Philippine National Bank

All Set For New Opportunities.

2003 ANNUAL REPORT

CORE VALUES

CORE VALUES

PASSION FOR EXCELLENCE

The commitment to consistently deliver the highest levels of performance- exceeding the expectations of our customers, employees, shareholders and the communities we serve.

INTEGRITY

The commitment to uphold professional integrity as manifested by the following:

- Honesty
- Professionalism
- Loyalty
- Fairness
- Trustworthiness
- Business ethics
- Respect for the law

CUSTOMER-CENTEREDNESS

The commitment to satisfy customers' needs in the best manner consistently in every unit of the organization

INNOVATIVENESS

The commitment to introduce new products, services and processes to gain competitive advantage and create value for all stakeholders

MERITOCRACY

The commitment to do business strictly on the basis of merit

TEAMWORK

The commitment to work harmoniously and effectively towards a common goal

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
>> CONSOLIDATED FINANCIAL HIGHLIGHTS <<

IN THOUSAND PESOS, EXCEPT PER SHARE AMOUNTS

	December 31	
	2003	2002
Operating Results		
Gross Earnings	₱14,225,526	₱ 12,796,593
Total Expenses	14,056,948	14,745,189
Net Income (Loss)	168,578	(1,948,596)
Financial Condition		
Total Resources	198,794,584	184,498,160
Receivable from Customers - net	59,938,690	65,788,243
Deposit Liabilities	145,915,188	134,578,778
Capital Funds	24,606,436	23,878,301
Per Share		
Earnings (Loss) Per Share		
Basic	0.29	(4.56)
Diluted	0.29	(4.56)
Book Value		
With Revaluation Increment	42.92	41.65
Without Revaluation Increment	39.61	38.97

[report to the shareholders]

[report to the shareholders]

With everyone's continuing support, we know that we will be able to turn around PNB sooner than had been planned. We all look forward to the day when PNB regains its premier status as a dominant player in the banking industry.

The year 2003 saw your Bank building on its fundamental strengths that made PNB one of the most prestigious banks in the country – with considerable success. Staying on course with the Good Bank/Bad Bank strategy we instituted last year, we achieved results that proved it to be a highly effective route towards the Bank's full recovery. Not only did the strategy lead to an eventual reversal of the past year's losses; it likewise gave us a fresh perspective on PNB's competitive advantages, which we have harnessed toward achieving sustained growth and profitability.

However, the Good Bank/Bad Bank strategy, a dual-pronged approach that enables the Bank to rebuild the franchise and at the same time seek an expeditious resolution of its non-performing assets, not surprisingly led us back to the banking basics. This renewed adherence to the basics proved pivotal in realizing PNB's dramatic turnaround in 2003.

Good Bank Strategy. Turning the Bank around necessitated going back to the basics of banking and having a keen sense that we were operating under an ever-changing business environment. Thus, under our Good Bank strategy, we focused our energies on fortifying areas of strength, making key investments in areas that drive the business forward, and improving operational efficiency.

First among our key initiatives in 2003 was to step up the drive towards building our low-cost funding base, which is basic to improving our net interest margins. Recommitting to our role as one big marketing team – the PNB family, through an internal and external deposit generation campaign, raised fresh low-cost current and savings accounts (CASA) deposits of about ₱9.5 billion. The successful drive proved what pushing well-motivated players can do in pulling in the desired results. The campaign significantly contributed to the 20% total increase in our traditional low-cost deposits from ₱57.8 billion as of end-2002 to ₱69.2 billion by end-2003.

This new marketing vigor was complemented by a renewed focus on reinforcing PNB's strong brand recognition and patronage among the wide B, C and D income classes, including Overseas Filipino Workers (OFWs), which form the core of our 2.5 million strong depositor base.

With a clear view of where our business efforts should be directed at, we introduced innovative products and promotional activities aimed at further growing low-cost deposits contributed by our B, C and D customer base. We launched the value-laden but affordable ATM-based First Access Account and the Euro account specifically designed for OFWs with euro remittances. We also successfully concluded a year-long promotion that encouraged our OFW customers and their beneficiaries to increase their average deposit balances with PNB. Not losing sight of the business that can be generated from high net worth clients, we also created the Priority One Checking Account. While the three new deposit products generated fresh deposits of ₱1.3 billion, our promotional activity successfully raised OFW deposit balances by 30% or ₱1.22 billion.

Parallel to these initiatives, we restructured our branch network into a nationwide sales organization. This involved instituting a sales culture across the network where commercial principles drive business decisions and each of the branches is treated as a profit center. We also restructured the typical branch in such a way that sales and acquisition units are distinct and separate from the supporting service and operations function. Not only did this result in a more focused effort on sales origination but also encouraged greater cross-selling across our portfolio of products. The delineation of functions, likewise, resulted in greater accountability leading to visible improvements in service delivery. Also integral to this approach was the improvement of the physical structure of the branches and the upgrading of the point-of-sale technology infrastructure.

Taking this new wind of marketing enthusiasm beyond local shores and with focus on sustaining our dominance of the OFW market, we opened remittance offices in targeted Filipino migrant

FRANCISCO A. DIZON
Chairman

LORENZO V. TAN
President and Chief Executive Officer

population centers such as Scarborough, Montreal and Mississauga in Canada; Moreno Valley in California; Nagoya in Japan and Causeway Bay in Hong Kong. These brought our global footprint to 92 - by far the largest of any local bank.

We also extended our global reach by collaborating with partners having extensive networks in host countries. One of these is the tie-up forged with Citibank and convenience store chain, 7-Eleven in Hong Kong, whose outlets became our instant remittance offices. The tie-up now contributes over 20% of PNB Hong Kong's total monthly remittance transactions. A similar collaborative arrangement was forged with Bank Mandiri of Indonesia. This time, PNB provides remittance services to overseas Indonesian workers in Hong Kong, which now comprise the second biggest group of ethnic foreign workers in the Semi-Autonomous Region, after Filipinos. The successes of our expansion program and collaborative efforts helped us post a 6% growth in our remittance volume from $2.17 billion to $2.3 billion.

Our initiatives in 2003 were not merely confined to building on our past successes and fundamental strengths. Early on, we realized that to achieve sustainable growth, we had to take steps to position the Bank for future growth. One such move was to improve our credit portfolio by prudently growing our corporate banking business particularly in markets where we have a competitive advantage. Given our long history as a former government bank, we focused on government-associated borrowers such as Government Owned and Controlled Corporations (GOCCs) and Local Government Units (LGUs) with whom we have formed strong relationships. We have also set out to be more involved with small and medium enterprises (SMEs), a sector that has traditionally been a high-margin and reliable market.

We were fully aware, however, that seeking new markets and building on our key revenue drivers entailed making a firm commitment to invest in two of our most important resources: our people and technology. Following the infusion of new management in 2002, we selectively hired seasoned managers with extensive experience and expertise in their respective areas to fill in manpower gaps in critical areas in the organization. For added measure, we developed a training agenda geared towards improving the quality of our current workforce particularly in the areas of credit, service and technology.

Our commitment to technological advancement, on the other hand, was reflected by the development of a comprehensive 3-year IT Plan with a total capital expenditure budget of ₱1.1 billion. To upgrade our IT capabilities, we set out the following key imperatives under the plan: branch re-engineering, remittance automation, phone banking, treasury automation, mobile banking and internet banking.

While getting all of these efforts done, various policies involving credit, asset disposal, human resources, deposit generation, among others, were instituted by your Board and Senior Management to ensure that processes become institutionalized and are uniform throughout the Bank. Congruently, we reviewed and streamlined procedures and processes to ensure a more efficient delivery of banking services.

Bad Bank Strategy. As much as we were focused with our Good Bank plans, we were equally determined to achieve the objectives we have set under our Bad Bank strategy. In 2003, we made great strides to improve our asset quality levels and reduce our non-performing assets starting with the establishment of a Remedial Management Group for non-performing loans and an Asset Management Group for acquired assets. Both units worked hand-in-hand to determine the appropriate strategy for each non-performing asset: whether to use workout strategies to maximize the recovery value or to recommend foreclosure or *dacion* of the collateral.

Through the Remedial Management Group, we were able to restructure, foreclose and collect loans totaling ₱10.9 billion and cap our NPL at the ₱45 billion level, clipping NPL ratio from 50% in 2002 to 46% by the end of the year. On the other hand, our Asset Management Group grossed an unprecedented ₱2.4 billion in assets sales for the whole of 2003, a 33% jump from the previous year's ₱1.8 billion. Clearly delineated strategies of strengthening the property information database, systematic enforcement of ownership control of assets, cost-effective administration of properties and defined financial exit strategies for groups of assets were key to generating record sales of acquired assets. The assertive position we took in marketing our portfolio of acquired assets through the conduct of monthly public auctions, contracting and accreditation of broker networks, and the use of new promotion channels such as signboards and the internet likewise generated a positive impact on our bad bank bottomlines. Meanwhile, the ₱423 million increase in ROPOA level to ₱28.9 billion reflected our aggressive stance with regard to foreclosure of collateral for non-performing loans.

Financial Results. The Good Bank-Bad Bank strategy proved to be a very rewarding one for the Bank. As a result of our determined efforts to carry on with our programs and take on new opportunities for growth, we recorded a net income of ₱168 million in 2003, a complete turnaround from the previous year's net loss of ₱1.95 billion and a reversal of five years of successive losses. This is even more remarkable considering that we operated in a business environment characterized by a sluggish corporate sector and a market that was volatile for the most part due to political jitters and the government's difficult fiscal position.

Net interest income more than doubled to ₱1.89 billion as a result of our drive to expand our low-cost deposits and by aligning the pricing of our loan products to market levels. The increased share of low-cost deposits effectively reduced our overall funding cost from ₱6.30 billion in 2002 to ₱5.71 billion in 2003 even as total deposits grew by 8% to ₱145.92 billion. Meanwhile, increased past due interest collections as a result of focused restructuring initiatives also contributed substantially to the improvement in net interest income.

Fee-based and other non-interest income increased by ₱1 billion to ₱6.63 billion due to increased remittance income, higher sales on acquired properties and the alignment of the Bank's service fees with market rates. These improvements in net interest income and fee-based revenues, plus the successful reduction of our administrative and other expenses by ₱83 million resulted in an improvement of our cost-to-income ratio to 87% from the previous year's 116%.

Our total assets grew by 8% to ₱198.8 billion from the previous year's level, enabling PNB to maintain its position among the top five private local commercial banks in the country. Despite the cautious mood that prevailed in the lending business, PNB's total loan portfolio expanded to ₱74 billion, ₱3.5 billion higher than last year's. The growth indicates the Bank's willingness to take calculated risks in industries and ventures it deems to remain viable in the longer term. Our total capital funds stood at ₱24.6 billion at year-end, placing the Bank among the country's five biggest commercial banks in terms of capital.

All Set for New Opportunities. The year ahead perhaps presents an even more challenging business environment as we expect that the run-up towards the May elections and the government's continuing fiscal problems could very well weigh down on the country's economic gains. Such challenges, however, only strengthens our resolve to achieve our stated objectives. We will continue to leverage on our strengths in the OFW remittance market as we make inroads in other markets such as the SME sector. At the same time, we will explore new opportunities for growth in such areas as the consumer loans business. Despite our successes in remedial and asset management, we will continue to seek the reduction of our non-performing assets with the same vigor we have shown in the past.

The year 2003 was certainly a turning point for PNB. With the collective efforts of the Bank's Management team and employees, the Members of the Board, and the Board of Advisors, the Bank was able to post significant gains after only a year and a half into its Rehabilitation Program.

And we are determined to stay on track. Our destination is clear in our collective mind and we have a good map to guide us. With what we have achieved in 2003, we are ever more confident and optimistic that we are on the right path towards sustained growth and profitability.

We thank you, our Shareholders, and all our publics for the confidence and support that you have given your Bank. With your continuing support and commitment, we are confident that we will be able to foster PNB's long-term growth and strength until it finally regains its position of leadership in Philippine banking.

FRANCISCO A. DIZON
Chairman

LORENZO V. TAN
President and Chief Executive Officer

[operational highlights]

In 2003, the Retail Banking Sector was a strong engine of growth for PNB. Under the Good Bank, it led efforts to improve business profitability, grow core business across products and market segments, and expand customer base.

>>RETAIL BANKING

In 2003, the Retail Banking Sector was a strong engine of growth for PNB. Under the Good Bank, it led efforts to improve business profitability, grow core business across products and market segments, and expand customer base.

A key strategy during the year involved the aggressive push to increase low-cost deposits in order to bring down overall cost of funds. We are happy to report that our initiatives towards this end have borne fruit, leading to a 20% growth in our traditional low-cost deposits from ₱57.8 billion as of end-2002 to ₱69.2 billion as of December 31, 2003.

Our strategy involved leveraging on our wide branch network, workforce and strong brand as we focused on initiatives that helped drive up our deposit numbers.

We tapped the strength of our bankwide marketing team – the PNB family, through an internal and external deposit generation campaign. Involving employees of the Bank and our subsidiaries, we successfully raised fresh low-cost deposits of about ₱9.5 billion during the deposit campaign period.

We also have a strong franchise among the wide B, C and D income bracket customers, including Overseas Filipino Workers (OFWs) who form the core of our 2.5 million depositor base. Acknowledging that these customers have traditionally provided stable deposits to PNB even during difficult and challenging times, we introduced products and promotional programs aimed at further building their deposits in the Bank. We launched the affordable ATM-based First Access Account which entitles the accountholder to discounts and other privileges in over 4,000 establishments all over the country. The Euro account, designed and packaged specially for OFWs and their families with Euro remittances, was also introduced in late 2003. Meanwhile, we also recognized the immense opportunities that can be tapped in serving the needs of high net worth clients. Thus, we created the Priority One Checking Account which gives value-added benefits such as travel perks, personal accident insurance coverage and dinner gift certificates to accountholders. The three products were widely successful as they generated new deposits of ₱1.3 billion.

Recognizing the potential of the OFW market, Retail Banking also designed special products and promotions targeting OFWs and their beneficiaries. The *OFW Bagong Bayani, Libreng Pa-Blowout* promotion was aimed at increasing the savings account balances of OFWs by providing meal certificates from popular fast food chains (Jollibee, Dunkin Donuts and Red Ribbon) as incentives to remitters and their beneficiaries. The ASTRA Secured Kredit (ASK) card, on the other hand, is a credit card issued against a peso or dollar time deposit. This is available in both domestic and overseas branches targeting existing clients and OFWs. Taking off from the successful run of our corporate social responsibility project during the U.S.-Iraq war, we installed PNB Tele-Video in selected overseas offices and key domestic branches to enable OFWs and their families to communicate using video conference facility via the Internet. All these efforts resulted in a 30% or ₱1.22 billion growth in OFW deposits.

Parallel to these initiatives, we continued the roll-out of the new organizational structure of the Retail Banking Sector towards its transformation into a nationwide sales organization. This involved instituting a sales culture across the network where commercial principles drive business decisions and each of the branches is treated as a profit center. We completed the restructuring of each branch that involved having a sales and acquisition unit that is distinct and separate from the supporting service and operations function. Not only did this result in a more focused effort on sales origination but also encouraged greater cross-selling across our array of products.

We also pursued efforts to further strengthen our retail delivery network and build on PNB's strong following in the provincial areas and loyal customer base. During the year, a total of 4 branches were relocated to more strategic sites: in Port Area, Manila; Bangkal, Makati; Basco, Batanes; and Ligao, Albay. Meanwhile, 6 branches were renovated to reflect the new image of PNB: Malacañang, Ortigas, Lipa, Cabanatuan, Angeles and Cebu.

Our channel distribution was further strengthened by new ATM acquisitions. While we installed 22 ATMs during the year, bringing our total count to 206, we also rationalized the location of existing units to optimize their use and generate more income. Our ATM vestibules now sport the new and attractive design and colors, enhancing the Bank's image and visibility as well as ATM security. As a result of the introduction of new ATM-based deposit products coupled with our intensive drive to migrate low-margin passbook accounts, ATM cardholder base grew by 34% to breach the 1 million mark from just 770 thousand cardholders a year ago.

Although most of our efforts during the year were focused on growing our low-cost fund business, we also continued to support the expansion of selected high cost funds and products that can help boost total deposits. The Wealth Multiplier, a multiple-tiered time deposit product was launched while our bills payment, deposit pick-up and payroll service arrangements were enhanced and repackaged as E-Collect, Cash Mover, and Paywise, helping boost fee-based income.

All these efforts resulted in a 8% or ₱11.2 billion increase in total deposits to ₱148.3 billion as of end - 2003. Deposit mix improved correspondingly from 43% low-cost to 57% high-cost in 2002 to 46% – 54% in 2003.

And to provide the push for our consumer finance business, we reorganized our Consumer Finance Group, hired experienced managers, and shifted lending strategy based on product specialization. We intend to grow our customer finance business significantly, which as of end-2003 comprised 5% of our total loan portfolio. We will do this by diversifying our portfolio and increasing our range of consumer finance products. Such products include those targeted at OFWs and their beneficiaries such as overseas home loan mortgages and OFW credit cards.

Meanwhile, our credit card business posted a strong performance with net income increasing by 17% to ₱12.5 million. The improvement in net income was due to lower cost of funds and improved collection of past due receivables. The 3.8% past due ratio was also an improvement from the 4.46% posted in 2002 and compares much favorably against the 7.38% industry average as of September 2003. Total cardholder base reached 18,621 by year end and is expected to continue to increase in 2004 with the introduction of the Astra Secured Kredit (ASK) Card.

In support of the Retail Banking Sector's programs, the skills and competencies of branch officers and staff were enhanced through various training programs. A new Performance Evaluation System using a Scorecard matrix was also implemented, aimed at institutionalizing a mind set that is results-driven, profit-oriented, and customer-centered that will serve as an objective basis for promotion of branch personnel.

>>INTERNATIONAL BANKING

To maintain and enhance our market leadership in the Overseas Filipino Worker (OFW) remittance business, we focused on expanding the Bank's reach both organically and by partnering with companies who are leaders in their home markets.

In 2003, we aggressively increased our global presence by opening a sub-branch and new remittance offices in targeted OFW population centers. Our new offices can be found in Nagoya, Japan; Causeway Bay, Hong Kong; Moreno Valley, California; and Scarborough, Montreal and Mississauga, Canada. In addition, we set up six new desk offices in the Kingdom of Saudi Arabia (KSA). Also during the year, we relocated our branch in Singapore to Lucky Plaza, a popular hub among Filipinos in the Island State.

Aside from these investments in actual offices, we expanded our overseas distribution channel by introducing two unique business models. In Hong Kong, we tied up with Citibank and convenience store chain 7-Eleven in using Citibank technology and 7-Eleven outlets to make OFW remittance more convenient. The tie-up effectively added 480 outlets of 7-Eleven to PNB's nine remittance offices in Hong Kong, allowing Filipinos to send money from virtually any spot in the semi-autonomous region. Introduced at the breakout of the SARS epidemic, the facility was well received with 16,000 OFWs initially signing up. Furthermore, it now contributes over 20% of PNB Hong Kong's total monthly remittance transactions.

The other model was a partnership with Indonesia's Bank Mandiri. Under the tie-up, we opened up PNB remittance counters in Hong Kong to service Indonesian workers, who now comprise the second biggest group of foreign workers in Hong Kong. Indeed, the initial successes of the 7-Eleven and Bank Mandiri partnerships have provided us with the impetus to explore similar collaborative arrangements in other areas as the Bank expands into new markets.

Other initiatives to expand remittance traffic in other parts of the globe include: PNB Europe PLC's introduction on the use of Internet and telephone text messaging and PDQ system, an electronic processing system that enables customers to fund remittances by credit card; PNB Vienna's tie-up with the Austrian Postal Bank on the use of the electronic data transfer system for remittances of PNB customers; and PNB Singapore's acceptance of security system payments of OFWs based in Singapore. In addition, we continued the expansion of the network of courier and delivery channels to enable the faster transfer of cash from the point of remittance to the ultimate beneficiary.

These initiatives further strengthened your Bank's stature as the Philippine bank with the largest global footprint after closing the year with 92 global offices and 685 correspondent banks.

And as part of our commitment to enhance services to OFWs, we installed PNB Televideo, a video conferencing facility, in our branches and offices in Tokyo, Nagoya, Hong Kong, Rome, London and Singapore. This facility was an offshoot of the successful implementation of our social responsibility project for OFWs during the U.S.-Iraq war. *The PNB Tele-ugnayan*: *Rapid Connect sa Middle East* provided free call assistance including video conferencing facility via the internet to OFWs and their beneficiaries. The project connected a total of 3,500 OFWs and their families during the crisis.

Despite a difficult economy in many of the markets where we operated, challenged further by the SARS epidemic and the U.S.-Iraq war during the first half of the year, our remittance business remained to be a key driver of growth for PNB in 2003. Our results for the year helped reinforce our market leadership in the OFW remittance market. We cornered $2.3 billion of the total $7.2 billion remittances that passed through the Philippine banking system in 2003 for a market share of over 30%. The volume also represented a 6% growth over the $2.17 billion remittance volume we serviced in 2002. OFW remittances accounted for 61% of our total fee based income during the year.

For 2004, we continue to be committed to expand our presence by organic growth and by exploring new business models that help multiply our reach. We shall establish additional offices in North America, Japan and Singapore and will continue to seek out alliances that will greatly benefit not only our business operations but our customers as well.

We shall also be more vigorous in pursuing a business strategy that will optimize our franchise in the OFW market. We see our global offices actively cross-selling our vast array of products and services to our OFW customers as we also introduce new products that respond to their needs. At the same time, we shall push ahead with re-engineering remittance processes and upgrading of our Integrated Remittance System that will greatly enhance remittance servicing. We look forward to reaping the benefits from these initiatives in terms of increased remittance traffic and foreign currency business, expanded share of our customer's wallet, and reinforcement of our aspiration to be the provider of the best financial products and services for the Global Filipino.

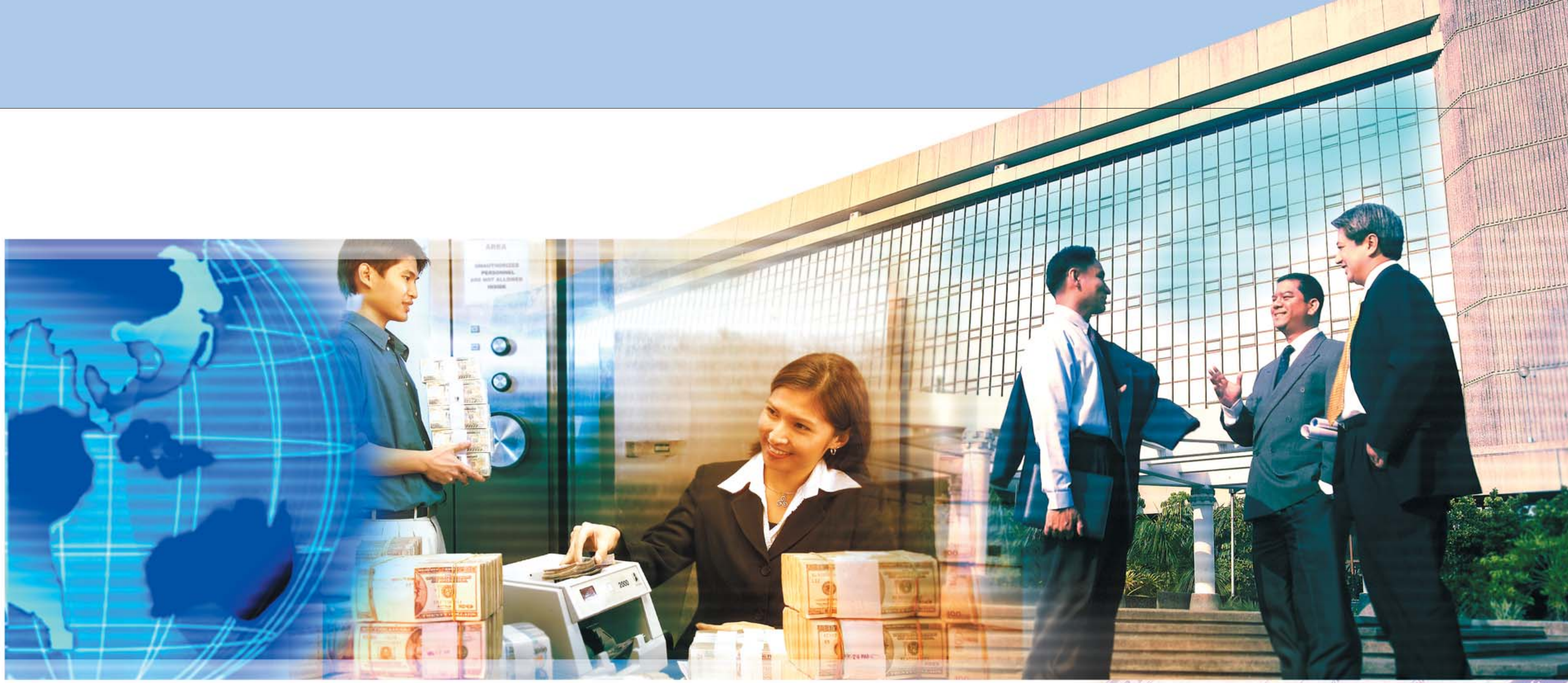
>>TREASURY

Our treasury initiatives during the year focused on improving yields and portfolio mix, strengthening operational efficiency, and reinforcing the talents of our treasury team.

During the year, we successfully improved the yield on our peso-denominated reserve assets from an average yield of 4.8% p.a. in 2002 to 6.0% p.a. in 2003. Earnings reached ₱300 million. Trading gains also exceeded expectations. We posted trading gains of ₱417 million from FX transactions and ₱350 million from fixed income instruments, both exceeding targets of ₱122 million and ₱120 million, respectively.

Anticipating the shift in U.S. dollar interest rates, we configured our dollar-denominated investments. The Bank's portfolio is now optimally configured with floating rate instruments now accounting for 50% while fixed rate investments account for the other half.

We also completed during the year the selection and installation of a new treasury system called Operation Processing



In 2003, our Corporate Banking Sector took the opportunity to re-focus the business strategy, strengthen the organization, and develop the infrastructure and products to rebuild the business and position the Bank for future growth.

Information Control System (OPICS) to improve operations and, consequently, enable us to grow our treasury business. The system is expected to result in higher efficiency and accuracy in the front, middle and back offices, smoother transaction flow, better risk management through volume and stop-loss limits, and inventory management of securities. The new system is also expected to support our plans to build a retail fixed income business.

We also pushed for a continuing training program and mentoring of Treasury professionals and traders. This allowed us to update and upgrade our people's skills and at the same time, ensure quality service and compliance with industry practices. On a continuing basis, we ensured compliance to legal reserve, foreign exchange limits and FCDU liquidity and asset-cover requirements.

>>CORPORATE BANKING

In 2003, our Corporate Banking Sector took the opportunity to re-focus the business strategy, strengthen the organization, and develop the infrastructure and products to rebuild the business and position the Bank for future growth.

As part of our "Good Bank" strategy, we directed our efforts on improving our credit portfolio through prudent growth, focusing on markets where we have a competitive advantage. Given our long history as a former government bank, we directed our efforts on government-associated borrowers such as government-owned and controlled corporations (GOCCs) and local government units (LGUs) with whom we have formed strong relationships. In particular, we focused our marketing efforts on LGU loans given the low past due ratio and substantial deposits. In addition, given the Bank's extensive presence in secondary urban centers and in the provinces, we also sought out business opportunities in these relatively untapped markets to leverage on PNB's acknowledged franchise in the provinces.

We expanded our private sector portfolio by establishing new relationships with both large corporations and middle-market companies. We also created the Small and Medium-Sized Enterprise Unit to specifically serve the needs of the expanding small and medium-sized business market. The Unit adopts a different approach to selecting and screening small borrowers, anchored on credit scoring and standardized disbursement and collection process.

During the year, we launched several new products. We put on stream our Small Business Loan for SMEs, Structured Trade Finance, Contract to Sell Financing, Suppliers Credit Financing, and different loan facilities for LGUs and GOCCs.

To strengthen our business development and relationship teams, we hired senior officers and experienced account officers from global and local banks. They were recruited to lead the effort to grow our loan portfolio by originating new business and deepening relationships with existing customers. To enhance backroom support, Regional Loans and Credit Operations Centers in nine regions were established. These centers have adopted standardized branch loans and credit support structures and processes, and provided operational support to the group. To develop and upgrade the skills of our people, we developed training programs to deepen their knowledge and skills on credit and relationship management.

>>TRUST BANKING

Our total trust assets posted a modest growth of 3% to ₱46.72 billion in 2003 in spite of the downturn in the capital and equities markets. The growth came mainly from traditional trust accounts (i.e. escrow) as well as common trust funds. We harnessed our strong relationship with the government and its various units as we stayed competitive in special government escrow transactions and trusteeship of bond flotations of local government units. On the other hand, our common trust funds continued to build solid and strong beachheads on our private retail clients through our wide branch network.

The Trust Banking organization is being strengthened further to meet tougher market challenges ahead as we continue to beef up our Business Development, Portfolio Management and Product Development units. Likewise, efforts are focused on the streamlining and enhancement of our operating and business support systems.

>>REMEDIAL MANAGEMENT

As part of the Bad Bank strategy, we established a Remedial Management Sector and hired experienced officers, including a Senior Credit Officer, from other banks, to focus on reducing the level of the Bank's non-performing loans (NPLs), through workout strategies to maximize the recovery value of such NPLs. Part of this mandate was to distinguish between temporary and permanent impairment of NPLs and to adopt the appropriate measures to either maximize an NPL's recovery or recommend foreclosure of the loan collateral. The Board-level Workout Committee oversees the Bank's NPL portfolio and the strategies formulated for the portfolio as a whole and approves recommended workout solutions for specific accounts.

The establishment of Remedial Management immediately made a significant impact on our drive to reduce the Bank's NPL level and improve asset quality. Last year, we successfully reduced NPLs by ₱10.9 billion through restructuring, foreclosure and collection to cap our NPL at the ₱45 billion level. As a result, NPL ratio went down from 50% in 2002 to 46% at end-2003. Given its initial success in 2003, Remedial Management is determined to make significant progress in improving asset quality as it continues to intently pursue workout solutions for the Bank's NPLs.

>>ASSET MANAGEMENT

The other key sector under the Bad Bank responsible for improving asset quality and monetizing non-performing assets (NPAs) is the Asset Management Group (AMG).

2003 was a banner year for the AMG after grossing an unprecedented ₱2.4 billion in asset sales, a 33% increase from the previous year's record of ₱1.8 billion. Notably, this performance was not only the highest among commercial banks but even better than most real estate companies, second only to the sales posted by the market leader in real estate development. This record performance can be attributed to the successful and focused implementation of a number of key initiatives we pushed during the year.

Managing a diverse portfolio of ₱28.9 billion in foreclosed assets, we reorganized AMG to enable the team to more effectively manage, sell and market the over 17,000 properties under its portfolio. We recruited professionals who have collective expertise in real estate marketing and development, property and project management, real estate financing and corporate finance. The team's diverse but complementary professional backgrounds ensure the dynamic management of the Bank's asset portfolio to create long-term value for investors, developers and buyers of the assets.

Under AMG's new organizational structure, we created teams to take care of retail sales, commercial asset sales (including joint ventures) and critical support systems such as channel management, property management and administration, credit management, leasing, corporate finance, legal processes and database management.

Our success in asset management was both a result of determined efforts of a revitalized sales team and the execution of well-defined and focused asset disposal strategies. During the year, we strengthened our property information database for better market positioning and performance tracking. Ownership control of PNB's properties was also systematically enforced both from a legal and physical standpoint. To preserve and enhance the value of the properties, we improved our property management capabilities while seeking the most cost-effective means of administering the properties. Lastly, well-defined exit strategies for groups of assets were identified.

Exploring creative ideas, we also took an assertive position in marketing our portfolio of properties. New marketing tools and support systems were used, directed at sales distribution management and direct sales channels. These included the conduct of monthly public auctions, contracting and accreditation of broker networks and the use of new promotion channels such as billboards to showcase properties, the Internet which hosts the new AMG website and the roll-out of a toll free number for inquiries on PNB properties.

Moving forward, we see our sales and marketing efforts intensifying in 2004 as we meet the challenge of further improving PNB's asset quality that will impact positively on the level of asset quality improvement.

A more pronounced improvement in asset quality is possible with the partial sale of the Bank's NPAs to one or several third-party asset management companies which can qualify under the Special Purpose Asset Vehicle Law. Currently, we are working with Ernst & Young, our Financial Advisor in the development and implementation of a comprehensive resolution strategy for our NPAs. The scope of work involves the segmentation of the Bank's NPA portfolio into distinct asset pools and formulation of targeted disposal strategies. Once the disposal program has been finalized, we intend to actively dispose of a significant proportion of our NPAs.

>>DOMESTIC SUBSIDIARIES

PNB Holdings Corporation realized a net income of ₱82.07 million in 2003, a 23% increase from the previous year. The income growth came mainly from wholly-owned subsidiary, PNB General Insurers Co. Inc., which posted a net profit of ₱86.4 million in 2003. This was achieved from higher gross premiums written, bigger underwriting margins and increased investment income. Intensified marketing efforts, launching of the Bancassurance Program as well as a year-long promotion program among employees and agents/brokers, plus the establishment of four additional branches contributed to higher production and revenues.

In spite of the sluggish investment climate, PNB Capital and Investment Corporation managed to double its net income in 2003 to ₱45.4 million through prudent management of its assets and rationalization of expenses. Earnings in 2003 came mainly from ₱21.8 million in trading gains arising from sale-swap transactions of retail treasury bonds, higher interest income from other investments and lending operations towards the end of 2003. In 2004, PNB Capital will be focusing on various deals for financial advisory and capital raising activities, principally for LGUs. It has already secured a mandate to co-underwrite the Pasay City ₱500 million "Kaunlaran" Bonds. With the influx of LGU municipal bond underwriting proposals, PNB Capital expects to close a total of ₱1 billion in underwriting deals.

PNB Forex, Inc. registered a net income of ₱17.5 million in 2003, up by 14% from 2002 net income of ₱15.3 million. Gross revenues increased by 36% from ₱30.7 to ₱41.6 million. Interest income contributed ₱16.3 million in earnings on the back of higher yields on investments while foreign exchange profits contributed ₱15.9 million and miscellaneous income added ₱9.5 million.

Japan-PNB Leasing and Finance Corporation posted a net income of ₱15.7 million, a 24% increase over 2002. Higher leasing and loan transactions as well as reduced taxes resulting from the switch in taxation from gross receipts tax (GRT) to value-added tax (VAT) contributed to the higher income. Leasing and loan transactions in 2003 totaled ₱628 million, up 25% from 2002. Peso transactions accounted for 60% of total financing volume while the balance of 40% was in foreign exchange denominated transactions. In fact, Japan-PNB Leasing's increasingly successful foreign currency leasing operations is defining the identity of the company in the leasing industry.

PNB Securities, Inc. (PNBSI) posted a net loss of ₱8.52 million in 2003, lower than the net loss of ₱10.1 million recorded in 2002. The fall in market volume and value turnover as a result of the continued softness of the local equities market translated to smaller market share and commissions for PNBSI.

>>OVERSEAS OFFICES AND SUBSIDIARIES

PNB's overseas offices and subsidiaries reported a consolidated net income of U.S.$11.14 million in 2003, a 13% increase from the previous year's net income of U.S.$9.84 million. The increase in net income was derived from the 14% growth in fee-based income and 9% increase in net interest income. Fee-based and other income, which comprised 89% of gross earnings, totaled U.S.$43.1 million in 2003. Remittance fees and profits on exchange both posted increases over last year's figures by 14% and 16%, respectively, as the Bank's total incoming foreign remittances increased by 5.8% to U.S.$2.3 billion. Remittances coursed through PNB's overseas offices and subsidiaries accounted for about 79% of total remittances serviced by the Bank during the year.

[corporate social responsibility]

At PNB, our primary goal is to be the country's most admired financial services group. We have always defined the areas in which we want to be admired in broad terms, not just in terms of the amounts and values our various businesses are able to generate but, more importantly, in contributing to the overall health and well-being of the communities we serve. Our commitment to give value to our shareholders is matched by an equally strong resolve to promote the interest of all Filipinos, whoever and wherever they are. We recognize that they deserve nothing less. PNB is, after all, their national bank.

In 2003, PNB spent time, manpower and financial resources to adequately perform its social corporate responsibility. In the light of the uncertainties brought about by the twin breakouts of the U.S.-Iraq War and the Severe Acute Respiratory Syndrome (SARS) epidemic, our social programs took an even more urgent and relevant role.

Foremost of these undertakings is the PNB Tele-Ugnayan: Rapid Connect sa Middle East project which we carried out at the height of the U.S.-Iraq conflict. Principally targeting Overseas Filipino Workers (OFWs) based in the Middle East, the program provided a quick, convenient, and most of all free means to bridge communication lines between them and their families in the Philippines. Soliciting the help of the Overseas Workers Welfare Administration and partnering with other private companies such as Globe Telecom, Touch Mobile and PLDT, PNB was able to set up communication facilities such as telephone, mobile and video conferencing via the Internet in 14 various regional centers nationwide. All told, the program benefited over 3,500 OFWs and OFW-beneficiaries in its month-long run.

As a continuing commitment to our OFW market, PNB sustains the holding of Pre-Departure Orientation Seminars (PDOS) every single working day of the year to ensure that departing workers are aware of the conditions awaiting them in their prospective work places. More than 38,200 OFWs passed through PDOS in 2003.

PNB has always had a soft spot for children. On the occasion of our 87th anniversary in July, the Bank's officers and staff pooled personal resources together and donated canned goods, old clothes and other vital needs to street children under the care of Pangarap Foundation. On almost the same breath, we staged our eighth annual Adopt-a-Child for a Day program, which carries the messages of love and hope to less privileged children during the Yuletide season.

Going forward, we know there is still so much we can do that will help make us an even more socially responsible institution. At the same time, we are very proud of our achievements this year and hope to be able to match these in the years ahead.

>> FINANCIAL STATEMENTS <<

>> STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS<<

The management of Philippine National Bank and its Subsidiaries (the Group) and of Philippine National Bank (Parent Company) is responsible for all information and representations contained in the consolidated and parent company statements of condition as of December 31, 2003 and 2002 and the related statements of income, changes in capital funds and cash flows for the years ended December 31, 2003, 2002 and 2001. These financial statements have been prepared in conformity with generally accepted accounting principles in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

In this regard, management maintains a system of accounting and reporting which provides for the necessary internal controls to ensure that transactions are properly authorized and recorded, assets are safeguarded against unauthorized use or disposition and liabilities are recognized. The management likewise discloses to the Group's and Parent Company's audit committee and to its external auditor: (i) all significant deficiencies in the design or operation of internal controls that could adversely affect its ability to record, process, and report financial data; (ii) material weaknesses in the internal controls; and (iii) any fraud that involves management or other employees who exercise significant roles in internal controls.

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

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

FRANCISCO A. DIZON
Chairman of the Board

LORENZO V. TAN
President & Chief Executive Officer

CARMEN G. HUANG
Executive Vice President & Chief Financial Officer

SUBSCRIBED AND SWORN to before me this 15th day of April 2004 affiants exhibiting to me their Community Tax Certificates, as follows:

Names	CTC No.	Date of Issue	Place of Issue
Francisco A. Dizon	15190646	January 19, 2004	Makati City
Lorenzo V. Tan	05313466	January 13, 2004	Manila
Carmen G. Huang	02670697	February 26, 2004	Pasay City

Atty. RUTH PAMELA E. TANGHAL-MANUBAG
Notary Public
Until 31, December 2005
Roll No. 46369
IBP No. 605603/1-08-04/PPLM
PTR NO. 3234467/1-08-04/Pasay City

Doc. No. 348
Page No. 71
Book No. I
Series of 2004

>> REPORT OF INDEPENDENT AUDITORS <<

SGV & Co

SyCip Gorres Velayo & Co.
6760 Ayala Avenue
1226 Makati City
Philippines

Phone: (632) 891-0307
Fax: (632) 819-0872
www.sgv.com.ph

BOA/PRC Reg. No. 0001
SEC Accreditation No. 0012-F

The Stockholders and the Board of Directors
Philippine National Bank

We have audited the accompanying statements of condition of Philippine National Bank and Subsidiaries (the Group) and of Philippine National Bank (the Parent Company) as of December 31, 2003 and 2002, and the related statements of income, changes in capital funds and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the Group's and of the Parent Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Group and of the Parent Company as of December 31, 2003 and 2002, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

SyCip Gorres Velayo & Co

PTR No. 7012954
January 5, 2004
Makati City

March 19, 2004

SGV & Co. is a member practice of Ernst & Young Global

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
>> STATEMENTS OF CONDITION <<
(IN THOUSAND PESOS)

	Group		Parent Company	
	December 31			
	2003	2002	2003	2002
RESOURCES				
Cash and Other Cash Items (Note 12)	₱3,257,207	₱2,581,883	₱3,205,026	₱2,581,027
Due from Bangko Sentral ng Pilipinas (Note 12)	1,115,502	3,313,537	1,115,502	3,313,537
Due from Other Banks	5,807,556	6,184,216	5,142,524	5,695,544
Interbank Loans Receivable	13,785,136	4,442,817	13,742,241	4,442,817
Securities Held Under Agreements to Resell	5,400,000	1,100,000	5,400,000	1,100,000
Trading Account Securities, at fair market value (Note 4)	1,002,455	2,705,697	965,899	1,454,166
Investment Securities - net (Notes 2, 5, 12, 19 and 22)	47,326,768	40,722,655	44,998,375	39,627,750
Receivables from Customers - net (Notes 2, 6, 13 and 21)	59,938,690	65,788,243	58,205,304	64,337,154
Bank Premises, Furniture and Equipment, at cost - net (Note 7)	678,833	871,011	607,687	789,214
Bank Premises, at appraised value - net (Notes 2, 7 and 15)	14,869,381	14,867,891	14,812,915	14,630,896
Investments in Subsidiaries and Associates - net (Notes 8 and 15)	739,611	701,335	6,737,815	6,902,065
Real and Other Properties Owned or Acquired - net (Notes 2 and 9)	24,882,574	25,056,276	24,881,999	25,055,701
Other Resources - net (Note 10)	19,990,871	16,162,599	19,698,885	15,484,380
	₱198,794,584	₱184,498,160	₱199,514,172	₱185,414,251
LIABILITIES AND CAPITAL FUNDS				
Liabilities				
Deposit Liabilities (Note 12)				
Demand	₱13,122,823	₱11,979,069	₱13,223,617	₱11,989,781
Savings	106,610,304	99,090,907	106,571,865	99,222,391
Time	26,182,061	23,508,802	28,495,616	25,907,091
	145,915,188	134,578,778	148,291,098	137,119,263
Bills and Acceptances Payable (Notes 2, 6, 7 and 13)	12,549,928	12,002,195	11,930,114	11,727,495
Due to Bangko Sentral ng Pilipinas (Note 14)	178,064	191,004	178,064	191,004
Margin Deposits and Cash Letters of Credit (Note 14)	202,189	66,737	202,189	66,737
Manager's Checks and Demand Drafts Outstanding (Note 14)	632,591	302,504	632,591	302,504
Accrued Taxes, Interest and Other Expenses (Notes 14, 16 and 18)	8,306,058	6,772,085	8,193,949	6,726,308
Other Liabilities (Note 14)	6,404,130	6,706,556	5,479,731	5,402,639
	174,188,148	160,619,859	174,907,736	161,535,950
Capital Funds (Notes 2, 5, 7, 8, 15 and 19)				
Preferred stock	7,807,018	7,807,018	7,807,018	7,807,018
Common stock	15,122,819	15,122,819	15,122,819	15,122,819
Capital paid in excess of par value	545,745	545,745	545,745	545,745
Surplus reserves	445,146	416,599	445,146	416,599
Deficit	(1,834,191)	(1,974,222)	(1,834,191)	(1,974,222)
Revaluation increment on land and buildings	1,899,483	1,537,760	1,899,483	1,537,760
Accumulated translation adjustment	433,702	190,053	433,702	190,053
Net unrealized gain on available-for-sale securities	186,714	232,529	186,714	232,529
	24,606,436	23,878,301	24,606,436	23,878,301
	₱198,794,584	₱184,498,160	₱199,514,172	₱185,414,251

See accompanying Notes to Financial Statements.

PHILIPPINE NATIONAL BANK AND SUBSIDIARIES
>> STATEMENTS OF INCOME <<
(IN THOUSAND PESOS, EXCEPT EARNINGS (LOSS) PER SHARE AMOUNTS)

	Group			Parent Company		
	Years Ended December 31					
	2003	2002	2001	2003	2002	2001
INTEREST INCOME ON						
Receivables from customers (Note 21)	₱3,947,200	₱3,897,283	₱6,788,168	₱3,791,603	₱3,802,884	₱6,595,472
Trading and investment securities	3,066,489	2,640,229	3,879,176	2,926,658	2,516,652	3,742,398
Deposits with banks and others	586,406	632,327	674,688	511,127	486,308	576,298
	7,600,095	7,169,839	11,342,032	7,229,388	6,805,844	10,914,168
INTEREST EXPENSE ON						
Deposit liabilities	4,790,052	5,241,723	7,705,426	4,789,687	5,246,743	7,701,750
Bills payable and other borrowings (Note 13)	924,690	1,057,216	4,046,375	905,501	1,050,193	4,017,280
	5,714,742	6,298,939	11,751,801	5,695,188	6,296,936	11,719,030
NET INTEREST INCOME (EXPENSE)	1,885,353	870,900	(409,769)	1,534,200	508,908	(804,862)
PROVISION FOR PROBABLE LOSSES (Note 11)	447,426	2,171,225	2,398,122	416,543	2,127,243	2,347,802
NET INTEREST INCOME (EXPENSE) AFTER PROVISION FOR PROBABLE LOSSES	1,437,927	(1,300,325)	(2,807,891)	1,117,657	(1,618,335)	(3,152,664)
OTHER OPERATING INCOME						
Service charges, fees and commissions	2,678,976	2,229,010	1,872,020	1,929,442	1,608,094	1,348,795
Foreign exchange gains - net	1,401,864	1,252,567	1,166,327	874,650	814,913	722,309
Trading and investment securities gains - net	338,691	268,735	65,806	316,336	253,597	63,901
Equity in net earnings (losses) of subsidiaries and associates (Note 8)	59,754	52,043	(24,922)	(74,774)	340,205	558,446
Miscellaneous (Notes 21 and 22)	2,146,146	1,824,399	2,899,951	1,924,612	1,614,231	1,999,886
	6,625,431	5,626,754	5,979,182	4,970,266	4,631,040	4,693,337
OTHER OPERATING EXPENSES						
Compensation and fringe benefits (Note 16)	3,697,292	3,140,690	3,736,008	2,679,700	2,553,341	2,846,549
Occupancy and equipment-related costs (Note 17)	752,070	663,523	885,143	620,735	614,413	786,138
Depreciation and amortization (Note 7)	457,339	514,967	565,828	436,794	469,612	522,798
Taxes and licenses (Note 18)	272,859	755,538	827,874	262,485	747,138	817,563
Miscellaneous (Notes 7 and 18)	2,263,165	2,450,991	2,400,664	1,626,386	1,948,477	1,947,888
	7,442,725	7,525,709	8,415,517	5,626,100	6,332,981	6,920,936
INCOME (LOSS) BEFORE INCOME TAX	620,633	(3,199,280)	(5,244,226)	461,823	(3,320,276)	(5,380,263)
PROVISION FOR (BENEFIT FROM) INCOME TAX (Notes 18 and 20)	452,055	(1,250,684)	(1,114,085)	293,245	(1,371,680)	(1,250,122)
NET INCOME (LOSS) (Notes 15, 20 and 23)	₱168,578	(₱1,948,596)	(₱4,130,141)	₱168,578	(₱1,948,596)	(₱4,130,141)
Earnings (Loss) Per Share (Note 23)						
Basic	₱0.29	(₱4.56)	(₱10.92)	₱0.29	(₱4.56)	(₱10.92)
Diluted	0.29	(4.56)	–	0.29	(4.56)	–

See accompanying Notes to Financial Statements.

>> STATEMENTS OF CHANGES IN CAPITAL FUNDS <<

(IN THOUSAND PESOS)

	Years Ended December 31		
	2003	2002	2001
CAPITAL STOCK (Notes 2 and 15)			
Balance at beginning of year	₱22,929,837	₱22,684,228	₱22,684,228
Reduction in par value during the year (applied against deficit)	–	(7,561,409)	–
Balance after quasi-reorganization	22,929,837	15,122,819	22,684,228
Issuance of stocks during the year	–	7,807,018	–
Balance at end of year	22,929,837	22,929,837	22,684,228
CAPITAL PAID IN EXCESS OF PAR VALUE (Note 15)			
Balance at beginning of year	545,745	235,000	235,000
Transfer from accumulated translation adjustment (Notes 2, 8 and 15)	–	310,745	–
Balance at end of year	545,745	545,745	235,000
SURPLUS RESERVES			
Balance at beginning of year	416,599	390,973	365,214
Transfer from deficit (Note 19)	28,547	25,626	25,759
Balance at end of year	445,146	416,599	390,973
DEFICIT			
Balance at beginning of year (Note 15)	(1,974,222)	(8,877,094)	(4,721,194)
Net income (loss) for the year	168,578	(1,948,596)	(4,130,141)
Transfer to surplus reserves (Notes 15 and 19)	(28,547)	(25,626)	(25,759)
Deficit closed on quasi-reorganization (Note 15)	–	8,877,094	–
Balance at end of year	(1,834,191)	(1,974,222)	(8,877,094)
REVALUATION INCREMENT ON LAND AND BUILDINGS			
Balance at beginning of year	1,537,760	1,031,424	599,598
Net additional appraisal increment during the year (Note 7)	361,723	506,336	431,826
Balance at end of year	1,899,483	1,537,760	1,031,424
ACCUMULATED TRANSLATION ADJUSTMENT			
Balance at beginning of year	190,053	1,684,159	1,478,930
Additional translation adjustment during the year	243,649	132,324	205,229
Application against deficit on quasi-reorganization (Notes 2, 8 and 15)	–	(1,626,430)	–
Balance at end of year (Note 8)	433,702	190,053	1,684,159
NET UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE SECURITIES (Notes 5 and 8)			
Balance at beginning of year	232,529	273,530	(173,639)
Additional net unrealized gain (loss) during the year	(45,815)	(41,001)	447,169
Balance at end of year	186,714	232,529	273,530
	₱24,606,436	₱23,878,301	₱17,422,220

See accompanying Notes to Financial Statements.

>> STATEMENTS OF CASH FLOWS <<

(IN THOUSAND PESOS)

	Group			Parent Company		
	Years Ended December 31					
	2003	2002	2001	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES						
Income (loss) before income tax	₱620,633	(₱3,199,280)	(₱5,244,226)	₱461,823	(₱3,320,276)	(₱5,380,263)
Adjustments to reconcile income (loss) before income tax to net cash generated from operations:						
Interest income	(7,600,095)	(7,169,839)	(11,342,032)	(7,229,388)	(6,805,844)	(10,914,168)
Interest expense	5,714,742	6,298,939	11,751,801	5,695,188	6,296,936	11,719,030
Provision for probable losses	447,426	2,171,225	2,398,122	416,543	2,127,243	2,347,802
Depreciation and amortization	457,339	514,967	565,828	436,794	469,612	522,798
Impairment loss on bank premises	97,987	–	–	97,987	–	–
Equity in net losses (earnings) of investees	(59,754)	(52,043)	24,922	74,774	(340,205)	(558,446)
Dividends received	9,612	8,278	10,144	709,373	327,720	300,533
Gain on sale of investments in subsidiaries	–	–	(26,023)	–	–	(26,023)
Gain on sale of ROPOA	(261,469)	(408,817)	(479,144)	(261,469)	(408,817)	(479,144)
Changes in operating resources and liabilities:						
Decrease (increase) in amounts of:						
Trading account securities	1,703,242	(1,866,455)	(127,605)	488,267	(688,126)	(181,801)
Receivables from customers	3,940,468	(1,617,194)	4,034,395	4,219,111	(1,486,872)	4,749,337
Other resources	(4,195,472)	(393,348)	(1,124,602)	(4,992,045)	(686,898)	(1,208,830)
Increase (decrease) in amounts of:						
Deposit liabilities	11,336,410	12,382,448	3,066,234	11,171,835	13,110,729	3,478,249
Due to Bangko Sentral ng Pilipinas	(12,940)	25,438	(108,527)	(12,940)	25,438	(108,527)
Margin deposits and cash letters of credit	135,452	(60,635)	19,105	135,452	(60,635)	19,105
Manager's checks and demand drafts outstanding	330,087	(148,151)	151,473	330,087	(148,151)	151,473
Accrued taxes, interest and other expenses	127,778	(427,702)	(11,945)	62,945	(358,254)	(44,638)
Other liabilities	(302,426)	1,104,721	(512,891)	77,092	1,182,028	(729,045)
Proceeds from sale of ROPOA	2,412,488	1,854,649	935,349	2,412,488	1,854,649	935,349
Net cash generated from operations	14,901,508	9,017,201	3,980,378	14,293,917	11,090,277	4,592,791
Interest received	7,598,575	9,496,786	10,925,641	7,239,895	9,155,016	10,495,752
Interest paid	(4,299,580)	(5,464,846)	(10,632,594)	(4,282,731)	(5,462,037)	(10,600,315)
Income taxes paid	(595,305)	(487,134)	(758,645)	(437,467)	(364,817)	(646,133)
Net cash provided by operating activities	17,605,198	12,562,007	3,514,780	16,813,614	14,418,439	3,842,095
CASH FLOWS FROM INVESTING ACTIVITIES						
Decrease (increase) in amounts of:						
Available-for-sale securities	(751,440)	(3,148,413)	1,957,044	(764,453)	(3,144,783)	1,955,205
Investments in bonds and other debt instruments	(5,898,488)	(2,013,977)	(3,482,179)	(4,651,987)	(2,231,488)	(2,792,032)
Investments in subsidiaries and associates	235,415	196,192	235,512	48,157	2,583	(34,828)
Proceeds from sale of investments in subsidiaries	100	–	54,488	100	–	54,488
Net acquisition of bank premises, furniture and equipment	4,430	(137,284)	(199,231)	(175,682)	(74,765)	(72,443)
Net cash used in investing activities	(6,409,983)	(5,103,482)	(1,434,366)	(5,543,865)	(5,448,453)	(889,610)
CASH FLOWS FROM FINANCING ACTIVITY						
Proceeds from (settlement of) bills and acceptances payable	547,733	(9,192,426)	(1,450,784)	202,619	(8,766,116)	(2,206,633)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	11,742,948	(1,733,901)	629,630	11,472,368	203,870	745,852
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR						
Cash and other cash items	2,581,883	2,940,933	2,843,485	2,581,027	2,940,306	2,799,518
Due from Bangko Sentral ng Pilipinas	3,313,537	2,197,775	6,111,172	3,313,537	2,197,775	6,111,172
Due from other banks	6,184,216	6,989,935	5,999,724	5,695,544	5,367,713	4,286,838
Interbank loans receivable	4,442,817	4,027,711	2,172,343	4,442,817	3,223,261	1,385,675
Securities held under agreements to resell	1,100,000	3,200,000	1,600,000	1,100,000	3,200,000	1,600,000
	17,622,453	19,356,354	18,726,724	17,132,925	16,929,055	16,183,203
CASH AND CASH EQUIVALENTS AT END OF YEAR						
Cash and other cash items	3,257,207	2,581,883	2,940,933	3,205,026	2,581,027	2,940,306
Due from Bangko Sentral ng Pilipinas	1,115,502	3,313,537	2,197,775	1,115,502	3,313,537	2,197,775
Due from other banks	5,807,556	6,184,216	6,989,935	5,142,524	5,695,544	5,367,713
Interbank loans receivable	13,785,136	4,442,817	4,027,711	13,742,241	4,442,817	3,223,261
Securities held under agreements to resell	5,400,000	1,100,000	3,200,000	5,400,000	1,100,000	3,200,000
	₱29,365,401	₱17,622,453	₱19,356,354	₱28,605,293	₱17,132,925	₱16,929,055

See accompanying Notes to Financial Statements.

1. General Information

Philippine National Bank (the Parent Company) was incorporated on February 4, 1916 and started commercial operations on July 22, 1916. Its principal place of business is at PNB Financial Center, President Diosdado Macapagal Boulevard, Pasay City. As of December 31, 2003, the Parent Company is owned 45% by the Lucio Tan Group (LTG) and 45% by the National Government (NG). The Parent Company had 33,617 and 33,716 shareholders as of December 31, 2003 and 2002, respectively.

The Parent Company provides a full range of banking and other financial services to corporate, middle-market and retail customers, the NG, local government units (LGU's) and government-owned and controlled corporations (GOCC's) and various government agencies. The Parent Company's principal commercial banking activities include deposit-taking, lending, bills discounting, foreign exchange dealing, investment banking, fund transfers/remittance servicing and a full range of retail banking and trust services through its 324 domestic and 32 overseas branches and offices. The Parent Company's international subsidiaries have a network of 60 and 55 offices in 2003 and 2002, respectively, in key cities of the United States of America (USA), Canada, Western Europe, Middle East and Asia.

Through its subsidiaries, the Parent Company engages in a number of diversified financial and related businesses such as merchant banking, remittance servicing, non-life insurance, leasing, stock brokerage, foreign exchange trading and related services. The Parent Company, through its affiliates, is also engaged in other services such as financing of small and medium-sized industries, life-insurance, as well as financial advisory services.

The Parent Company and its subsidiaries (the Group) had the following number of employees in 2003 and 2002:

	2003	2002
Group	5,790	7,371
Parent Company	5,442	5,381

The accompanying comparative financial statements of the Group and of the Parent Company were authorized for issue by the Parent Company's board of directors (BOD) on March 19, 2004.

2. Restructuring and Rehabilitation

The Parent Company is currently operating under a rehabilitation program pursuant to the Memorandum of Agreement (MOA) signed by the Republic of the Philippines, the Philippine Deposit Insurance Corporation (PDIC) and the LTG on May 3, 2002.

Pursuant to the MOA, the following measures have been implemented:

(1) Capital Restructuring

i. The Parent Company instituted a capital reduction exercise as of December 31, 2001, reducing the par value of each of its common shares from ₱60 per share to ₱40 per share, resulting in a total capital reduction of ₱7.6 billion. This resulted in a decrease in the authorized capital stock of the Parent Company from ₱50.0 billion divided into 833,333,334 common shares to ₱33.3 billion divided into 833,333,334 common shares. The reduction in par value from ₱60 per share to ₱40 per share and the amendment to the articles of incorporation of the Parent Company were approved by the BOD of the Parent Company on May 17, 2002 and by the Securities and Exchange Commission (SEC) of the Philippines on July 23, 2002.

ii. On May 16, 2002, the BSP approved the following: (a) booking of an appraisal increment of ₱431.8 million for the year ended December 31, 2001 on branch premises and recognition of the same for the purposes of determining the Parent Company's capital adequacy ratio; and (b) booking of translation adjustment of ₱1.6 billion for the year ended December 31, 2001 representing the increase in peso value of the Parent Company's investment in foreign subsidiaries, for the purpose of the Rehabilitation Plan and as an exception to existing BSP regulations, provided that the same shall be excluded for dividend purposes.

iii. The translation adjustment of ₱1.6 billion was applied to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion as a result of the capital reduction exercise. This corporate act was approved by the SEC on November 7, 2002, subject to the following conditions: (a) the remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown in the parent company financial statements as part of Capital Paid in Excess of Par Value) will not, without the prior approval of the SEC, be used or applied towards or make any provisions for, losses that may be incurred in the future; and (b) for the purposes of declaration of dividends, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by the translation adjustment.

The foregoing capital restructuring measures were aimed at reducing the deficit in the capital funds of the Parent Company which amounted to ₱8.9 billion as of December 31, 2001.

(2) Debt-to-Equity Conversion

In 2002, convertible preferred shares were issued to the PDIC as payment for the ₱7.8 billion borrowed by the Parent Company from the PDIC. This increased (i) the authorized capital stock of the Parent Company to ₱50.0 billion consisting of 1,054,824,557 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each and (ii) the issued capital stock of the Parent Company to ₱22.9 billion consisting of 378,070,472 common shares with a par value of ₱40 each and 195,175,444 convertible preferred shares with a par value of ₱40 each.

(3) Assignment of Certain Government Accounts to the PDIC

On July 30, 2002, the Parent Company and the PDIC signed an agreement whereby the Parent Company transferred and conveyed by way of "dacion en pago", or payment in kind, its rights and interests to the loans of the NG, certain LGU's, certain GOCC's and various government agencies and certain debt securities issued by various government entities (the Government accounts), to the PDIC. The "dacion en pago" arrangement reduced the Parent Company's outstanding obligations arising from the financial assistance given to the Parent Company by the BSP and the PDIC. The accrual of interest incurred by the Parent Company on the Government accounts and ₱10.0 billion payable to the PDIC ceased on October 1, 2001.

After the completion of the corporate actions and rehabilitation set out above (especially, the conversion of debt to equity and the "dacion en pago" arrangement), the balance of the Parent Company's outstanding obligations to the PDIC was ₱6.1 billion as of December 31, 2003 and 2002. This balance was restructured into a term loan of 10 years, with interest payable at 91-day treasury bills (T-bills) rate plus 1%.

In line with the rehabilitation program of the Parent Company as approved under Monetary Board (MB) Resolution No. 626 dated April 30, 2003, the Parent Company and BSP entered into a Memorandum of Understanding (MOU) on September 16, 2003. Pursuant to the MOU, the Parent Company shall comply to the full extent of its capability with the following directives of MB Resolution No. 649, among others:

(1) Maintain a strong management team supported by competent staff;
(2) Improve the Parent Company's past due ratio;
(3) Sell the PNB Financial Center;
(4) Dispose real and other properties owned or acquired (ROPOA); and
(5) Comply with certain prescribed limits.

The Parent Company is currently exerting efforts to comply with the aforementioned directives.

3. Summary of Significant Accounting Policies

Basis of Preparation and Consolidation

The Group follows the accounting principles generally accepted in the Philippines (Philippine GAAP). The accompanying financial statements are prepared under the historical cost convention, except that as disclosed in the accounting policies described hereafter:

a) Trading account (TAS) and available-for-sale (ASS) securities are stated at fair market value;
b) Parcels of land and buildings are carried at revalued amounts; and
c) Certain derivatives are measured at fair value.

The Group's financial statements consolidate the accounts of the Parent Company and the following wholly owned and majority owned subsidiaries:

Subsidiary	Industry	Country of Incorporation	Effective Percentage of Ownership
PNB Capital and Investment Corporation (PNB Capital)	Financial Markets	Philippines	100.0
PNB Securities, Inc.	- do -	- do -	100.0
PNB Forex, Inc.	- do -	- do -	100.0
PNB Holdings Corporation (PNB Holdings)	- do -	- do -	100.0
National Service Corporation (Naseco)	Services	- do -	100.0
PNB Corporation - Guam	Financial Markets	Guam	100.0
PNB International Investments Corporation	- do -	USA	100.0
PNB Europe Plc	- do -	Europe	100.0
PNB International Finance Limited	- do -	Hong Kong	100.0
PNB Italy - SpA	- do -	Italy	100.0
PNB Remittance Center, Ltd.	Services	Hong Kong	100.0
Japan - PNB Leasing and Finance Corporation (Japan - PNB Leasing)	Financial Markets	Philippines	60.0

Subsidiaries are consolidated when control is transferred to the Group or the Parent Company. Consolidation of subsidiaries ceases when control is transferred out of the Group or the Parent Company. The results of operations of a subsidiary disposed of are included in the statements of income until the date of disposal when the Group or Parent Company ceases to have control of the subsidiary.

Consolidated financial statements are prepared using uniform accounting policies for like transactions and other events in similar circumstances. The financial statements of the Parent Company and its subsidiaries are combined on a line-by-line basis after eliminating material intercompany transactions.

Minority interest represents the interest in Japan - PNB Leasing not held by the Parent Company. The minority interest component in the consolidated financial statements, not being material in amount, is shown as part of Other Liabilities and Miscellaneous Expenses.

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

Use of Estimates in the Preparation of Financial Statements
The preparation of financial statements in accordance with Philippine GAAP requires the Group to make estimates and assumptions that affect the reported amounts of resources, liabilities, income and expenses, and disclosure of contingent resources and contingent liabilities. Future events may occur which will cause the assumptions used in arriving at the estimates to change. The effect of any change in estimates will be reflected in the financial statements when reasonably determinable.

Adoption of New Accounting Standards
The Group adopted Statement of Financial Accounting Standards (SFAS) 10/International Accounting Standards (IAS) 10, "Events After the Balance Sheet Date," SFAS 22/IAS 22, "Business Combinations," SFAS 37/IAS 37, "Provisions, Contingent Liabilities and Contingent Assets," and SFAS 38/IAS 38, "Intangible Assets," effective January 1, 2003.

The adoption of the new standards in 2003 did not result in the restatement of prior year financial statements. Additional disclosures required by the new standards, however, were included in the financial statements, where applicable.

Securities Held Under Agreements to Resell
The Parent Company enters into short-term purchases of securities under agreements to resell. The amounts advanced under resell agreements are carried in the statements of condition at the principal amount advanced. Accrued interest is included in Other Resources in the statements of condition. Interest earned on such agreements is reported as Interest Income in the statements of income.

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

For a security transferred from TAS, the unrealized gain or loss at the date of transfer already recognized in the statements of income shall not be reversed.

Securities are classified as ASS when purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the Group anticipates to sell in response to liquidity requirements or in anticipation of changes in interest rates or other factors.

For a debt security transferred into ASS from investments in bonds and other debt instruments (IBODI), the unrealized gain or loss at the date of the transfer shall be excluded from the reported income and reported as a separate component of capital funds in the statements of condition until realized.

Underwriting Accounts (UA) are available-for-sale underwritten debt and equity securities purchased and held principally with the intention of selling them within a defined short-term period. ASS and UA are carried at fair market value; unrealized gains and losses are excluded from the reported income and are reported as a separate component of capital funds in the statements of condition.

IBODI are debt securities where the Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost; amortization of premium or accretion of discount is included in Interest Income in the statements of income; realized gains and losses are included in Trading and Investment Securities Gains - Net in the statements of income. The allowance for probable losses is established by a charge to income to reflect other-than-temporary impairments in value. Under current bank regulations, IBODI shall not exceed 50% of adjusted statutory net worth plus 40% of total deposit liabilities.

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

Receivables from Customers
Receivables from customers are stated at the outstanding balance reduced by unearned discount, capitalized interest on restructured loans and allowance for probable losses.

Receivables from customers are classified as nonaccruing or nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. At the time the receivable is classified as nonaccruing, interest previously recorded but not collected is provided with an allowance for probable losses. Interest income on these receivables is recognized only to the extent of cash collections received. Receivables from customers are not reclassified as accruing until interest and principal payments are brought current or the receivables are restructured in accordance with existing BSP regulations, and future payments appear assured.

Allowance for Probable Losses
The allowance for probable losses, which includes both specific and general loss reserves, represents management's estimate of probable losses inherent in the portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable value based on fair market values of underlying collateral and prospects of support from guarantors, subsequent collections and evaluations made by the BSP. The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loss reserves.

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

Receivables arising from transactions with credit cardholders are provided with allowance for probable losses based on the review and evaluation of the status of the receivables from cardholders and guidelines issued by the BSP. The MB through BSP Circular 398 issued on August 21, 2003 provides general guidelines governing credit card operations, including the minimum credit card receivable classification requirement as follows:

No. of Days Past Due	Classification	Percentage of Allowance
91 - 120	Substandard	25%
121 - 180	Doubtful	50%
181 or more	Loss	100%

Investments in Subsidiaries and Associates
Investments in subsidiaries and associates are accounted for under the equity method in the parent company financial statements and are carried in the statements of condition at cost plus post-acquisition changes in the Group's share in the net resources of the subsidiaries and associates, less any impairment in value. Post-acquisition changes include the share in the subsidiaries' and associates': (a) income or losses, (b) revaluation increment in properties, and (c) unrealized gain or loss on investment securities. Dividends received are treated as a reduction in the carrying values of the investments. Equity in revaluation of properties and unrealized gain or loss on investment securities of subsidiaries and associates are shown as separate components of capital funds in the statements of condition. Unrealized gains arising from transactions with subsidiaries and associates are eliminated to the extent of the interest in the subsidiaries and associates against the Investments in Subsidiaries and Associates account. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the resources transferred. When the Parent Company's share in the net losses of the subsidiary exceeds the carrying amount of the investment and the Parent Company guarantees the obligations of the subsidiary or otherwise commits to provide further financial support to the subsidiary, such excess shall be recognized by the Parent Company as a liability.

Financial statements of foreign consolidated subsidiaries that are not integral to the operations of the Group are translated at year-end exchange rates with respect to the statements of condition, and at the average exchange rates for the year with respect to the statements of income accounts. Resulting translation differences are included in the capital funds as Translation Adjustment. On disposal of a foreign entity, accumulated exchange differences are recognized in the statements of income as a component of the gain or loss on disposal included in the Miscellaneous Income account.

Investments in subsidiaries and associates held with a view to its subsequent disposal are classified as noncurrent available-for-sale investments. These investments are accounted for under the cost method. The carrying amount of the investment in subsidiaries is written down to its fair market value based on any significant and apparent permanent decline in value of the investment in subsidiaries, as indicated by a series of operating losses of an investee or other factors.

Under BSP regulations, the use of the equity method of accounting for investments in shares of stock is allowable only where ownership is more than 50%. The use of the equity method of accounting for equity interest of 20% to 50% is being made for financial reporting purposes to comply with the provisions of SFAS 28/IAS 28, "Accounting for Investments in Associates" and is not intended for BSP reporting purposes.

Other equity investments where the Group has no significant influence are carried at cost less allowance for probable losses. The allowance for probable losses is set up by a charge to income included in Provision for Probable Losses in the statements of income.

Bank Premises, Furniture and Equipment
The Group's depreciable properties, including leasehold improvements, furniture, fixtures, and equipment but excluding buildings are stated at cost less accumulated depreciation and amortization, and any impairment in value.

The initial cost of bank premises, furniture and equipment consists of its construction cost or purchase price including import duties, taxes and any directly attributable costs of bringing the asset to its working condition or location for its intended use.

The costs of minor repairs and maintenance are charged to expense as incurred, while significant renewals and improvements are capitalized. When bank premises, furniture and equipment are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization, and any impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

Land are stated at appraised values less any impairment in value while buildings are stated at appraised values less accumulated depreciation and any impairment in value. The appraised values as of December 31, 2003 and 2002 were determined by independent firms of appraisers in March 2004 and in October 2000, respectively. The appraisal increment resulting from the revaluation was credited to Revaluation Increment on Land and Buildings shown as a separate component of capital funds in the statements of condition. Appraisal increment on buildings is depreciated over the estimated remaining lives of the buildings.

Relative to the adoption of SFAS 16/IAS 16 on Property, Plant and Equipment in 2002, the Group adjusted its Land and Buildings account to reflect the carrying value of all its land and buildings at appraised value. Prior to the adoption of SFAS 16/IAS 16, selected parcels of land and buildings were carried at cost. The effect of this change was to increase the Revaluation Increment on Land and Buildings by ₱419.7 million in 2003 and by ₱506.3 million in 2002. Additional disclosures relating to bank premises are included in Note 7.

Depreciation and amortization is calculated using the straight-line method over the following estimated useful lives of the respective resources:

	Useful Life in Years
Buildings	25 - 50
Furniture, fixtures and equipment	5
Leasehold improvements	Shorter of the estimated useful lives of the improvements or the terms of the related leases which range from 3 to 10 years.

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

Real and Other Properties Owned or Acquired (ROPOA)
Assets acquired by the Group in settlement of loans are recorded at the lower of the balance of total loan exposure or bid price less impairment in value, if any. Nonrefundable taxes such as capital gains tax and documentary stamp tax that were paid by the Parent Company and its subsidiaries to effect the foreclosure are capitalized provided that the adjusted value of the foreclosed asset does not exceed its net realizable value. Security maintenance and other holding costs subsequent to the foreclosure or acquisition of the properties are charged against current operations as incurred. Allowance for probable losses is set up for any anticipated significant shortfalls from the recorded values to the net realizable values determined by an independent firm of appraisers and/or by current negotiations and programs to dispose of these properties to interested parties including estimated selling costs.

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

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to the income and expense account in the period in which it arises, unless the asset is carried at a revalued amount in which case the impairment loss is charged against the revaluation increment of the said asset.

A previously recognized impairment loss is reversed only if there has been a change in the estimates used to determine the recoverable amount of an asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation and amortization) had no impairment loss been recognized for the asset in prior years. A reversal of an impairment loss is credited 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 said asset.

Foreign Exchange Transactions and Translation
Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at prevailing Philippine Dealing System weighted average rates (PDSWAR) at the end of the year. Income and expense items are translated at rates at transaction dates.

For financial reporting purposes, the accounts of the FCDU, which are maintained in US dollars, are translated into their equivalents in Philippine pesos based on the PDSWAR prevailing at the end of the year (for resources and liabilities) and at the average PDSWAR for the year (for income and expenses).

Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency-denominated resources and liabilities are credited to or charged against operations in the year in which the rates change.

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

Interest Income
Interest income on receivables from customers is recognized based on the accrual method of accounting, except in the case of nonaccruing receivables. Unearned discount is recognized as income over the term of the receivable using the effective interest method.

Interest income on nondiscounted loans is accrued as earned, except in the case of past due accounts. As required by the existing BSP regulations, interest income on these past due accounts is recognized only upon actual collection. Loan fee income that represents an adjustment of yield on respective loans, if any, is included in Interest Income in the statements of income.

Interest on investment securities is recognized as the interest accrues, taking into account the effective yield on the asset.

Loan Fees and Service Charges
Loan commitment fees are recognized as a percentage of unavailed but committed credit lines as appropriate. Loan syndication fees are recognized upon completion of all syndication activities and where there are no further obligations to perform under the syndication agreement.

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

Leasing Income
Japan - PNB Leasing's income from equipment leasing is recognized based on the financing method of accounting and is included in Miscellaneous Income in the statements of income. Under the financing method, the aggregate rentals are recorded as lease contracts receivable reported under the Receivables from Customers account in the statements of condition with a corresponding credit to the cost of equipment for lease account. The excess of aggregate rentals over the cost of the leased equipment (reduced by the estimated residual value at the termination of the lease) is taken up as unearned lease income to be amortized over the term of the lease based on the effective interest rate method. Residual values represent estimated proceeds from the disposition of equipment at the time the lease is terminated and included in Other Resources in the statements of condition. Unearned lease income cease to be amortized when receivables become over 90 days past due. Financing income on nonaccruing receivables is recognized only to the extent of cash collections received.

Premium Revenue
Premiums from short duration insurance contracts are recognized as revenue over the period of the contracts using the 24th method. The portion of the premiums written that relates to the unexpired period of the policies at the statement of condition dates is accounted for as a Reserve for Unearned Premiums and included in Other Liabilities in the statements of condition. The related reinsurance premiums ceded that pertain to the unexpired periods at statement of condition dates are accounted for as Deferred Reinsurance Premiums and included in Other Resources in the statements of condition. The net changes in these accounts between statement of condition dates are credited to or charged against current operations.

Gain from Sale of ROPOA
For cash sale, the entire gain from the sale (excess of selling price over carrying value) of property is recognized as gain from sale of ROPOA (included in Miscellaneous Income in the statements of income) during the year. For installment sales, under which the consideration is receivable in installments, the revenue is recognized under the installment method. Under the installment method, each collection consists partly of recovery of cost and partly of recovery of gross profit in the same ratio that these two elements existed at the original sale. The gain recognized on the cash collections is based on the percentage of total income to total sales price. Deferred gross income is shown as a deduction from Sales Contract Receivable included in Other Resources in the statements of condition.

Deferred Income Tax
The Group applies deferred income tax accounting using the liability method. Under this method, deferred tax assets and liabilities are recognized for (a) the future tax consequences attributable to the differences between the financial reporting bases of resources and liabilities and their related tax bases and (b) the carryforward benefits of net operating loss carryover (NOLCO) and the excess of minimum corporate income tax (MCIT) over regular corporate income tax. Deferred tax assets and liabilities are measured using the tax rate applicable to taxable income in the years in which those temporary differences are expected to be recovered or settled, and NOLCO and MCIT are expected to be applied. A valuation allowance is provided for the portion of deferred tax assets that is not expected to be realized in the future.

Retirement Costs
The Parent Company and certain subsidiaries operate a number of defined plans, the resources of which are generally held in a separate trustee-administered funds. The retirement benefit plans are generally funded by the relevant Group companies, taking into account the recommendations of independent qualified actuaries.

The Parent Company's and certain subsidiaries' retirement costs are actuarially determined using the projected unit credit method. This method reflects the services rendered by employees to the date of valuation and incorporates assumptions concerning employees' projected salaries. Retirement costs include current service cost plus amortization of past service cost, experience adjustments, and changes in actuarial assumptions amortized over the average of the expected remaining working lives of the covered employees.

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

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

Leases
Operating lease payments are recognized as expense over the lease term and included in Occupancy and Equipment - Related Costs in the statements of income.

Derivative Instruments
The Parent Company is a party to interest rate swap and foreign exchange forward contracts. These contracts are entered into as a service to customers and as a means of reducing or managing its foreign exchange and interest rate exposures.

Realized and unrealized gains and losses on derivatives designated and qualified as hedges are deferred and recognized as income or expense over the terms of the hedged instruments. Realized and unrealized gains and losses on such contracts that are not designated as hedges are recognized currently as income or expense. Interest rate swap is carried at fair market value with the corresponding change in fair market value recognized in the statements of income. The differentials paid or received under an interest rate swap agreement are recognized as Interest Expense in the statements of income.

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, interbank loans receivable and securities held under agreements to resell with maturity of less than three months from dates of placement and which are subject to an insignificant risk of change in value.

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

New Accounting Standards Effective in 2004
The following applicable SFAS/IAS approved by the Accounting Standards Council will take effect beginning January 1, 2004:

SFAS 12/IAS 12, *Income Taxes,* prescribes the accounting treatment for current and deferred income taxes. This standard requires the use of a balance sheet liability method in accounting for deferred income taxes. It requires the recognition of a deferred tax liability and, subject to certain conditions, deferred tax asset for all temporary differences with certain exceptions. This standard also provides for the recognition of a deferred tax asset when it is probable that taxable income will be available against which the deferred tax asset can be used. It also provides for the recognition of a deferred tax liability with respect to asset revaluations.

SFAS 17/IAS 17, *Leases,* prescribes the accounting policies and disclosures applicable to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee. A lessee is required to capitalize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The lessee should also depreciate the leased asset. On the other hand, under an operating lease, a lessee should expense operating lease payments.

The Group will adopt the foregoing standards in 2004 and has not yet determined the impact of the adoption of these standards in the financial statements.

4. Trading Account Securities

This account consists of:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Government securities - net of unrealized loss for decline in value of ₱0.4 million in 2003 and ₱10.5 million in 2002	₱909,441	₱2,180,626	₱909,441	₱1,454,166
Other debt securities - after unrealized gain of ₱1.3 million in 2003 and net of unrealized loss for decline in value of ₱47.6 million in 2002 for the Group	93,014	525,071	56,458	–
	₱1,002,455	₱2,705,697	₱965,899	₱1,454,166

The breakdown of TAS by contractual maturity as of December 31, 2003 and 2002 follows:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Due within one year	₱128,912	₱1,172,276	₱123,262	₱1,166,622
Due beyond one year	873,543	1,533,421	842,637	287,544
	₱1,002,455	₱2,705,697	₱965,899	₱1,454,166

5. Investment Securities

This account consists of:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
ASS				
Government securities, at fair market value	₱4,990,476	₱4,332,538	₱4,990,476	₱4,332,538
Other debt securities, at fair market value	445,341	397,654	442,063	381,363
	5,435,817	4,730,192	5,432,539	4,713,901

(Forward)

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
IBODI				
Government securities, at amortized cost	₱40,329,580	₱34,840,369	₱38,403,846	₱33,761,755
Other debt securities, at amortized cost - net of allowance for probable losses of ₱201.7 million in 2003 and ₱195.3 million in 2002 (Note 11)	1,561,371	1,152,094	1,161,990	1,152,094
	41,890,951	35,992,463	39,565,836	34,913,849
	₱47,326,768	₱40,722,655	₱44,998,375	₱39,627,750

As of December 31, 2003 and 2002, unrealized gain on ASS amounted to ₱186.7 million and ₱232.5 million, respectively, for the Group, and ₱191.3 million and ₱250.7 million, respectively, for the Parent Company.

The breakdown of investment securities by contractual maturity as of December 31, 2003 and 2002 follows:

	Group					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
ASS	₱229,453	₱5,206,364	₱5,435,817	₱182,404	₱4,547,788	₱4,730,192
IBODI	9,115,907	32,976,789	42,092,696	7,312,218	28,875,526	36,187,744
Allowance for probable losses	–	(201,745)	(201,745)	–	(195,281)	(195,281)
	9,115,907	32,775,044	41,890,951	7,312,218	28,680,245	35,992,463
	₱9,345,360	₱37,981,408	₱47,326,768	₱7,494,622	₱33,228,033	₱40,722,655

	Parent Company					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
ASS	₱229,453	₱5,203,086	₱5,432,539	₱182,404	₱4,531,497	₱4,713,901
IBODI	8,797,923	30,969,658	39,767,581	6,833,772	28,275,358	35,109,130
Allowance for probable losses	–	(201,745)	(201,745)	–	(195,281)	(195,281)
	8,797,923	30,767,913	39,565,836	6,833,772	28,080,077	34,913,849
	₱9,027,376	₱35,970,999	₱44,998,375	₱7,016,176	₱32,611,574	₱39,627,750

IBODI includes the following securities:

a. Twelve-year peso-denominated bonds with face value amounting to ₱11.2 billion as of December 31, 2003 and 2002. These bonds, with an original amount of ₱24.3 billion, were issued by the NG in settlement of the Parent Company's claims as discussed in Note 10. These bonds, which will mature in 2007, are eligible as part of the liquidity cover requirements on government deposits. These bonds were redeemable at any time at the option of the NG and were originally issued as nontransferable until the lifting of such restriction in 1997. In February 1998, ₱10.0 billion of these bonds were sold with an agreement to swap interest payments based on the average 91-day and 364-day T-bill rates during the three-month period preceding the annual repricing date for the remaining term of the bonds. As of December 31, 2003 and 2002, IBODI includes ₱1.2 billion and ₱1.6 billion, respectively, of bonds pledged to secure performance for the estimated net interest differential under the interest rate swap agreement. As of December 31, 2003 and 2002, the fair market value of the interest rate differential on the swap agreement, representing the net present value of interest differential that the Parent Company has to pay the counterparty, amounted to ₱447.9 million and ₱403.0 million, respectively.

b. Bonds issued by Philippine Sugar Corporation (PSC) amounting to ₱2.8 billion. The bonds carry an annual interest rate of 4% and will mature in 2014. The full repayment of principal and accumulated interest to maturity is guaranteed by a sinking fund managed by the Parent Company's Trust Banking Group (TBG). As of December 31, 2003, the net asset value of the sinking fund amounted to ₱2.5 billion earning an average rate of return of 10.16% per annum. Management expects that the value of the sinking fund in the year 2014 will be more than adequate to cover the full redemption value of PSC bonds.

On July 30, 2002, ₱3.5 billion worth of peso-denominated bonds included in IBODI as of December 31, 2001 and the related accrued interest amounting to ₱10.6 million were assigned by the Parent Company by way of "dacion en pago" to PDIC as payment for the latter's loans to the Parent Company.

The annual interest rates ranged from 1.94% to 10.00% in 2003 and from 2.31% to 9.88% in 2002 for foreign currency-denominated IBODI, and from 4.00% to 21.00% in 2003 and 2002 for peso-denominated IBODI. As of December 31, 2003 and 2002, the market value of IBODI approximates its carrying value.

6. Receivables from Customers

This account consists of:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Loans and discounts	₱72,858,473	₱79,578,555	₱71,940,144	₱78,627,490
Customers' liabilities on acceptances, letters of credit and trust receipts	4,034,563	3,553,045	4,034,563	3,553,045
Bills purchased	989,065	1,294,466	989,065	1,294,466
Credit card accounts	936,428	809,877	936,428	809,877
Lease contracts receivable	793,047	628,161	–	–
Premiums receivable	294,141	368,184	–	–
	79,905,717	86,232,288	77,900,200	84,284,878
Unearned discount and lease income	(80,608)	(74,333)	(9,008)	(10,931)
Capitalized interest on restructured loans	(1,759,391)	(1,348,826)	(1,759,391)	(1,348,826)
Allowance for probable losses (Note 11)	(18,127,028)	(19,020,886)	(17,926,497)	(18,587,967)
	₱59,938,690	₱65,788,243	₱58,205,304	₱64,337,154

As of December 31, 2003 and 2002, 84.38% and 83.49%, respectively, of the total receivables from customers of the Parent Company were subject to periodic interest repricing. Remaining receivables carry annual fixed interest rates ranging from 4.75% to 7.37% for foreign currency-denominated receivables, and from 5.00% to 16.00% for peso-denominated receivables in 2003 and 2002.

The breakdown of loans by contractual maturity as of December 31, 2003 and 2002 follows:

	Group					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Loans and discounts	₱19,472,116	₱53,386,357	₱72,858,473	₱27,614,292	₱51,964,263	₱79,578,555
Customers' liabilities on acceptances, letters of credit and trust receipts	4,034,563	–	4,034,563	3,553,045	–	3,553,045
Bills purchased	989,065	–	989,065	1,294,466	–	1,294,466
Credit card accounts	936,428	–	936,428	578,668	231,209	809,877
Lease contracts receivable	368,425	424,622	793,047	628,161	–	628,161
Premiums receivable	294,141	–	294,141	368,184	–	368,184
	₱26,094,738	₱53,810,979	₱79,905,717	₱34,036,816	₱52,195,472	₱86,232,288

	Parent Company					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Loans and discounts	₱19,268,281	₱52,671,863	₱71,940,144	₱27,947,162	₱50,680,328	₱78,627,490
Customers' liabilities on acceptances, letters of credit and trust receipts	4,034,563	–	4,034,563	3,553,045	–	3,553,045
Bills purchased	989,065	–	989,065	1,294,466	–	1,294,466
Credit card accounts	936,428	–	936,428	578,668	231,209	809,877
	₱25,228,337	₱52,671,863	₱77,900,200	₱33,373,341	₱50,911,537	₱84,284,878

Actual maturities may differ from contractual maturities because borrowers can prepay certain obligations, sometimes without penalties.

On July 30, 2002, the Parent Company and PDIC signed dacion agreements whereby the Parent Company transferred and conveyed by way of "dacion en pago" the government accounts discussed in Note 2, amounting to ₱10.0 billion in favor of PDIC. Out of the ₱10.0 billion, ₱4.4 billion represented government accounts included in receivables from customers. The "dacion en pago" arrangement reduced the Parent Company's outstanding obligations that resulted from the liquidity assistance of BSP and PDIC. In accordance with the term sheet, the interest accrual on said government accounts ceased on October 1, 2001.

The information relating to loans as to secured and unsecured and as to collateral as of December 31, 2003 and 2002 follows:

	Group			
	2003		2002	
	Amount	%	Amount	%
	(In Thousand Pesos)			
Secured:				
Real estate mortgage	₱28,210,649	35.31	₱39,704,663	46.04
Chattel mortgage	2,846,831	3.56	2,041,817	2.37
Shares of stock	1,689,049	2.11	1,436,684	1.66
Bank deposit hold-out	1,019,153	1.28	1,100,177	1.28
Others	26,887,054	33.65	18,562,718	21.53
	60,652,736	75.91	62,846,059	72.88
Unsecured	19,252,981	24.09	23,386,229	27.12
	₱79,905,717	100.00	₱86,232,288	100.00

	Parent Company			
	2003		2002	
	Amount	%	Amount	%
	(In Thousand Pesos)			
Secured:				
Real estate mortgage	₱28,060,994	36.02	₱39,081,944	46.37
Chattel mortgage	1,920,886	2.47	1,487,868	1.77
Shares of stock	1,680,435	2.16	1,407,342	1.67
Bank deposit hold-out	1,017,574	1.31	1,096,174	1.30
Others	26,871,875	34.49	18,562,718	22.02
	59,551,764	76.45	61,636,046	73.13
Unsecured	18,348,436	23.55	22,648,832	26.87
	₱77,900,200	100.00	₱84,284,878	100.00

The information on loan concentration as to industry as of December 31, 2003 and 2002 follows:

	Group			
	2003		2002	
	Amount	%	Amount	%
	(In Thousand Pesos)			
Manufacturing (various)	₱17,615,673	22.04	₱21,050,534	24.41
Real estate, renting and business activities	14,634,459	18.31	14,671,302	17.01
Other community, social and personal services	12,111,187	15.16	12,528,385	14.53
Wholesale and retail trade	11,127,059	13.93	12,005,691	13.92
Electricity, gas and water	7,683,485	9.62	8,145,102	9.45
Transport, storage and communications	4,856,326	6.08	7,925,752	9.19
Agriculture, hunting and forestry	4,251,202	5.32	1,826,840	2.12
Construction	2,585,152	3.23	2,673,025	3.10
Financial intermediaries	2,575,181	3.22	2,876,061	3.33
Private household	764,375	0.96	691,204	0.80
Public administration and defense	728,805	0.91	766,350	0.89
Mining and quarrying	465,041	0.58	501,311	0.58
Education	296,922	0.37	271,699	0.32
Hotel and restaurant	173,921	0.22	196,652	0.23
Health and social work	21,763	0.03	84,734	0.10
Fishing	15,166	0.02	17,646	0.02
	₱79,905,717	100.00	₱86,232,288	100.00

	Parent Company			
	2003		2002	
	Amount	%	Amount	%
	(In Thousand Pesos)			
Manufacturing (various)	₱17,615,673	22.61	₱21,050,534	24.98
Real estate, renting and business activities	13,391,988	17.19	14,300,473	16.97
Other community, social and personal services	11,979,125	15.38	12,334,783	14.63
Wholesale and retail trade	11,045,067	14.18	11,668,210	13.84
Electricity, gas and water	7,683,485	9.86	8,145,102	9.66
Transport, storage and communications	4,856,326	6.23	7,371,803	8.75
Agriculture, hunting and forestry	4,251,202	5.46	1,826,840	2.17
Construction	2,585,150	3.32	2,673,025	3.17
Financial intermediaries	2,543,697	3.26	2,820,378	3.35

(Forward)

	Parent Company			
	2003		2002	
	Amount	%	Amount	%
	(In Thousand Pesos)			
Public administration and defense	₱728,805	0.94	₱766,350	0.91
Mining and quarrying	465,041	0.60	501,311	0.60
Education	296,922	0.38	271,699	0.32
Private household	246,869	0.32	255,338	0.30
Hotel and restaurant	173,921	0.22	196,652	0.23
Health and social work	21,763	0.03	84,734	0.10
Fishing	15,166	0.02	17,646	0.02
	₱77,900,200	100.00	₱84,284,878	100.00

The BSP considers that there is loan concentration risk when the total loan exposure to a particular industry exceeds 30% of the total loan portfolio. As of December 31, 2003 and 2002, the Group does not have loan concentration risk to any particular industry.

As of December 31, 2003 and 2002, nonaccruing loans follow:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Secured	₱32,692,559	₱31,244,795	₱32,533,009	₱30,799,533
Unsecured	9,626,460	13,362,953	9,625,620	13,344,383
	₱42,319,019	₱44,607,748	₱42,158,629	₱44,143,916

Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said receivables shall not be accrued. As of December 31, 2003 and 2002, the nonperforming loans (NPLs) of the Group and the Parent Company follow:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Total NPLs	₱45,190,092	₱45,016,336	₱45,004,465	₱44,568,222
NPLs fully covered by allowance for probable losses	(9,058,385)	(9,276,718)	(8,935,869)	(8,907,656)
	₱36,131,707	₱35,739,618	₱36,068,596	₱35,660,566

Most of these receivables are secured, mainly by real estate or chattel mortgages.

Restructured receivables of the Group and of the Parent Company amounted to ₱23.2 billion as of December 31, 2003 (₱25.3 billion as of December 31, 2002).

7. Bank Premises, Furniture and Equipment

The composition of and changes in bank premises, furniture and equipment as of December 31, 2003 and 2002 follow:

	Group			
	Furniture, Fixtures and Equipment	Leasehold Improvements – Net	2003	2002
	(In Thousand Pesos)			
At Cost				
At January 1	₱3,771,785	₱136,536	₱3,908,321	₱4,193,161
Additions	146,932	7,914	154,846	416,663
Disposals	(279,006)	(2,897)	(281,903)	(660,090)
At December 31	3,639,711	141,553	3,781,264	3,949,734
Accumulated Depreciation				
At January 1	3,037,310	–	3,037,310	2,861,375
Depreciation and amortization	279,422	23,172	302,594	378,240
Disposals	(237,473)	–	(237,473)	(160,892)
At December 31	3,079,259	23,172	3,102,431	3,078,723
Net Book Value at December 31	₱560,452	₱118,381	₱678,833	₱871,011

	Group			
	Land	Buildings	2003	2002
	(In Thousand Pesos)			
At Appraised Value				
At January 1	₱10,149,855	₱5,534,307	₱15,684,162	₱14,961,873
Additions	42,594	387,462	430,056	796,448
Disposals	–	(184,824)	(184,824)	(74,159)
At December 31	10,192,449	5,736,945	15,929,394	15,684,162
Accumulated Depreciation and Impairment Loss				
At January 1	–	816,271	816,271	691,188
Depreciation	–	147,400	147,400	132,955
Impairment loss	3,409	94,578	97,987	–
Disposals	–	(1,645)	(1,645)	(7,872)
At December 31	3,409	1,056,604	1,060,013	816,271
Net Book Value at December 31	₱10,189,040	₱4,680,341	₱14,869,381	₱14,867,891

	Parent Company			
	Furniture, Fixtures and Equipment	Leasehold Improvements – Net	2003	2002
	(In Thousand Pesos)			
At Cost				
At January 1	₱3,518,379	₱109,861	₱3,628,240	₱3,807,929
Additions	130,707	7,498	138,205	293,988
Disposals	(240,767)	–	(240,767)	(446,473)
At December 31	3,408,319	117,359	3,525,678	3,655,444
Accumulated Depreciation				
At January 1	2,839,026	–	2,839,026	2,709,533
Depreciation and amortization	259,020	23,142	282,162	334,757
Disposals	(203,197)	–	(203,197)	(178,060)
At December 31	2,894,849	23,142	2,917,991	2,866,230
Net Book Value at December 31	₱513,470	₱94,217	₱607,687	₱789,214

	Parent Company			
	Land	Buildings	2003	2002
	(In Thousand Pesos)			
At Appraised Value				
At January 1	₱10,149,855	₱5,292,238	₱15,442,093	₱14,961,873
Additions	42,594	387,462	430,056	554,379
Disposals	–	(2,777)	(2,777)	(74,159)
At December 31	10,192,449	5,676,923	15,869,372	15,442,093
Accumulated Depreciation and Impairment Loss				
At January 1	–	811,197	811,197	691,188
Depreciation	–	147,352	147,352	127,881
Impairment loss	3,409	94,578	97,987	–
Disposals	–	(79)	(79)	(7,872)
At December 31	3,409	1,053,048	1,056,457	811,197
Net Book Value at December 31	₱10,189,040	₱4,623,875	₱14,812,915	₱14,630,896

In 2003, an impairment loss on the Parent Company's land and buildings amounting to ₱98.0 million was recognized in Miscellaneous Expenses in the statements of income. The impaired land and buildings were written down to their recoverable value which is equivalent to their net selling price. The net selling price is the amount obtainable from the sale of the assets in an arm's length transaction between knowledgeable willing parties, less the costs of disposal.

Depreciation on the appraisal increment of buildings amounted to ₱59.7 million and ₱40.3 million in 2003 and 2002, respectively, for the Parent Company.

Depreciation and amortization expense, inclusive of the depreciation on appraisal increment of buildings, charged to operations of the Group amounted to ₱450.0 million, ₱511.2 million and ₱465.4 million in 2003, 2002 and 2001, respectively, and ₱429.5 million in 2003, ₱462.6 million in 2002 and ₱465.4 million in 2001 for the Parent Company. Had the land and buildings been carried at cost, the net book value of the land and buildings would have been ₱5.4 billion and ₱5.7 billion as of December 31, 2003 and 2002, respectively, for the Group, and ₱5.3 billion and ₱5.5 billion as of December 31, 2003 and 2002, respectively, for the Parent Company.

Land and buildings with carrying amount of ₱11.1 billion in 2003 were pledged as collateral to secure the Parent Company's borrowings from PDIC (Note 13).

8. Investments in Subsidiaries and Associates

The details of this account follow:

	Equity Interest (Percentage)	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
		(In Thousand Pesos)			
At equity:					
Acquisition cost of:					
PNB International Investments Corporation	100	₱–	₱–	₱1,250,161	₱1,250,161
PNB Europe Plc	100	–	–	508,095	508,095
PNB Capital	100	–	–	500,000	500,000
PNB Forex, Inc.	100	–	–	200,000	200,000
PNB Holdings Corporation	100	–	–	84,113	84,113
PNB Securities, Inc.	100	–	–	58,100	58,100
PNB Italy - SpA	100	–	–	57,858	57,858
PNB International Finance Limited	100	–	–	29,763	29,763
PNB Corporation - Guam	100	–	–	11,241	11,241
Naseco	100	–	–	2,000	2,000
PNB Remittance Center, Ltd.	100	–	–	1,785	1,785
PNB Venture Capital Corporation	60	3,600	3,600	3,600	3,600
Japan - PNB Leasing (Note 14)	60	–	–	91,850	91,850
Beneficial - PNB Life Insurance Company, Inc.	40	499,813	499,813	499,813	499,813
		503,413	503,413	3,298,379	3,298,379
Accumulated equity in net earnings:					
Balance at beginning of year		67,154	23,389	1,607,176	1,594,691
Equity in net earnings (losses) for the year		59,754	52,043	(74,774)	340,205
Dividends received during the year		(9,612)	(8,278)	(709,373)	(327,720)
Elimination of receivables from NASECO		–	–	435,093	–
Balance at end of year		117,296	67,154	1,258,122	1,607,176
Accumulated translation adjustment		–	–	433,702	190,053
Accumulated translation adjustment applied to deficit		–	–	1,626,430	1,626,430
Unrealized loss on ASS of subsidiaries		–	–	(4,633)	(18,176)
Revaluation increment on buildings of subsidiaries		–	–	9,412	67,435
		620,709	570,567	6,621,412	6,771,297
Noncurrent available-for-sale investment - at cost		20,493	20,493	20,493	20,493
At cost - net of allowance for probable losses of ₱352.1 million in 2003 and ₱342.7 million in 2002 (Note 11)		98,409	110,275	95,910	110,275
		₱739,611	₱701,335	₱6,737,815	₱6,902,065

Investment in PNB Venture Capital Corporation was deconsolidated in 2001 (but continues to be accounted for under the equity method) in accordance with management's plan to liquidate such investment. As of December 31, 2003, approval of the planned liquidation is pending with the SEC.

On March 31, 2003, Naseco's BOD approved the cessation of the Company's operations effective June 15, 2003. Accordingly, on April 22, 2003, Naseco's BOD approved the dissolution and amendment of the articles of incorporation of the Company by shortening the term of its existence from 50 years since incorporation date to January 15, 2004. Naseco is securing regulatory approvals to effect the dissolution. On May 9, 2003, the Parent Company's BOD gave its consent to the dissolution of Naseco. The Parent Company undertakes to assume any valid claims of the creditors of Naseco which are presented and proven for settlement after the dissolution.

Following the cessation of Naseco's operations, the excess of the Parent Company's share in the net losses of Naseco against the carrying amount of its investment as of December 31, 2003 amounting to ₱435.1 million was eliminated against the Parent Company's outstanding receivables from Naseco.

As discussed in Note 2, the SEC approved on November 7, 2002 the application of the accumulated translation adjustment of ₱1.6 billion to eliminate the Parent Company's remaining deficit of ₱1.3 billion as of December 31, 2001, after applying the total reduction in par value amounting to ₱7.6 billion. The SEC approval is subject to the following conditions: (a) the remaining translation adjustment of ₱310.7 million as of December 31, 2001 (shown as part of Capital Paid in Excess of Par Value) will not be used to wipe out losses that may be incurred in the future without prior approval of SEC; and (b) for purposes of dividend declaration, any future surplus account of the Parent Company shall be restricted to the extent of the deficit wiped out by translation adjustment.

As of December 31, 2003 and 2002, the carrying values [acquisition cost plus (minus) accumulated equity in net earnings (losses) of subsidiaries] of the Parent Company's significant investments in subsidiaries follow:

	2003	2002
	(In Thousand Pesos)	
PNB International Investments Corporation	₱2,365,410	₱2,156,157
PNB Europe Plc	965,500	944,259
PNB International Finance Limited	872,789	1,081,419
PNB Holdings Corporation	661,341	738,343
Beneficial - PNB Life Insurance Company, Inc.	615,647	565,506
PNB Capital	536,958	575,194
PNB Forex, Inc.	218,464	257,421

9. Real and Other Properties Owned or Acquired

This account consists of:

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
	(In Thousand Pesos)			
ROPOA	₱28,898,269	₱28,475,888	₱28,897,694	₱28,475,313
Allowance for probable losses (Note 11)	(4,015,695)	(3,419,612)	(4,015,695)	(3,419,612)
	₱24,882,574	₱25,056,276	₱24,881,999	₱25,055,701

Certain ROPOA consisting of prime commercial, industrial and residential properties amounting to ₱6.8 billion as of December 31, 2003 and 2002 were pledged as collateral to secure the Parent Company's bills payable to PDIC inclusive of the bills payable transferred from BSP (Note 13).

10. Other Resources

This account consists of:

	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
	(In Thousand Pesos)			
Accrued interest receivable (Note 2)	₱6,734,497	₱6,732,977	₱6,681,809	₱6,692,316
Deferred tax assets - net (Note 18)	6,220,355	6,088,916	6,188,206	6,051,745
Deficiency claims receivable	4,457,274	3,293,115	4,457,274	3,293,115
Accounts receivable	3,683,581	3,732,766	3,564,188	3,620,698
Foreign currency notes and coins on hand, checks and other cash items	1,756,195	1,063,686	1,637,283	1,001,331
Transferred assets	1,645,353	1,686,250	1,645,353	1,686,250
Sales contract receivable - net of unrealized gain on sale of ₱529.6 million in 2003 and ₱478.3 million in 2002	1,404,659	899,369	1,404,659	899,369
Prepaid expenses	1,167,013	1,257,704	1,148,389	1,242,727
Net interoffice accounts	837,612	500,138	837,612	500,138
Special rehabilitation accounts	266,592	308,274	266,592	308,274
Residual value of leased equipment	101,623	76,685	–	–
Deferred reinsurance premiums	85,722	203,261	–	–
Miscellaneous	1,725,215	1,329,308	1,895,497	1,154,305
	30,085,691	27,172,449	29,726,862	26,450,268
Allowance for probable losses (Note 11)	(10,094,820)	(11,009,850)	(10,027,977)	(10,965,888)
	₱19,990,871	₱16,162,599	₱19,698,885	₱15,484,380

Accounts receivable include the receivable of ₱230.1 million and ₱460.1 million as of December 31, 2003 and 2002, respectively, from the NG representing the balance of certain claims from the NG net of the settlement in the form of bonds (Note 5). Such claims have been fully provided with allowance for probable losses.

Prepaid expenses include a fund set aside by the Parent Company for employees' retirement benefits amounting to ₱0.9 billion and ₱1.1 billion as of December 31, 2003 and 2002, respectively. The fund is being managed by the Parent Company's TBG. The bulk of the fund's net assets were lent out to PNB Retirement Fund, Inc. Such funds were invested in marketable equity securities.

Sales contract receivable bear fixed interest rate per annum of 12.00% to 18.00% in 2003 and 2002, respectively.

On November 27, 1997, Maybank Philippines, Inc. (Maybank) and the Parent Company signed a deed of assignment transferring to the Parent Company certain Maybank assets and liabilities amounting to ₱1.9 billion and ₱1.3 billion, respectively, in connection with the sale of the Parent Company's 60% equity in Maybank. As of December 31, 2003 and 2002, the balance of Transferred Assets amounting to ₱1.2 billion may be offset against the equivalent amount of transferred liabilities (included under Bills Payable to BSP and Local Banks - Note 13). The excess of the transferred assets over the transferred liabilities is fully covered by an allowance for probable losses. The remaining equity ownership of the Parent Company in Maybank was sold in June 2000 (Note 22).

Special rehabilitation accounts represent the portion of the assets previously transferred to the NG as part of the Parent Company's rehabilitation in 1986. These receivables were repurchased by the Parent Company from the NG at a discount and are mostly secured by real estate mortgages.

In line with the provisions of the MOA discussed in Note 2, accrued interest receivable, accounts receivable and other resources pertaining to government accounts amounting to ₱2.1 billion were assigned by the Parent Company on July 30, 2002 to PDIC as payment for the latter's loans to the Parent Company.

The breakdown of financial resources included in Other Resources by contractual maturity as of December 31, 2003 and 2002 follows:

	Group					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Accrued interest receivable	₱6,734,497	₱–	₱6,734,497	₱6,732,977	₱–	₱6,732,977
Deficiency claims receivable	4,457,274	–	4,457,274	3,293,115	–	3,293,115
Accounts receivable	3,683,581	–	3,683,581	3,732,766	–	3,732,766
Sales contract receivable	114,170	1,820,098	1,934,268	117,913	1,259,717	1,377,630
Foreign currency notes and coins on hand, checks and other cash items	1,756,195	–	1,756,195	1,063,686	–	1,063,686
Transferred assets	1,645,353	–	1,645,353	1,686,250	–	1,686,250
Special rehabilitation accounts	266,592	–	266,592	308,274	–	308,274
Deferred reinsurance premiums	85,722	–	85,722	203,261	–	203,261
	₱18,743,384	₱1,820,098	₱20,563,482	₱17,138,242	₱1,259,717	₱18,397,959

	Parent Company					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Accrued interest receivable	₱6,681,809	₱–	₱6,681,809	₱6,692,316	₱–	₱6,692,316
Deficiency claims receivable	4,457,274	–	4,457,274	3,293,115	–	3,293,115
Accounts receivable	3,564,188	–	3,564,188	3,620,698	–	3,620,698
Sales contract receivable	114,170	1,820,098	1,934,268	117,913	1,259,717	1,377,630
Transferred assets	1,645,353	–	1,645,353	1,686,250	–	1,686,250
Foreign currency notes and coins on hand, checks and other cash items	1,637,283	–	1,637,283	1,001,331	–	1,001,331
Special rehabilitation accounts	266,592	–	266,592	308,274	–	308,274
	₱18,366,669	₱1,820,098	₱20,186,767	₱16,719,897	₱1,259,717	₱17,979,614

11. Allowance for Probable Losses

Changes in the allowance for probable losses follow:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Balance at beginning of year				
IBODI	₱195,281	₱62,153	₱195,281	₱62,153
Receivables from customers	19,020,886	19,020,915	18,587,967	18,527,711
Investments in subsidiaries and associates	342,669	347,429	342,669	342,669
ROPOA	3,419,612	3,006,936	3,419,612	3,006,936
Other resources	11,009,850	10,363,945	10,965,888	10,319,189
	33,988,298	32,801,378	33,511,417	32,258,658
Provisions during the year	447,426	2,171,225	416,543	2,127,243
Accounts charged off	(1,090,869)	(319,801)	(824,797)	(318,184)
Reversals and others	(553,476)	(664,504)	(579,163)	(556,300)
(Forward)				

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Balance at end of year				
IBODI (Note 5)	₱201,745	₱195,281	₱201,745	₱195,281
Receivables from customers (Note 6)	18,127,028	19,020,886	17,926,497	18,587,967
Investments in subsidiaries and associates (Note 8)	352,091	342,669	352,086	342,669
ROPOA (Note 9)	4,015,695	3,419,612	4,015,695	3,419,612
Other resources (Note 10)	10,094,820	11,009,850	10,027,977	10,965,888
	₱32,791,379	₱33,988,298	₱32,524,000	₱33,511,417

12. Deposit Liabilities

The breakdown of deposit liabilities by contractual maturity as of December 31, 2003 and 2002 follows:

	Group					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Demand	₱13,122,823	₱–	₱13,122,823	₱11,979,069	₱–	₱11,979,069
Savings	62,461,196	44,149,108	106,610,304	99,090,907	–	99,090,907
Time	–	26,182,061	26,182,061	16,788,680	6,720,122	23,508,802
	₱75,584,019	₱70,331,169	₱145,915,188	₱127,858,656	₱6,720,122	₱134,578,778

	Parent Company					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Demand	₱13,223,617	₱–	₱13,223,617	₱11,989,781	₱–	₱11,989,781
Savings	62,422,757	44,149,108	106,571,865	99,222,391	–	99,222,391
Time	592,477	27,903,139	28,495,616	19,186,969	6,720,122	25,907,091
	₱76,238,851	₱72,052,247	₱148,291,098	₱130,399,141	₱6,720,122	₱137,119,263

Of the total deposit liabilities of the Parent Company, ₱5.9 billion in 2003 and ₱5.7 billion in 2002 were non-interest bearing. Remaining deposit liabilities generally earned annual fixed interest rates ranging from 0.50% to 3.00% in 2003 and from 1.00% to 3.38% in 2002 for foreign currency-denominated deposit liabilities, and from 1.00% to 13.94% in 2003 and 2002 for peso-denominated deposit liabilities.

Under existing BSP regulations, non-FCDU deposit liabilities of the Parent Company are subject to liquidity reserves equivalent to 8% and 7% as of December 31, 2003 and 2002, respectively, and to statutory reserves equivalent to 9% as of December 31, 2003 and 2002. Available reserves as of December 31, 2003 and 2002 follow:

	2003	2002
	(In Thousand Pesos)	
Cash on hand	₱3,073,945	₱2,452,902
Due from BSP	1,115,502	3,313,537
ASS	149,540	165,208
IBODI	21,340,255	20,149,137
	₱25,679,242	₱26,080,784

As of December 31, 2003 and 2002, the Parent Company was in compliance with such regulations.

13. Bills and Acceptances Payable

This account consists of:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Bills payable to:				
Foreign banks	₱1,616,641	₱1,482,209	₱1,369,641	₱1,207,509
BSP and local banks (Notes 5 and 9)	1,931,896	1,376,128	1,559,082	1,376,128
Others	8,904,960	8,969,839	8,904,960	8,969,839
	12,453,497	11,828,176	11,833,683	11,553,476
Acceptances outstanding	96,431	174,019	96,431	174,019
	₱12,549,928	₱12,002,195	₱11,930,114	₱11,727,495

The annual interest rates ranged from 1.21% to 2.31% in 2003 and from 1.34% to 6.00% in 2002 for foreign currency-denominated borrowings, and from 1.00% to 7.00% in 2003 and 1.00% to 7.75% in 2002 for peso-denominated borrowings.

The breakdown of bills and acceptances payable by contractual maturity as of December 31, 2003 and 2002 follows:

	Group					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Bills payable	₱2,082,605	₱10,370,892	₱12,453,497	₱3,607,614	₱8,220,562	₱11,828,176
Acceptances outstanding	96,431	–	96,431	174,019	–	174,019
	₱2,179,036	₱10,370,892	₱12,549,928	₱3,781,633	₱8,220,562	₱12,002,195

	Parent Company					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousand Pesos)					
Bills payable	₱1,693,899	₱10,139,784	₱11,833,683	₱3,514,480	₱8,038,996	₱11,553,476
Acceptances outstanding	96,431	–	96,431	174,019	–	174,019
	₱1,790,330	₱10,139,784	₱11,930,114	₱3,688,499	₱8,038,996	₱11,727,495

The Parent Company's bills payable to BSP includes the transferred liabilities amounting to ₱1.2 billion as of December 31, 2003 and 2002 (Note 10).

Bills payable to PDIC amounting to ₱10.0 billion as of December 31, 2001 (included in Bills Payable - Others) represents the financial assistance granted to the Parent Company in connection with its rehabilitation program and bears interest based on 91-day T-bill rate plus 1%. The original term of said loan is 90 days renewable at PDIC's exclusive option with an additional provision that said loan shall be incorporated into the final rehabilitation program. Said loan is collateralized by receivables from the national and local governments, government-guaranteed agencies and/or GOCC's aggregating ₱11.8 billion and prime corporations and/or associates or subsidiaries of prime corporations aggregating ₱10.7 billion. Under the MOA mentioned in Note 2, the note payable to BSP of ₱13.9 billion was assigned to PDIC. Thereby increasing the Parent Company's total obligation to PDIC to ₱23.9 billion. Of this amount, (a) ₱10.0 billion was settled thru "dacion en pago" of the Parent Company's resources comprising of loans to, and debt securities issued by various government entities, (b) ₱7.8 billion was converted into convertible preferred shares of the Parent Company, and (c) the balance of ₱6.1 billion was converted into a note payable in ten years with interest of 91-day T-bill rate plus 1%.

Bills Payable - Others also includes fundings from the Development Bank of the Philippines, Land Bank of the Philippines and the Social Security System under which the Parent Company acts as a conduit for certain financing programs of these institutions.

14. Other Financial Liabilities

As of December 31, 2003 and 2002, the following financial liabilities are due within one year from their respective statement of condition dates:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Due to BSP	₱178,064	₱191,004	₱178,064	₱191,004
Margin deposits and cash letters of credit	202,189	66,737	202,189	66,737
Manager's checks and demand drafts outstanding	632,591	302,504	632,591	302,504
Accrued taxes, interest and other expenses	8,306,058	6,772,085	8,193,949	6,726,308
Other liabilities	6,404,130	6,706,556	5,479,731	5,402,639
	₱15,723,032	₱14,038,886	₱14,686,524	₱12,689,192

Accrued taxes, interest and other expenses consists of:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Taxes	₱56,687	₱65,655	₱51,209	₱58,970
Interest	7,011,611	5,596,449	7,008,916	5,596,459
Others	1,237,760	1,109,981	1,133,824	1,070,879
	₱8,306,058	₱6,772,085	₱8,193,949	₱6,726,308

Other liabilities consists of:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Accounts payable	₱3,513,059	₱3,640,788	₱3,102,376	₱3,058,654
Deferred credits	645,499	454,332	638,469	427,723
Reserve for unearned premiums	179,298	250,210	–	–
Minority interest in Japan - PNB Leasing	80,130	73,839	–	–
Others	1,986,144	2,287,387	1,738,886	1,916,262
	₱6,404,130	₱6,706,556	₱5,479,731	₱5,402,639

15. Capital Funds

Capital stock consists of:

	2003	2002	2001
		(In Thousand Pesos)*	
Preferred - ₱40 par value in 2003 and 2002			
Authorized and issued - 195,175,444 shares	₱7,807,018	₱7,807,018	₱–
Common - ₱40 par value in 2003 and 2002 and ₱60 par value in 2001			
Authorized - 1,054,824,557 shares in 2003 and 2002 and 833,333,334 shares in 2001			
Issued - 378,070,472 shares	15,122,819	15,122,819	22,684,228
	₱22,929,837	₱22,929,837	₱22,684,228

* Except par value and number of shares

The movements in the number of shares and amounts of issued and fully paid capital stock as of December 31, 2003, 2002 and 2001 follow (amounts in thousand pesos):

	Preferred Stock Issued					
	2003		2002		2001	
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
Balance at beginning of year	195,175,444	₱7,807,018	–	₱–	–	₱–
Issuance of stocks during the year	–	–	195,175,444	7,807,018	–	–
Balance at end of year	195,175,444	₱7,807,018	195,175,444	₱7,807,018	–	₱–

	Common Stock Issued					
	2003		2002		2001	
	No. of Shares	Amount	No. of Shares	Amount	No. of Shares	Amount
Balance at beginning of year	378,070,472	₱15,122,819	378,070,472	₱22,684,228	378,070,472	₱22,684,228
Reduction in par value during the year (applied to deficit)	–	–	–	(7,561,409)	–	–
Balance at end of year	378,070,472	₱15,122,819	378,070,472	₱15,122,819	378,070,472	₱22,684,228

The preferred shares have the following features:

(a) Non-voting, non-cumulative, fully participating on dividends with the common shares;

(b) Convertible, at any time at the option of the holder who is qualified to own and hold common shares;

(c) With mandatory and automatic conversion into common shares upon the sale of such preferred shares to any person other than the NG or any GOCC's; and

(d) With rights to subscribe to additional new preferred shares with all of the features described above.

In September 2000, the Parent Company offered for subscription through a pre-emptive rights offering, 171,850,215 common shares at an offer price of ₱60.00 per rights share with 171,850,215 warrants. The warrants were issued in the proportion of one warrant for every right to subscribe one share. One warrant entitles the holder to purchase one underlying share at an exercise price of ₱60.00 and is exercisable on or before November 16, 2005. Such rights and the underlying shares were issued out of the authorized capital stock of 833,333,334 shares and were offered to all stockholders of the Parent Company as of September 15, 2000, the record date.

As discussed in Note 2, on May 17, 2002 and June 25, 2002, the BOD and the stockholders, respectively, authorized the Parent Company to undergo another quasi-reorganization consisting of a reduction of the Parent Company's capital stock and applying the reduction of the capital stock to wipe out the deficit, and application of the translation adjustment to wipe out the deficit of the Parent Company as of December 31, 2001. On the same date, the BOD and the stockholders approved the increase of the Parent Company's authorized capital stock from ₱33.3 billion divided into 833,333,334 shares to ₱50.0 billion divided into 195,175,444 preferred shares at ₱40.00 par value and 1,054,824,557 common shares at ₱40.00 par value. With the reduction of the par value from ₱60 to ₱40, the exercise price of the warrants was also reduced from ₱60 to ₱40.

On July 23, 2002, the SEC simultaneously approved the Parent Company's application for the decrease in par value and the increase in authorized capital stock as well as the related amendments to the Parent Company's articles of incorporation.

On November 7, 2002, the SEC approved the quasi-reorganization of the Parent Company, subject to, among others, the conditions discussed in Note 2 Paragraph (1) iii.

The Parent Company's deficit before and after the quasi-reorganization in 2002 follows (in thousand pesos):

Deficit before the quasi-reorganization	
Balance at December 31, 2001	₱8,877,094
Reduction in par value during the year	(7,561,409)
Application of translation adjustment to deficit on quasi-reorganization	(1,626,430)
Deficit after the quasi-reorganization	310,745
Transfer to capital paid in excess of par value	(310,745)
Net loss for 2002	1,948,596
Transfer to surplus reserves	25,626
Balance at December 31, 2002	₱1,974,222

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, which is determined on the basis of regulatory accounting policies, which differ from Philippine GAAP in some aspects. In addition, the risk-based capital ratio of a bank, expressed as a percentage of qualifying capital to risk-weighted resources, should not be less than 10% for both solo basis (head office and branches) and consolidated basis (parent bank and subsidiaries engaged in financial allied undertakings but excluding insurance companies). As discussed in Note 2, the BSP has approved the booking of additional appraisal increment of ₱431.0 million in 2001 on branch premises and recognition of the same in determining the capital adequacy ratio, and booking of translation adjustment of ₱1.6 billion in 2001 representing the increase in peso value of the investment in foreign subsidiaries for purposes of the quasi-reorganization and rehabilitation of the Parent Company provided that the same shall be excluded for dividend purposes.

A portion of the Parent Company's surplus corresponding to the undistributed equity in net earnings of investees amounting to ₱1.3 billion and ₱1.6 billion as of December 31, 2003 and 2002, respectively, is not available for dividend declaration until realized by the Parent Company through dividends from investees.

Specifically, under existing banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets is defined as total assets less cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits and other non-risk items determined by the MB of the BSP. As of December 31, 2003 and 2002, the Group is in compliance with such provision. The capital-to-risk assets ratio of the Group as reported to the BSP as of December 31, 2003 and 2002 is 13.7% and 14.3%, respectively.

As required by existing banking regulations, a portion of the Parent Company's surplus equivalent to 10% of the Parent Company's income from trust operations during the year is appropriated to surplus reserves until such surplus reserves is equivalent to 20% of the Parent Company's authorized capital stock (Note 19).

16. Retirement Plan

The Parent Company's noncontributory retirement plan provides a retirement benefit equal to one hundred and twelve percent (112%) of plan salary per month for every year of credit service. Retirement expense charged to operations amounted to ₱266.0 million, ₱189.9 million and ₱378.3 million in 2003, 2002 and 2001, respectively, for the Group, and ₱264.3 million, ₱182.8 million and ₱374.4 million in 2003, 2002 and 2001, respectively, for the Parent Company.

As of September 30, 2003, the latest actuarial valuation of the Parent Company's retirement plan, the actuarial accrued liability for retirement benefits amounted to ₱964.7 million. As of December 31, 2003 and 2002, the Plan's net assets amounted to ₱436.4 million and ₱432.1 million, respectively. The principal actuarial assumptions used to determine retirement benefits include an investment yield of 11% per annum and salary increase rate of 6% per annum.

The Parent Company's BOD approved on October 24, 2002 the implementation of the Early Retirement Program (ERP) on February 3, 2003 to June 30, 2003. The total payments relating to ERP amounted to ₱77.3 million in 2003.

As of December 31, 2003, the latest actuarial valuation of the retirement plan of Japan - PNB Leasing, the actuarial present value of retirement benefits amounted to ₱0.7 million. The principal actuarial assumptions used to determine retirement benefits include an investment yield and salary increase rate of 10% per annum. No funding has been made to the accruals for retirement benefits to date. Accordingly, the accrued retirement liability including accrued interest expense as of December 31, 2003 and 2002 amounted to ₱0.7 million.

As of April 1, 2001, the latest actuarial valuation of the retirement plan of PNB General Insurers Co., Inc., a wholly owned subsidiary of PNB Holdings, the actuarial present value of retirement benefits amounted to ₱10.0 million. As of December 31, 2003, the Plan's net assets approximate ₱14.4 million. The principal actuarial assumptions used to determine retirement benefits include an investment yield and salary increase rate of 10% per annum.

Actuarial valuation is made at least every two years.

17. Leases

The Parent Company leases the premises occupied by some of its branches; certain subsidiaries also lease the premises occupied by their respective head offices and certain branches. The lease contracts are for periods ranging from 3 to 10 years and are renewable upon mutual agreement between them and their respective lessors. Rentals on these contracts amounted to ₱337.1 million in 2003, ₱296.8 million in 2002 and ₱273.0 million in 2001 for the Group, and ₱205.5 million in 2003, ₱187.6 million in 2002 and ₱182.5 million in 2001 for the Parent Company.

Minimum rentals of the Group and Parent Company for the next five years follow:

	Group	Parent Company
	(In Thousand Pesos)	
2004	₱303,891	₱217,903
2005	297,432	228,348
2006	308,528	240,574
2007	322,857	254,388
2008	338,133	269,110

18. Income and Other Taxes

Provision for (benefit from) income tax consists of:

	Group			Parent Company		
	2003	2002	2001	2003	2002	2001
	(In Thousand Pesos)					
Current	₱586,338	₱532,119	₱755,042	₱429,706	₱410,863	₱638,080
Deferred	(134,283)	(1,782,803)	(1,869,127)	(136,461)	(1,782,543)	(1,888,202)
	₱452,055	(₱1,250,684)	(₱1,114,085)	₱293,245	(₱1,371,680)	(₱1,250,122)

Under Philippine tax laws, the Parent Company and certain subsidiaries are subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax (GRT) which was in effect until 2002, and documentary stamp tax. Effective January 1, 2003, the Parent Company and all subsidiaries in the financial intermediation business were subject to the value-added tax (VAT) instead of GRT. However, Republic Act No. 9238 reimposes GRT on banks and financial intermediaries effective January 1, 2004. The implementation of the GRT is subject to any implementing regulations that may be issued by the Bureau of Internal Revenue (BIR).

Income taxes include the corporate income tax, discussed below, and final tax paid at the rate of 20%, which represents final withholding tax on gross interest income from government securities and other deposit substitutes. These income taxes, as well as the deferred tax benefits and provisions, are presented as Provision for (Benefit from) Income Tax in the statements of income.

Under current tax regulations, the corporate income tax rate is 32%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. An MCIT of 2% on modified gross income is computed and compared with the regular income tax. Any excess of MCIT over the regular income tax is deferred and can be used as a tax credit against future income tax liability for the next three years. In addition, NOLCO is allowed as a deduction from taxable income in the next three years from the period of incurrence for the Parent Company and certain subsidiaries.

FCDU offshore income (income from non-residents) is tax-exempt while gross onshore income (income from residents) is subject to 10% income tax. Interest income on deposits with other FCDUs and offshore banking units is subject to 7.5% final tax.

The reconciliation between the statutory income tax rate to effective income tax rate follows:

	Group			Parent Company		
	2003	2002	2001	2003	2002	2001
Statutory income tax rate	32.00%	32.00%	32.00%	32.00%	32.00%	32.00%
Tax effects of:						
Expired NOLCO	171.34	(41.20)	(23.66)	230.25	(39.70)	(23.06)
Valuation allowance on deferred tax assets	(83.40)	33.28	19.24	(145.58)	32.08	19.12
Tax-paid income	(42.37)	8.78	6.59	(51.92)	7.97	6.42
Non-deductible interest expense	33.93	(6.13)	(7.13)	45.06	(5.88)	(6.66)
FCDU income	(30.63)	8.04	3.21	(41.16)	7.74	3.12
Tax-exempt income	(10.10)	0.99	2.05	(13.57)	0.95	2.00
Equity in net earnings of subsidiaries and associates	3.86	0.24	1.79	5.18	3.20	1.74
Others - net	(1.79)	3.09	(12.85)	3.24	2.95	(11.44)
Effective income tax rate	72.84%	39.09%	21.24%	63.50%	41.31%	23.24%

The components of net deferred tax assets (included in Other Resources) follow:

	Group		Parent Company	
	2003	2002	2003	2002
	(In Thousand Pesos)			
Deferred tax asset on:				
Allowance for probable losses	₱9,206,441	₱9,357,487	₱9,156,458	₱9,328,625
NOLCO	4,248,292	4,608,481	4,214,415	4,579,868
Others	180,605	185,217	169,482	167,704
	13,635,338	14,151,185	13,540,355	14,076,197
Valuation allowance	(7,414,983)	(8,062,269)	(7,352,149)	(8,024,452)
	₱6,220,355	₱6,088,916	₱6,188,206	₱6,051,745

Details of the Group's NOLCO and MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousand Pesos)		
NOLCO				
1992 to 1999	₱ 12,121	₱ –	₱ 12,121	2012 to 2019
2000	3,343,375	3,343,375	–	2003
2001	6,656,980	4,933	6,652,047	2004
2002	4,401,450	–	4,401,450	2005
2003	2,210,295	–	2,210,295	2006
	₱16,624,221	₱3,348,308	₱13,275,913	
MCIT				
2000	₱ 68	₱68	₱–	2003
2001	614	36	578	2004
2002	1,275	21	1,254	2005
2003	953	–	953	2006
	₱2,910	₱125	₱2,785	

NOLCO includes net operating losses of PNB Corporation - Guam from 1992 to 1999 amounting to ₱12.1 million recognized based on applicable tax laws similar to those of USA. Guam's NOLCO matures 10 years from the date such NOLCO was incurred.

Details of the Parent Company's NOLCO and MCIT follow:

Year Incurred	Amount	Used/Expired	Balance	Expiry Year
		(In Thousand Pesos)		
NOLCO				
2000	₱3,323,019	₱3,323,019	₱–	2003
2001	6,594,631	–	6,594,631	2004
2002	4,394,436	–	4,394,436	2005
2003	2,180,979	–	2,180,979	2006
	₱16,493,065	₱3,323,019	₱13,170,046	
MCIT				
2003	₱176	₱–	₱176	2006

Management believes that with the rehabilitation program in place, the Parent Company will be able to realize a portion of its deferred tax assets.

Revenue Regulations (RR) No. 10-2002 defines expenses to be classified as entertainment, amusement and recreation (EAR) expenses and sets a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 1% net revenues for sellers of services. EAR expenses amounted to ₱88.0 million in 2003 and ₱123.1 million in 2002. EAR expenses for the periods January to August 2002 and September to December 2002 included in Miscellaneous Expenses in the statements of income amounted to ₱46.2 million and ₱76.9 million, respectively.

19. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacities for its customers are not included in the accompanying statements of condition since these are not resources of the Parent Company. Such resources held in trust were carried at a value of ₱46.7 billion and ₱45.3 billion as of December 31, 2003 and 2002, respectively (Note 22). In connection with the trust functions of the Parent Company, government securities amounting to ₱474.6 million and ₱449.6 million as of December 31, 2003 and 2002, respectively, are deposited with the BSP in compliance with the trust regulations.

In compliance with existing banking regulations, the Parent Company transferred from surplus to surplus reserves ₱28.5 million and ₱25.6 million in 2003 and 2002, respectively, corresponding to the 10% of the net income realized from its trust, investment management and other fiduciary business until such related surplus constitutes 20% of its authorized capital stock (Note 15).

20. Segment Information

Business Segments

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:

Retail Banking - principally handling individual customers' deposits, and providing consumer type loans, overdrafts, credit cards facilities and funds transfer facilities;

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

Treasury - principally providing money market, trading and treasury services, as well as the management of the Group's funding operations by use of T-bills, government securities and placements and acceptances with other banks, through treasury and wholesale banking.

These segments are the bases on which the Group reports its primary segment information. Other operations of the Group comprise of 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 marginal cost of funds.

Geographical Segments

Although the Group's businesses are managed on a worldwide basis, the Group operates in 5 principal geographical areas of the world.

Business segment information of the Group for the year ended December 31, 2003 follows:

	Retail Banking	Corporate Banking	Treasury	Other	Total
Gross income	₱3,579,491	₱4,335,226	₱5,078,776	₱1,232,033	₱14,225,526
Segment result	₱857,122	₱275,739	₱549,449	₱403,390	₱2,085,700
Unallocated expenses					1,458,777
Income from operations before taxations and minority interest					626,923
Provision for income tax					(452,055)
Minority interest					(6,290)
Net income for the year					₱168,578
Other Information					
Segment resources	₱21,723,797	₱72,947,516	₱81,389,510	₱2,034,502	₱178,095,325
Unallocated resources					20,699,259
Total resources					₱198,794,584
Segment liabilities	₱21,088,340	₱70,813,679	₱79,008,730	₱1,974,989	₱172,885,738
Unallocated liabilities					1,302,410
Total liabilities					₱174,188,148

In the Philippines, the Parent Company's home country, the Group offers a wide range of financial services as discussed in Note 1. Additionally, most of the remittance services are managed and conducted in Asia, Canada, USA and United Kingdom.

The distribution of the Group's gross income for 2003 by geographical market follows:

	Gross Revenue by Geographical Market (In Thousand Pesos)
Philippines	₱11,744,378
Canada and the USA	1,175,307
Asia (excluding Philippines)	993,624
United Kingdom	269,862
Other European Union Countries	42,355
	₱14,225,526

21. Related Party Transactions

In the ordinary course of business, the Parent Company has loans and other transactions with its subsidiaries and affiliates, and with certain directors, officers, stockholders and related interest (DOSRI). Under the Parent Company's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of direct credit accommodations to each of the Parent Company's DOSRI, 70% of which must be secured, should not exceed the amount of their respective deposits and book value of their respective investments in the Parent Company. In the aggregate, DOSRI loans generally should not exceed the Parent Company's capital funds or 15% of the Parent Company's total loan portfolio, whichever is lower. As of December 31, 2003 and 2002, the Parent Company is in compliance with such regulations.

The information relating to the DOSRI loans of the Parent Company and its subsidiaries follows (amounts in thousand pesos):

	2003	2002
Total outstanding DOSRI loans		
Inclusive of loans extended to NG, LGU's and GOCC's	₱14,195,502	₱10,029,449
Exclusive of loans extended to NG, LGU's and GOCC's	1,945,591	2,329,121
Percent of DOSRI loans to total loans		
Inclusive of loans extended to NG, LGU's and GOCC's	17.77%	12.17%
Exclusive of loans extended to NG, LGU's and GOCC's	2.43	2.70
Percent of unsecured DOSRI loans to total DOSRI loans		
Inclusive of loans extended to NG, LGU's and GOCC's	0.78%	1.21%
Exclusive of loans extended to NG, LGU's and GOCC's	5.66	5.20
Percent of past due DOSRI loans to total DOSRI loans	–	–
Percent of nonperforming DOSRI loans to total DOSRI loans	–	–

In accordance with existing BSP regulations, the reported DOSRI performing loans exclude loans extended to certain borrowers before these borrowers became DOSRI.

The information relating to Parent Company's receivables and other accommodations to the following government units as of December 31, 2003 and 2002 follows:

	2003	2002
	(In Thousand Pesos)	
NG	₱503,329	₱670,199
LGU's	2,538,139	2,662,468
GOCC's	9,208,443	4,367,661
	₱12,249,911	₱7,700,328

For purposes of computing the maximum allowable DOSRI loans, which should not exceed the lower of the Parent Company's capital funds or 15% of the Parent Company's total loan portfolio, the aforementioned receivables from government units are not included in the computation of DOSRI limit.

The Parent Company has lease agreements with some of its subsidiaries. The income related to these agreements amounting to ₱7.6 million in 2003 and ₱6.8 million in 2002 is included in Miscellaneous Income in the statements of income.

The significant year-end balances as of December 31, 2003 with respect to related parties included in the financial statements (after appropriate eliminations have been made) follow:

	2003		2002	
Related Party	Loans Receivable	Interest Income	Loans Receivable	Interest Income
	(In Thousand Pesos)			
Fortune Tobacco Corporation	₱1,000,000	₱91,512	₱1,000,000	₱124,938
Philippine Air Lines	955,467	113,308	3,379,525	159,787
Asia Brewery Inc.	523,389	49,435	589,393	61,904
Air Philippines Corporation	60,000	6,593	60,000	6,539
Others	287,209	73,178	703,027	78,972
	₱2,826,065	₱334,026	₱5,731,945	₱432,140

22. Commitments and Contingent Liabilities

In the normal course of business, the Group makes various commitments and incurs certain contingent liabilities that are not presented in the financial statements. These commitments and contingent liabilities include various guarantees, forward exchange contracts, commitments to extend credit, standby letters of credit, pending litigations including litigations involving redemption of foreclosed properties already sold to third parties and contested tax assessments. Several suits and claims remain unsettled. The Group and its legal counsel believe that any losses arising from these contingencies which are not specifically provided for will not have a material adverse effect in the financial statements.

In November 1994, the BSP, Maybank and the Parent Company executed a MOA providing for the settlement of Maybank's ₱3.0 billion liabilities to the BSP. Under this MOA, the Parent Company is jointly and severally liable with Maybank for the full compliance and satisfaction of the terms and conditions therein. The MOA provides for the creation of an escrow fund to be administered by the BSP where all collections from conveyed assets and certain annual guaranteed payments required under the MOA are to be deposited.

Relative to the sale of the Parent Company's 60% interest in Maybank, the Parent Company has requested the BSP to consider the revision of the terms of the MOA to, among others, (a) delete the provision on the annual guaranteed payments in consideration of an immediate payment by the Parent Company of an agreed amount, and (b) exclude Maybank as a party to the MOA. On May 7, 1997, the BSP approved the Parent Company's request to amend the terms of the MOA, subject to the following conditions among others:

a) The Parent Company shall remit ₱150.0 million to the escrow account out of the proceeds from sale;

b) The Parent Company shall remit to the escrow account an amount equivalent to 50% of any profit that may be realized by the Parent Company on account of the sale; and

c) If the amount in the escrow account has not reached the total of ₱3.0 billion by June 30, 2013, the difference shall be paid by the Parent Company by way of a debit to its regular account with the BSP.

On November 28, 1997, the Parent Company remitted ₱150.0 million in compliance with item (a) above. The Parent Company anticipates that the payment of ₱150.0 million to the BSP together with the existing balance of the funds in escrow as of that date will allow the escrow account to reach the required ₱3.0 billion earlier than programmed. This has effectively released the Parent Company from any further payments under the MOA. As of December 31, 2003 and 2002, the total trust assets of the escrow account maintained with the BSP amounted to ₱1.3 billion and ₱1.2 billion, respectively. Average yield during the year ranged from 11% to 16%. Management expects that the value of the escrow account by 2013 will be more than adequate to cover the ₱3.0 billion liability due the BSP.

The Parent Company's remaining investment in Maybank was sold on June 29, 2000. The sale was approved by the BSP on August 16, 2000.

The following is a summary of various commitments and contingent liabilities as of December 31, 2003 and 2002 at their equivalent peso contractual amounts:

	Group		Parent Company	
	2003	2002	2003	2002
		(In Thousand Pesos)		
Trust department accounts (Notes 5 and 19)	₱46,714,433	₱45,278,584	₱46,714,433	₱45,278,584
Unused commercial letters of credit	10,601,584	12,162,163	10,601,584	12,162,163
Inward bills for collection	9,926,938	8,009,886	9,926,938	8,009,886
Confirmed export letters of credit	3,927,542	3,690,099	3,927,542	3,520,617
Forward exchange sold	3,315,446	2,365,650	3,315,446	2,289,708
Forward exchange bought	1,456,837	1,635,504	1,456,837	1,471,862
Spot exchange sold	820,199	427,411	820,199	427,411
Outward bills for collection	817,738	210,058	817,738	210,058
Spot exchange bought	378,686	242,838	378,686	242,838
Others	5,095,543	5,004,349	5,095,543	4,933,028

Of the ₱46.7 billion of funds managed by the TBG as of December 31, 2003, approximately ₱39.5 billion (the Escrow Funds) was held by the Bank in escrow on behalf of the NG and other claimants in respect of the Escrow Funds. The ownership of the Escrow Funds has been subject of dispute and litigation for a number of years. On July 15, 2003, the Supreme Court decided that the Escrow Funds belong, and should be transferred, to the NG. In January 2004, the Escrow Funds were transferred to the NG. As a result of the transfer, aggregate amount of assets managed by the TBG declined by the full extent of the Escrow Funds. Accordingly, the income to be generated by the Parent Company from its trust banking services in 2004 will be materially affected by such transfer.

23. Earnings (Loss) Per Share

Basic earnings (loss) per share is calculated by dividing the net income (loss) for the year attributable to common shareholders by the weighted average number of common shares outstanding during the year.

Diluted income (loss) per share is calculated by dividing the net income (loss) attributable to common shareholders by the weighted average number of common shares outstanding during the year adjusted for the effects of dilutive convertible preferred shares.

	2003	2002	2001
a. Net income (loss) before quasi-reorganization (in thousand pesos)			
a.1 Common shares	₱111,182	(₱1,725,857)	(₱4,130,141)
Preferred shares	57,396	(222,739)	–
a.2 Total	168,578	(1,948,596)	(4,130,141)
b. Weighted average number of common shares for basic income (loss) per share	378,070,472	378,070,472	378,070,472
c. Weighted average number of common shares for diluted income (loss) per share			
Effect of dilution:			
Convertible preferred shares	195,175,444	48,793,861	–
Adjusted weighted average number of common shares for diluted income (loss) per share	573,245,916	426,864,333	378,070,472
d. Basic income (loss) per share (a.1/b)	₱0.29	(₱4.56)	(₱10.92)
e. Diluted income (loss) per share (a.2/c)	0.29	(4.56)	–

24. Financial Performance

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

	2003	2002
Return on average equity	0.70%	(9.44%)
Return on average assets	0.09	(1.04)
Net interest margin on average earning assets	1.50	0.42

25. Subsequent Events

On December 19, 2003, the Parent Company's BOD approved the raising of lower tier 2 capital through the issuance in the local capital market of subordinated notes with maximum principal amount of ₱3.0 billion maturing in 10 years but callable with step-up in 2009. The notes bear a coupon rate of 12.5% per annum with step-up after 5 years.

The issuance of the foregoing subordinated notes under the terms approved by the BOD was approved by the MB, in its Resolution No. 06/01-23-04 dated January 22, 2004, subject to the Parent Company's compliance with certain conditions.

Relative to this, on February 16, 2004, the Parent Company issued ₱3.0 billion, 12.5% Subordinated Notes (the Notes) due in 2014. Among the significant terms and conditions of the issuance of such Notes are:

(1) Issue Price at 100% of their principal amount;
(2) The Notes bear interest at the rate of 12.5% per annum from and including February 16, 2004 to but excluding February 16, 2009. Interest will be payable semi-annually in arrears on February 16 and August 16 of each year, commencing on August 16, 2004 unless the Notes are previously redeemed, interest from and including February 16, 2009 to but excluding February 16, 2014 will be reset at 11.232%, the equivalent of the five-year MART1 FXTN as of February 9, 2004, plus a spread of 5.272% per annum. The stepped-up interest will be payable semi-annually in arrears on February 16 and August 16 of each year, commencing on August 16, 2009;
(3) The Notes constitute direct, unconditional unsecured and subordinated obligations of the Parent Company and at all times rank pari passu without preference among themselves and at least equally with all other present and future unsecured and subordinated obligations of the Parent Company;
(4) The Parent Company may redeem the Notes in whole but not in part at a redemption price equal to 100% of the principal amount together with accrued and unpaid interest on the day following the last day of the tenth interest period from issue date, subject to the prior consent of the BSP. The Notes may not be redeemed at the option of the noteholders; and
(5) Each noteholder, by accepting a Note, irrevocably agrees and acknowledge that: (a) it may not exercise or claim any right of set-off in respect of any amount owed by the Parent Company arising under or in connection with the Notes; and (b) it shall to the fullest extent permitted by applicable law, waive and be deemed to have waived all such rights of set-off.

26. Notes to Cash Flow Statements

The principal non-cash transactions pertain to the elimination of receivables from Naseco (Note 8) in 2003, and the conversion of debt from PDIC into equity shares of the Parent Company (Note 2) and the "dacion en pago" arrangement with PDIC (Note 2) in 2002.

[risk management]

>> RISK MANAGEMENT

Risk management at PNB covers three main areas: 1) Credit risk; 2) liquidity and market risk; and 3) operational risk. The Board of Directors is ultimately responsible for the management of risk at the Bank. It approves the bank's risk appetite, risk policies and procedures and the risk management infrastructure. The Risk Management Committee is a Board committee that convenes monthly to be constantly apprised of the Bank's risk profile and various risk issues.

The Risk Management Division is independent from the line and reports directly to the Risk Management Committee. It reviews risk exposures versus approved limits, drafts risk policies, and assists line management in risk reduction strategies.

>> CREDIT RISK

The management of credit risk at PNB includes a continuing review of credit limits, policies and procedures; the approval of specific exposures and workout situations; the constant re-evaluation of the loan portfolio and the sufficiency of provisions thereof.

Credit decisions are delegated among the various committees ranging from the Business Center Credit Committee to the Senior Management Credit Committee, the Executive Committee and finally to the Board of Directors.

The Credit Policy Group is responsible for reviewing credit standards and formulating appropriate credit policies and procedures. Sensitivity analyses on interest rate shocks as well as to geopolitical events are regularly undertaken.

>> LIQUIDITY AND MARKET RISK

Liquidity risk is monitored and controlled primarily by a gap analysis of maturities of assets and liabilities, as well as an analysis of liquid assets. Liquidity is dimensioned in both day-to-day and stressed situations. The Bank's policy is to maintain adequate liquidity at all times.

Market risk is dimensioned and controlled in both the trading book and in the balance sheet. In the trading book market risk is controlled by a daily analysis of the value-at-risk (VAR) of trading instruments. In the balance sheet interest rate risk is dimensioned using earnings-at-risk (EAR), which arrays the repricing behaviors of assets and liabilities. The volatilities utilized for this regular analysis are those for a rolling one-year period, updated quarterly. The risk amounts computed are for a 99% confidence level. Stress tests are conducted quarterly on both liquidity and market risks.

>> OPERATIONAL RISKS

PNB is constantly working to limit the operational risks that run through all facets of bank operations. This requires the combined efforts of all business and support units, and the tools required continue to be developed.

The startup database of loss events is populated from internal audit reports. Apparent trends are analyzed, and various operating groups combine into task forces to address these. The product manual program is utilized to identify and address risks inherent in the bank's products. The business continuity plan is reviewed annually by each unit. In all of these efforts, the use of technology is harnessed for more control.

[corporate governance]

PNB adheres to the principles of good corporate governance as culled from leading best practices internationally and on a national level.

We subscribe to a philosophy of integrity and transparency in our manner of doing business, fair dealing with our clients, investors, staff, stockholders and our various publics, professionalism in managing the company and our subsidiaries and respect for the laws and regulations affecting our business. Internally, we follow a philosophy of rational checks and balances as well as a structured approach to our operating processes.

To this end, we adopted a Revised Manual on Corporate Governance and appointed a senior officer to ensure compliance with the provisions of the Manual. Our Directors, Advisors and Executive Officers have taken a course on Corporate Governance to be able to understand and implement the principles thereof in a satisfactory manner.

Under the Manual, compliance with the principles of good corporate governance principally starts with the Board of Directors. It is the Board's responsibility to foster the long-term success of the corporation and secure its sustained competitiveness in accordance with its fiduciary responsibility. In order to have a central focus for the bank's activities, the Board has established the company's Mission and Vision Statements.

To have a structure for compliance, the Manual established and defined the responsibilities and functions of the Board and the various Committees necessary for good corporate governance, i.e., the Nomination Committee, the HR Committee, the Audit (and Compliance Committee), the Risk Management Committee and the roles of the External and Internal Auditors and the Corporate Secretary. The Manual also established an evaluation system by which the Directors and the Executive Officers can rate the bank periodically against certain leading practices and principles on good corporate governance. Also, the Manual made provisions for the protection of Investors' Rights including Minority Interests.

[the board of directors]

FRANCISCO A. DIZON
Chairman

> BA in General Studies, Ateneo de Manila University
> Master in Business Management, Asian Institute of Management
> Chairman, PNB (Europe) PLC and PNB Remittance Center Ltd. (Hongkong)
> Director, PNB Holdings Corporation, PNB General Insurers Company, Inc., PNB International Investment Corp., Beneficial-PNB Life Insurers Co., Inc. and Bulawan Mining Corporation
> Chairman, Mindstream, Inc. and Pointwest Technology, Inc.
> Chairman and President, Pacific Northstar, Inc., Project Quest Corporation and Fleetwood Holdings, Inc.
> Director, Netopia Computer Technologies, Inc., Laura Vicuna Foundation for Street Children, Inc. and Global Stride, Inc.
> past President and CEO, Asian Bank and Rizal Commercial Banking Corporation
> past President and Director, Investment House Association of the Philippines, AB Leasing and Finance Corp and Stock Transfer Service, Inc.
> past President and COO, AB Capital & Investment Corporation
> past Director, First Philippine Investment Trust, ATSP Management, Ltd., Philippine Long Term Equity Fund, Pacific Horizons Investment Trust PLC, Megalink, Hi-Cement Corporation, Ayala Property Ventures Corp., Cebu Holdings, Inc., Cardinal Ceramics, Inc., Asian Savings Bank, RCBC Forex Brokers, RCBC Capital Corporation and RCBC Savings Bank

LORENZO V. TAN
Vice Chairman, President and CEO

> BS in Commerce, major in Accounting, De La Salle University
> Master in Business Administration, J.L. Kellogg Graduate School of Management, Northwestern University, Illinois, U.S.A.
> Global Corporate Finance Training Program, Citibank Global Institute, N.Y., U.S.A.
> Certified Public Accountant in the Philippines and U.S.A.
> Chairman of PNB Holdings Corp. and Japan-PNB Leasing & Finance Corporation
> Director of PNB Securities, Inc., PNB General Insurers Company, Inc., PNB Capital and Investment Corporation, PNB Forex, Inc., Beneficial-PNB Life Insurance Company, Inc., PNB International Investment Corporation, PNB Remittance Centers, Inc., PNB Remittance Center, Ltd., and PNB (Europe) PLC
> Director, National Food Authority, Philippine International Trading Corp. and Citra Metro Manila Tollways Corporation
> President, Megalink
> Member of the Board of Trustees, Livelihood Corporation
> past President and COO of United Coconut Planters Bank
> held senior executive positions at Citibank N.Y., Citibank Los Angeles, Citicorp Real Estate, Inc. and Citibank N.A. Singapore from 1987 to 1995
> past President of HLG Capital (Phils.), Inc., HLG Asset Management (Phils.), Inc.
> recipient of the Ten Outstanding Young Men (TOYM) of the Philippines award for banking in 1999

DOMINGO TEE CHUA
Director

> BS in Chemical Engineering, Mapua Institute of Technology
> Chairman, PNB Securities, Inc. and PNB Remittance Center, Inc.
> Director, PNB Corporation, Guam, PNB General Insurers Co., Inc., PNB Investments Ltd. and PNB (Europe) PLC
> Chairman, Air Philippines Corporation
> President, Manufacturing Services, Allied Leasing & Finance Corporation and Lucky Travel Corporation
> General Manager of Himmel Industries, Inc.
> Director, Asia Brewery, Inc., Maranao Hotel & Resort Corporation, Oceanic Bank (San Francisco, U.S.A.), Allied Commercial Bank (China), Allied Banking Corporation (Hongkong) Ltd., Allied Bankers Insurance Corporation, Foremost Farms, Inc., Grandspan Development Corporation, Dominium Realty & Development Corporation and Eurotiles Industrial Corporation

SANTIAGO S. CUA, JR.
Director

> BS in Management Engineering, Ateneo de Manila University
> Chairman, PNB International Investment Corporation
> Director, PNB Europe PLC, PNB Corporation, Guam, PNB IFL Systems, PNB Remittance Center Ltd
> Director, Philippine Racing Club, Inc.
> Corporate Secretary, International School of Manila, Inc.
> Trustee, Heritage Park Management Corp.
> held senior management positions in Westmont Bank and Central Vegetable Oil Manufacturing Co., Inc. from 1987 to 1998
> held various management positions in European Asian Bank AG and Deutsche Bank (Asia) AG from 1974 to 1987
> past PNB Senior Executive Vice President and Chief Lending Officer

RICARDO M. TAN
Director

> Bachelor of Science in Economics (Money and Banking) University of San Francisco, California
> Master of Science in Economics (Money & Banking/Central Banking in Developing Countries), London School of Economics and Political Science, University of London
> President and CEO, Philippine Deposit Insurance Corporation (PDIC)
> Vice Chairman, PDIC Board of Directors
> past Executive Vice President and Head, Insurance and Risk Management Sector, PDIC
> past Deputy Director, Programs Department (Region West) Asian Development Bank
> held various management positions as Vice President in Rizal Commercial Banking Corporation
> past Central Bank Financial Attache, Embassy of the Philippines in London, U.K.
> past Presidential Staff Assistant in charge of the Office of Economic Affairs, Office of the President of the Philippines, Malacañang
> past Senior Economist, Central Bank of the Philippines

VICENTE L. PANLILIO
Director

> BS in Economics, University of the Philippines
> Advanced Bank Management Program, Asian Institute of Management
> Chairman, PNB Forex, Inc. and PNB International Investment Corp.
> Director, PNB Securities, Inc., Bulawan Mining Corporation, PNB International Finance Ltd.
> Director, San Fernando Light and Power Co., Bacnotan Steel Industries, Inc. and Island Power Corporation
> member of the Board of Regents, Manuel L. Quezon University and the Board of Trustees of TSPI Foundation
> past Chairman, PNB Remittance Center, Inc.
> past Adviser, PNB Italy SpA
> past Senior Executive Vice President and Chief Operating Officer and member of the Advisory Committee of the Board of Directors of Far East Bank and Trust Company

ALEJANDRO R. ROCES
Director

- > AB in Fine Arts, University of Arizona, U.S.A.
- > Master of Arts, Far Eastern University
- > Doctor of Philosophy in Literature, Tokyo University, Japan
- > Chairman, College Assurance Plan, Phils., Inc., CAP Pension, CAP College, Colegio de San Agustin, Pamantasan ng Lungsod ng Maynila, St. Louis University and St. Mary's University
- > Director, CAP Life, CAP Technologies, Inc., CAP Tech Sales
- > past Chairman, Movie & Television Review and Classification Board
- > Honored as National Artist for Literature (2003)

WASHINGTON Z. SYCIP
Director

- > BS in Commerce, University of Santo Tomas
- > Master of Science in Commerce, Columbia University
- > Chairman of Macro Asia Corporation and Lufthansa Technik Philippines, Inc.
- > Director of various corporations, including Belle Corporation, Stateland Inc., Aboitiz Transport System, Corp., Manila Electric Company, State Investment Trust Inc., the PHINMA Group, Philippine Air Lines, Inc., Cityland Development Corporation, Benpres Holdings Corporation, First Philippine Holdings Corporation, Philippine Hotelier, Inc., Philippine American Life & General Insurance Co.
- > Member, Board of Advisors of JG Summit Holdings, Inc.

LUCIO C. TAN
Director

- > BS Chemical Engineering, Far Eastern University
- > Doctor of Philosophy, major in Commerce University of Santo Tomas
- > Doctor of Humane Letters (Honoris Causa) University of Guam, U.S.A.
- > Doctor of Applied Agriculture (Honoris Causa) Central Luzon State University, Nueva Ecija
- > Doctor of Technology Management (Honoris Causa) Western Visayas College of Science and Technology, La Paz, Iloilo
- > Chairman/CEO, Asia Brewery, Inc., Basic Holdings Corporation, Fortune Tobacco Corp., Himmel Industries, Inc. and Philippine Airlines, Inc.
- > Founder and Past Chairman, Allied Banking Corporation
- > Most Outstanding Member Award, Philippine Chamber of Commerce and Industry
- > Lifetime Achievement Awardee, Dr. Jose P. Rizal Awards for Excellence
- > Ambassador-at-Large, Guam, U.S.A.
- > Diploma of Merit, Socialist Republic of Vietnam
- > Outstanding Manilan for 2000, City of Manila
- > UST Medal of Excellence Awardee, University of Santo Tomas
- > Chairman Emeritus, Federation of Filipino-Chinese Chambers of Commerce and Industry, Inc.
- > Chairman and President, Tan Yan Kee Foundation, Inc.
- > President, San Lorenzo Ruiz Mission Foundation
- > Founder and Vice-Chairman, Foundation for Upgrading the Standard of Education, Inc.
- > Adviser/Benefactor, Asia Brewery Inc. Medical Specialty Scholarship Program

MACARIO U. TE
Director

- > BS in Commerce, Far Eastern University
- > Director, PNB General Insurers Co. Inc., PNB Capital and Investment Corporation, Bulawan Mining Corporation, PNB Securities, Inc., PNB Holdings Corporation, PNB Remittance Center and PNB-IFL
- > Owner and Chairman, M.T. Holdings
- > Director, Balabac Resources and Holdings, Oriental Petroleum and Minerals Corp., Nissan North EDSA, Beneficial-PNB Life and Insurance Co., Inc., Waterfront Phils. and Baguio Gold Holdings Corporation
- > past Director of Traders Royal Bank, Traders Hotel, Pacific Rim Oil Resources Corporation, Link World Construction Development Corporation, Suricon Resources Corporation and Palawan Consolidated Mining Corporation
- > past Chairman, Autobus Industries Corporation (1984-1995)

FLORENCIA G. TARRIELA
Director

- > BS in Business Administration, major in Economics University of the Philippines
- > Master in Economics, University of California at Los Angeles (UCLA), California, U.S.A.
- > Chairperson, Executive Committee of PNB
- > Chairman, PNB Capital and Investment Corporation and PNB Italy SpA
- > Director, PNB International Investment Corporation, PNB Remittance Center, Ltd. and PNB Investments Ltd.
- > Independent Director, Philippine Depository & Trust Corporation (PDIC)
- > past Managing Partner and Deputy Country Manager at Citibank N. A.
- > past Undersecretary of Finance
- > past Alternate Member to the BSP Monetary Board, Land Bank of the Philippines and Philippine Deposit Insurance Corporation
- > Life member, Bank Administration Institute of the Philippines (BAIPHIL) and Financial Executive Institute (FINEX)
- > Trustee/Advisor/Director of Kilosbayan , Philippine Bible Society, Summer Institute of Linguistic, Finex Foundation and Tuloy sa Pag-unlad, Inc. (TSPI)
- > Columnist, "The Financial Executive" of the Business World
- > Co-author, Coincidence on Miracle? I & II, "Don't Throw Those Weeds Away!"

RENATO J. FERNANDEZ
Corporate Secretary

- > BS in Literature and Bachelor of Laws Ateneo de Manila University
- > Member, Philippine Bar
- > Assistant Corporate Secretary of PNB International Finance Ltd., PNB Remittance Center Ltd and PNB Italy SpA
- > Engaged in active law practice as member of the Law Firm of Sen. Estanislao A. Fernandez and the Caparas, Ilagan and Masakayan Law Offices
- > past Country Personnel and Industrial Relations Manager of Firestone Tire and Rubber Co., Inc. of the Philippines
- > past Personnel Director then Head of Legal Affairs of Citibank N.A.
- > past Vice President and Group Head of Human Resource Management (seconded), CityTrust Banking Corporation
- > past Internal Legal Counsel of Citibank, N.A. (1984- 1996)
- > past Consultant, Legal Affairs for Citibank, N.A. and the Philippine Banking Corporation
- > past General Counsel and Corporate Secretary of Philippine Banking Corporation and later General Counsel and Asst. Corporate Secretary for the merged entity comprising the Philippine Banking Corporation, Global Business Bank and Asian Banking Corporation
- > past Director and President, Personnel Management Association of the Philippines (PMAP), Legal Management Council of the Philippines (LMCP) and Association of Bank Lawyers of the Philippines (ABLP)

[the board of advisors]

JOSE A.R. MELO
Chairman

- Bachelor of Laws, Manuel L. Quezon University
- Master of Laws, University of Sto. Tomas with the highest grade of Meritissimus
- Director, National Service Corporation (NASECO) and PNB Remittance Center
- Member, Philippine Bar
- past member of the law firm of Sen. Jose W. Diokno
- past Associate Justice of the Supreme Court (1992-2002)
- past Associate Justice, Court of Appeals (1979-2002)
- past Commissioner of the Civil Service Commission (1975-1979)
- past Associate Commissioner, Professional Regulation Commission
- past Vice Chairman of the Executive Committee on the Revision of the Administrative Code (1978-1979)
- past Solicitor at the Office of the Solicitor General (1975-1979)
- held various positions, Legal Office of the Office of the President of the Philippines
- past Confidential Assistant to the Chairman Presidential Anti-Graft Committee, Legal Adviser, Board of Censors for Motion Pictures

ENRIQUE G. FILAMOR
Advisor

- BS in Chemical Engineering De La Salle University
- Master in Business Management Asian Institute of Management
- Director, PNB Remittance Company (Canada), PNB Remittance Center, Ltd., PNB Securities, Inc.
- Managing Partner, EGF Advisory Services, Inc.
- Director in various private companies including Bacnotan Steel Industries, Inc. and Pilipino Telephone Corp.
- past Chief Investment Officer, Philamlife Insurance Company
- held senior executive positions in Citibank Manila and New York including as Marketing Head, Global Trade Division, North America, etc.
- Recipient of the Ten Outstanding Young Men of the Philippines (TOYM) Award for International Banking in 1983, past Chairman of the TOYM Foundation
- past PNB Director

FRANKLIN G. FUENTEBELLA
Advisor

- BS in Chemical Engineering De La Salle University
- Master in Business Administration major in Finance, University of the Philippines
- Director, PNB Capital and Investment Corporation, PNB Forex, Inc., PNB International Finance, Ltd.
- Director, Planters Products, Inc., JLL Agricultural Dev't. Corp., Carmen Agricultural Development Corp. and the Confederation of Sugar Planters' Assns.
- Treasurer, Confederation of Sugar Producers Cooperatives
- Chairman, Rural Bank of Marayo, Philippine Diversified Developers Corp. and Planters' Assn. of Southern Negros
- President, Metropol Financing and Investment Corp., and Golden Agribusiness Corp.
- Director, Confederation of Sugar Producers, Inc.
- past Director, Republic Planters Bank, now Maybank

CIELO M. SALGADO
Advisor

- BS in Management, Assumption College
- Master in Economics Ateneo de Manila University
- Doctor of Philosophy in Economics University of Sto. Tomas
- past PNB Director
- Chairperson, PNB General Insurers, Co., Inc., PNB Investment Limited and National Service Corporation (NASECO)
- Director, PNB International Investment Corporation, Allied Savings Bank and Philippine National Red Cross, Angeles City, Pampanga
- Retired as PNB Vice President in 1987 after serving the Bank for 22 years
- Recipient of various awards from Technical Education and Skills Development Authority (TESDA), The Philippine National Red Cross, Soroptimists International, Girl Scouts of the Philippines, Luzon Journal and the Philippine National Bank
- Chairperson, Flames of Fire for Jesus Foundation
- Former Vice Governor of Pampanga

[senior management]

FEDERICO Y. CADIZ, JR.
Executive Vice President
Asset Management Sector

- BA in Computer Science and BA in Economics, University of Michigan, Ann Arbor
- Master in Public Finance, University of Michigan, Ann Arbor
- past Group Managing Director, Hong Leong Group, HLG Asset Management Phils., Guoco Securities, First Lepanto Taisho, Bradstock Aurora Insurance, Prime Orion Philippines, Orion Properties, Tutuban Properties, Cyber Bay, Central Bay, 22 Ban.Com and 22 Ban Marketing, Inc.
- past Managing Director Dao Heng Bank, Manila
- past Real Estate Area Director and head of Venture Capital Group at Citibank N.A., Manila
- held various management positions handling risk management, global trade, country debt restructuring and transaction banking at Citibank, N.A.
- 22 years in banking and finance

ANTHONY Q. CHUA
Executive Vice President
Global Operations

- Bachelor of Arts and BS in Commerce, cum laude De La Salle University
- Master in Business Administration and Ph.D. in Finance Michigan State University
- Certified Public Accountant
- past partner at SGV/Ernst and Young handling Risk Consulting
- past President of Philippine Bank of Communications
- held various management positions in Citibank N.A. for 15 years
- had teaching assignments at Michigan State University and De La Salle University
- handled training programs in Citibank
- 23 years in banking and finance

CARMEN G. HUANG
Executive Vice President, Chief Financial Officer and Chief of Staff to the President

- Bachelor of Science, cum laude Bachelor of Arts, major in Mathematics, cum laude St. Scholastica's College
- Master in Business Administration (Candidate) Ateneo de Manila University
- Certified Public Accountant
- past Senior Vice President & Chief of Staff to the President, Equitable PCI Bank
- past Executive Vice President & Chief Financial Officer, Crown Equities
- past Senior Vice President & Controller, Land Bank of the Philippines
- past Director, Ecology Savings Bank, Jardine Land, Inc., PCIB Properties, Inc., Equitable PCI Life Insurance Corporation and Optimum Development Bank
- 29 years in banking and finance

MERVYN G. ENCANTO
Executive Vice President, and Head, International Banking and Overseas Remittance Sector for the Americas and Pacific Rim

- Bachelor of Arts in Political Science University of the Philippines
- Bachelor of Laws, University of the Philippines
- Member, Philippine Bar
- International Senior Management Program , Harvard Business School
- Bar Examiner, Commercial Law, 1999
- currently President, Transparency International (Philippines)
- past President, Integrated Bar of the Philippines (IBP)
- past President, Law Association of Asia and the Pacific (LAWASIA)
- past Senior Vice President and General Counsel of United Coconut Planters Bank
- held various positions in United Coconut Planters Bank Group of Companies
- 29 years in banking and law practice

ASTERIO L. FAVIS, JR.
Executive Vice President and Head Treasury Group

- Management Engineering, cum laude, Ateneo de Manila University
- Stockholder/Director, Favis Management and Development Corporation, Aspirations International, Inc. and Carnivorous Delights, Inc.
- former Head, Financial Markets of AB Capital and Investment Corp.
- former Head of Treasury of Asian Bank for 10 years
- past President and Board Member, Foreign Exchange Association of the Phils.
- current President and Board Member, Money Market Association of the Philippines
- held various positions in the treasury department of Philippine Commercial International Bank from 1977 to 1990
- 27 years in banking and finance

OMAR BYRON T. MIER
Executive Vice President and Chief Credit Officer
Remedial Management Sector

> BSBA, major in Accounting, AB & Master in Economics, University of the Philippines
> Certified Public Accountant
> currently Chairman of the Board, Victorias Milling Co., Inc.
> former Senior Credit Officer, Citibank Manila and Citibank Malaysia
> former Head, World Corporations Group, Public Sector Group and Risk Management Group, Citibank, Manila
> former Country Risk Manager and Risk Management Group Head, Citibank N.A., Malaysia
> former Deputy General Manager and Corporate Banking Head, Deutsche Bank, Manila
> 32 years in banking and finance

ISMAEL R. SANDIG
Executive Vice President
Retail Banking Sector

> BS in Commerce, major in Accounting, Far Eastern University
> Master in Business Administration (candidate) De La Salle University
> past Regional Business Head, Retail Banking Center, Metro Manila East Region, Unionbank of the Phils.
> past National Sales Director, Retail Banking Center, Unionbank
> past Group Head, Branch Distribution Group, Unionbank
> past Branch Head, Main Office Branch, Philippine Commercial International Bank
> past Branch Manager, Insular Bank of Asia & America
> 28 years in banking and finance

RITA C. BAUTISTA
First Senior Vice President and Deputy Head, Retail Banking Sector

> BSBA, major in Accounting University of the Philippines
> Certified Public Accountant
> Fifth Bank Management Course, Asian Bankers Association - AIM
> Advanced Bank Management Program, Asian Institute of Management
> past Senior Vice President, PNB Branches Luzon Group
> past FVP, PNB Branch Operations/Consumer Banking Division, North Metro
> past VP, PNB Consumer Finance Division
> past VP, PNB Corporate Banking Division (Chinese Desk)
> past VP, Branches Group, PNB Republic Bank (now Maybank)
> 35 years in banking and finance

CRIS S. CABALATUNGAN
First Senior Vice President and Chief Audit Executive

> BS in Commerce, major in Accounting, Cum Laude De La Salle College, Bacolod
> Certified Public Accountant
> held various positions in Citibank/Citigroup including a 3-year posting in the Singapore Regional Office
> past Vice President and Risk Management Division Head, Consumer Bank's Credit Cycle Group, Citibank
> past group Head and First Vice President, Internal Audit Group, Global Bank and Philippine Savings Bank
> 24 years in banking and finance

SYLVIA CHAN-LIM
First Senior Vice President and Treasurer, Budget and Corporate Disbursing Office

> BS in Biochemistry, University of Sto. Thomas
> currently Director, PNB Forex, Inc., PNB Remittance Center, Inc., and Baguio Gold Holdings Corporation
> past Head, PNB Treasury Group
> held executive positions in Allied Banking Corporation
> past Asst. Treasurer of Bonifacio Heritage Memorial, Inc.
> past Director of Allied Savings Bank and Allied Forex Corporation
> 27 years in banking and finance

JOSE VICENTE M. CUIZON
First Senior Vice President and Head, International Banking and Overseas Remittance Sector for Europe and the Middle East

> AB in Economics, Ateneo de Manila University
> Master in Business Management, Asian Institute of Management
> past Sector Head, PNB Overseas Remittance Business
> past Country Head, PNB Saudi Arabia
> past VP & General Manager, PNB Hongkong
> past Regional VP for North America, PNB
> past General Manager, PNB New York
> past EVP and COO, Century Bank, PNB West Coast affiliate
> served PNB for 20 years mainly at the Accounts Management and International departments

MICHAEL O. DE JESUS
First Senior Vice President
Corporate Banking Sector

> BA (Economics), Union College, Schenectady, NY
> MBA (Finance), The Wharton School, University of Pennsylvania, Philadelphia, PA
> past First Vice President and Head, Corporate Banking Group, United Coconut Planters Bank
> past Vice President and Senior Relationship Manager, Corporate Banking Group, Citibank Manila
> held senior executive positions at Citibank New York, Dai-Ichi Kangyo Bank New York and Credit Lyonnais NY
> 22 years in banking and finance

CYNTHIA VICENTE-JAVIER
First Senior Vice President
Information Technology Group

> Bachelor of Science, major in Mathematics, University of Santo Tomas
> past Vice President, Cash Management Division Citibank, Latin America Regional Technology
> past Vice President, Application Development Citibank, Tokyo
> past Vice President, Software Development Division, Bank of Philippine Islands (BPI)
> past Vice President, Technology Management Area, Citibank, Manila
> 30 years in technology

RAMON L. LIM
First Senior Vice President/ Deputy Head, Treasury Group

> BS in Commerce, major in Accounting, Magna Cum Laude, University of San Carlos
> MBM, Asian Institute of Management
> past Business Manager & Trust Officer, Trust & Investment Services Group, Unionbank of the Philippines
> past Bank Treasurer, Unionbank of the Philippines
> past Investment Manager & Consultant , MHK Properties & Investments Ltd., Hong Kong
> past Managing Director, Solid Pacific Finance Ltd., Hong Kong
> held senior management positions at Citibank New York, Taipei and Hongkong
> 28 years in banking and finance

ISABELITA T. MANALASTAS
First Senior Vice President and Head, International Banking and Overseas Remittance Sector for Asia/Managing Director, PNB Tokyo Branch

> BS in Business Economics University of the Philippines
> Master in Economics Tsukuba University, Japan
> Executive Program for Leaders in Development Institute for International Development, Harvard University
> Diploma in Japanese Language, Osaka University of Foreign Studies
> Part-time Lecturer, Sophia University, Tokyo
> past Finance Attache Philippine Embassy, Tokyo
> past Deputy Director for Investments ASEAN-Japan Centre, Tokyo
> President, Philippine Chamber of Commerce and Industry in Japan
> 16 years in banking and finance

FEDERICO R. MARQUEZ , JR.
First Senior Vice President and Head, Human Resource Group

> AB Economics, Ateneo University
> Post-graduate studies in International Management, American Graduate School of International Management, Arizona, Thunderbird University, USA
> MBA (candidate) Ateneo Graduate School
> Chairman, HR Team Asia, Inc.
> past President, Personnel Management Association of the Philippines
> held executive positions Unilever Philippines
> past International Sector HR Director for Latin America/ Asia/Australia/Middle East African Countries Warner Lambert
> past Asia Region HR Vice President, Warner Lambert
> past HR Vice President Alcatel Philippines
> past Group Vice President Guoco Holdings, Philippines

MA. ELENA S. SARMIENTO
First Senior Vice President/Head Trust Banking Group

> BS in Commerce, Accounting magna cum laude, College of the Holy Spirit
> MBA (Candidate), La Salle Business School
> Certified Public Accountant
> ABA Trust Course, National Trust School, Northwestern University, Illinois, U.S.A.
> Most Outstanding Graduate Philippine Trust Institute
> past Trust Officer, UCPB, All Asia Capital and Union Bank
> various senior positions at Bancom Dev. Corp. and Pryce Securities
> past President/current Board Member, Trust Officers Association of the Phils.
> Board of Trustees, Trust Institute Foundation of the Philippines
> 27 years in banking and finance

[the bank's congenerics]

JAPAN-PNB LEASING AND FINANCE CORPORATION

Japan-PNB Leasing and Finance Corporation is a joint venture between PNB and Japan's well established financial institution, IBJ Leasing Co. Ltd. It offers, among others, lease financing, commercial loans and installment sales finance to qualified borrowers. Japan-PNB Leasing and Finance Corp. is the country's seventh largest leasing company in terms of assets.

NATIONAL SERVICE CORPORATION

The National Service Corporation (NASECO) provided PNB and its domestic subsidiaries with security, messengerial, clerical, maintenance and other allied services.

PNB CAPITAL AND INVESTMENT CORPORATION

The PNB Capital and Investment Corporation (PNB Capital) is the investment house subsidiary of PNB. PNB Capital provides investment banking services such as loan syndication, underwriting of equity/debt issues, project finance, bond flotation, asset securitization, debt paper-related transactions, mezzanine financing and financial advisory services.

PNB CORPORATION, GUAM

The PNB Corporation, Guam offers foreign exchange remittance services to the Filipino communities in Guam and Saipan.

PNB (EUROPE) PLC

PNB (Europe) PLC is a wholly-owned UK-incorporated company. It is engaged in full service banking which includes, among others, deposit services, loans, fund transfers, FX trading and documentary credits. It has an extension office at Nottinghill Gate to primarily handle remittances.

PNB FOREX, INC.

PNB Forex, Inc. operates as a trading company engaged in the buying and selling of foreign currencies.

PNB HOLDINGS CORPORATION

PNB Holdings Corporation is the parent company of PNB General Insurers Co., Inc., a non-life insurance company that offers fire, marine, motor car, surety, casualty, engineering and accident insurance.

PNB INTERNATIONAL FINANCE, LTD.

The PNB International Finance, Ltd. (PNB IFL) is PNB's wholly-owned subsidiary in Hongkong principally engaged in money market operations, loan syndications, corporate loans, fund transfer, export financing and retail loans to Filipino overseas workers and professionals.

PNB INTERNATIONAL INVESTMENTS CORPORATION

PNB International Investments Corporation (PNB IIC) is the parent company of PNB Remittance Centers, Incorporated (PNB RCI), which operates a network of 33 money transfer offices in the United States. PNB RCI also has a subsidiary, PNB RCI Holding Company, which is the parent company of PNB Remittance Company Canada (PNB RCC). PNB RCC has six offices servicing the remittance requirements of Filipinos in Sherbourne (Toronto), Vancouver, Eglinton, Scarborough, Montreal and Mississauga.

PNB ITALY SpA

PNB Italy SpA is a wholly-owned remittance subsidiary of PNB established primarily to service the remittance requirements of overseas Filipino workers in Italy. It has offices in Rome, Milan and Florence.

PNB REMITTANCE CENTER, LTD.

The PNB Remittance Center, Ltd. (PNB RCL) is PNB's wholly-owned remittance subsidiary based in Hongkong. It has nine offices servicing the remittance requirements of overseas Filipino workers in Hongkong. PNB RCL has a remittance tie-up with Bank Mandiri to service the remittance requirements of Indonesian overseas workers in Hongkong.

PNB SECURITIES, INC.

The PNB Securities, Inc. (PNBSI) is the wholly-owned stock brokerage subsidiary of PNB that deals in the trading of shares of stocks listed at the stock exchange.

[products and services]

DEPOSITS AND RELATED SERVICES

Peso Accounts
- Regular Savings Account (With Passbook)
- Superteller Savings Account
- First Access Account
- PNB Prime Savings Account
- Regular Current Account
- PNBig Check Account
  - (Interest-bearing Checking Account)
- Priority One Checking Account
  - (Interest-bearing Checking Account)
- COMBO Account
- Regular Time Deposits
- PNBig Savings Account
- PNB Peso M.I.N.T. Account
- Wealth Multiplier

Foreign Currency Accounts
- Dollar Accounts
  - U.S. Dollar Savings Account
  - Greencheck
    - (Interest-bearing U.S. Dollar Checking Account)
  - Greenmarket
    - (U.S. Dollar Time Deposit)
  - PNB $ M.I.N.T. Account
- Euro Accounts
  - Euro Savings Account
  - Euro Time Deposit Account

Other Services
- Cash Mover
  - (Deposit Pick-up Services)
- Paywise (Payroll Services)
- e-Collect (Collection System)
- PNB Rapid Access Plus
- PNB Tax e-Payment Facility
- PNB Tele-Video
- Safety Deposit Boxes
- ATM Related Services
  - Debit Bills Payment Facility
    - (With Enrollment, No Enrollment, PNB Paybill)
  - Paylink
    - (Electronic Fund Transfer/Point-of-Sale System)
  - Phonelink
    - (Phonebanking System)
  - International ATM Acquirer Service

FUND TRANSFER SERVICES

Money Transfers (Foreign and Domestic)
- Remittance via
  - Rapid Remit
  - Electronic Remittance Processing System (ERPS)
  - PNB 3D (Door-to-Door Delivery)
    - Remittance Service
    - Check 3D Remittance Service
    - Cash 3D Remittance Service
    - Door-To-Bank (DTB) Remittance Service
  - Telegraphic/Telex Transfers
  - S.W.I.F.T. Transfers
  - Philippine Domestic Dollar Transfer System (PDDTS)
    - End of Day Netting (PCHC)
    - Gross Settlement Real Time (GSRT) – Dollar
  - Electronic Peso Clearing System
    - (EPCS)
  - Demand Drafts (Local/Foreign)
  - Cashier's/Manager's Checks
  - Gift Cheque

Travel Funds
- FX Currency Notes
- PNB Mabuhay Peso Travelers Cheque
- Other Foreign Travelers Cheque

Regular Collections (Foreign and Domestic)

Final Credit Service
- (Special U.S. Dollar Check Collection)

PNB Direct Deposit Program

PNB Mabuhay Peso Gift Cheque

TREASURY PRODUCTS AND SERVICES

Foreign Currency
- Foreign Exchange (Spot, Forward, Swap)
- Foreign Currency Money Market Transactions
- Bonds Dealership
  - Euro-Notes/Bonds
  - Brady Bonds
  - Convertible Bonds
  - R.P. Sovereign Bonds (ROP, BSP)
  - U.S. Treasury Bonds

Local Currency
- Securities Dealership
  - Government Securities
    - Treasury Bills
    - Fixed Rate Treasury Notes/Bonds
    - Dollar Linked Philippine Peso Notes
    - Retail Treasury Bonds
  - Commercial Papers

EXPORT/IMPORT SERVICES

Export Services
- Advising of Letters of Credit
- Confirmation of Letters of Credit
- Export Negotiation
  - Drawings under Letters of Credit, Documents against Payment (DP) and Documents against Acceptance (DA)
  - Payment of Exports under PrePayment and Open Account (OA) Arrangements

Import Services
- Issuance of Letters of Credit
  - (Foreign/Domestic)
  - Regular
  - Deferred
  - Standby, which serves the purpose of:
    - Advance Payment Bonds
    - Bid Bonds
    - Performance Bonds
- Issuance of Shipside Bonds
- Servicing of Importations under DA/OA and DP Arrangements
- Servicing of Collection of Final Customs Duties on No-Dollar/Self-Funded/Consignment Imports
- Issuance of Standby Letters of Credit under PNB's "Own a Philippine Home Loan Program"

LENDING SERVICES

Commercial and Industrial Loans
- Credit Lines
  - Revolving Credit Line (RCL)
  - Non-revolving Credit Line
  - Omnibus Line
  - Peso/FX Convertible Credit Line
  - Contract to Sell Financing
  - Suppliers Credit Financing
- Export Financing Facilities
  - Export Advance Loan
  - Export Advance Line
  - Exporters' Express Financing
  - Small and Medium Exporters' Financing Program
- Bills Purchased Lines
  - Domestic Bills Purchased Line
  - Export Bills/Drafts Purchased Line
  - Discounting Line
- Import-Related Loans
  - LC Line
  - LC/TR Line
- Term Loans
  - Medium- and Long-Term Loan
  - Short-Term Loan

Structured Trade Finance
Export Credit Agency Lines
US-EXIM Guarantee Program
Specialized Lending Programs
DBP Wholesale Lending Facilities
LBP Wholesale Lending Facilities
SSS Wholesale Lending Facilities
Sugar Financing Program
Agricultural Sugar Crop Loan (ASCL)
Sugar Mill Operation Loan
Sugar Quedan Financing
Small Business Loans for SMEs
Short-Term Credit Line
Term Loan
Local Guarantee Facilities
PhilEXIM Guarantee
SB Corp. Guarantee Program
Loans to Local Government Units (LGUs)
Term Loans
Import LC Facility against Loan or Cash
Standby Letters of Credit
Loan vs. Deposit Hold Out
LGU Contractor Financing
LGU Bond Flotation (thru PNB Capital and Investment Corp.)
Loans to Government-Owned and Controlled Corporations/National Government Agencies
Term Loans
Credit Lines
Export Financing Facilities
Bills Purchased Lines
Import Letters of Credit/Trust Receipts Line
Standby Letters of Credit
Structured Trade Finance
Export Credit Agency Lines
Guarantee Program
Consumer Loans
All Purpose Salary Loan
Motor Vehicle Loan
Peso Housing Loan
Dollar Housing Loan
Own a Philippine Home
Own an Overseas Home Loan
Loans Against Deposit Holdout
Peso Loan vs. Peso/FX Deposits
Credit Card Services
PNB VISA Card
PNB ASTRA Secured Kredit (ASK) Card

TRUST BANKING SERVICES

Corporate Trust Services
Trusteeship
Securitization
Investment Portfolio Management
Administration of Employee Benefit, Pension and Retirement Plans
Trust Indenture
Global Custodial Services
Custodianship Services for Local Corporations
Agency
Escrow
Bond Registrar
Collecting and Paying Agency
Stock Transfer
Receiving Bank
Common Trust Funds
PNB Mabuhay Profit Fund
PNB Dollar Profit Fund
PNB C-I Index Fund
PNB Punla ng Bayani Fund
Dollar Punla Fund
Personal Trust Services
Estate Planning
Living Trust Accounts
Investment Management Accounts
Insurance Trust
Educational Trust
Guardianship
Custodianship

CONGENERICS (As of March 15, 2004)

Banking
PNB (Europe) PLC
Foreign Exchange Trading
PNB Forex, Inc.
General Services
National Service Corporation
Holding Company
PNB Holdings Corporation
PNB International Investments Corporation
Insurance
PNB General Insurers Co., Inc.
Investment Banking
PNB Capital and Investment Corporation
Leasing and Financing
Japan-PNB Leasing and Finance Corporation
Merchant Banking (Hongkong)
PNB International Finance, Ltd.
PNB Investments, Ltd.
Remittance
PNB Corporation, Guam
PNB Italy SpA
PNB Remittance Centers, Inc.
PNB Remittance Center, Ltd.
Stock Brokerage
PNB Securities, Inc.

The 2003 Annual Report is published by Philippine National Bank for stockholders clients and friends.

Design: OP Communications, Inc.
Photography: Noby Cabañero
Printing: Solutions

A publication of the PNB Corporate Marketing and Communications Division

We manage risks,
we provide opportunities
www.pnb.com.ph

PNB Financial Center
Pres. Diosdado Macapagal Blvd.
Pasay City 1300
Metro Manila, Philippines
P.O. Box 1844 (Manila)
P.O. Box 410 (Pasay City)
Cable : PHILNABANK
Telex : 40179, 63292, 62911
Fax : 526-3105, 526-3049
Tel. Nos : 891-6040 to 70, 526-3131 to 80