140	**1,341,801,212**	513,824,380
Income taxes paid	**(55,040,437)**	(33,999,505)	**(48,260,363)**	(31,436,627)
Net cash provided by operating activities	**1,261,468,132**	466,225,635	**1,293,540,849**	482,387,753
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in the amounts of:				
Investments in bonds and other debt instruments	**1,612,819,638**	(1,465,448,640)	**1,612,992,421**	(1,452,727,783)
Available-for-sale securities	**(1,330,218,786)**	836,177,267	**(1,330,218,785)**	836,177,267
Additions to bank premises, furniture, fixtures and equipment (Note 6)	**(P44,983,814)**	(P53,277,046)	**(P44,875,714)**	(P53,277,046)
Proceeds from sale of bank premises, furniture, fixtures and equipment	**4,402,904**	5,750,537	**4,402,904**	5,750,537
Additions to equity investments	**–**	–	**–**	(7,500,000)
Net cash provided by (used in) investing activities	**242,019,942**	(676,797,882)	**242,300,826**	(671,577,025)
CASH FLOWS FROM FINANCING ACTIVITIES				
Proceeds from bills payable	**28,091,958,604**	39,141,504,905	**28,076,958,604**	39,111,504,905
Payments of bills payable	**(29,157,901,739)**	(38,576,466,202)	**(29,157,901,739)**	(38,576,466,202)
Cash received as equity contribution from minority interest	**–**	10,209,874	**–**	–
Net cash provided by (used in) financing activities	**(1,065,943,135)**	575,248,577	**(1,080,943,135)**	535,038,703
NET INCREASE IN CASH AND CASH EQUIVALENTS	**437,544,939**	364,676,330	**454,898,540**	345,849,431
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	**453,833,745**	164,577,525	**434,781,221**	164,351,900
Due from Bangko Sentral ng Pilipinas	**279,454,313**	310,551,215	**279,454,313**	310,551,215
Due from other banks	**742,639,720**	546,744,469	**742,639,720**	546,744,469
Interbank loans receivable and securities purchased under agreements to resell	**1,207,225,749**	1,296,603,988	**1,207,225,749**	1,296,603,988
	2,683,153,527	2,318,477,197	**2,664,101,003**	2,318,251,572
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	**412,634,720**	453,833,745	**410,935,797**	434,781,221
Due from Bangko Sentral ng Pilipinas	**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
	P3,120,698,466	P2,683,153,527	**P3,118,999,543**	P2,664,101,003

(Forward)

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 Bank operates through its 26 domestic branches as of December 31, 2004 and 2003.

The average number of employees of the Parent Company and its subsidiaries (the Group) in 2004 and 2003 follows:

	2004	2003
Group	**450**	413
Parent Company	**446**	409

The accompanying financial statements of the Group and of the Parent Company as of and for the years ended December 31, 2004 and 2003 were approved and authorized for issue by the Audit Committee, as designated by the board of directors (BOD), on February 24, 2005.

2. **Summary of Significant Accounting Policies**

Basis of Financial Statement Preparation
The accompanying financial statements have been prepared in accordance with the accounting principles generally accepted in the Philippines (Philippine GAAP) for the banking industry. These financial statements are prepared under the historical cost convention modified by the fair value measurement of trading account securities (TAS) and available-for-sale securities (ASS). The accompanying financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and the Foreign Currency Deposit Unit (FCDU). The accompanying financial statements of 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, except for nonaccruing receivables from customers, are credited to or charged against operations in the year in which the rates change.

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

Changes in Accounting Policies
On January 1, 2004, the Group adopted the following new accounting standards:

- Statement of Financial Accounting Standard (SFAS) 12/International Accounting Standard (IAS) 12, *Income Taxes*, requires deferred income taxes to be determined using the balance sheet liability method. The adoption of SFAS 12/IAS 12 has no material effect on the Group's financial position and results of operations.

- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures applicable to finance and operating leases. The adoption of the standard resulted in the recognition of lease payments under operating leases on a straight-line basis. Previously, all leases under operating lease are recognized in the statements of income on the basis of the terms of the lease agreements. The standard was adopted on a retroactive basis and prior year's financial statements were restated. The restatement resulted in a decrease in surplus by ₱12.8 million and ₱9.5 million as of January 1, 2004 and 2003, respectively. The adoption also resulted in an increase in resources by ₱7.1 million and ₱6.1 million, representing the related deferred income tax effect of adopting the standard, and an increase in liabilities by ₱22.2 million and ₱18.9 million as of December 31, 2004 and 2003, respectively. Net income decreased by ₱2.3 million and ₱3.3 million in 2004 and 2003, respectively.

  Additional disclosures required by the new standard are included in the financial statements.

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 that are convertible to known amounts of cash with original maturities of three months or less from dates of placements and that are subject to insignificant risk of changes in value.

Securities Purchased under Agreements to Resell
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. The amounts advanced under resale agreements are carried in the statements of condition at the principal amount advanced. The corresponding interest income is accrued when earned.

Trading and Investment Securities
Trading and Account Securities (TAS)
TAS consist of government and private debt and equity securities purchased and held principally with the intention of selling them in the near term. These securities are carried at fair market value; realized and unrealized gains and losses on these instruments are recognized in Trading and Securities Gain - Net in the statements of income. Interest earned on debt instruments is reported as Interest Income in the statements of income. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated using quoted prices of instruments with similar characteristics.

When a security is transferred from TAS, the unrealized holding gain or loss at the date of transfer is not reversed and is recognized in the statements of income. When a security is transferred to TAS, the unrealized holding gain or loss at the date of transfer is immediately recognized in the statements of income.

Available-for-Sale Securities (ASS)
Securities are classified as available-for-sale 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, unless unrealized losses represent impairment losses in which case such amount will be charged against current operations.

When a debt security is transferred to ASS from investments in bonds and other debt instruments, the unrealized holding gain or loss at the date of transfer is excluded from reported earnings and reported as a separate component of capital funds until realized.

Investments in Bonds and Other Debt Instruments (IBODI)
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 determined using the effective interest method is included in Interest Income while realized gains and losses are included in Trading and Securities Gain - net in the statements of income. An allowance for probable losses, if any, is established by a charge against income to reflect other-than-temporary impairment in value. Under current banking regulations, IBODI shall not exceed 50% of adjusted statutory net worth plus 40% of total deposit liabilities.

When a debt security is transferred from ASS to IBODI, the unrealized holding gain or loss at the date of the 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 the premium or accretion of the discount.

Receivables from Customers and Allowance for Probable Losses
Receivables from customers are stated at outstanding principal balance, reduced by unearned discounts, unearned lease and finance income and allowance for probable losses.

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.

The allowance for probable losses represents management's estimate of probable losses inherent in the portfolio after consideration of prevailing and anticipated economic conditions, collection and credit experience with specific accounts, estimated recoverable value based on fair market value of underlying collaterals, financial capabilities of guarantors and on evaluations made by the BSP.

The BSP observes certain criteria and guidelines based largely on the classification of receivables in establishing specific reserves. To supplement the specific reserves, a general reserve on unclassified receivables is set aside.

The allowance for probable losses is established through provision for probable losses charged against operations. Receivables are written off against the allowance for probable losses when management believes that the collectibility of the principal is unlikely.

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.

Equity Investments
Investments in subsidiaries in the parent company statements of condition are accounted for under the equity method of accounting. A subsidiary is an entity in which a parent company directly or indirectly holds more than half of the issued share capital, or controls more than half of the voting power, or exercises control over the operation and management of the subsidiary. Investments in subsidiaries are carried in the statements of condition at cost plus post-acquisition changes in the Parent Company's share of net assets of subsidiaries, less any impairment in value. The Parent Company statements of income reflect the Parent Company's share of the results of operations of subsidiaries. Dividends received are treated as a reduction in the carrying values of the investments. Other equity investments are carried at cost, net of any impairment in value.

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization, and any 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 bank premises, furniture, fixtures and equipment have been put into operation, such as repairs and maintenance are normally charged against operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of bank premises, furniture, fixtures and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of the bank premises, furniture, fixtures and equipment. When bank premises, furniture, fixtures and equipment 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 bank premises, furniture, fixtures and equipment.

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 that the carrying values may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amounts, an impairment loss is recognized in the statements of income (see accounting policy on Impairment of Assets).

Real and Other Properties Owned or Acquired (ROPOA)
Resources acquired in settlement of receivables from customers are stated at the total outstanding exposure at the time of acquisition or bid price/appraised value, whichever is lower, less allowance for probable losses and any impairment in value. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with foreclosures are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed net realizable values. Security, maintenance and other foreclosure-related expenses are charged against operations as incurred. Allowance for probable losses is set up based on BSP provisioning requirements and for any anticipated significant shortfalls from the recorded values based on appraisal reports and/or current negotiations and programs to dispose of these properties to other interested parties.

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

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

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

Deferred income 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 Assets
An assessment is made at each statement of condition date to determine if there is any indication of impairment of any asset, or if there is an indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any of such indication exists, the asset's recoverable amount is estimated. An asset's recoverable amount is calculated at the higher of the asset's value in use or its net selling price.

An impairment loss is recognized by a charge against current operations for the excess of the carrying amount of an asset over its recoverable amount. An impairment loss is charged against operations in the year in which it arises.

A previously recognized impairment loss is reversed by a credit to current operations to the extent that it does not restate 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.

Foreign Exchange Translation and Transactions
Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at PDSWAR prevailing 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.

Derivative Contracts
The Parent Company is a party to derivative contracts entered into as a service to customers and as a means of reducing and managing the Parent Company's foreign exchange exposures. For derivative contracts designated and qualified as a hedge, the discount or premium is accreted or amortized over the term of the contract and the revaluation gains or losses are deferred and 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 fair value gains and losses credited to or charged against current operations.

Income Recognition
Income 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 nondiscounted receivables are recognized based on the accrual method of accounting, except in the case of nonaccruing receivables where interest income is recognized only to the extent of cash collections received.

Interest on interest-bearing placements and securities is recognized as the interest accrues taking into account the effective yield on the asset.

Capitalized interest income on restructured receivables is deferred and shown as a deduction from receivables from customers.

Unearned discounts
Unearned discount is recognized as income over the life of the receivables using the effective interest method.

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 effective interest 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 effective interest method.

Unearned lease and finance income cease to be amortized when receivables become past due for more than 90 days.

Fees and Commissions
Generally, fees and commissions are recognized on the accrual basis where there is reasonable degree of certainty as to its collectibility. 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.

Retirement Cost
The Group determines its retirement cost using the projected unit credit method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period. The past service cost is the present value of any units of future benefits credited to the employees for services in periods prior to the commencement or subsequent amendment of the plan. Unfunded past service costs, experience adjustments and actuarial gains or losses are amortized over the average of the expected working life of employees.

The Parent Company is in the process of setting up a pension fund. In compliance with the provisions of Republic Act (RA) No. 7641, the Parent Company commissioned an actuarial study for the proposed pension fund which incorporates the requirements of RA No. 7641.

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

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

Contingent liabilities are not recognized 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.

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

New and Revised Accounting Standards to be Effective in 2005
New accounting standards based on IAS and International Financial Reporting Standards (IFRS), referred to as Philippine Accounting Standards (PAS) and Philippine Financial Reporting Standards (PFRS), respectively, will become effective in 2005. The Group will adopt the following new accounting standards that are relevant to the Group effective January 1, 2005:

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

  The Parent Company and its subsidiaries will have their actuarial valuation updated to determine the impact of adopting PAS 19. The difference between the transition liability and the recorded liability will be adjusted to the January 1, 2005 surplus. Transition liability is the present value of the obligation at the time of adoption minus the fair value of plan assets at the time of adoption, minus any past service cost that should be recognized in later periods.

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

- PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions,* provides for the required disclosure and presentation in respect of the accounts of banks and similar financial institutions. It also provides that provision for general banking risks is treated as an appropriation of surplus and should not be included in the determination of net income for the year. The standard will be adopted on a retroactive basis and prior year's financial statements will be restated. The Group has yet to determine the effect of this standard in the context of the need to reallocate the general reserve to cover any increase in specific loss reserves for receivables required under PAS 39. The required new disclosures will be included in the financial statements upon adoption of this standard.

- PAS 32, *Financial Instruments: Disclosure and Presentation,* covers the disclosure and presentation of all financial instruments. The standard requires more comprehensive disclosures about the Group's financial instruments, whether recognized or unrecognized in the financial statements. New disclosure requirements include terms and conditions of financial instruments used by the Group, types of risks associated with both recognized and unrecognized financial instruments (market risk, price risk, credit risk, liquidity risk, and cash flow risk), fair value information of both recognized and unrecognized financial assets and financial liabilities, and the company's financial risk management policies and objectives. The standard also requires financial instruments to be classified as liabilities or equity in accordance with their substance and not their legal form.

- 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, the company should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently measured at fair value.

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 statements 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 will establish a task force that will implement the provisions of PAS 32 and PAS 39 and assess the implications of these standards to the Group's financial statements. To date, the Group has not yet determined the impact of these standards on the financial statements due to the following reasons:

- The Group is still in the process of establishing policies, procedures and necessary systems related to the adoption of these standards.

- The system which will incorporate the requirements of PAS 32 and PAS 39 has not yet been implemented. The BSP, through BSP Monetary Board Resolution No. 1869 dated December 23, 2004, has given the banks and financial institutions until December 31, 2005 to ready their infrastructures to be PAS 32 and PAS 39-compliant. Interim reports that will be submitted to the BSP for 2005 need not be in compliance with the provisions of the said standards.

With respect to account classification and related measurement, the Group will report the financial implications as soon as the information is available, particularly on the classification and the measurement of trading and investment portfolio.

The Group uses the effective interest rate method in measuring amortized cost for loans and held-to-maturity securities in compliance with the requirements under PAS 39.

PAS 39 requires that if there is objective evidence that an impairment on 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. This provision will have an effect on the measurement of impairment loss on receivables. Currently, the adequacy of allowance for probable losses on receivables is determined based on management criteria and BSP requirements. The existing systems of the Group have not yet been programmed to adopt the discounted cash flow method. Due to the volume of transactions, it is impracticable to compute for the financial statement impact manually. The Group will report the financial statement implication as soon as the information becomes available.

Currently, the Group does not intend to adopt hedge accounting. Starting 2005, the Group will follow fair value valuation method for all its derivatives transactions, including derivatives embedded in both financial and non-financial contracts. The effect of adopting fair valuation method will be reported as soon as the information becomes available.

In general, the effect of adopting PAS 39 will not result in a restatement of prior years' financial statements. Any cumulative effect of adopting the standard, however, will be charged to the January 1, 2005 surplus. The disclosures required by PAS 32 and PAS 39 will be reflected in the 2005 financial statements, where applicable.

- PAS 40, *Investment Property,* prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the company to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon effectivity of PAS 40, the Group will adopt the cost model and will carry its investment property (comprised mostly of ROPOAs) at depreciated cost less any accumulated impairment losses. Existing valuation reserve determined under BSP rules will have to be assessed upon adoption of this standard. Any adjustment arising from adoption of PAS 40 will be adjusted retroactively. The Group will still have to undertake a detailed quantitative assessment of the impact of adoption.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations,* specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the statements of condition and the results of discontinued operations to be presented separately in statements of income. The adoption of this standard is not expected to have a material impact on the financial statements except for the reclassification of ROPOA when they qualify as non-current assets held for sale.

The Group will also adopt in 2005 the following revised standards:

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

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

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

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

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

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

- PAS 27, *Consolidated and Separate Financial Statements*, reduces alternatives in accounting for subsidiaries in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries will be accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting will no longer be allowed in the separate financial statements. It also requires strict compliance with adoption of uniform accounting policies and requires the parent to make appropriate adjustments to the subsidiary's financial statements to conform them to the parent's accounting policies for reporting like transactions and other events in similar circumstances.

The Group does not expect any significant impact of adoption of these revised standards, except for the impact of adopting the cost method in accounting for investments in subsidiaries in the separate financial statements of the Parent Company. The adoption of PAS 27 will result in a decrease in the January 1, 2005 surplus and equity investment accounts of the Parent Company in the separate financial statements by ₱13.4 million, representing the Parent Company's accumulated equity in the net earnings of its subsidiaries. The disclosures required by the revised accounting standards will be reflected in the 2005 financial statements, where applicable.

3. Trading and Investment Securities

This account consists of:

	2004	2003
TAS (after unrealized gain of ₱1,055 in 2004 and ₱3,420,855 in 2003)	**₱205,737,653**	₱336,253,707
ASS (after unrealized gain of ₱13,580,890 in 2004 and ₱10,166,239 in 2003)	**2,161,950,244**	828,316,807
IBODI (after accumulated bond premium of ₱23,882,562 in 2004 and ₱4,961,106 in 2003) (Notes 9 and 19)	**820,242,862**	2,433,062,500
	₱3,187,930,759	₱3,597,633,014

IBODI consists of:

	2004	2003
Treasury notes	**₱552,815,442**	₱333,063,895
Private bonds	**228,181,050**	921,998,492
Government bonds	**–**	859,453,284
BSP treasury bills	**–**	227,837,977
Others	**39,246,370**	90,708,852
	₱820,242,862	₱2,433,062,500

As of December 31, 2004 and 2003, the market value of IBODI amounted to ₱640.4 million and ₱2,458.9 million, respectively.

As of December 31, 2004 and 2003, peso-denominated bonds bear nominal annual interest rates ranging from 9.0% to 10.0% and from 4.7% to 7.9%, respectively, while US dollar-denominated bonds bear nominal annual interest rates ranging from 7.2% to 9.5% and from 7.2% to 11.4%, respectively.

As of December 31, 2004 and 2003, IBODI includes US dollar denominated bonds amounting to $4.1 million and $32.9 million with peso equivalents of ₱228.2 million and ₱1,827.1 million, respectively.

4. Receivables from Customers

This account consists of:

	Group		Parent Company	
	2004	2003	**2004**	2003
Loans and discounts	**₱9,201,227,650**	₱8,742,835,508	**₱9,201,227,650**	₱8,742,835,508
Customers' liabilities under acceptances and letters of credit/trust receipts	**1,701,696,062**	1,962,286,005	**1,701,696,062**	1,962,286,005
Bills purchased	**924,572,333**	396,148,369	**924,572,333**	396,148,369
Finance lease receivables	**158,302,119**	129,982,998	**–**	–
Loans and receivables financed	**100,371,264**	84,530,911	**–**	–
	12,086,169,428	11,315,783,791	**11,827,496,045**	11,101,269,882
Less: Allowance for probable losses (Note 8)	**548,734,004**	544,569,966	**544,603,474**	542,233,414
Unearned discounts and unearned lease/finance income	**187,552,176**	112,089,753	**145,452,591**	75,709,093
	₱11,349,883,248	₱10,659,124,072	**₱11,137,439,980**	₱10,483,327,375

As of December 31, 2004 and 2003, 73.3% and 77.6% of the total receivables from customers of the Group, respectively, are subject to periodic interest repricing. Remaining peso-denominated receivables earn annual fixed interest rates ranging from 2.5% to 20.0% in 2004 and from 2.5% to 19.7% in 2003, while foreign currency-denominated receivables earn annual fixed interest rate of 7.5% in 2004 and ranging from 7.0% to 9.0% in 2003.

The tables below show the breakdown of receivables from customers as to secured and unsecured and the breakdown of secured receivables as to type of security (amounts in thousands):

	Group			
	2004		2003	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**₱2,188,142**	**18**	₱2,291,470	20
Deposit hold-out and others	**1,542,594**	**13**	1,597,384	14
Chattel	**268,887**	**2**	201,037	2
	3,999,623	**33**	4,089,891	36
Unsecured	**8,086,546**	**67**	7,225,893	64
	₱12,086,169	**100**	₱11,315,784	100

	Parent Company			
	2004		2003	
	Amount	**%**	Amount	%
Loans secured by:				
Real estate	**₱2,164,638**	**18**	₱2,282,078	21
Deposit hold-out and others	**1,383,843**	**12**	1,466,931	13
Chattel	**194,125**	**2**	128,581	1
	3,742,606	**32**	3,877,590	35
Unsecured	**8,084,890**	**68**	7,223,680	65
	₱11,827,496	**100**	₱11,101,270	100

As of December 31, 2004 and 2003, information on the concentration of credit as to industry follows (amounts in thousands):

	Group			
	2004		2003	
	Amount	**%**	Amount	%
Manufacturing (various industries)	**₱2,717,220**	**22**	₱3,176,561	28
Wholesale and retail trade	**2,299,099**	**19**	2,407,054	21
Real estate, renting and business services	**1,722,434**	**14**	1,769,278	16
Public utilities	**1,154,550**	**10**	1,197,565	11
Financial intermediaries	**896,830**	**7**	635,282	6
Agriculture, fisheries and forestry	**603,932**	**5**	375,527	3
Others	**2,692,104**	**22**	1,754,517	15
	₱12,086,169	**100**	₱11,315,784	100

	Parent Company			
	2004		2003	
	Amount	**%**	Amount	%
Manufacturing (various industries)	**₱2,671,966**	**23**	₱3,125,159	28
Wholesale and retail trade	**2,262,151**	**19**	2,378,521	21
Real estate, renting and business services	**1,625,804**	**14**	1,699,754	15
Public utilities	**1,154,550**	**10**	1,197,565	11
Financial intermediaries	**882,820**	**7**	618,143	6
Agriculture, fisheries and forestry	**586,276**	**5**	362,274	3
Others	**2,643,929**	**22**	1,719,854	16
	₱11,827,496	**100**	₱11,101,270	100

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

Current banking regulations allow banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said loans shall not be accrued. The Parent Company's nonperforming loans (NPLs) not fully covered by allowance for probable losses follow:

	2004	2003
Total NPLs	**₱957,589,763**	₱1,236,117,736
Less NPLs fully covered by allowance for probable losses	**3,610,465**	36,832,388
	₱953,979,298	₱1,199,285,348

As of December 31, 2004 and 2003, restructured receivables of the Parent Company amounted to ₱24.8 million and ₱52.2 million, respectively.

As of December 31, 2004 and 2003, the Parent Company's receivables portfolio includes non-risk receivables totaling ₱310.0 million and ₱480.4 million, respectively. Under existing BSP regulations, non-risk receivables are excluded in determining the general loan loss provision.

As of December 31, 2004 and 2003, receivables from customers of the Parent Company amounting to ₱836.7 million and ₱1,035.5 million, respectively, have been rediscounted under the Land Bank of the Philippines (LBP), Development Bank of the Philippines (DBP) and Social Security System (SSS) rediscounting facilities (see Note 10).

The table below presents the breakdown of gross and net investment in finance receivables by contractual maturity dates as of December 31, 2004 and 2003:

	2004	2003
Gross investment in finance lease receivables due:		
Within one year	**₱20,600,163**	₱4,207,867
Beyond one year but not beyond five years	**137,701,956**	125,775,131
	158,302,119	129,982,998
Less unearned leasing income	**20,415,234**	19,909,539
	₱137,886,885	₱110,073,459
Net investment in finance lease receivables		
Within one year	**19,947,027**	4,058,953
Beyond one year but not beyond five years	**117,939,858**	106,014,506
	₱137,886,885	₱110,073,459

As of December 31, 2004 and 2003, past-due finance lease receivables amounted to ₱31.5 million and ₱41.0 million, respectively.

The table below presents the breakdown of loans and receivables financed by contractual maturity dates as of December 31, 2004 and 2003:

	2004	2003
Due within one year	**₱8,224,889**	₱9,288,072
Beyond one year but not beyond five years	**92,146,375**	75,242,839
	₱100,371,264	₱84,530,911

As of December 31, 2004 and 2003, past due loans and receivables financed amounted to ₱8.5 million and ₱6.9 million, respectively.

5. **Equity Investments**

This account consists of investments in shares of stock as follows:

	Group		Parent Company	
	2004	2003	**2004**	2003
At equity:				
Acquisition cost				
AULFC (39% owned)	**₱–**	₱–	**₱16,000,000**	₱35,100,000
AUFC (32% owned)	**–**	–	**35,100,000**	16,000,000
	–	–	**51,100,000**	51,100,000
Accumulated equity in net income:				
Balance at beginning of year	**–**	–	**8,392,231**	5,370,058
Equity in net income	**–**	–	**4,970,238**	3,022,173
Balance at end of year	**–**	–	**13,362,469**	8,392,231
	–	–	**64,462,469**	59,492,231
At cost:				
Bancnet, Inc.	**6,587,646**	6,587,646	**6,587,646**	6,587,646
Philippine Clearing House Corporation	**5,000,100**	5,000,100	**5,000,100**	5,000,100
Others	**500,000**	500,000	**500,000**	500,000
	12,087,746	12,087,746	**12,087,746**	12,087,746
	₱12,087,746	₱12,087,746	**₱76,550,215**	₱71,579,977

AULFC and AUFC are consolidated with the Parent Company since the Parent Company effectively exercises control over the financial and operating policies of the AULFC and AUFC through common major shareholders of the Parent Company, AULFC and AUFC.

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

The composition and movements in this account follow:

	Group					
	Building	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**	2003
Cost:						
Balances at January 1	₱–	₱124,679,558	₱62,968,096	₱70,130,636	**₱257,778,290**	₱212,100,451
Additions	3,608,000	21,837,508	4,556,471	14,981,835	**44,983,814**	53,277,046
Disposals/ reclassifications	–	(1,155,176)	(3,610,000)	–	**(4,765,176)**	(7,599,207)
Balances at December 31	3,608,000	145,361,890	63,914,567	85,112,471	**297,996,928**	257,778,290
Accumulated Depreciation and Amortization:						
Balances at January 1	₱–	₱84,556,496	₱32,760,019	₱48,107,794	**₱165,424,309**	₱124,448,419
Depreciation and amortization	15,033	24,182,193	9,729,248	10,878,509	**44,804,983**	43,949,831
Disposals/ reclassifications	–	(81,602)	(1,305,073)	–	**(1,386,675)**	(2,973,941)
Balances at December 31	15,033	108,657,087	41,184,194	58,986,303	**208,842,617**	165,424,309
Net Book Value	₱3,592,967	₱36,704,803	₱22,730,373	₱26,126,168	**₱89,154,311**	₱92,353,981

	Parent Company					
	Building	**Furniture, Fixtures and Equipment**	**Transportation Equipment**	**Leasehold Improvements**	**Total**	2003
Cost:						
Balances at January 1	₱–	₱124,003,518	₱59,474,096	₱69,563,876	**₱253,041,490**	₱207,363,651
Additions	3,608,000	21,729,408	4,556,471	14,981,835	**44,875,714**	53,277,046
Disposals/ reclassifications	–	(755,085)	(3,610,000)	–	**(4,365,085)**	(7,599,207)
Balances at December 31	3,608,000	144,977,841	60,420,567	84,545,711	**293,522,119**	253,041,490
Accumulated Depreciation and Amortization:						
Balances at January 1	₱–	₱83,898,584	₱30,368,952	₱47,620,806	**₱161,888,342**	₱121,828,951
Depreciation and amortization	15,033	24,153,700	9,030,448	10,808,913	**44,008,094**	43,017,151
Disposals/ reclassifications	–	318,489	(1,305,073)	–	**(986,584)**	(2,957,760)
Balances at December 31	15,033	108,370,773	38,094,327	58,429,719	**204,909,852**	161,888,342
Net Book Value	₱3,592,967	₱36,607,068	₱22,326,240	₱26,115,992	**₱88,642,267**	₱91,153,148

7. **Other Resources**

This account consists of:

	Group		Parent Company	
	2004	2003	**2004**	2003
Accounts receivable	**₱101,438,759**	₱79,740,497	**₱101,977,458**	₱79,946,669
Accrued interest receivable	**100,693,649**	147,658,308	**100,508,691**	147,269,414
Foreign currency notes and checks	**81,105,361**	37,470,885	**81,105,361**	37,470,885
Software costs and branch licenses - net	**9,178,863**	18,815,567	**9,178,863**	18,815,567
Returned checks and other cash items	**11,473,168**	15,337,728	**11,473,168**	15,337,728
Prepaid expenses	**8,521,620**	8,217,429	**8,521,620**	8,217,429
Sales contract receivable	**3,902,285**	–	**3,902,285**	–
Miscellaneous	**60,280,299**	46,017,427	**60,257,751**	43,657,935
	376,594,004	353,257,841	**376,925,197**	350,715,627
Less allowance for probable losses (see Note 8)	**40,341,948**	40,341,948	**40,341,948**	40,341,948
	₱336,252,056	₱312,915,893	**₱336,583,249**	₱310,373,679

Changes in the software costs and branch licenses are as follows:

	Parent Company			
	Computer Software Costs	**Branch Licenses**	**Total**	2003
Balances at January 1	₱17,034,317	₱1,781,250	**₱18,815,567**	₱30,230,211
Additions/reclassifications	(1,115,156)	–	**(1,115,156)**	2,680,893
Amortization	(6,740,298)	(1,781,250)	**(8,521,548)**	(14,095,537)
Balances at December 31	P9,178,863	P–	**P9,178,863**	P18,815,567

In 2004, computer equipment included in deferred software costs was reclassified to computer equipment under Bank Premises, Furniture, Fixtures and Equipment taking into account the fundamental nature of the account.

8. **Allowance for Probable Losses**

Changes in the allowance for probable losses are as follows:

	Group		Parent Company	
	2004	2003	**2004**	2003
Balances at beginning of year:				
Receivables from customers	**₱544,569,966**	₱322,178,905	**₱542,233,414**	₱319,944,644
Other resources	**40,341,947**	204,828,322	**40,341,948**	204,828,322
	584,911,913	527,007,227	**582,575,362**	524,772,966
Provision for probable losses	**219,468,385**	260,341,814	**218,380,671**	260,239,524
Write-off and others	**(215,304,346)**	(202,437,128)	**(216,010,611)**	(202,437,128)
	4,164,039	57,904,686	**2,370,060**	57,802,396
Balances at end of year:				
Receivables from customers (see Note 4)	**548,734,004**	544,569,966	**544,603,474**	542,233,414
Other resources (see Note 7)	**40,341,948**	40,341,947	**40,341,948**	40,341,948
	₱589,075,952	₱584,911,913	**₱584,945,422**	₱582,575,362

As discussed in Note 2, the Group's allowance for probable losses has been determined with due consideration of the BSP's guidelines on loss provisioning.

9. **Deposit Liabilities**

Of the total deposit liabilities of the Parent Company as of December 31, 2004 and 2003, 44.0% and 49.7%, respectively, are subject to periodic interest repricing. Remaining peso deposit liabilities earn annual fixed interest rates ranging from 0.0% to 1.0% in 2004 and 2003; for foreign currency-denominated deposit liabilities, annual fixed interest rate is 1.0% in 2004 and 2003.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to liquidity reserves equivalent to 8%, which increased to 10% starting February 5, 2004, and statutory reserves equivalent to 9%. Available reserves, based on the latest report submitted to the BSP in December 2004 and 2003, are as follows:

	2004	2003
Cash	**₱470,832,290**	₱323,330,816
Due from BSP	**175,389,168**	273,838,743
IBODI	**484,394,109**	369,958,170
	₱1,130,615,567	₱967,127,729

As of December 31, 2004 and 2003, the Parent Company was in compliance with such regulations.

10. **Bills Payable**

This account consists of borrowings from:

	Group		Parent Company	
	2004	2003	**2004**	2003
Foreign banks	**₱1,366,768,176**	₱2,294,827,172	**₱1,366,768,176**	₱2,294,827,172
Local banks	**285,364,000**	211,758,000	**225,364,000**	166,758,000
BSP	**1,521,207**	–	**1,521,207**	–
Others	**871,783,387**	1,084,794,733	**871,783,387**	1,084,794,733
	₱2,525,436,770	₱3,591,379,905	**₱2,465,436,770**	₱3,546,379,905

Interbank borrowings with foreign and local banks are mainly short-term borrowings. Peso borrowings are subject to annual fixed interest rates ranging from 6.25% to 11.75% in 2004 and from 6.25% to 9.25% in 2003, while foreign-currency denominated borrowings are subject to annual fixed interest rates ranging from 0.9% to 3.6% in 2004 and from 0.9% to 4.2% in 2003.

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

As of December 31, 2004 and 2003, bills payable to BSP and others amounting to ₱873.3 million and ₱1,084.8 million, respectively, are secured by receivables from customers amounting to ₱836.7 million and ₱1,035.5 million, respectively (see Note 4).

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

This account consists of:

	Group		Parent Company	
		2003		2003
	2004	(As restated)	**2004**	(As restated)
Accrued interest payable	**₱142,503,675**	₱102,819,034	**₱140,145,306**	₱101,669,469
Accrued other expenses	**114,301,911**	91,613,125	**113,877,007**	90,266,195
Income tax payable	**9,452,142**	14,796,829	**8,955,548**	12,739,809
	₱266,257,728	₱209,228,988	**₱262,977,861**	₱204,675,473

12. **Other Liabilities**

This account consists of:

	Group		Parent Company	
	2004	2003	**2004**	2003
Bills purchased - contra	**₱865,651,732**	₱320,043,200	**₱865,651,732**	₱320,043,200
Marginal deposits	**268,541,244**	28,415,969	**268,541,244**	28,415,969
Accounts payable	**119,451,557**	83,531,437	**119,795,188**	83,528,592
Payment orders payable	**35,246,140**	19,067,031	**35,246,140**	19,067,031
Withholding taxes payable	**8,883,823**	6,029,795	**8,883,823**	6,028,364
Miscellaneous	**89,882,916**	45,553,501	**48,115,437**	19,216,789
	₱1,387,657,412	₱502,640,933	**₱1,346,233,564**	₱476,299,945

13. **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, 2004 and 2003 (amounts in thousands):

	Group					
	2004			2003		
Financial Resources	**Due Within One Year**	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Due from BSP	**₱179,516**	**₱–**	**₱179,516**	₱279,454	₱–	₱279,454
Due from other banks	**564,053**	**–**	**564,053**	742,640	–	742,640
Interbank loans receivable and securities purchased under agreements to resell	**1,964,495**	**–**	**1,964,495**	1,207,226	–	1,207,226
TAS	**5,838**	**199,900**	**205,738**	–	336,254	336,254
ASS	**14,591**	**2,147,359**	**2,161,950**	30,557	797,760	828,317
IBODI	**–**	**820,243**	**820,243**	–	2,433,063	2,433,063
Receivables from customers - at gross	**9,027,961**	**3,058,208**	**12,086,169**	8,776,193	2,539,591	11,315,784
Other resources:						
Accrued interest receivable	**100,694**	**–**	**100,694**	147,658	–	147,658
Accounts receivable	**101,439**	**–**	**101,439**	79,740	–	79,740
Miscellaneous	**56,019**	**–**	**56,019**	46,017	–	46,017
	₱12,014,606	**₱6,225,710**	**₱18,240,316**	₱11,309,485	₱6,106,668	₱17,416,153

Financial Liabilities	Group 2004 Due Within One Year	Due Beyond One Year	Total	2003 Due Within One Year	Due Beyond One Year	Total
Deposit liabilities	**₱8,766,643**	**₱1,074,534**	**₱9,841,177**	₱8,273,586	₱952,530	₱9,226,116
Bills payable	**1,653,653**	**871,784**	**2,525,437**	2,461,585	1,129,795	3,591,380
Acceptances payable	**193,375**	**–**	**193,375**	212,298	–	212,298
Accrued taxes, interest and other expenses	**266,258**	**–**	**266,258**	209,229	–	209,229
Manager's checks	**48,986**	**–**	**48,986**	70,195	–	70,195
Other liabilities	**1,387,657**	**–**	**1,387,657**	502,641	–	502,641
	₱12,316,572	**₱1,946,318**	**₱14,262,890**	₱11,729,534	₱2,082,325	₱13,811,859

Financial Resources	Parent Company 2004 Due Within One Year	Due Beyond One Year	Total	2003 Due Within One Year	Due Beyond One Year	Total
Due from BSP	**₱179,516**	**₱–**	**₱179,516**	₱279,454	₱–	₱279,454
Due from other banks	**564,053**	**–**	**564,053**	742,640	–	742,640
Interbank loans receivable and securities purchased under agreements to resell	**1,964,495**	**–**	**1,964,495**	1,207,226	–	1,207,226
TAS	**5,838**	**199,900**	**205,738**	–	336,254	336,254
ASS	**14,591**	**2,147,359**	**2,161,950**	30,557	797,760	828,317
IBODI	**–**	**807,349**	**807,349**	227,838	2,192,504	2,420,342
Receivables from customers - at gross	**8,999,136**	**2,828,360**	**11,827,496**	8,762,697	2,338,573	11,101,270
Other resources:						
Accounts receivable	**101,977**	**–**	**101,977**	79,947	–	79,947
Accrued interest receivable	**100,509**	**–**	**100,509**	147,269	–	147,269
Prepaid expenses	**8,522**	**–**	**8,522**	8,217	–	8,217
Miscellaneous	**60,258**	**–**	**60,258**	43,658	–	43,658
	₱11,998,895	**₱5,982,968**	**₱17,981,863**	₱11,529,503	₱5,665,091	₱17,194,594

Financial Liabilities	Parent Company 2004 Due Within One Year	Due Beyond One Year	Total	2003 Due Within One Year	Due Beyond One Year	Total
Deposit liabilities	**₱8,821,379**	**₱1,074,534**	**₱9,895,913**	₱8,302,648	₱952,530	₱9,255,178
Bills payable	**1,593,653**	**871,784**	**2,465,437**	2,461,585	1,084,795	3,546,380
Accrued taxes, interest and other expenses	**262,978**	**–**	**262,978**	204,675	–	204,675
Acceptances payable	**193,375**	**–**	**193,375**	212,298	–	212,298
Manager's checks	**48,986**	**–**	**48,986**	70,195	–	70,195
Other liabilities	**1,346,234**	**–**	**1,346,234**	476,300	–	476,300
	₱12,266,605	**₱1,946,318**	**₱14,212,923**	₱11,727,701	₱2,037,325	₱13,765,026

14. **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.

A portion of the Parent Company's surplus corresponding to the accumulated equity in net income of subsidiaries amounting to ₱13.4 million and ₱8.4 million as of December 31, 2004 and 2003, respectively, is not available for dividend distribution until declared by its subsidiaries.

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 (CAR) of the Group as of December 31, 2004 and December 31, 2003 is 25.3% and 22.9%, respectively, which is in compliance with the minimum requirement, while CAR of the Parent Company is 24.53% and 22.93% respectively, as of the same date.

15. **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, 2004 and 2003, the future minimum rentals (in millions) are as follows:

	2004	2003
Within one year	**₱30.0**	₱43.6
After one year but not more than five years	**104.7**	222.6
	₱134.7	₱266.2

16. **Retirement Plan**

The Group is in the process of setting up a pension fund. Pension benefits charged against operations amounted to ₱8.4 million and ₱7.6 million in 2004 and 2003, respectively, consisting of normal cost and interest on accrued retirement liability.

As of December 31, 2003, the date of the latest actuarial valuation, the actuarial accrued liability of retirement benefits amounted to ₱8.1 million. The principal assumptions used to determine retirement benefits were an investment yield of 9.0% per annum and a yearly salary increase of 7.0%. Management believes that the level of accrued pension benefits as of December 31, 2004 is adequate to cover the Group's liability for the pension benefits of officers and employees entitled to such benefits.

17. **Miscellaneous**

This account consists of:

	Group		**Parent Company**	
	2004	2003	**2004**	2003
Stationery and supplies used	**₱9,850,295**	₱7,122,212	**₱9,850,295**	₱7,122,212
Postage, telephone, cables and telegrams	**9,198,144**	6,584,209	**9,169,181**	6,554,735
Information technology	**8,228,823**	6,971,319	**8,228,823**	6,971,319
Advertising and publicity	**8,015,785**	11,611,327	**7,943,935**	10,917,963
Entertainment, amusement and recreation (see Note 18)	**7,576,194**	4,854,609	**7,245,334**	4,058,942
BSP supervision fees	**5,047,684**	5,639,420	**5,047,684**	5,639,420
Miscellaneous	**25,812,043**	28,788,087	**25,391,592**	27,982,259
	₱73,728,968	₱71,571,183	**₱72,876,844**	₱69,246,850

18. **Income and Other Taxes**

Provision for (benefit from) income tax consists of:

	Group		**Parent Company**	
	2004	2003 (As restated)	**2004**	2003 (As restated)
Current				
Final tax	**₱22,612,317**	₱25,072,781	**₱21,922,269**	₱25,072,781
Regular	**27,083,433**	4,336,160	**22,553,833**	–
MCIT	**–**	8,837,966	**–**	8,837,966
Deferred	**10,168,541**	(39,845,158)	**9,531,860**	(39,812,424)
	₱59,864,291	(₱1,598,251)	**₱54,077,962**	(₱5,901,677)

The components of deferred income tax assets - net are as follows:

	Group		**Parent Company**	
	2004	2003 (As restated)	**2004**	2003 (As restated)
Deferred tax asset (liability) on:				
Allowance for probable losses	**₱186,020,470**	₱184,947,266	**₱184,698,700**	₱183,973,565
Accrued pension benefits	**10,323,195**	7,752,595	**10,323,195**	7,752,595
Accrued rent expense	**7,120,387**	6,044,639	**7,120,387**	6,044,639
Leasing income differential between finance and operating lease method	**(3,659,717)**	(2,674,967)	**–**	–
Unrealized foreign exchange loss (gain)	**1,509,859**	(1,261,636)	**1,509,859**	(1,261,636)
MCIT	**–**	8,837,966	**–**	8,837,966
NOLCO	**–**	7,836,872	**–**	7,836,872
	₱201,314,194	₱211,482,735	**₱203,652,141**	₱213,184,001

In 2003, the Parent Company incurred NOLCO and MCIT amounting to ₱24.5 million and ₱8.8 million, respectively, that are available for offset in the next three years against future taxable income and income tax liability, respectively.

As of December 31, 2004 and 2003, deferred income tax assets amounting to ₱203.7 million and ₱213.2 million have been recognized by the Parent Company as management believes that sufficient taxable income will be available in the future against which the deductible temporary differences and the carryforward of unused MCIT and NOLCO can be utilized. In 2004, the Parent Company's NOLCO and MCIT incurred in 2003 were applied against the 2004 taxable income and income tax liability, respectively.

As of December 31, 2004 and 2003, deferred income tax liabilities have not been recognized by the Parent Company on the undistributed earnings of subsidiaries since such amounts are not taxable. Such undistributed earnings amounted to ₱64.5 million and ₱59.5 million as of December 31, 2004 and 2003, respectively.

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

	Group		Parent Company	
	2004	2003	**2004**	2003
Statutory income tax	**₱168,263,838**	₱154,834,522	**₱163,661,222**	₱152,285,788
Additions (reductions) in income tax resulting from:				
FCDU income	**(94,736,424)**	(135,483,759)	**(94,736,424)**	(135,483,759)
Tax-paid and tax-exempt income	**(23,081,266)**	(28,683,188)	**(22,278,467)**	(27,161,896)
Nondeductible interest expense	**8,833,395**	8,568,714	**8,807,078**	6,936,075
Others - net	**584,748**	(834,540)	**(1,445,447)**	(2,477,885)
Provision for (benefit from) income tax	**₱59,864,291**	(₱1,598,251)	**₱54,007,962**	(₱5,901,677)

Under Philippine tax laws, the RBU of the Parent Company and its subsidiaries are 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 or GRT (GRT was in effect until 2002) and documentary stamp taxes. In 2003, the Parent Company, AUFC and AULFC were subject to the value-added tax (VAT) instead of GRT. However, Republic Act No. 9238 reimposed GRT on banks and financial intermediaries effective January 1, 2004.

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

Under current tax regulations, the regular corporate income tax rate is 32%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% 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.

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

19. 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 (see Note 21). 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 and ₱73.0 million as of December 31, 2004 and 2003 are deposited with the BSP.

In compliance with existing banking regulations, the Parent Company transferred from surplus free to surplus reserve ₱5.2 million in 2004 and ₱5.1 million in 2003, 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.

20. Related Party Transactions

In the ordinary course of business, the Group has loan transactions with investees and with certain directors, officers, stockholders and related interests (DOSRI). Existing banking regulations limit the amount of individual loans to DOSRI, 70% of which must be secured, to the total of their respective deposits and book value of their respective investments in the Group. In the aggregate, loans to DOSRI generally should not exceed the lower of the total capital funds or 15% of total loan portfolio of respective companies.

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

The table below shows information relating to the loans, other credit accommodations and guarantees classified as DOSRI accounts under regulations existing prior to said circular, and new DOSRI loans, other credit accommodations granted under said circular as of December 31, 2004 and 2003:

	Group		Parent Company	
	2004	2003	**2004**	2003
Total outstanding DOSRI loans	**₱632,650,569**	₱416,446,143	**₱632,650,569**	₱416,446,143
Percent of DOSRI accounts granted under regulations existing prior to BSP Circular No. 423	**5.35%**	3.69%	**5.35%**	3.75%
Percent of DOSRI accounts granted under BSP Circular No. 423	**0.00%**	0.00%	**0.00%**	0.00%
Percent of DOSRI loans to total loans	**5.35%**	3.69%	**5.35%**	3.75%
Percent of unsecured DOSRI loans to total DOSRI loans	**29.79%**	14.89%	**29.79%**	14.89%
Percent of past due DOSRI loans to total DOSRI loans	**–**	–	**–**	–
Percent of nonperforming DOSRI loans to total DOSRI loans	**–**	–	**–**	–

There were no loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are now considered as DOSRI accounts under BSP Circular No. 423.

The year-end balances of receivables from customers and interest income in respect of related parties included in the Group and the Parent Company financial statements are as follows:

	Receivables from Customers		Interest Income	
	2004	2003	**2004**	2003
Manila Bay Development Corp.	**₱335,500,000**	P229,600,000	**₱34,346,149**	P20,805,930
Republic Biscuit Corp. (RBC)	**156,818,745**	1,545,100	**–**	–
Omnipack Industrial Corp. (OIC)	**84,375,000**	118,329,719	**6,494,311**	2,805,452
Asia Pacific Timber & Plywood Corp. (APTPC)	**52,765,824**	43,963,339	**3,626,366**	5,216,167
J. Victory Dy Sun	**2,991,000**	5,239,790	**390,656**	298,632
JBC Foods	**200,000**	–	**–**	–
Superior Steel Manufacturing Co.	**–**	3,750,000	**411,299**	434,731
Pinnacle Foods, Inc.	**–**	–	**–**	4,617,196
	₱632,650,569	P402,427,948	**₱45,268,781**	P34,178,108

The year-end balances of deposits and interest expense in respect of related parties included in the Group and the Parent Company financial statements are as follows:

	2004	2003
Deposit liabilities	**₱1,200,510,648**	P3,051,365,734
Interest expense	**17,531,054**	25,184,770

The year-end balances of commitments in respect of related parties included in the Group and the Parent Company financial statements are as follows:

	2004	2003
Asia Pacific Timber & Plywood Corp.		
Unused commercial letters of credit	**₱2,502,735**	P1,137,901
Republic Biscuit Corp.		
Outward bills for collection	**519,423**	–
Omnipack Industrial Corp.		
Unused commercial letters of credit	**–**	3,906,584
Outstanding guaranty issued	**–**	119,442
	₱3,022,158	P5,163,927

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements and notes to the financial statements.

21. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying financial statements. The Group 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 Group and the Parent Company's commitments and contingent liabilities at their equivalent peso contractual amounts:

	2004	2003
Trust department accounts (Note 19)	**₱4,130,613,564**	P3,139,805,884
Forward exchange bought	**1,464,866,000**	410,847,799
Unused commercial letters of credit	**1,110,891,048**	848,924,990
Outstanding guarantees issued	**871,893,005**	923,232,458
Forward exchange sold	**788,774,000**	465,055,074
Spot exchange sold	**779,507,824**	390,864,460
Spot exchange bought	**753,251,000**	392,072,660
Standby letters of credit	**163,075,381**	207,891,563
Inward bills for collection	**124,850,130**	171,255,767
Outward bills for collection	**40,509,172**	39,559,062
Late deposits/payments received	**7,573,489**	4,069,793
Others	**39,253**	46,069

22. Financial Performance

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

	Group		Parent Company	
	2004	2003	**2004**	2003
Return on average equity	**11.81%**	14.04%	**11.81%**	14.04%
Return on average assets	**2.54**	3.02	**2.54**	3.06
Net interest margin on average earning assets	**6.07**	3.10	**5.99**	4.82

23. Notes to Statements of Cash Flows

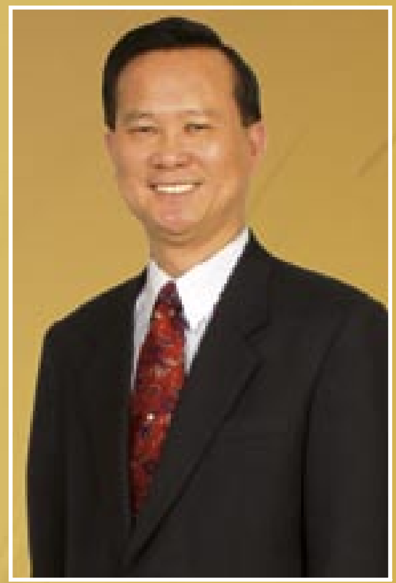
	Group		Parent Company	
	2004	2003	**2004**	2003
Interest received	**₱1,534,454,128**	P1,088,621,870	**₱1,507,267,381**	P1,079,374,591
Interest paid	**477,837,291**	435,460,803	**477,680,632**	436,917,269

Board of Directors

(As of March 31, 2005)

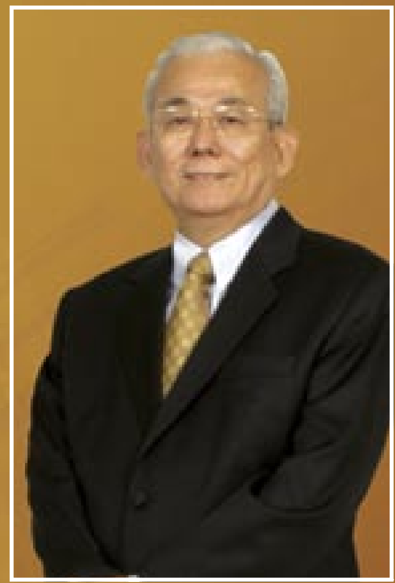
Jacinto L. Ng, Sr.
Chairman

Lin Hong Dow
Director



Yi Tien Lin
Director

Abraham T. Co
Director and President



Luis U. Ang
Director

Sonia Wu
Director

Jonathan C. Ng
Director

George T. Chua
Director

Atty. Lily K. Gruba
Director

Atty. Ma. Pilar Martinez-Caedo
Corporate Secretary

Executive Officers

(As of March 31, 2005)

Manuel A. Gomez *Executive Vice-President*
Isabelita M. Papa *Executive Vice-President*
Sandy W. Tan *Senior Vice-President*
Ronald Joseph D. Fernandez *Senior Vice-President*
Victor Y. Lim, Jr. *Executive Vice-President*
Abraham T. Co *President*
Francisco M. Caparros, Jr. *Senior Vice-President*
Antonio V. Agcaoili, Jr. *Senior Vice-President*

Rodelio A. Cayetano *First Vice-President*
Herminia C. Musico *First Vice-President*
Willy G. Ng *First Vice-President*
Andrew A. Chua *First Vice-President*
Emmanuel L. Benitez *First Vice-President*
Christine T. Chan *First Vice-President*
Florante C. Del Mundo *First Vice-President*

AUB Officers

(As of March 31, 2005)

President
Abraham T. Co

Executive Vice-President
Manuel A. Gomez
Victor Y. Lim, Jr.
Isabelita M. Papa

Senior Vice-Presidents
Antonio V. Agcaoili, Jr.
Francisco M. Caparros, Jr.
Ronald Joseph D. Fernandez
Sandy W. Tan

First Vice-Presidents
Emmanuel L. Benitez
Rodelio A. Cayetano
Christine T. Chan
Andrew A. Chua
Florante C. Del Mundo
Herminia C. Musico
Willy G. Ng

Vice-Presidents
Melissa G. Adalia
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
Belinda C. Rodriguez
Wilfredo E. Rodriguez, Jr.
Lilia P. Santos
Gilda C. Tiongco

Assistant Vice-Presidents
Jessica O. Bautista
Reynaldo T. Boringot
Patrick G. Chua
Lawrence T. Co
Ma. Teresa M. Copo
Melchor M. Cubillo
Pablito P. Flores
Sandra S. Gaw
Rodolfo C. Mateo
Analina S. Palma
Leila S. Quijano
Farley O. Silva
Catherine C. Uy

Senior Managers
Virginia A. Abrigo
Ma. Isabel V. Antonio
Orlindo T. Bartolome
Ronaldo B. Bugayong
Virgilio T. Chiu, Jr.
Leah Y. Chua
Antonio Manuel E. Cruz, Jr.
Norwen M. Gonio
Rolando L. Libunao
Zita M. Los Baños
Patricio B. Mercado
Rachelle D. Ng
Albert T. Reyes
Eduardo Arsenio C. Roldan
John C. Salas
Howard Lincoln D. Son
Stephen D. Tala
Liza Beth F. Togade

Managers
Rommel B. Blanco
Rosalia C. Ching
Vina Y. Co
Alvin Teodoro P. Dayauon
James A. De Guzman
Lani Victoria C. De Leon
Heidi H. Dee
Arlene T. Dometita
Robert Frederick P. Dy
Alfonso C. Go III
Christopher Gene C. Lapuz
Marie Antonette R. Miguel
Grace C. Ong
Ricardo B. Pantoja
Kelwin S. Salvador
Amelia S. Sison
Mimi Tan To-Santos

Products & Services

Deposit Account Products
Preferred Peso Savings
Preferred Peso Checking
Preferred Savings Plus
Preferred Peso Time Deposit
Preferred Money Max 5
Preferred Dollar Savings
Preferred Dollar Time Deposit
AUB BizKit Checking Account
- Payroll Organizer
- Check Maker
- Check Banker
- SSS Remitter
- Financial Helper

Credit and Loan Facilities
Short-Term Working Capital Loan
denominated in both Peso and US Dollar
Trade Financing Facilities
- Domestic Letter of Credit with Trust Receipt Facility
- Import Letter of Credit with Trust Receipt Facility
- Packing Credit or Export Loans versus either LCs or POs

Domestic Bills Purchase Line
Foreign Loan/Financing Packages
Salary Loan
BSP US Dollar/Peso Rediscounted Loans
Specialized Long- and Short-Term Program Loans
- DBP-funded: Industrial Guarantee Loan Fund (IGLF), Japan Export-Import Bank Facility (JEXIM), Industrial and Support Services Expansion Program (ISSEP II), Environmental Infrastructure Support Credit Program (EISCP II)
- SSS-funded: SSS-GSIS Financing Program, Financing Program for Tourism, Hospital Financing Program, Financing Program for Educational Institution, Housing Loan Program, Developmental Program

Syndicated Peso/US Dollar Medium- and Long-Term Loans
Documents Against Acceptance (DA)
Documents Against Payment (DP)
Open Account (TT)

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

Foreign Exchange Trading
- Spot Trading US Dollar/Peso
- Spot Trading Major Currencies
- Currency Swaps and Forwards (US Dollar/Peso and Majors)
- Cash (Notes) Handling

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

Fund Management
- Corporate/Individual Portfolio Management
- Pre-Need Fund Management
- Unit Trust Funds Management
  - AUB Peso 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

International Banking Services
Letter of Credit, Collection of Clean and Documentary Bill
Foreign and Domestic Remittance
Purchase and Sale of Foreign Exchange

Auxiliary Services
Preferred ATM
Preferred On-line Banking
Preferred Phonebanking
Deposit Pick-Up Service
Safety Deposit Box
Manager's Check/Gift Checks
Fund Transfer (TT/DD)

AUB Branches

METRO MANILA

Alabang
G/F Casa Vicente Bldg., Supermarket Drive,
Alabang Commercial Center, Alabang,
Muntinlupa City
Tel. 850-0078 / 850-2159 /
850-3215 / 850-2319
Branch Manager: Farley Silva

Annapolis
Unit 102, Intrawest Center, 33 Annapolis St.,
Greenhills, San Juan
Tel. 744-3192 / 744-3193 /
744-1966 / 722-3954 /
724-3906
Branch Manager: Eduardo Roldan

Arranque
692-694 T. Alonzo corner Soler Sts.,
Sta. Cruz, Manila
Tel. 735-8013 / 735-7988 /
736-9404
Branch Manager: Heidi Dee

Binondo
567-569 Quintin Paredes St., Binondo
Tel. 243-9782 / 243-9783 /
243-9784 / 243-9786 /
242-2428
Branch Manager: Catherine C. Uy

Del Monte
269 Del Monte Ave.,
Barangay Manresa, Quezon City
Tel. 365-6977 / 365-6942 /
365-6943
Branch Manager: Sandra S. Gaw

Divisoria
Unit 800-802, Co Cunaco & Sons Bldg.,
Tabora corner M. de Santos Sts., Divisoria
Tel. 244-2974 / 244-2975 /
244-2976
Branch Manager: Grace C. Ong

EDSA- Caloocan
500 EDSA, Caloocan City
Tel. 367-83-58 ; 367-80-53
Branch Manager: Reynaldo T. Boringot

Ermita
G/F Ermita Center, Roxas Blvd.
corner Monica Sts., Ermita
Tel. 525-6649 / 523-6747 /
523-5138 / 400-6091
Branch Manager: Ma. Isabel V. Antonio

Gil Puyat
G/F Morning Star Bldg.,
Gil Puyat Ave., Makati City
Tel. 899-4288 / 899-3483 /
899-4286
Branch Manager: Ana Lina S. Palma

Kalookan
222-226 5th Ave., Rizal Ave. Extension,
Grace Park, Caloocan City
Tel. 365-2931 / 364-2070 /
364-2036 / 364-2049
Branch Manager: Sandy W. Tan

Ninoy Aquino International Airport
Arrival Area, International Operations,
NAIA Terminal II, NAIA Complex, Pasay City
Tel. 879-5625 / 879-5626 /
877-2098 / 877-1109 loc. 2098
Service Manager: Joanne Daniolco

Novaliches
847 Quirino Highway,
Barangay Gulod, Novaliches, Quezon City
Tel. 930-9560 / 930-9561 /
930-9565 / 930-9566
Branch Manager: Margaret Rose Chua

Parc Royale
G/F Parc Royale Bldg., Doña Julia Vargas Ave.,
Ortigas Center, Pasig City
Tel. 635-0465 / 689-0999
Branch Manager: Jessica O. Bautista

Pasig
1 Mercedes corner C. Raymundo Aves.,
Caniogan, Pasig City
tel. 643-5613 / 641-2078
Branch Manager: Kelwin Salvador

Rufino
G/F Feliza Bldg., 109 V.A. Rufino St.,
Legaspi Village, Makati City
Tel. 840-2640 / 840-2774 /
830-2367
Branch Manager: Robbie Dy

Timog
ESNA Bldg., 30 Timog Ave. corner Scout Tobias,
Diliman, Quezon City
Tel. 372-9705 / 372-9706 /
372-9757 / 374-7285
Branch Manager: Orlindo Bartolome

Valenzuela
203 MacArthur Highway,
Kaunlaran, Valenzuela City
Tel. 291-3297 / 291-8969 / 291-8996
Branch Manager: Amelia Sison

PROVINCIAL

Angeles
1276 Miranda St., Angeles City
Tel. (045)322-5381 / (045)887-2710 /
(045)625-9331
Branch Manager: Pablito Flores

Biñan
Earth & Style Sales Center Bldg.,
Old National Highway,
Bo. San Antonio, Biñan, Laguna
Tel. (049)411-7108 / (049)411-7109 /
(049)411-7110 / (049)511-4309
Branch Manager: Patricio Mercado

Cagayan de Oro
Lapasan National Highway
corner Camp Alagar Road,
Cagayan De Oro City
Tel. (088)856-8893 / (088)856-8009 /
(088)856-6625
Branch Manager: Gloria Rosete

Cebu
Lianting Center, President Osmeña Ave.
corner F. Gonzales St., Cebu City
Tel. (032)414-8800 / (032)414-8700 /
(032)414-8900 / (032)414-8600 /
(032)256-1319
Branch Manager: Gilbert Lim

Davao
Central Plaza I, J.P. Laurel Ave., Davao City
Tel. (082)221-9105 / (221)221-9651 /
(082)224-6622 / (082)221-7493 /
(082)221-9132
Branch Manager: Nerysha Militar-Lo

Iloilo
J.T. Ong Bun Bldg., Ledesma St., Iloilo City
Tel. (033)509-7008 / (033)335-1685 /
(033)335-1686 / (033)335-1687 /
(033)335-1688
Branch Manager: Alfonso Go III

Imus
Km.21 General Aguinaldo Highway,
Bayan Luna, Imus, Cavite
Tel. (046)571-1576 / (046)571-1575 /
(046)471-8219 / (046)471-8250
Branch Manager: Jen Calabon

Lucena
Magallanes corner Enriquez Sts., Lucena City
Tel. (042)373-5782 / (042)373-5783 /
(042)373-5784
Branch Manager: Elizabeth Tan

Mandaue
AWPM Realty Dev. Corp. Bldg., M.C. Briones St.,
National Highway, Mandaue City
Tel. (032)420-5877 / (032)420-6261 /
(032)344-0808
Branch Manager: Julie Limquiaco

Asia United Bank

CORPORATE HEADQUARTERS

G/F Parc Royale Condominium
Julia Vargas Avenue, Ortigas Center, Pasig City

Tel: 638-6888 / 631-3333
AUB Phone Banking: 689-0000 (Metro Manila)
or 1-800-10-689-0000 (Toll Free)

www.aub.com.ph