COVER SHEET

2	0	5	7	3							

SEC Registration Number

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

(Company's Full Name)

Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City

(Business Address: No. Street City/Town/Province)

Mr. Joshua E. Naing

(Contact Person)

898-9892

(Company Telephone Number)

1	2		3	1

Month *Day*

(Fiscal Year)

1	7	-	Q	

(Form Type)

Month *Day*

(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total Amount of Borrowings

Total No. of Stockholders

Domestic

Foreign

To be accomplished by SEC Personnel concerned

File Number

LCU

Document ID

Cashier

S T A M P S

Remarks: Please use BLACK ink for scanning purposes.

SEC Number 20573
File Number______

METROPOLITAN BANK & TRUST COMPANY
(Company's Full Name)

Metrobank Plaza, Sen. Gil J. Puyat Avenue, 1200 Makati City
(Company's Address)

898-9020; 892-3598
(Telephone Number)

December 31
(Fiscal year ending)

17-Q
(Form Type)

(Amendment Designation, if applicable)

March 31, 2006
(Period Ended Date)

None
(Secondary License Type and File Number)

SECURITIES AND EXCHANGE COMMISSION

SEC FORM 17-Q

QUARTERLY REPORT PURSUANT TO SECTION 17 OF THE SECURITIES REGULATION CODE AND SRC RULE 17(2)(b) THEREUNDER

1. For the quarterly period ended : **March 31, 2006**

2. Commission Identification Number : **20573**

3. BIR Tax Identification No. : **000-477-863-000**

4. Exact name of issuer as specified in its charter : **METROPOLITAN BANK & TRUST COMPANY**

5. Province, country or other jurisdiction of incorporation or organization : **Metro Manila, Philippines**

6. Industry Classification Code : [ ] (SEC Use Only)

7. Address of issuer's principal office : Metrobank Plaza, Sen. Gil J. Puyat Avenue 1200 Makati City

8. Issuer's telephone number, including area code : **(632) 898-9020; (632) 892-3598**

9. Former name, former address and former fiscal year, if changed since last report: **N/A**

10. Securities registered pursuant to Sections 8 and 12 of the Code, or Sections 4 and 8 of the RSA

Title of Each Class	No.of Shares of Common Stock Outstanding	Amount of Debt Outstanding (Unpaid Subscriptions)
Common Shares	**1,633,650,950 shares**	**None**

11. Are any or all of the securities listed on a Stock Exchange?

Yes [x] No [ ]

Stock Exchange : **Philippine Stock Exchange**
Class of Securities : **Common Shares**

12. Indicate by check mark whether the registrant:

a. Has filed all reports required to be filed by Section 17 of the Code and SRC Rule 17 thereunder and Sections 11 of the RSA and RSA Rule 11(a)-1 thereunder, and Sections 26 and 141 of the Corporation Code of the Philippines, during the preceding twelve (12) months (or for such shorter period the registrant was required to file such reports)

Yes [x] No [ ]

b. Has been subject to such filing requirements for the past 90 days.

Yes [x] No [ ]

PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Attached are the following:

Consolidated Statements of Condition	-	Annex "1"
Consolidated Statements of Income	-	Annex "2"
Consolidated Statements of Changes in Capital Funds	-	Annex "3"
Consolidated Statements of Cash Flows	-	Annex "4"
General Notes to Consolidated Financial Statements	-	Annex "5"

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations - Annex "6"

PART II - OTHER INFORMATION

I. Control of Registrant

The following stockholders own more than 5% of the total outstanding number of shares issued as of March 31, 2006:

NAME OF STOCKHOLDER	NUMBER OF SHARES HELD	PERCENT TO TOTAL SHARES SUBSCRIBED
George Siao Kian Ty	298,291,165	18.259%
PCD Nominee Corporation (Filipino)	152,953,559 *	9.363%
Federal Homes, Inc.	122,944,314	7.526%
Philippine Securities Corp.	122,535,994	7.501%
Mary Vy Ty	105,036,430	6.430%
PCD Nominee Corporation (Non-Filipino)	96,428,276 *	5.903%

* *There is no participant of PCD who is a beneficial owner of more than 5% of the total common shares issued by the Registrant.*

II. Pending Legal Proceedings

There is no material legal proceeding filed against the Bank that will materially affect its financial position.

III. Board Resolutions

There are no material disclosures that have not been reported under SEC Form 17-C during the period covered by this report.

SIGNATURES

Pursuant to the requirements of the Securities Regulation Code, the issuer has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

METROPOLITAN BANK & TRUST COMPANY

By:

ANTONIO V. VIRAY **Assistant Corporate Secretary**	**JOSHUA E. NAING** **Senior Vice President/Controller**

Date: May 16, 2006

ANNEX

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES

Unaudited Financial Statements
March 31, 2006 and 2005

ANNEX 1

METROPOLITAN BANK & TRUST COMPANY
Consolidated Statements of Condition
(In Thousands)

		(Unaudited)				(Audited)
		March 31, 2006		March 2005		December 31, 2005
RESOURCES						
Cash and Other Cash Items	**P**	**13,538,004**	P	7,339,167	P	14,248,931
Due from Bangko Sentral ng Pilipinas		**28,730,048**		17,765,785		20,685,847
Due from Other Banks		**27,948,067**		14,844,737		25,469,420
Interbank Loans Receivable and Securities						
Purchased Under Agreements to Resell		**56,730,693**		34,182,569		58,320,720
Financial Assets at Fair Value Through Profit or Loss		**10,491,704**		17,281,187		11,945,909
Available-for-Sale Investments		**74,550,110**		70,380,311		85,785,349
Held-to-Maturity Investments - net		**20,749,304**		34,223,230		16,319,673
Loans and Receivables - net		**260,142,020**		258,343,399		270,859,630
Property and Equipment - net		**10,452,273**		8,602,817		10,181,588
Investments in Associates and Joint Ventures - net		**6,852,271**		6,859,230		6,616,794
Investment Properties - net		**31,995,464**		34,692,751		34,593,066
Other Resources - net		**28,288,791**		30,150,894		30,446,365
	P	**570,468,749**	P	534,666,077	P	585,473,292
LIABILITIES AND CAPITAL FUNDS						
Liabilities						
Deposit Liabilities						
Demand	**P**	**20,650,308**	P	19,194,610	P	21,177,466
Savings		**295,807,864**		276,384,947		290,075,425
Time		**106,014,170**		92,861,108		112,995,082
		422,472,342		388,440,665		424,247,973
Bills Payable		**42,346,638**		36,158,858		61,159,017
Manager's Checks and Demand Drafts Outstanding		**1,308,345**		1,416,241		1,167,278
Accrued Taxes, Interest and Other Expenses		**7,196,036**		8,778,926		6,618,198
Subordinated Debt		**16,456,658**		17,556,053		17,072,464
Other Liabilities		**19,573,313**		30,611,862		21,784,264
		509,353,332		482,962,605		532,049,194
Minority Interest in Consolidated Subsidiaries		**3,536,134**		4,189,015		3,459,859
Capital Funds		**57,579,283**		47,514,457		49,964,239
	P	**570,468,749**	P	534,666,077	P	585,473,292
		-		-		-

METROPOLITAN BANK & TRUST COMPANY
Consolidated Statements of Income
(In Thousands, Except Earnings Per Share)

		(Unaudited)		
		Quarter Ended March 31		
		2006		2005
INTEREST INCOME ON				
Receivables	**P**	**6,613,207**	P	5,776,193
Investment securities, interbank loans receivable, deposits with banks and others		**2,748,155**		3,030,264
		9,361,362		8,806,457
INTEREST EXPENSE ON				
Deposit liabilities, interbank loans and bills payable, and others		**4,668,539**		4,306,173
NET INTEREST INCOME		**4,692,823**		4,500,284
PROVISION FOR IMPAIRMENT LOSSES		**1,747,754**		651,748
NET INTEREST INCOME AFTER PROVISION FOR IMPAIRMENT LOSSES		**2,945,069**		3,848,536
OTHER INCOME - Net				
Exchange profit, commissions, trading and investment securities gains and others		**4,429,896**		3,003,411
OTHER EXPENSES				
Compensation and fringe benefits		**1,891,144**		1,772,109
Occupancy		**716,804**		682,565
Taxes and licenses		**1,310,485**		1,012,378
Miscellaneous		**1,487,935**		1,611,175
		5,406,368		5,078,227
INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		**1,968,597**		1,773,720
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES		**151,554**		161,750
NET INCOME	**P**	**1,817,043**	P	1,611,970

ANNEX 3

METROPOLITAN BANK & TRUST COMPANY
Consolidated Statements of Changes in Capital Funds
(In Thousands, Except Par Value, Number of Shares, and Percentage)

	(Unaudited) Quarter Ended March 31	
	2006	**2005**
COMMON STOCK - P20 par value		
Authorized - 2,500,000,000 shares		
Issued - 1,633,650,950 shares	**P 38,968,104**	P 32,673,019
CAPITAL PAID IN EXCESS OF PAR VALUE	**7,675,189**	7,675,189
SURPLUS		
Balance at beginning of period	**5,832,228**	4,415,365
Net income	**1,817,043**	1,611,970
Transfer to surplus reserves	**(18,784)**	
Cash dividends		(653,460)
Balance at end of period	**7,630,487**	5,373,875
SURPLUS RESERVES	**535,963**	434,533
NET UNREALIZED GAIN ON AVAILABLE-FOR-SALE SECURITIES AND OTHER INVESTMENTS	**1,554,208**	(73,775)
DECLINE IN VALUE OF INVESTMENT IN SHARES OF STOCKS		4,566
EQUITY IN NET UNREALIZED LOSS ON INVESTMENT SECURITIES OF INVESTEES	**214,188**	(71)
EQUITY ADJUSTMENT FROM TRANSLATION	**1,001,144**	1,427,121
	P 57,579,283	P 47,514,457

METROPOLITAN BANK & TRUST COMPANY
Consolidated Statements of Cash Flows
(In Thousands)

		(Unaudited) Quarter Ended March 31		
		2006		2005
CASH FLOWS FROM OPERATING ACTIVITIES:				
Net Income	**P**	**1,817,043**	P	1,611,970
Adjustment to reconcile net income to net cash				
provided by (used in) operating activities:				
Provision for impairment losses		**1,747,754**		651,748
Depreciation and amortization		**390,443**		400,195
Amortization of software costs		**37,548**		180,469
Changes in operating resources and liabilities:				
Decrease (increase) in:				
Financial Assets at Fair Value Through Profit or Loss		**1,454,205**		(9,582,682)
Loans and Receivables		**8,969,856**		(13,621,818)
Other resources		**2,120,022**		16,900,234
Increase(decrease) in:				
Deposit liabilities		**(1,775,632)**		4,369,855
Manager's checks and demand drafts outstanding		**141,067**		43,401
Accrued taxes, interest and other expenses		**577,839**		3,811,021
Other liabilities		**(2,210,951)**		5,160,152
Net cash provided by operating activities		**13,269,194**		9,924,545
CASH FLOWS FROM INVESTING ACTIVITIES				
Net acquisition of property and equipment		**(661,128)**		1,481,077
Cash dividends from investees		**188,895**		330,729
Decrease (increase) in:				
Available-for-Sale Investments		**11,235,239**		(14,426,547)
Held-to-Maturity Investments - net		**(4,429,631)**		5,735,452
Equity investments		**(235,478)**		(332,037)
Investment Properties		**2,597,602**		(1,585,812)
Net cash used in investing activities		**8,695,499**		(8,797,138)
CASH FLOWS FROM FINANCING ACTIVITIES				
Cash dividends paid		**-**		(653,460)
Proceeds from the issuance of Hybrid Tier 1 Capital Securities		**6,295,085**		
Other adjustments in capital accounts		**(685,975)**		(5,603,626)
Increase (decrease) in:				
Bills payable		**(18,812,379)**		47,443
Subordinated debt		**(615,805)**		(494,907)
Minority interest in consolidated subsidiaries		**76,275**		1,267,006
Net cash provided by financing activities		**(13,742,799)**		(5,437,544)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**8,221,894**		(4,310,137)
CASH AND CASH EQUIVALENTS AT BEGINNING OF PERIOD				
Cash and other cash items		**14,248,931**		8,916,585
Due from Bangko Sentral ng Pilipinas		**20,685,847**		15,276,930
Due from other banks		**25,469,420**		17,154,746
Interbank loans receivable and securities purchased under resale agreement		**58,320,720**		37,094,134
		118,724,918		78,442,395
CASH AND CASH EQUIVALENTS AT END OF PERIOD				
Cash and other cash items		**13,538,004**		7,339,167
Due from Bangko Sentral ng Pilipinas		**28,730,048**		17,765,785
Due from other banks		**27,948,067**		14,844,737
Interbank loans receivable and securities purchased under resale agreement		**56,730,693**		34,182,569
	P	**126,946,812**	P	74,132,258

METROPOLITAN BANK & TRUST COMPANY AND SUBSIDIARIES
GENERAL NOTES TO FINANCIAL STATEMENTS
FOR THE QUARTER ENDED MARCH 31, 2006

1. Corporate Information

Metropolitan Bank & Trust Company (the Parent Company) is a universal bank incorporated in the Philippines. The Parent Company and its subsidiaries (the Group) are engaged in all aspects of banking, financing, leasing, real estate and stock brokering through a network of over 830 local and international branches, offices and agencies. As a bank, the Parent Company provides services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, trading and remittances, and trust services. Its principal place of business is at Metrobank Plaza, Sen. Gil J. Puyat Avenue, Makati City.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The accompanying financial statements have been prepared in compliance with the accounting principles generally accepted in the Philippines (Philippine GAAP) as set forth in Philippine Financial Reporting Standards (PFRS). The financial statements (FS) of the Group as of December 31, 2005 are the first annual FS prepared in accordance with PFRS.

The accompanying financial statements are prepared under the historical cost convention as modified for the measurement at fair value of financial assets at fair value through profit or loss (FVPL)/trading account securities (TAS), available-for-sale (AFS) investments/available-for-sale securities (ASS) and underwriting accounts (UA) and certain derivative instruments (both freestanding and embedded derivatives).

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

The books of accounts of the RBU are maintained in Philippine pesos, while those of FCDU are maintained in their original currencies. For financial reporting purposes, FCDU accounts and foreign currency-denominated accounts in RBU are translated into their equivalents in Philippine pesos based on the prevailing rate at the end of the period. Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency denominated resources and liabilities are credited to or charged against operations in the period in which the rates change.

Basis of Consolidation

The consolidated financial statements include the accounts of the Parent Company and the following wholly and majority owned foreign and domestic subsidiaries:

Subsidiary	Effective Percentage of Ownership	Country of Incorporation	Functional Currency
Financial Markets:			
Metro Remittance Center, Inc.	100.00	United States of America	United States Dollars
MB Remittance Centre Limited	100.00	Hongkong	Hongkong Dollars
Metropolitan Bank (Bahamas) Limited	100.00	The Bahamas	United States Dollars
Metro Remittance (UK) Limited	100.00	United Kingdom	Great Britain Pounds
Metro Remittance Singapore Pte. Ltd.	100.00	Singapore	Singapore Dollars
MBTC Exchange Service, GmbH	100.00	Austria	EURO
Metro Remittance Center, S.A.	100.00	Spain	EURO
Metro Remittance (Italia), SpA	100.00	Italy	EURO
First Metro International Investment Company Limited and Subsidiaries	99.64	Hongkong	Hongkong Dollars
First Metro Investment Corporation (FMIC) and Subsidiaries	98.06	Philippines	Philippine Peso
Philippine Savings Bank (PSBank)	74.24	Philippines	Philippine Peso
Metrobank Card Corporation (MCC)	60.00	Philippines	Philippine Peso
MBTC Venture Capital Corporation (MVCC)	60.00	Philippines	Philippine Peso
Solid Philippines Venture Capital Corporation (SPVCC)	60.00	Philippines	Philippine Peso
ORIX Metro Leasing and Finance Corporation (ORIX Metro)	59.82	Philippines	Philippine Peso
Global Business Holdings, Inc. (GBHI)	44.83*	Philippines	Philippine Peso
Computer Services:			
Data Serv, Inc.	100.00	Philippines	Philippine Peso
MBTC Technology, Inc. (MTI)	100.00	Philippines	Philippine Peso
Real Estate:			
Circa 2000 Homes, Inc.	100.00	Philippines	Philippine Peso

**Effective voting interest*

The accounts of MVCC and SPVCC representing less than 0.01% of the total resources of the Group were excluded in the consolidation.

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

On September 30, 2005, the Parent Company sold its 41.12% equity in the International Bank of California (IBC) based in Los Angeles, California. Accordingly, the accounts of IBC were excluded in the consolidation.

Under Philippine Accounting Standard (PAS) 27, the financial statements of the investee company have to be consolidated to the financial statements of the investor even if the shareholding of an enterprise is below 50% but the investor has evidence of control.

Under Standing Interpretations Committee No. 12, *Consolidation of Special Purpose Entity (SPE),* control over an entity may exist even in cases where an enterprise owns little or none of SPE's equity, such as when an enterprise retains majority of the residual risks related to the SPE or its assets in order to obtain benefits from its activities. In accordance with these standards, the consolidated financial statements include the accounts of Asia Recovery Corporation (ARC), a special purpose vehicle (SPV), in which the Group does not have equity interest. ARC bought certain assets of the Parent Company under a transaction that qualified as true sale as approved by the BSP.

The financial statements of the Group are prepared using uniform accounting policies for like transactions and other events in similar circumstances. All significant intercompany balances and transactions have been eliminated in consolidation.

The Group's PFRS adoption date is January 1, 2005. The adoption of PFRSs resulted in certain changes to the Group's previous accounting policies. The comparative figures for the financial statements for the quarter ended March 31, 2005 were restated to reflect the changes in policies.

Changes in Accounting Policies
On January 1, 2005, the following new accounting standards became effective and were adopted by the Group:

- 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 benefits 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.

- PAS 21, *The Effects of Changes in Foreign Exchange Rates,* prohibits the capitalization of foreign exchange losses. The standard also addresses the accounting for transactions in foreign currency and translating the financial statements of foreign operations that are included in those of the reporting enterprise by consolidation, proportionate consolidation, and equity method. The adoption of this standard did not result in any material adjustment 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 any provision for general banking risks is treated as an appropriation of surplus and not to be included in the determination of net income for the year. In adopting this standard, new disclosures were included in the financial statements, where applicable. Existing general reserves as of January 1, 2005 were considered in determining the net increase in specific loan loss reserves computed under the provisions of PAS 39, *Financial Instruments: Recognition and Measurement* as discussed below.

- 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. In accordance with this standard, new disclosures were included in the financial statements, where applicable.

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the Group's financial assets and financial liabilities. PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of derivative instruments to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Also, in determining whether a financial asset is impaired, PAS 39 requires the use of the discounted cash flow method.

  The adoption of the provisions of PAS 39 on the classification and related measurement of financial assets and liabilities on the Group, the use of effective interest rate method in measuring amortized cost for loans and trading and investment securities (including securities designated as financial assets at FVPL, held to maturity (HTM) investments and AFS investments), the fair value adjustment as a result of day one loss recognition for off-market rate financial assets and impairment of financial assets resulted in a net reduction of surplus as of January 1, 2005 which has taken into account the reversal of general reserves existing as of that date. In addition, as of January 1, 2005, certain accounts were reclassified in accordance with PAS 39.

The Group adopted the fair value method for all its derivatives transactions. The effect of adopting fair valuation method is not material to the financial statements.

As allowed by the Philippine Securities and Exchange Commission (SEC), the cumulative effect of adopting these standards was charged against surplus as of January 1, 2005.

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Group to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. The Group opted to adopt the cost model in accounting for its investment property. The effect of recording at fair value and adopting the cost method in accounting for real and other properties acquired (ROPA) that qualify as investment properties (net of deferred tax liability) increased the surplus for the Group as of January 1, 2005. Previously, ROPA were stated at the total outstanding exposure at the time of foreclosure or bid price, whichever is lower, less allowance for probable losses determined based on BSP provisioning requirements.

- PFRS 2, *Share-Based Payments*, results in a charge to net income for the cost of share options granted. Currently, the Group has no transaction involving share-based payments but will comply with the requirements of this standard in respect of future transactions.

- PFRS 3, *Business Combination*, results in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment from January 1, 2004 (unless an event occurs during the year which requires the goodwill to be tested more frequently). Any negative goodwill remaining after performing reassessment of past combinations should have been credited to income in the period the combination was effected. Moreover, pooling of interests in accounting for business combination is no longer permitted.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held for sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held for sale should be presented separately on the face of the statements of condition and the results of discontinued operations to be presented separately in the statements of income. Currently, the adoption of this standard has no impact on the financial statements but the Group will comply with the provisions of this standard in respect of its future transactions.

In addition, the Group also adopted the following revised standards in its interim financial statements for the quarters ended March 31, 2006 and 2005:

- PAS 1, *Presentation of Financial Statements*, provides a framework within which an entity assesses how to present fairly the effects of transactions and other events; provides the base criteria for classifying liabilities as current or noncurrent; prohibits the presentation of income from operating activities and extraordinary items as separate line items in the statements of income; and specifies the disclosures about key sources of estimation uncertainty and judgments 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 omission or misstatements, and describes how to apply the concept of materiality when applying accounting policies and correcting errors.

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

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

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

- PAS 24, *Related Party Disclosures*, provides additional guidance and clarity in the scope of the standard, the definitions and the disclosure requirements for related parties and related party transactions. 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 consolidated financial statements and in accounting for investments in the separate financial statements of a parent, venturer or investor. Investments in subsidiaries are accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting is no longer allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the Group to make appropriate adjustments to the subsidiary's financial statements to conform them to the Group's accounting policies for reporting like transactions and other events in similar circumstances.

- PAS 28, *Investments in Associates*, reduces alternatives in accounting for associates in consolidated financial statements and in accounting for investments in the separate financial statements of an investor. Investments in associates are accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting is no longer allowed in the separate financial statements. This standard also requires strict compliance with adoption of uniform accounting policies and requires the investor to make appropriate adjustments to the associate's financial statements to conform them to the investor's accounting policies for reporting like transactions and other events in similar circumstances.

- PAS 31, *Interest in Joint Ventures*, reduces the alternatives in accounting for interests in joint ventures in consolidated financial statements and in accounting for investments in the separate financial statements of a venturer. Interests in joint ventures are accounted for either at cost or in accordance with PAS 39 in the separate financial statements. Equity method of accounting is no longer allowed in the separate financial statements.

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

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

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

The effect of adopting the foregoing revised standards on the financial statements was not material, except for the adoption of the cost method in accounting for investments in subsidiaries, associates, and joint ventures in the Parent Company financial statements. Also, in accordance with these revised standards, new disclosures were included in the financial statements, where applicable.

The Group has yet to adopt the following standards and amendments that have been approved but are not yet effective:

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

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

<u>Investments in Subsidiaries and Associates</u>

Investment in Subsidiaries

Investment in subsidiaries is accounted for under the equity method. A subsidiary is an enterprise that is controlled by the Parent Company and whose accounts are included in the Group financial statements.

Investment in Associates

Investments in associates are accounted for under the equity method. An associate is an enterprise in which the Group holds 20% to 50% of the voting power or over which it exercises significant influence and which is neither a subsidiary nor a joint venture of the Group. Investments in associates are carried in the statements of condition at cost plus post acquisition changes in the Group's share of net assets of the associate, less any impairment in value. Post-acquisition changes in the share of net assets of the associate include the share in the associate's: (a) income or losses, and (b) unrealized gain or loss on investment securities. Dividends received are treated as a reduction in the carrying values of the investments. Equity in unrealized gain or loss on investment securities of associates is shown as a separate component of capital funds in the statements of condition. The Group's investments in associates account include goodwill (net of accumulated amortization) on acquisition, which is treated in accordance with the accounting policy for goodwill stated below.

Under the BSP regulations, the use of the equity method of accounting for investment in shares of stock is allowable only when ownership is more than 50%. The use of the equity method of accounting for equity interests of 20% to 50% is being made for financial reporting purposes only and is not intended for BSP reporting purposes.

Investments in associates, subsidiaries, and joint ventures in the Parent Company financial statements are carried at cost, less any impairment in value.

Equity Adjustment from Translation

Accounts of foreign subsidiaries are maintained in the currencies of the countries in which they operate.

Financial statements of consolidated foreign subsidiaries that are integral to the operations of the Group are translated as if the transactions of the foreign subsidiaries had been those of the Parent Company. At each statement of condition date, foreign currency monetary items are translated using the prevailing rate, non-monetary items which are carried at historical cost are translated using the historical rate as of the date of acquisition and non-monetary items which are carried at fair value are translated using the exchange rate that existed when the values were determined. Income and expenses are translated at the average prevailing rates for the year.

Financial statements of foreign consolidated subsidiaries that are not integral to the Group's operations are translated at prevailing rates with respect to the statements of condition, and at the average exchange rates for the year with respect to the statements of income. Resulting translation differences are included in capital funds under foreign currency translation adjustments. On disposal of a foreign entity, accumulated exchange differences are recognized in the statements of income as a component of the profit from assets sold.

Repurchase and Resale Agreements

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

Investments and Other Financial Assets

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

Regular way purchases and sales of financial assets are recognized on the trade date - the date on which the Group commits to purchase or sell the asset.

a) Financial Assets at FVPL

Realized and unrealized gains and losses on these instruments are recognized under Trading and Securities Gain - net in the statements of income. Interest earned on debt instruments classified as financial assets at FVPL is reported as interest income. Financial assets at FVPL include financial assets classified as held for trading (HFT) and financial assets designated by the Group under this classification, if any.

b) *HTM Investments*

HTM investments are quoted non-derivative financial assets with fixed or determinable payments and fixed maturities for which the Group's management has the positive intention and ability to hold to maturity. HTM investments are carried at amortized cost using the effective interest method less allowance for impairment losses, if any. Realized gain or loss is recognized in the statements of income when the investments are derecognized or impaired and through the amortization process.

c) *Loans and Receivables*

Loans and receivables include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and for which the Group has no intention of trading. Loans and receivables are carried at amortized cost using the effective interest method less allowance for impairment losses. Gains and losses are recognized in the statements of income when the loans and receivables are derecognized or impaired and through the amortization process.

d) *AFS Investments*

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

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

Receivable from Special Purpose Vehicle (SPV)

Receivable from SPV (included in Loans and Receivable under unquoted debt securities) is stated at the face value of the related note reduced by allowance for impairment losses. Allowance for impairment losses is determined based on the difference between the outstanding principal amount and the recoverable amount which is the present value of the future cash flows expected to be received in payment of such receivable.

Property and Equipment

Property and equipment is stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of property and equipment consists of its purchase price, import duties, taxes and any directly attributable costs of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance, are normally charged to operations in the year in which the costs are incurred. In situations where it can be clearly demonstrated that the expenditures have resulted in an increase in the future economic benefits expected to be obtained from the use of an item of property and equipment beyond its originally assessed standard of performance, the expenditures are capitalized as an additional cost of property and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, and any resulting gain or loss is reflected as income or loss in the statements of income.

Depreciation is computed using the straight-line method over the estimated useful lives of the respective assets. Leasehold improvements are amortized over the shorter of the terms of the covering leases and the estimated useful lives of the improvements.

The principal annual depreciation rates follow:

Buildings	2% - 4%
Furniture, fixtures and equipment	20% - 33%
Leasehold rights and improvements	5% - 20%

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

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

<u>Investment Properties</u>
Investment properties are carried at cost less accumulated depreciation and impairment in value, if any. The initial cost of investment properties includes transaction costs representing nonrefundable taxes such as capital gains tax and documentary stamp tax that are for the account of the Group.

Investment properties are derecognized when they have either been disposed of or when the investment property is permanently withdrawn from use and no future benefit is expected from its disposal. Any gains or losses on the retirement or disposal of an investment property are recognized in the statements of income in the period of retirement or disposal. Expenditures incurred after the investment properties have been put into operations, such as repairs and maintenance costs, are charged to income in the year in which the costs are incurred.

Depreciation is calculated on a straight-line basis using the following useful lives from the time of acquisition of the investment properties:

Buildings	10-50 years
Furniture, fixtures and equipment	5-10 years
Leasehold rights and improvements	3-5 years

Transfers are made to investment property when, and only when, there is a change in use, evidenced by cessation of owner-occupation or of construction or development, or commencement of an operating lease to another party. Transfers are made from investment property when, and only when, there is a change in use, evidenced by commencement of owner-occupation or commencement of development with a view to sale.

For a transfer from investment property to owner-occupied property, the deemed cost of property for subsequent accounting is its depreciated cost at the date of change in use. If the property occupied by the Group as an owner-occupied property becomes an investment property, the Group accounts for such property in accordance with the policy stated under Property and Equipment up to the date of change in use.

Intangible Assets
Intangible assets (included under Other Resources) include software costs and goodwill.

Software costs
Software costs are capitalized on the basis of the cost incurred to acquire and bring to use the specific software. These costs are amortized over five years on a straight-line basis.

Costs associated with developing or maintaining the computer software programs are recognized as expense when incurred.

Goodwill
The excess of the acquisition cost over the fair market value of the net identifiable assets acquired as of the date of the acquisition is recorded as goodwill and recognized as an asset in the statements of condition. With respect to investments in associates, goodwill is included in the carrying amounts of the investments. Goodwill is tested annually for impairment and is carried at cost less accumulated impairment losses. Goodwill was previously amortized on a straight-line basis over a 20-year period. However, effective January 1, 2004, in accordance with PFRS 1 and PFRS 3, goodwill is no longer amortized.

Debt Issue Costs
Issuance, underwriting and other related expenses incurred in connection with the issuance of debt instruments are deferred and amortized over the terms of the instruments using the effective interest method. Unamortized debt issuance costs are netted against the related carrying value of the debt instrument in the statements of condition.

Borrowing Costs
Borrowing costs are recognized as expense in the year in which these costs are incurred.

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 tax liabilities are recognized for all taxable temporary differences. Deferred tax assets are recognized for all deductible temporary differences, carryforward of unused tax credits from any excess of 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 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 tax liabilities are not provided on non-taxable temporary differences associated with investments in domestic subsidiaries, associates and interests in joint ventures. With respect to investments in foreign subsidiaries, associates and interests in joint ventures, deferred tax liabilities are recognized except where the timing of the reversal of the temporary difference can be controlled and it is probable that the temporary difference will not reverse in the foreseeable future.

The carrying amount of deferred 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 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 dates.

Impairment of Assets

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

Impairment of financial assets
Impairment is determined as follows:

(a) For assets carried at amortized cost, impairment is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate;

(b) For assets carried at cost, impairment is measured as the difference between the carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset.

The Group first assesses whether objective evidence of impairment exists individually for financial assets that are individually significant, and individually or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, the Group includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is or continues to be recognized are not included in a collective assessment of impairment. The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the statements of income. If a loan and receivable or HTM investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate plus the original spread determined under the contract. The calculation of the present value of the estimated future cash flows of a collateralized financial asset considers the cash flows that may result from foreclosure, whether or not foreclosure is probable.

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

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

Estimates of changes in future cash flows for groups of assets should reflect and be directionally consistent with changes in related observable data from period to period (for example, changes in unemployment rates, property prices, payment status, or other factors indicative of changes in the probability of losses in the group and their magnitude). The methodology and assumptions used in estimating future cash flows are reviewed regularly by the Group to reduce any differences between loss estimates and actual loss experience.

When a loan and receivable or an investment security other than an equity security is uncollectible, it is written off against the related allowance for impairment losses. Such loan and receivable or investment security is written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of provision for impairment losses presented in the statement of income. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the previously recognized impairment loss is reversed by adjusting the allowance account. The amount of the reversal is recognized in the statements of income.

If an AFS investment is impaired, the difference between its amortized cost and its current fair value, less any impairment loss on that financial asset previously recognized is removed from capital funds and recognized in the statements of income. Impairment losses on equity instruments are not reversed through the statements of income. If, in a subsequent period, the fair value of a debt instrument classified as AFS increases and the increase can be objectively related to an event occurring after the impairment loss was recognized, the impairment loss is reversed through the statements of income.

Impairment of non-financial assets
Impairment is determined based on the asset's recoverable amount. An asset's recoverable amount is 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 to operations in the year in which it arises, unless the asset is carried at a revalued amount, in which case the impairment loss is charged to the revaluation increment of the said asset.

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

Derecognition of Financial Instruments

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

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

When the Group has transferred its rights to receive cash flows from an asset and has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Group's continuing involvement in the asset.

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

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

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

Dividends
Dividend income is recognized when the right to receive payment is established.

Underwriting Fees, Commissions, and Sale of Shares of Stock
Underwriting fees and commissions are accrued when earned. Income derived from sales of shares of stock is recognized upon sale.

Other Income
Income from sale of services is recognized upon rendition of the service. Income from sale of properties is recognized upon completion of the earning process and the collectibility of the sales price is reasonably assured.

Retirement Cost
The Group determines its retirement expense using the projected unit credit cost method. Under this method, the current service cost is the present value of retirement benefits payable in the future with respect to services rendered in the current period.

The defined benefit liability recognized in the statements of condition is the present value of the defined benefit obligation at the statement of condition date less the fair value of plan assets, together with adjustments for unrecognized actuarial gains or losses and past service costs. The defined benefit obligation is calculated annually by an independent actuary. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflows using interest rates of government bonds that are denominated in the currency in which the benefits will be paid, and that have terms to maturity approximating the terms of the related retirement liabilities. Actuarial gains and losses are recognized as income or expense when the net cumulative unrecognized actuarial gains and losses of the plan at the end of the previous reporting year exceed 10% of the higher of the present value of the defined benefit obligation and the fair value of plan assets at that date. The excess actuarial gains and losses are recognized over the average remaining life of employees participating in that plan in the statements of income.

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

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 provisioning due to the passage of time is recognized as an interest expense in the statement of income.

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

Leases

Finance leases, which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the inception of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between the finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are included as interest expense in the statement of income.

Capitalized leased assets are depreciated over the shorter of the estimated useful lives of the assets or the respective lease terms.

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

Derivative Financial Instruments

Freestanding Derivatives

The Parent Company enters into currency forwards and swaps to manage its foreign exchange and interest rate risks. Currency forwards are contractual agreements to buy or sell a specified currency at a specific price and date in the future. Currency swaps are contractual agreements to exchange foreign exchange differentials based on specific notional amounts. These derivatives are accounted for as non-hedges, with the fair value changes being reported immediately in the statements of income.

Embedded Derivatives

Certain financial and non-financial contracts of the Parent Company that contain embedded derivatives are treated as separate derivatives when their economic characteristics and risks are not closely related to those of the host contract and the host contract is not carried at fair value through profit or loss. These embedded derivatives are measured at fair value with the changes in fair value recognized in the statements of income. Such derivatives include conversion options in convertible debt instruments, credit default swaps and foreign-currency derivatives in structured notes and deposits, call and put options in investment securities and loans and receivables, and foreign currency derivatives on non-financial contracts such as purchase orders, service agreements and lease contracts.

Offsetting

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

Earnings Per Share

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

Cash and Other Cash Items

Cash items include foreign currency notes and checks on hand.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include amounts due from 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 an insignificant risk of changes in value.

Subsequent Events

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

3. Significant Accounting Judgments and Estimates

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 the disclosures of contingent resources and contingent liabilities. Future events may occur which can cause the assumptions used in arriving at the estimates to change. The effects of any change in estimates are reflected in the financial statements as they become reasonably determinable.

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

a) Impairment losses of loans and receivables

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

b) Fair value of financial instruments including embedded derivatives

The fair value of financial instruments that are not quoted in active markets are determined by using valuation techniques such as discounted cash flow analysis and standard option pricing models.

c) Impairment of AFS equity investments

The Group determines that AFS equity investments are impaired when there has been a significant or prolonged decline in the fair value below its cost. This determination of what is significant or prolonged requires judgment. In making this judgment, the Group evaluates among other factors, the normal volatility in share price. In addition, impairment may be appropriate when there is evidence of deterioration in the financial health of the investee, industry and sector performance, changes in technology, and operational and financing cash flows.

d) *HTM investments*

The Group classifies non-derivative financial assets with fixed or determinable payments and fixed maturity as HTM. This classification requires significant judgment. In making this judgment, the Group evaluates its intention and ability to hold such investments to maturity. If the Group fails to keep these investments to maturity other than in certain specific circumstances - for example, sales that are so close to maturity - it will be required to reclassify the entire portfolio as AFS investments. The investments would therefore be measured at fair value and not at amortized cost.

e) *Recognition of deferred income taxes*

The Group has been in a tax loss position over the past several years. However, estimates of future taxable income indicate that certain temporary differences will be realized in the future.

f) *Present value of retirement obligation*

The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of condition date.

The expected rate of return on assets of 10% was on average historical premium of the fund assets. The assumed discount rates were determined using the market yields on Philippine government bonds with terms consistent with the expected employee benefit payout as of statement of condition dates.

g) *Impairment of intangible assets*

Goodwill and other intangible assets are reviewed and tested whenever there is indication of impairment and at least at each statement of condition date. For the purpose of impairment test, assets were grouped at the lowest levels for which there are separately identifiable cash flows. Goodwill is written down for impairment where the net present value of the forecasted future cash flows of the business is insufficient to support its carrying value.

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4. Financial Risk Management Objectives and Policies

a. Credit Risk and Concentration of Assets and Liabilities and Off Balance Sheet Items

The Group manages credit risk (risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss) by setting limits for individual and groups of borrowers and for geographical and industry segments. The Group also monitors credit exposures, and continually assesses the creditworthiness of counterparties. In addition, the Group obtains security where appropriate, enters into master netting agreements and collateral arrangements with counterparties, and limits the duration of exposures.

In compliance with BSP requirements, the Parent Company has recently developed an internal credit risk rating system aimed at uniformly assessing its credit portfolio in terms of risk profile. The system is now in place and has been implemented through the grading of new and existing corporate loan borrowers with total loans of over ₱15.0 million. As part of this strategy, over the past two years, the Group has invested in new technology, such as more advanced management information systems, to establish a database of client and credit information. The Group believes that more sophisticated risk management and credit control systems will play an important role in its plan to enhance the quality of its asset base.

Credit risk in respect of derivative financial instruments is limited to those with positive fair values, which are included under Other Resources. As a result, the maximum credit risk, without taking into account the fair value of any collateral and netting agreements, is limited to the amounts in the statements of condition plus commitments to customers as disclosed in Note 8.

Concentrations arise when a number of counterparties are engaged in similar business activities, or activities in the same geographic region, or have similar economic features that would cause their ability to meet contractual obligations to be similarly affected by changes in economic, political or other conditions. Concentrations indicate the relative sensitivity of the Group's performance to developments affecting a particular industry or geographic location.

b. Market Risk

The Parent Company's market risk (the risk of loss to future earnings, to fair values or to future cash flows that may result from changes in the price of a financial instrument) originates from its holdings of debt securities, equities and derivatives. The value of a financial instrument may change as a result of changes in interest rates, foreign currency exchanges rates, commodity prices, equity prices and other market changes.

The Parent Company manages market risk by segregating its statements of condition into a trading book and a banking book. The Asset and Liability Committee, chaired by the Parent Company's Vice Chairman of the Board of Directors (BOD), is the senior review and decision-making body for the management of all market risks related to asset/liability management, and the banking and trading book. The actual risk limits for asset/liability management as well as trading are approved by the Risk Management Committee (RMC), which is a sub-committee of the Parent Company's BOD.

The Risk Management Unit serves under the RMC and performs daily market risk analyses to ensure compliance with the Parent Company's policies and procedures and makes recommendations based on such analyses.

The Treasury Group of the Parent Company manages asset/liability risks arising from both normal banking operations and from trading operations in financial markets. The Treasury Group is assigned with risk limits by the RMC.

In February 2002, the Parent Company commenced the Group-wide computation of its "Value at Risk", or VaR, in certain trading activities and began benchmarking its market risk to industry standards. The VaR method is a procedure for estimating the probability of portfolio losses exceeding some specified proportion based on a statistical analysis of historical market price trends, correlations and volatilities. VaR estimates the potential decline in the value of a portfolio, under normal market conditions, for a given "confidence level" over a specified holding period. In calculating VaR, the Parent Company uses a 99% confidence level and a 1-day holding period. This means that, statistically, the Parent Company's losses on trading operations will exceed VaR on 1 out of 100 trading business days. The validity of the VaR model is verified through back testing, which examines how frequently actual daily losses exceeds daily VaR. The Parent Company is currently considering lowering its VaR number due to changes in BSP regulations related to Philippine treasury securities which will likely significantly decrease the amount of Philippine treasuries held by the Parent Company, as well as expected increases in interest rates in the Philippines. The Parent Company measures and monitors the VaR and profit and loss on a daily basis.

c. Interest Rate Risk

The Parent Company follows a prudent policy on managing its assets and liabilities so as to ensure that exposure to fluctuations in interest rates are kept within acceptable limits.

A substantial portion of the Parent Company's total loan portfolio is for a term of less than one year, and the majority of its medium-term portfolio is on a floating-rate basis. A substantial portion of the Parent Company's total loan portfolio comprised floating rate loans which are repriced periodically by reference to the Philippine Treasury bill rate. As a result of these factors, the Parent Company's exposure to interest rate fluctuations, and other market risks, is significantly reduced.

The Parent Company, in keeping with banking industry practice, maintains a large portion of its deposit base in short-term deposits. No interest is paid on demand accounts, except for a demand account product (Metrochecking Extra) which pays a rate of interest equal to that payable on regular savings accounts of the Parent Company. Rates on savings accounts and time deposit accounts are set by different criteria. Savings account rates are set by reference to prevailing market rates, while rates on time deposits and special Universal Savings Account (UNISA) are usually priced by reference to rates applicable to Philippine Treasury Bills or, in the case of foreign currency deposits, London Interbank Offer Rate (LIBOR) with similar maturities.

One method by which the Parent Company measures the sensitivity of its assets and liabilities to interest rate fluctuations is by way of “gap” analysis. This analysis provides the Parent Company with a static view of the maturity and re-pricing characteristics of its balance sheet positions. An interest rate gap report is prepared by classifying all assets and liabilities into various time period categories according to contracted maturities or anticipated repricing dates, whichever is earlier. The difference in the amount of assets and liabilities maturing or being repriced in any time period category would then give the Parent Company an indication of the extent to which it is exposed to the risk of potential changes in net interest income.

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

The Parent Company also monitors its exposure to fluctuations in interest rates by measuring the impact of interest rate movements on its net interest income. This is done by modeling the impact of various changes in interest rates to the Parent Company’s interest-related income and expenses.

d. Foreign Currency Risk

Foreign currency liabilities generally consist of foreign currency deposits in the Parent Company's FCDU account made in the Philippines or which are generated from remittances to the Philippines by Filipino expatriates and overseas Filipino workers who retain for their own benefit or for the benefit of a third party, foreign currency deposit accounts with the Parent Company and foreign currency-denominated borrowings appearing in the RBU and FCDU books of the Parent Company.

Foreign currency deposits are generally used to fund the Parent Company's foreign currency-denominated loan and investment portfolio in the FCDU. Banks are required by the BSP to match the foreign currency assets with the foreign currency liabilities held in the FCDU. In addition, the BSP requires a 30% liquidity reserve on all foreign currency liabilities held in the FCDU. Outside the FCDU, the Parent Company has additional foreign currency assets and liabilities in its RBU books and foreign branch networks. The Parent Company has historically been a net holder of foreign currency in its FCDU books, as foreign currency assets have exceeded foreign currency liabilities. The Parent Company actively manages its foreign currency assets and liabilities.

The Parent Company's policy is to maintain foreign currency exposure within acceptable limits and within existing regulatory guidelines. The Parent Company believes that its profile of foreign currency exposure on its assets and liabilities is within conservative limits for a financial institution engaged in the type of business in which the Parent Company is engaged.

Member companies of the Metrobank Group are in the process of setting up their own risk management organization. Only PSBank and FMIC have so far hired professional risk management officers to head their individual risk management unit. The risk management policies that will be adopted by the Parent Company's subsidiaries/affiliates will be aligned with the Parent Company's risk policies. The Parent Company is currently looking for a comprehensive risk management solution that will integrate all risk management modules (Market, Credit, Interest Rate, Foreign Currency and Operations risks), which is likewise International Accounting Standards/International Financial Reporting Standards and Basel II compliant.

5. Fair Value Measurement

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

Cash and other cash items - Carrying amounts approximate fair values.

Investment securities - Fair values of debt securities (both available–for–sale and held–to–maturity) and equity investments are generally based on quoted market prices. Where the debt securities are not quoted or the market prices are not readily available, the Group obtained valuations from independent parties offering pricing services, used adjusted quoted market prices comparable investments, or applied discounted cash flow methodologies. For equity investments that are not quoted, the investments are carried at cost less allowance for impairment losses due to the unpredictable nature of future cash flows and the lack of suitable methods of arriving at a reliable fair value.

Loans and receivables - Fair values of the Group's loans and receivables are estimated using the discounted cash flow methodology, using current incremental lending rates for similar types of loans. The carrying amounts of loans and receivables approximate fair values.

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

Liabilities - Fair values are estimated using the discounted cash flow methodology using the Group's current incremental borrowing rates for similar borrowings with maturities consistent with those remaining for the liability being valued, if any. The carrying amount of bills payable approximates fair value.

Derivative Financial Instruments

Freestanding Derivatives
The Parent Company is a party to currency forward and swap transactions in various currencies.

Embedded Derivatives
Among the embedded derivatives that have been bifurcated and are outstanding as of March 31, 2006 include the following:

i. credit default swaps embedded in structured notes with a notional reference of US$5 million and a positive fair value of ₱0.22 million.

ii. foreign currency derivatives in non-financial host contracts, with average notional amounts of around US$1,000 per month (with maturities until 2011 and 2018) and a positive fair value of ₱8.81 million.

Certain embedded derivatives are not bifurcated, either because the host contracts are carried as financial assets at FVPL (e.g., peso structured notes with embedded foreign exchange derivatives) or the embedded derivative is deemed to be closely related to the host contract (e.g., certain prepayment options embedded in loans and receivables where the exercise price approximately equals amortized cost).

6. Segment Information

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

- Consumer Banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit card facilities and fund transfer facilities;

- Corporate Banking - principally handling loans and other credit facilities and deposit and current accounts for corporate and institutional customers;

- Investment Banking - principally arranging structured financing, and providing services relating to privatizations, initial public offerings, mergers and acquisitions; and

- Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of treasury bills, government securities and placements and acceptances with other banks, through treasury and corporate banking.

These segments are the bases on which the Group reports its primary segment information. Other operations of the Group comprise the operations and financial control groups. Transactions between segments are conducted at estimated market rates on an arm's length basis. Interest is charged/credited to business segments based on a pool rate which approximates the cost of funds.

Primary segment information (by business segment) as of and for the quarter ended March 31, 2006 and year ended December 31, 2005 of the Group follows:

	March 31, 2006					
	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Others	Total
			(In Thousand Pesos)			
Results of Operations						
Net interest income	₱642,510	₱1,450,732	₱-	₱1,449,580	₱1,150,001	₱4,692,823
Noninterest income	119,004	60,790	67,602	2,205,935	1,976,565	4,429,896
Revenue - net of interest expense	761,514	1,511,522	67,602	3,655,515	3,126,566	9,122,719
Noninterest expense	616,262	330,716	9,395	1,616,316	4,581,433	7,154,122
Income (loss) before minority interest	145,252	1,180,806	58,207	2,039,199	(1,454,867)	1,968,597
Minority interest in net income of consolidated subsidiaries	-	-	-	-	(151,554)	(151,554)
Net income (loss)	₱145,252	₱1,180,806	₱58,207	₱2,039,199	₱(1,606,421)	₱1,817,043
Statement of Condition						
Total resources	₱37,129,315	₱118,935,848	₱599,351	₱172,947,990	₱240,856,245	₱570,468,749
Total liabilities	₱34,684,938	₱113,222,198	₱18,070	₱166,991,115	₱194,437,011	₱509,353,332
Other Segment Information						
Capital expenditures	₱30,567	₱7,009	₱-	₱153	₱201,888	₱239,617
Depreciation and amortization	₱41,508	₱9,499	₱-	₱541	₱338,896	₱390,444

	December 31, 2005					
	Consumer Banking	Corporate Banking	Investment Banking	Treasury	Others	Total
			(In Thousand Pesos)			
Results of Operations						
Net interest income	₱2,400,161	₱3,874,270	₱–	₱2,357,147	₱11,224,261	₱19,855,839
Noninterest income	440,066	371,404	99,168	1,450,435	7,384,039	9,745,112
Revenue - net of interest expense	2,840,227	4,245,674	99,168	3,807,582	18,608,300	29,600,951
Noninterest expense	(2,280,025)	(1,667,074)	(24,322)	(774,142)	(18,613,128)	(23,358,691)
Income (loss) before income tax	560,202	2,578,600	74,846	3,033,440	(4,828)	6,242,260
Income tax provision	90,364	(4,619)	–	(381,731)	(1,670,879)	(1,966,865)
Minority interest in net income of consolidated subsidiaries	–	–	–	–	(488,766)	(488,766)
Net income (loss)	₱650,566	₱2,573,981	₱74,846	₱2,651,709	(₱2,164,473)	₱3,786,629
Statement of Condition						
Total resources	₱35,720,322	₱124,336,797	₱–	₱200,973,612	₱224,442,561	₱585,473,292
Total liabilities	₱33,102,704	119,669,760	₱668	₱193,285,791	₱185,990,271	₱532,049,194
Other Segment Information						
Capital expenditures	₱386,951	₱96,065	₱–	₱5,718	₱641,552	₱1,130,286
Depreciation and amortization	₱159,028	₱66,126	₱–	₱19,007	₱1,402,776	₱1,646,937

7. 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 lending company within the Group. In the aggregate, loans to DOSRI generally should not exceed the respective total capital funds or 15% of total loan portfolio, whichever is lower, of the Parent Company, PSBank, and FMIC.

The Parent Company and some of its subsidiaries have deposit liabilities to associates and other related parties.

The Group also leases the premises occupied by some of their Head Offices and many of their branches from certain investees that own such premises.

Other related party transactions conducted in the normal course of business include outright purchases and sales of trading account securities, securing insurance coverage on loans and property risks and intercompany advances.

8. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit, forward exchange contracts, interest rate swaps and similar arrangements which are not reflected in the accompanying financial statements. No material losses are anticipated as a result of these transactions.

The following is a summary of contingencies and commitments at their peso-equivalent contractual amounts arising from off-balance sheet items as of March 31, 2006 and 2005, and as of December 31, 2005:

	March 2006	March 2005	December 2005
	(In Thousands)		
Trust Banking Group accounts	**₱186,971,440**	₱153,450,363	₱156,115,974
Unused commercial letters of credit	**11,177,585**	11,407,506	10,471,992
Late deposits/payments received	**679,160**	361,398	1,722,080
Spot exchange bought	**3,803,713**	1,828,649	1,073,784
Spot exchange sold	**3,443,271**	2,270,910	439,363
Outward bills for collection	**1,169,755**	1,522,913	1,050,607
Confirmed export letters of credits	**168,119**	649,863	278,517
Inward bills for collection	**712,663**	1,278,810	804,916
Outstanding guarantees	**376,294**	1,023,858	455,456
Outstanding shipside bonds/airway bills	**341,549**	129,888	294,866
Traveller's check unsold	**214,415**	286,234	219,704
Others	**4,322,694**	3,249,337	3,931,163

The Parent Company, PSBank and FMIC have received tax assessments from the Bureau of Internal Revenue (BIR) on two industry issues. Management and tax counsels believe that they have a valid defense against such claims.

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

9. Financial Performance

The basis of calculation for earnings per share attributable to equity holdings of the Parent Company follows:

		March 2006	March 2005	December 2005
a.	Net income attributable to equity holdings of the Parent Company (annualized for interim periods, in thousands)	**₱7,268,172**	₱6,447,875	₱3,786,629
b.	Weighted average number of outstanding common shares of the Parent Company (in thousands)	**1,633,651**	1,633,651	1,633,651
c.	Basic earnings per share (a/b)	**₱4.45**	₱3.95	₱2.32

As of March 31, 2006 and 2005 and December 31, 2005, there were no shares of stock that had a dilutive effect on the basic earnings per share of the Parent Company.

10. Issuances of Debt and Equity Securities

On March 3, 2005, the Parent Company's BOD approved the issuance of up to a maximum of 350,000,000 shares out of the authorized but unissued capital stock of the Parent Company at the issue price to be determined by the President based on a 0% to 10% discount to either the closing price on the trading day preceding the pricing date or the weighted average price of the shares in the last 10 trading days preceding the pricing date. On March 7, 2005, the BSP approved the said issuance.

On January 27, 2006, PSBank issued ₱2.0 billion, 10.00% unsecured subordinated notes due in 2016. Such issuance was approved by the BOD of PSBank and the BSP on September 29, 2005 and December 28, 2005, respectively.

Among the significant terms and conditions of the issuance of subordinated notes are:

a. issue price at 100.00% of the principal amount;
b. bear interest at 10.00% per annum from and including January 27, 2006 but excluding January 27, 2011 which is payable quarterly in arrears every 27th of January, April, July and October of each year, commencing April 27, 2006;
c. constitute direct, unconditional, and unsecured obligations of PSBank and claim in respect of such subordinated notes shall be at all times pari passu and without any preference among themselves; and
d. subject to satisfaction of certain regulatory approval requirements, PSBank may redeem all and not less than the entire outstanding subordinated note, at a redemption price equal to the face value together with accrued and unpaid interest based on the interest rate.

In addition, on February 6, 2006, the BOD of PSBank approved the offering for subscription of 22,437,690 common shares (offer shares) of PSBank with a par value of ₱10.00 at an exercise price of ₱33.50 per share, by way of pre-emptive rights offering to existing shareholders of PSBank at the proportion of one (1) right share for every eight (8) existing common shares. The offer shares will come from the unissued authorized capital stock of PSBank. Any offer shares that may be left unsubscribed by the existing shareholders entitled to such offer shares, after the second round of offering, shall be purchased at the same price by the Parent Company.

On February 15, 2006, the Parent Company received the proceeds from the issuance of Hybrid Tier 1 (HT1) Capital Securities amounting to US$123.1 million, net of fee and other charges. Net proceeds will be used to strengthen the capital base of the Group and for working capital purposes of the Parent Company. The issuance of HT1 Capital Securities was approved by the Parent Company's BOD on December 9, 2005.

The HT1 Capital Securities represent US$125.0 million, 9.00% non-cumulative step-up callable perpetual capital securities issued pursuant to a trust deed dated 15 February 2006 between the Parent Company and The Bank of New York (Trustee) with a liquidation preference of US$100,000 per capital security. The Parent Company has received approval in-principle from the Singapore Exchange Securities Trading Limited (SGX-ST) for the listing and quotation of the HT1 Capital Securities on the SGX-ST in a minimum board lot size of US$200,000. Further, the HT1 Capital Securities are governed by the English law except on certain clauses in the Trust Deed which are governed by the Philippine law. The BSP has approved up to US$125.0 million issuance of the HT1 Capital Securities which are eligible to qualify as Tier 1 capital of the Parent Company subject to the limitation based on BSP Circular No. 503 issued on December 22, 2005.

Basic features of the HT1 Capital Securities follow:

- Coupons - bear interest at 9.00% per annum payable semi-annually in arrear from (and including) 15 February 2006 to (but excluding) 15 February 2016, and thereafter at a rate, reset and payable quarterly in arrear, of 6.14% per annum above the then prevailing London interbank offered rate for three-month U.S. dollar deposits. Under certain conditions specified in the terms of the issuance, the Parent Company is not obliged to make any coupon payment if the BOD of the Parent Company, in its absolute discretion, elects not to make any coupon payment in whole or in part.

- Coupon Payment Dates - payable on 15 February and 15 August in each year, commencing on 15 August 2006 (in respect of the period from (and including) 15 February 2006 to (but excluding) 15 August 2006) and ending on 15 February 2016 (first optional redemption date); thereafter coupon amounts will be payable (subject to adjustment for days which are not business days) on 15 February, 15 May, 15 August and 15 November in each year commencing on 15 May 2016.

- Dividend and Capital Stopper - in the event that any coupon payment is not made, the Parent Company: (a) will not declare or pay any distribution or dividend or make any other payment on, and will procure that no distribution or dividend or other payment is made on any junior share capital or any parity securities; or (b) will not redeem, purchase, cancel, reduce or otherwise acquire any junior share capital or any parity securities. Such dividend and capital stopper shall remain in force so as to prevent the Parent Company from undertaking any such declaration, payment or other activity unless and until a payment is made to the holders in an amount equal to the unpaid amount, if any, of coupon payments in respect of coupon periods in the 12 months including and immediately preceding the date such coupon payment was due, and the BSP does not otherwise object.

- Redemption

  - the HTI Capital Securities may be redeemed at the option of the Parent Company (but not the holders) under optional redemption, tax event call, and regulatory event call, subject to limitation as discussed in the offering circular.

  - the HTI Capital Securities may not be redeemed (i) for so long as the dividend and capital stopper is in force; and (ii) without the prior written approval of the BSP which, as of February 8, 2006, is subject to the following conditions: (a) the Parent Company's capital adequacy must be at least equal to the minimum capital ratio required by the BSP; and (b) the HTI Capital Securities are simultaneously replaced with the issue of new capital which is neither smaller in size nor lower in quality than the original issue.

In addition, the HT1 Capital Securities are unsecured securities and are subordinated to the claims of senior creditors. In the event of the dissolution or winding-up of the Parent Company, holders will be entitled, subject to satisfaction of certain conditions and applicable law, to receive a liquidation distribution equivalent to the liquidation preference. Also, these securities are not deposits of the Parent Company and are not guaranteed or insured by the Parent Company or any of its related parties or the Philippine Deposit Insurance Corporation and these may not be used as collateral for any loan made by the Parent Company or any of its subsidiaries or affiliates.

The Parent Company or any of its subsidiaries may not at any time purchase HTI Capital Securities except as permitted under optional redemption, tax event call, and regulatory event call as described in the terms of issuance.

The HTI Capital Securities are sold to non-U.S. persons outside the United States pursuant to Regulation S under the U.S. Securities Act of 1933, as amended, and are represented by a global certificate registered in the name of a nominee of, and deposited with, a common depositary for Euroclear and Clearstream.

11. **Subsequent Events**

In a special meeting of the Parent Company's BOD held on April 10, 2006, the BOD adopted a resolution amending Article Seventh of the Amended Articles of Incorporation of Metrobank to remove/deny the pre-emptive rights of stockholders. This is without prejudice to the appraisal right of dissenting stockholders in accordance with the Corporation Code of the Philippines.

The vote of the stockholders representing at least two thirds (2/3) of the outstanding capital stock is required to ratify the amendment of the amended Articles of Incorporation on the removal/denial of the pre-emptive rights of stockholders.

As authorized by the BOD in its special meeting on February 14, 2006 and after approval by the BSP on March 3, 2006, the Parent Company participated in the Stock Rights Offer of PSBank on April 27, 2006 by subscribing to 20,170,417 shares at P33.50 per share or for a total amount of P675,708,969.50. Accordingly, the Parent Company increased its equity in PSBank from 74.24% to 75.98%.

On May 10, 2006, the BOD of the Parent Company authorized the issuance of up to a maximum of 203,605,263 shares (the "New Shares") out of its authorized but unissued capital stock at the issue price to be determined by the President, based on an offer price range of plus or minus 10% from the 10-day volume weighted average price of the shares as of the pricing date. This issuance supersedes and cancels the previous authorization made by the Parent Company's BOD on March 3, 2005 for the issuance of up to a maximum of 350,000,000 shares out of its authorized but unissued capital stock as discussed in Note 10.

With the additional issuance of 203,605,263 common shares, the Parent Company's common stock may be summarized as follows:

Authorized number of shares	2,500,000,000
Issued and outstanding shares	1,633,650,950
Unissued shares	866,349,050
Additional issuance of the New Shares	203,605,263
Balance of unissued shares	662,743,787

The Parent Company plans to use the net proceeds from the issue to further strengthen its capital adequacy ratio in response to recent adjustments following its adoption of International Accounting Standards and in anticipation of Basel II requirements that will be effective in 2007. The net proceeds will also be used by the Parent Company for general corporate purposes, including, but not limited to, working capital and investments.

12. **Other Matters**

The Group has no significant matters to report on the following:

a. Explanatory comments about the seasonality or cyclicality of interim operations;

b. Unusual items as to nature, size or incidents affecting resources, liabilities, equity, net income or cash flows, except for the impact of the adoption of the new accounting standards in 2005 as discussed in Annex 6;

c. Issuances, repurchases and repayments of debt and equity securities during the quarters ended March 31, 2006 and 2005 except for the debt and equity security issuances as discussed in Notes 10 and 11; and

d. Effect of changes in the composition of the Group during the interim period, including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructurings, and discontinuing operations, except for the following:

   1.) Disposition by the Parent Company of its 41.12% equity share in IBC as discussed in Note 2;

   2.) Subscription by the Parent Company of its proportionate share in the Stock Rights Offering of PSBank at the entitlement ratio of one (1) rights share for every eight (8) common shares at the Offer Price of P33.50 per share, as discussed in Note 10; and

   3.) Establishment in the future of a remittance company in Macau with an initial capitalization of US$1 million.

METROPOLITAN BANK & TRUST COMPANY
SEC FORM 17 – Q
FOR THE QUARTER ENDED MARCH 31, 2006

ITEM 2 – MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Key Performance Indicators

Financial Ratios

Generally, the following ratios measure the financial performance of the Group and the Parent Company:

	Quarter Ended March 31, 2006 (Unaudited)				
	Group	**Metrobank**	**FMIC**	**PSBank**	**GBHI**
Return on equity	13.52%	10.18%	23.79%	29.13%	1.75%
Return on assets	1.26%	1.03%	5.72%	2.46%	1.75%
Operating efficiency ratio	53.54%	66.79%	23.89%	53.88%	33.97%
Non-performing loans ratio	10.24%	8.78%	17.77%	5.91%	n.a.
Capital adequacy ratio	18.38%	16.34%	38.43%	15.70%	n.a.

	Quarter Ended March 31, 2005 (Unaudited)				
	Group	**Metrobank**	**FMIC**	**PSBank**	**GBHI**
Return on equity	12.98%	13.99%	24.12%	9.22%	0.98%
Return on assets	1.22%	1.39%	6.85%	0.85%	0.98%
Operating efficiency ratio	62.94%	60.12%	25.18%	79.65%	40.97%
Non-performing loans ratio	13.47%	12.92%	8.80%	5.96%	n.a.
Capital adequacy ratio	16.67%	15.16%	63.16%	12.15%	n.a.

Return on Equity
Return on equity (ROE), or the ratio of annualized net income to average capital funds, measures the return on capital provided by the stockholders. ROE increased to 13.52% for the period ended March 31, 2006 from 12.98% for the same period in 2005.

Return on Assets
Return on assets (ROA), or the ratio of annualized net income to average total assets, measures the return on money provided by both owners and creditors, as well as how efficiently all resources are managed. ROA increased to 1.26% for the first quarter of 2006 from 1.22% for the same period last year.

Operating Efficiency Ratio
Operating efficiency ratio represents the ratio of total operating expenses to the sum of net interest income and other income. The improvement in the ratios from 62.94% to 53.54% for the first quarter of 2005 and 2006, respectively, is attributable to the increases of P192.54 million in Net Interest Income and P1.43 billion in Other Income.

Non-Performing Loans Ratio

Non-performing loans (NPL) ratio represents the ratio of NPLs to gross loan portfolio, excluding interbank loans receivable. NPL ratio declined to 10.24% as of March 31, 2006 from 13.47% as of March 2005 as a result of the sale of NPLs and the write-off of worthless accounts.

Capital Adequacy Ratio

Capital adequacy ratio (CAR), expressed as a percentage of the total qualifying capital to risk-weighted assets, determined in accordance with existing guidelines prescribed by the BSP, should not be less than 10% for both the Parent Company and the Group. As of March 31, 2006, CAR improved to 18.38% from 16.67% as of the end of March 2005 as a result of the issuance by the Parent Company of Hybrid Tier-1 Capital Securities.

Liquidity

To ensure that funds are more than adequate to meet its obligations, the Parent Company proactively monitors its liquidity position on a daily basis. Based on this system of monitoring, the Parent Company does not anticipate having any cash flow or liquidity problem within the next twelve months.

The Parent Company's liquidity gap report as of March 31, 2006 shows that it has at its disposal about P233 billion in cash flows in the next twelve months from its portfolio of loans, marketable securities, placements with banks and cash items. This is deemed more than adequate to meet about P71 billion in obligations that are expected to come due during the same period. The Parent Company's total liquid assets of P185 billion are composed of P82 billion in marketable securities, P96 billion placements with banks, and P7.3 billion in cash items. These individually represent 17%, 20% and 2% of the Parent Company's total assets as of March 31, 2006.

Events That Will Trigger Material Direct or Contingent Financial Obligation

In the normal course of the Group's operations, there are various outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit, forward exchange contracts, interest rate swaps and similar arrangements that are not reflected in the accompanying consolidated financial statements. No material losses are anticipated as a result of these transactions.

The Parent Company, PSBank and FMIC have received tax assessments from the Bureau of Internal Revenue (BIR) on two industry issues. Management and tax counsels believe that they have a valid defense against such claims. Accordingly, no provision has been provided.

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

Material Off-Balance Sheet Transactions, Arrangements or Obligations

The following is a summary of changes in contingencies and commitments at their peso equivalent contractual amounts arising from off-balance sheet items as of March 31, 2006 and December 31, 2005:

	March 2006	March 2005	December 2005
		(In Thousands)	
Trust Banking Group accounts	**₱186,971,440**	₱153,450,363	₱156,115,974
Unused commercial letters of credit	**11,177,585**	11,407,506	10,471,992
Late deposits/payments received	**679,160**	361,398	1,722,080
Spot exchange bought	**3,803,713**	1,828,649	1,073,784
Spot exchange sold	**3,443,271**	2,270,910	439,363
Outward bills for collection	**1,169,755**	1,522,913	1,050,607
Confirmed export letters of credits	**168,119**	649,863	278,517
Inward bills for collection	**712,663**	1,278,810	804,916
Outstanding guarantees	**376,294**	1,023,858	455,456
Outstanding shipside bonds/airway bills	**341,549**	129,888	294,866
Traveller's check unsold	**214,415**	286,234	219,704
Others	**4,322,694**	3,249,337	3,931,163

Material Commitments for Capital Expenditures

The Parent Company's commitments for capital expenditures in 2006 shall be sourced from its working capital. Such expenditures are estimated at ₱1.20 billion, of which P759 million is estimated to be incurred for information technology.

Material Events or Uncertainties

The registrant has nothing to report on the following for the quarters ended March 31, 2006 and 2005:

1. Any known trends or demands, commitments, events or uncertainties that will have a material impact on liquidity or that have had or that are reasonably expected to have a material favorable or unfavorable impact on net sales or revenues or income from continuing operations.

2. Any seasonal aspects that had a material effect on the financial condition or results of operations.

3. Any significant element of income or loss that did not arise from continuing operations.

Material Changes in Financial Statement Accounts

Financial Condition

March 31, 2006 vs. March 31, 2005

Metrobank closed the first quarter of 2006 with unaudited consolidated total resources of P570.47 billion, P35.80 billion or 6.70% higher than the unaudited consolidated total resources of P534.67 billion as of the same quarter in 2005. The P35.80 billion increase in consolidated total resources resulted from the net effect of the increases in Cash and Other Cash Items (P6.20 billion or 84.46%), Due from BSP (P10.96 billion or 61.72%), Due from Other Banks (P13.10 or 88.27%), Interbank Loans Receivable and Securities Purchased Under Resale Agreement - net (P22.55 billion or 65.96%), Available-for-Sale Investments (P4.17 billion or 5.92%), Property and Equipment (P1.85 billion or 21.50%), and the decreases in Financial Assets at Fair Value through Profit or Loss (P6.79 billion or 39.29%), Held-to-Maturity Investments (P13.47 billion or 39.37%), Investment Properties – net (P2.70 billion or 7.77%), and Other Resources (P1.86 billion or 6.18%).

Consolidated liabilities amounted to P509.35 billion as of March 31, 2006, P26.39 billion (or 5.46%) more than the P482.96 billion at the end of the same quarter of the previous year. The rise of P26.39 billion in consolidated total liabilities resulted from the growths in Deposit Liabilities (P34.03 billion or 8.76%) and Bills Payable (P6.19 billion or 17.11%), and the drop in Manager's Checks, and Demand Drafts Outstanding

(P107.90 million or 7.62%), Accrued Taxes, Interest and Other Expenses (P1.58 billion or 18.03%), Subordinated Debts (P1.10 billion or 6.26%), and Other Liabilities (P11.04 billion or 36.06%).

Deposit Liabilities and Bills Payable represent 82.94% and 8.31%, respectively, of the consolidated liabilities of the Group as of March 31, 2006; and 80.43% and 7.49%, respectively, of the consolidated liabilities at end of the same period in 2005.

The rise of P34.03 billion in Deposit Liabilities came from the growths in demand, savings and time deposits of P1.46 billion (or 7.58%), P19.42 billion (or 7.03%), and P13.15 billion (or 14.16%).

The growth of P6.19 billion in Bills Payable resulted from the increases of P5.92 billion, P2.66 billion and P574.10 million in the borrowings of Metrobank Card, FMIC, and ORIX Metro Leasing, respectively, and the P1.96 billion from the issuance by PSBank of Tier-2 subordinated notes, while borrowings of the Parent Company declined by P5.09 billion.

The Group ended the first quarter of 2006 with Capital Funds of P57.58 billion, recording an increase of P10.06 billion (or 21.18%) over the P47.51 billion as of March 2005. The increase in Capital Funds is mainly attributable to the net effect of the following: (a) the proceeds of P6.30 billion from the issuance by the Parent Company of US$125 million Hybrid Tier-1 Capital Securities in February 2006, (b) the Group net income of P3.97 billion for the four quarters ended March 2006; (c) the increase of P1.63 billion in net unrealized gain on available for sale securities and other investments; (d) the increase of P214.26 million in equity in net unrealized loss on investment securities of investees; (e) the decline of P425.98 million in equity adjustment from translation; and (f) the cash dividend payments totaling P1.63 billion during the first two quarters of 2005.

To conform with PAS and PFRS, the Group's financial statements as of March 31, 2005 were restated. As a result, Surplus as of January 1, 2005 decreased to P4.42 billion.

March 31, 2006 vs. December 31, 2005

The Group closed the first quarter of 2006 with unaudited consolidated total resources of P570.47 billion, P15.00 billion or 2.56% lower than the audited consolidated total resources of P585.47 billion at the end of 2005. The P15.00 billion decrease in consolidated total resources is primarily attributable to the net effect of the significant declines in Available-for-Sale Investments (P11.24 billion or 13.10%), Financial Assets at Fair Value Through Profit or Loss (P1.45 billion or 12.17%), Loans and Receivables – net (P10.72 billion or 3.96%), Investment Properties (P2.60 billion or 7.51%), and Other Resources (P2.16 billion or 7.09%), and the rise in amounts Due from BSP (P8.04 billion or 38.89%), Due from Other Banks (P2.48 billion or 9.73%), and Held-to-Maturity Investments - net (P4.43 billion or 27.14%).

About 75.76% of the Group's total resources consists of amounts Due from BSP, Interbank Loans Receivable and Securities Purchased Under Resale Agreements – net, Available-for-Sale Investments, Loans and Receivables – net, and Investment Properties, which represent 5.04%, 9.94%, 13.07%, 45.60% and 5.61% of the Group's total resources, respectively.

While total liabilities dropped by 4.27% only (or P22.70 billion), the following liability accounts recorded significant declines: Bills Payable by P18.81 billion (or 30.76%), Time Deposits by P6.98 billion (or 6.18%), and Other Liabilities by P2.21 billion (or 10.15%), while increases were recorded in Manager's Checks and Demand Drafts Outstanding (P141.07 million or 12.09%) and Accrued Taxes, Interest and Other Expenses increased (P577.84 million or 8.73%).

Deposit liabilities account for about 82.94% of the Group's total liabilities while Bills Payable and Subordinated Debt account for 8.31% and 3.23%, respectively. The reduction in the peso balances of these accounts is attributable to the settlement by the Parent Company of borrowings from foreign banks and the decline in the prevailing rate of the peso to P51.125 in March 2006.

The increase in Capital Funds of P7.62 billion (or 15.24%) primarily resulted from the net proceeds of P6.30 billion from the Parent Company's issuance in February 2006 of the US$125 million Non-Cumulative Non-Call 10 Hybrid Tier-1 Capital Securities, the net income of P1.82 billion generated by the Parent Company during the first quarter of 2006, reduced by the decline of P450.26 million in the Net Unrealized Gain on Available-for-Sale Securities and Other Investments.

Results of Operations

First Quarter 2006 vs. First Quarter 2005

The Group posted an unaudited net income of P1.82 billion for the first quarter of 2006, recording a growth of P205.07 million (or 12.72%) from the P1.61 billion generated in the same quarter of 2005.

Net Interest Income, which represents 51.44% of the Group's net interest income and other income, improved by P192.54 million or 4.28% as interest income rose by P554.90 million or 6.30% while interest expense increased by P362.37 million or 8.42%.

Provision for Impairment Losses booked for the first quarter of 2006 amounted to P1.75 billion, while P651.75 million was provided for the same period in 2005, or an increase of P1.10 billion.

Other income represented 48.56% of the Group's total net interest income and other income. Other income improved by P1.43 billion or 47.50% from P3.00 billion for the first quarter of 2005 to P4.43 billion for the same period of 2006. The improvement in Other Income is mainly due to the trading gains realized by the Parent Company and its savings bank subsidiary from trading of government securities.

Other expenses increased by P328.14 million or 6.46% from P5.08 billion for the first quarter of 2005 to P5.41 billion for the same quarter of 2006 due to the net effect of the P298.11 million (or 29.45%) rise in Taxes and Licenses following the improvements in Interest Income and Other Income and the corresponding increase in effective tax rates, the increase of P119.03 million (or 6.72%) in Compensation and Fringe Benefits, while Miscellaneous expenses declined by P123.24 million.

Minority Interest in Income of Subsidiaries declined by P10.20 million or 6.30%.

METROPOLITAN BANK & TRUST COMPANY
(CONSOLIDATED)

AGING OF ACCOUNTS RECEIVABLE
(IN THOUSAND PESOS)
AS OF MARCH 31, 2006

NO. OF DAYS OUTSTANDING		AMOUNT
01-90	P	3,436,037
91-180		33,558
181-360		40,404
OVER 360		147,884
GRAND TOTAL	P	3,657,883