LETTER TO SHAREHOLDERS

2002 was a major milestone for Export and Industry Bank. Last year's operating results represent the consolidated performance of Export and Industry Bank Inc. (EIB or Parent company) and subsidiaries (the EIB Group), the combined entity resulting from its merger with Urban Bank and its associated company, Urbancorp Investments.Net profit of the Group surged to Php380.9M, exceeding financial targets set under the 5 year business plan as approved in 2001 by the PDIC, BSP, SEC. This bottomline translates into a 10.75% return on average shareholder equity and a 2.05% return on average assets, exceeding the industry average of 5.78% and 0.62%, respectively. Earnings per common share correspondingly rose to Php 0.14 in 2002 from Php 0.02 in 2001.

Underlying the improvement in earnings was primarily the increase in our total net revenue before overhead and revision for loan losses to Php1.35 billion. This in turn resulted mainly from the higher net interest margin on average earning assets which rose to 7.58% from 3.89% previously, attributable largely to last year's asset liability management (ALM) interest rate risk strategy of deliberately restructuring the maturity configuration of the balance sheet to take advantage of rapidly declining market interest rates.

Aside form the higher margins, other income was also a key driver of net revenue before operating overhead. Improved trading gains, fee-based and discounting revenues grew more than tripled to Php 452.6 million. Higher cost efficiency provided additional boost to the bank's profitability. EIB's cost to income ratio that stood at48.1% for 2002, was one of the lowest in the banking industry.

The merger brought EIB Group's resources to Php 27.1 billion as of year-end. Concomitantly, our total deposit base increased to Php 8.0 billion for Php 4.1 billion. Total funds inclusive of regular deposits, re-structured deposits and placements under the Liability Servicing Plan (LSP) component of the aforementioned financial program aggregated Php 17.3 billion by year- end.

The LSP provided for the restructuring and programmed repayment over a 6-year horizon of deposits and similar liabilities of Urban Bank and Urbancorp Investments. From Php 17.8 billion as to the formal turnover date in August 2002, this figure was substantially reduced to about Php 9.4 billion as at the end of December 2002. The discounting of the repayment notes issued in relation to the foregoing obligations for the first year of the program, settlement of scheduled payments, and setting off of loans against LSP receivables of debtors significantly brought down the LSP burden. Last year also saw the implementation of a two-pronged balance sheet management strategy aimed at generating liquidity to settle the said LSP balances while enhancing profitability from the payout of restructured liabilities. Though the liability discounting process, the bank earned Php 138.2 mio. Incremental revenue in the form of discount recognized as miscellaneous income.

Apart from a much improved revenue and augmented resource base, another milestone in 2002 was the evolution and rationalization of a diversified portfolio of business activities and financial services brought about by the merger. Your Board formally approved the plan for the resumption of operations of the securities brokerage, development bank, and realty development company and insurance business while concurrently phasing out duplicating and non-core business activities. The entry of EIB into the lucrative insurance market was realized through its subsidiary ValueLife Financial, which commenced offering life and non-life insurance products. Another financial services subsidiary, E-Securities, the securities brokerage arm of the Group opened its doors to the public. The growth, liquidity and income potential of the Group was however bootstrapped by the expansion of the merged bank's real and other properties owned and acquired including real estate backed assets. A significant real property venture is One McKinley Place, a joint residential condominium project with Philippine Township Corp. of the RFM Group, which was re-started, resulting in having units now available for sale.

EIB's nationwide business platform continued to grow with the continued expansion of the branch network andon line service delivery channels. The opening of dormant branches and other branches including Cebu Business Park, Bacolod, Ayala Alabang, Greenhills, Quintin Paredes, Escolta and Navotas and Quezon Avenue enlarged the branch netwok to 31. In terms of physical positioning, new branches were opened and old branches relocated to cater to varying market segments while avoiding duplicaitons of branches in service areas. New products and services such as Expertrade and Expert On-Line were introduced to support the thrust of increasing the share CASA and raising the stability in the overall funding mix.

The retail and institutional fiduciary business of the group grew by 61.4% to Php 3.0 billion in terms of the trust and managed investment funds. This was attributed mainly to the broadening of the trust product menu arising from the introduction of the US Dollar denominated accounts and the retail treasury bond trust funds which provided higher yielding, readily marketable and good quality outlets for the investment portfolio. In early 2003, the common trust fund (CTF) products in local and foreign currency under the brand names of Expert Fund and Expert Green Fund respectively were developed to gain deeper inroads in the intensifying competition in the fixed income and equity unit trust markets.

As the trading and banking book expanded, we made sure risks are contained to a manageable level. Market risks were prudentially managed with the establishment of exposure limits for FX and securities trading approved by the board and strictly monitored for compliance by the Board Risk Management Committee. Aggressive collection of non-performing loans, selective disposal of non-performing acquired assets, stringent credit review and increased provisioning strategies were adopted to improve the quality of the banking book. These measures translated into a dramat c reduction in the NPL ratio from almost 80% at the start of the consolidation to 16.45% by the year end, compared to the 17.82% average for commercial banks. The bank set aside Php301M in additional loan loss reserves which raised the average ratio of NPL to 118%, far exceeding the 51.8% KBS average. Moreover, a non-performing asset pool (NPAP) estimated at Php 1.8 billion was spin off from the balance sheet through a shareholder agreement which provided for its collection and liquidation over a period of 6 years.

In terms of capital management, our risk based capital cover was strengthened pursuant to regulatory capital initiatives under the Basel Accord, and boosted in line with merger objectives. The bank's solvency position was further bolstered by the increase in consolidated shareholder equity funds by 57.1% to Php 4.32 billion. Our risk based capital adequacy ratio (CAR) as of year-end 2002 stood at 14.3%, way above the 10% and 8% minimum CAR ratios required by the BSP and BIS respectively.

In the area of corporate governance, a Code of Good Governance which enshrined the role, organization and responsibilities of the Board of Directors to its stakeholders, best corporate governance practice and performance criteria was formulated and approved by shareholders and submitted to the Securities and Exchange Commission and the Bankgo Sentral. The overall objective is to ensure that the bank evolves a culture that meets internationally acceptable standards of corporate practice consistent with the bank's vision and mission, strategic objectives and action plans. Our Directors also completed BSP's Corporate Governance and RiskManagement Certification Program. We also strengthened our risk compliance process through the implementation of both standard risk weighted and Value at Risk (VAR) based market risk measurement, limit monitoring and risk control methodology, implementing therein stress and back testing procedures for market risk pursuant to BSP risk based examination guidelines.

The business environment for 2003 is not expected to be as robust as compared to 2002 that staged the strongest economic growth performance since the 1997 Asian financial crisis. The negative signals looming in the horizon in the aftermath of the Iraq war posing significant downside risks including the anticipated slowdown in the global economy, El Niño phenomenon, and the burgeoning public debt and fiscal deficits.

These threats to business activity and corporate earnings growth notwithstanding, we are confident that Exportbank will again emerge resilient this year. This prospect is in line with our 2003 road map that seeks to build a high performance momentum based on the initial gains made in 2002 with the following management initiatives: balance sheet restructuring, effective capital management, value creation and subsidiaries rationalization. We are strengthening our balance sheet by diversifying and building a high quality earning asset portfolio in trade finance where our current expertise lies while intensifying our market presence in retail banking, specifically residential mortgage origination, high growth potential small business credits, personal and salary loans, and micro-enterprise financing. We are aiming to establish stronger relationships with government financial institutions as a conduit for specialized lending and guarantee programs. We are likewise working on the reactivation of our development bank subsidiary, Urbancorp Development Bank that we envision to be the key vehicle for our retail, SME, and micro financing services.

Another key asset restructuring component is the cash flow and revenue generation from our non-core business and fixed asset portfolio. The rationalization plan for the EIB and subsidiaries as approved by the Board and submitted to the BSP is now being implemented. This plan is expected to create value by providing for the retention of high potential revenue generating businesses and selective disposition or liquidation of non-core subsidiaries. Incremental value will also be derived from the fixed asset holdings that are currently being pruned down through selective liquidation of ROPOAs, NPL collections, further set-off against LSP holders, innovative real estate marketing programs, and possible joint value property ventures.

To augment liquidity and streamline funding structure, the bank is beefing up its low-cost transactional deposit base, while aggressively marketing competitively priced Trust, Treasury, and Bancassurance products. We intend to continue discounting the repayment notes to futer reduce the LSP balances.

Alongside business expansion and balance sheet quality enhancements, we will continue our focus on effective capital and risk management consistent with Basel 2 regulatory standards. As part of its commitment under the EIB financial program, SSS approved an equity investment of a minimum Php 600 million in the form of convertible bonds qualifying as upper Tier 2 capital issue of the merged bank. These funds have yet to be drawn.

In the area of human resource management, we are focusing on training programs that are immediately needed to meet organizational objectives.

In summary, we weathered another challenging year and performed significantly beyond our stakeholder expectations. Our task this year is to consolidate our gains, leverage against our accomplishments and sustain our momentum for profitable business endeavors. In closing, we would like also to take this opportunity to thank our Board of Directors, business partners, and stakeholders for their unwavering dedication and support.

SERGIO R. ORTIZ-LUIS, JR. Chairman of the Board	**REYNALDO G. DAVID** Vice Chairman	**BENJAMIN P. CASTILLO** President

Report of INDEPENDENT AUDITORS

The Stockholders and the Board of Directors
Export and Industry Bank, Inc.

We have audited the accompanying consolidated statement of condition of Export and Industry Bank, Inc. and subsidiaries (the Group) as of December 31, 2002 and the statements of condition of Export and Industry Bank, Inc. (the Parent Company) as of December 31, 2002 and 2001, and the related consolidated statements of income, changes in capital funds and cash flows of the Group for the year ended December 31, 2002 and the statements of income, changes in capital funds and cash flows of the Parent Company for the years ended December 31, 2002, 2001 and 2000. These financial statements are the responsibility of the Group's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

As discussed in Notes 2 and 10 to the financial statements, pursuant to the provisions of Bangko Sentral ng Pilipinas Circular No. 237 allowing merging banks to build up allowance for probable losses on specific accounts on a staggered basis from the date of merger and in accordance with the incentives provided under Monetary Board Resolution No. 1074 dated July 12, 2001, the Parent Company decided to set up additional allowance for probable losses required in 2001 on a staggered basis over a period of seven years, starting after January 31, 2002, the effectivity date of the merger among the Parent Company, Urban Bank, Inc. and Urbancorp Investments, Inc. Under accounting principles generally accepted in the Philippines, the P673.2 million total provision for probable losses should have been charged to 2001 operations. Had the P673.2 million provision for probable losses been charged fully to 2001 operations, net income for 2001 and capital funds as of December 31, 2001 would have decreased by P457.8 million, net of deferred income tax. As of December 31, 2002, however, management has determined that no additional allowance for probable losses is required to be set up.

In our opinion, except for the effects on the 2001 financial statements of the matter referred to in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the financial positions of the Group as of December 31, 2002 and of the Parent Company as of December 31, 2002 and 2001, and the results of operations and cash flows of the Group for the year ended December 31, 2002 and of the Parent Company for the year ended December 31, 2002, 2001 and 2000 in conformity with accounting principles generally accepted in the Philippines.

SyCip Gorres Velayo & Co.

Makati City, Philippines

March 10, 2003

Statements of CONDITION

Amounts in Thousands

	December 31		
	Group	Parent Company	
	2002	**2002**	2001
RESOURCES			
Cash and Other Cash Items	**P378,429**	**P134,303**	P102,981
Due from Bangko Sentral ng Pilipinas (Note 14)	**395,286**	**394,313**	320,044
Due from Other Banks (Notes 4 and 14)	**583,937**	**583,717**	550,300
Interbank Loans Receivable (Note 14)	**1,730,755**	**1,730,755**	32,176
Trading and Investment Securities (Notes 5 and 14)	**2,757,604**	**2,663,209**	3,967,278
Receivables from Customers - net (Notes 6, 14 and 20)	**9,740,411**	**10,304,372**	3,601,365
Equity Investments (Note 7)	**68,627**	**863,564**	16,302
Bank Premises, Furniture, Fixtures and Equipment - net (Note 8)	**827,178**	**821,960**	153,180
Real and Other Properties Owned or Acquired - net of allowance for probable losses amounting to P195,508 in 2002 (Notes 10 and 11)	**4,940,275**	**4,940,275**	259,507
Other Resources - net (Note 9)	**5,637,626**	**4,344,506**	1,114,632
	P27,060,128	**P26,780,974**	**P10,117,764**
LIABILITIES AND CAPITAL FUNDS			
Liabilities			
Deposit Liabilities (Note 14)			
Demand	**P510,900**	**P510,900**	P623,984
Savings	**4,153,130**	**4,152,650**	2,710,969
Time	**3,305,210**	**3,305,210**	808,243
	7,969,240	**7,968,760**	4,143,196
Bills and Acceptances Payable (Notes 11 and 14)	**13,708,800**	**13,708,800**	2,848,074
Manager's Checks	**17,042**	**17,042**	74,520
Accrued Taxes, Interest and Other Expenses (Note 12)	**302,599**	**254,374**	131,365
Other Liabilities (Note 13)	**572,104**	**502,756**	165,361
	22,569,785	**22,451,732**	7,362,516
Minority Interest	**161,101**	**–**	–
Capital Funds			
Capital stock (Note 15)	**3,753,249**	**3,753,249**	2,559,904
Additional paid-in capital	**72,004**	**72,004**	72,004
Surplus (Notes 15 and 19)	**500,054**	**500,054**	119,485
Surplus reserve (Note 19)	**3,935**	**3,935**	3,616
Net unrealized gain on available-for-sale securities (Note 5)	**–**	**–**	239
	4,329,242	**4,329,242**	2,755,248
	P27,060,128	**P26,780,974**	P10,117,764

See accompanying Notes to Financial Statements.

INCOME

Amounts in Thousands, except per share figures

	Years Ended December 31			
	Group	Parent Company		
	2002	2002	2001	2000
INTEREST INCOME				
Loans	**P1,002,405**	**P1,002,405**	P408,908	P573,811
Trading and investment securities	**264,924**	**244,301**	207,739	106,787
Interbank loans receivable and deposits with other banks	**102,616**	**95,592**	15,142	19,846
	1,369,945	**1,342,298**	631,789	700,444
INTEREST EXPENSE				
Deposit liabilities	**148,055**	**148,055**	215,755	157,609
Bills payable and other borrowings	**324,327**	**261,574**	120,018	130,344
	472,382	409,629	335,773	287,953
NET INTEREST INCOME	**897,563**	**932,669**	296,016	412,491
PROVISION FOR PROBABLE LOSSES (Note 10)	**290,438**	**262,734**	2,480	10,106
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOSSES	**607,125**	**669,935**	293,536	402,385
OTHER INCOME				
Trading and foreign exchange gain – net	**185,422**	**184,897**	82,924	15,622
Commissions and service charges	**47,811**	**47,497**	29,165	33,393
Equity in net losses of subsidiaries and associates	**(31,637)**	**(81,664)**	–	–
Miscellaneous (Note 11)	**250,963**	**206,146**	19,584	14,275
	452,559	**356,876**	131,673	63,290
OTHER EXPENSES				
Occupancy and equipment-related expenses (Notes 8 and 18)	**207,043**	**198,063**	145,237	108,017
Compensation and fringe benefits (Note 17)	**146,095**	**137,593**	101,971	99,042
Taxes and licenses (Note 16)	**69,141**	**63,399**	22,971	23,812
Amortization of goodwill (Note 9)	**39,915**	**39,915**	–	–
Litigation/asset acquired expenses (Note 22)	**35,579**	**35,578**	–	–
Management and professional fees	**34,231**	**27,880**	6,639	3,599
Communications	**21,305**	**20,636**	10,640	21,833
Insurance	**18,006**	**17,725**	8,182	6,588
Information technology	**16,644**	**16,644**	16,340	16,377
Stationery and supplies	**8,086**	**7,747**	7,415	6,567
Amortization of deferred charges	**4,662**	**4,662**	18,072	17,976
Miscellaneous	**68,531**	**49,774**	9,327	80,301
	669,238	**619,616**	346,794	384,112
INCOME BEFORE INCOME TAX	**390,446**	**407,194**	78,415	81,563
PROVISION FOR INCOME TAX (Note 16)	**30,851**	**26,306**	42,853	31,169
INCOME BEFORE MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	**359,595**	**380,888**	35,562	50,394
MINORITY INTEREST IN NET LOSS OF SUBSIDIARIES	**21,293**	**–**	–	–
NET INCOME	**P380,888**	**P380,888**	P35,562	P50,394
Basic Earnings Per Share (Note 23)	P0.14	P0.14	P0.44	P0.31

See accompanying Notes to Financial Statements.

CHANGES IN CAPITAL FUNDS

Amounts in Thousands

	Years Ended December 31		
	2002	2001	2000
CAPITAL STOCK (Note 15)			
Preferred - P1 par value			
Authorized: 1,500,000,000 shares			
Issued: 1,000,000,000 shares			
Balance at beginning of year	**P1,000,000**	P1,000,000	P700,000
Issuances during the year - 300,000 shares			300,000
	1,000,000	1,000,000	1,000,000
Common - P1 par value			
Authorized: 6,000,000,000 shares			
Issued: 2,753,249,000 shares in 2002 and 1,559,904,000 shares in 2001 and 2000			
Balance at beginning of year	**1,559,904**	1,559,904	1,559,904
Issuances during the year - 1,193,345,256 shares	**1,193,345**	–	–
	2,753,249	1,559,904	1,559,904
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**72,004**	72,004	39,004
Additions during the year	**–**	–	33,000
	72,004	72,004	72,004
SURPLUS (Notes 15 and 19)			
Balance at beginning of year	**119,485**	86,239	36,879
Net income	**380,888**	35,562	50,394
Transfer to surplus reserve	**(319)**	(2,316)	(1,034)
Balance at end of year	**500,054**	119,485	86,239
SURPLUS RESERVE (Note 19)			
Balance at beginning of year	**3,616**	1,300	266
Transfer from surplus	**319**	2,316	1,034
Balance at end of year	**3,935**	3,616	1,300
NET UNREALIZED GAIN ON AVAILABLE - FOR-SALE SECURITIES (Note 5)	**–**	239	(3,591)
	P4,329,242	P2,755,248	P2,715,856

See accompanying Notes to Financial Statements.

CASH FLOWS

Amounts in Thousands

	Years Ended December 31			
	Group	Parent Company		
	2002	2002	2001	2000
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	P390,446	P407,194	P78,415	P81,563
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:				
Interest income	(1,369,945)	(1,342,298)	(631,789)	(700,444)
Interest expense	472,382	409,629	335,773	287,953
Provision for probable losses	295,438	262,734	2,480	10,106
Depreciation and amortization	74,165	73,700	64,359	39,003
Amortization of goodwill	39,915	39,915	–	–
Equity share in net losses	31,637	81,664	–	–
Amortization of deferred charges	4,662	4,662	18,072	29,626
Changes in operating resources and liabilities:				
Decrease (increase) in:				
Trading account securities	105,369	114,804	(357,059)	19,995
Loans	(233,844)	(797,805)	740,891	(476,652)
Other resources	763,839	(361,013)	(194,462)	(8,792)
Increase (decrease) in:				
Deposit liabilities	3,825,564	3,825,564	1,997,334	224,292
Manager's checks	(57,477)	(57,477)	67,379	(8,766)
Accrued taxes, interest and other expenses	(201,443)	(100,921)	12,698	(8,477)
Other liabilities	(2,263,560)	(881,999)	75,452	6,515
Net cash generated from (used in) operations	1,877,148	1,678,353	2,287,783	(547,192)
Interest received	1,753,183	1,719,643	417,985	417,107
Interest paid	(626,321)	(485,715)	(295,815)	(272,168)
Income taxes paid	(46,864)	(42,924)	(39,422)	(27,513)
Net cash provided by (used in) operating activities	2,957,146	2,869,357	2,292,291	(386,647)
CASH FLOWS FROM INVESTING ACTIVITIES				
Cash received from the merger	702,916	672,983	–	–
Proceeds from placements with other banks	222,965	222,965	–	–
Decrease (increase) in available-for-sale securities	19,448	20,923	78,240	(43,115)
Decrease (increase) in investments in bonds andother debt instruments	1,781,412	1,807,725	(2,227,471)	(945,356)
Disposal of (net additions to) bank premises, furniture, fixtures and equipment	549,767	555,483	(55,744)	(1,264)
Increase in equity investments	(300)	(300)	–	(150)
Net cash provided by (used in) investing activities	3,276,208	3,279,779	2,204,975	(989,916)

(Forward)

	Years Ended December 31			
	Group	Parent Company		
	2002	2002	2001	2000
CASH FLOWS FROM FINANCING ACTIVITY				
Increase in minority interest	161,101	–	–	–
Proceeds from (payments of) bills payable	(4,626,183)	(4,626,183)	(52,156)	277,751
Proceed from issuance of preferred shares	–	–	–	333,000
Net cash provided by (used in) financing activities	(4,465,082)	(4,626,183)	(52,156)	610,751
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	1,768,272	1,522,953	35,160	(765,785)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	P102,981	P102,981	P84,358	P102,601
Due from Bangko Sentral ng Pilipinas	320,044	320,044	111,240	8,864
Due from other banks	550,300	550,300	193,746	1,291,845
Interbank loans receivable	32,176	32,176	580,996	332,816
	1,005,500	1,005,500	970,340	1,736,125
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	378,429	134,303	102,981	84,358
Due from Bangko Sentral ng Pilipinas	395,286	394,313	320,044	111,240
Due from other banks	269,302	269,082	550,300	193,746
Interbank loans receivable	1,730,755	1,730,755	32,176	580,996
	P2,773,772	P2,528,453	P1,005,500	P970,340

See accompanying Notes to Financial Statements.

FINANCIAL STATEMENTS

Amounts in Thousands, except per share figures

1. Corporate Information and Basis of Presentation

As of December 31, 2002, Export and Industry Bank, Inc. (EIB or the Parent Company) represents the combined entity resulting from its merger on January 31, 2002 with Urban Bank, Inc. (UBI) and UBI's associated company, Urbancorp Investments, Inc. (UII) (see Note 2). While the legal surviving entity and acquirer is Urban Bank, Inc. (which upon merger was then renamed Export and Industry Bank, Inc.), the accounting acquirer for financial reporting purposes is EIB. Accordingly, the financial statements of prior years presented for comparative purposes are those of EIB. The net assets of EIB were recorded at historical cost at the time of merger while those of UBI and UII were recorded at fair values.

UBI (now EIB) was incorporated in the Philippines as a domestic private development bank in July 1980 under the name Urban Development Bank. It was later renamed Urban Bank, Inc. in 1990 when it upgraded its banking license from a thrift bank to a commercial bank. It was listed in the Philippine Stock Exchange (PSE) in 1987 (see Note 15).

The former EIB was incorporated in the Philippines on November 12, 1996 as a domestic commercial bank. It provided commercial banking services such as deposit-taking products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services.

UII was incorporated in the Philippines in December 1987 as an investment house. It provided services such as equity and debt underwriting and private placements, loan syndication and arrangements, financial advisory and securities dealership. It was 40% owned by UBI prior to the merger.

As the merged entity, the Parent Company operates as a regular commercial bank and provides services such as deposit-taking, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. Its principal place of business is at ExportBank Plaza, Chino Roces corner Sen. Gil Puyat Avenues, Makati City.

The Parent Company's subsidiaries, serving personal, commercial corporate and institutional clients are engaged in the following businesses:

	Effective Percentage of Ownership
Banking:	
Urbancorp Development Bank (UDB)	100.00
Insurance/Insurance Brokerage:	
Value Life Financial Insurance Company, Inc. (ValueLife)	85.60
Urbancorp Insurance Brokers, Inc. (UIBI)	60.00
Securities Broker:	
EIB Securities, Inc. (ESI)	100.00
Real Estate:	
EIB Realty Developers, Inc. (EIB Realty)	71.75
Urbancorp Realty Holdings, Inc. (URHI)	99.00
Others:	
Philippine Home Development Finance Corporation (PHDFC)	100.00
Urbancorp Technologies Corporation (UTC)	100.00
Urban Building Technologies, Inc. (UBTI)	100.00

In January 2003, the board of directors (BOD) approved the rationalization plan for the Parent Company's subsidiaries and an associate, UMC Finance and Leasing Corporation (UMC Finance), which seeks to continue the operations of certain businesses and to eliminate duplicate and non-vital businesses. Under the plan, which was submitted to the Bangko Sentral ng Pilipinas (BSP) on January 31, 2003 for approval, the operations of UDB, ValueLife, EIB Realty and ESI are to be continued. The operations of UIBI, URHI, PHDFC, UTC, UBTI and UMC Finance, however, will either be disposed of or liquidated in accordance with a formal plan to be approved by the respective BOD of the Parent Company, the subsidiaries and associate.

The average number of employees of the Parent Company and its subsidiaries (the Group) in 2002 and 2001 follow:

	2002	2001
Parent Company	**444**	302
Subsidiaries	**22**	–

2. Rehabilitation and Merger Information

Rehabilitation Information

In May 2001, the major shareholders of UBI signed an agreement with EIB for its rehabilitation through a merger with EIB and UII. Prior to this agreement, UBI, pursuant to a Monetary Board (MB) resolution issued on April 26, 2000, was placed under receivership in accordance with Section 30 of Republic Act No. 7653 after it was found to be capital deficient and unable to pay its liabilities as they became due in the ordinary course of business. UBI had earlier declared a bank holiday on April 25, 2000. The resolution also provided for the cessation of UBI's business and the designation of the Philippine Deposit Insurance Corporation (PDIC) as statutory receiver. Likewise, on May 8, 2000 UII filed with the Securities and Exchange Commission (SEC) a petition for suspension of payments and rehabilitation. On May 9, 2000, the SEC ordered the suspension of all claims against UII and placed it under receivership. The salient provisions of the agreement include the following:

a) The merger of UBI, UII and EIB, with UBI as the surviving entity, where the name of the merged bank shall be changed to Export and Industry Bank, Inc. (EIB);

b) The conversion into common shares of the merged bank of P1.1 billion, more or less, of deposits and similar liabilities of UBI and UII equivalent to an average of 10% of total deposits and placements, excluding deposits and placements of UBI's three (3) major depositors/creditors and bills payable to financial institutions; and

c) Repayment and servicing within three years of the balance of said deposits and similar liabilities of UBI and UII (excluding the deposits and placements of the 3 major depositors/creditors and bills payable to financial institutions) after the aforementioned 10% conversion, with interest at a fixed rate of 6% gross per annum on peso-denominated deposits and similar liabilities and 2% gross per annum on US dollar-denominated deposits, payable quarterly.

The deposits and similar liabilities will be redocumented as repayment notes and will form part of the merged bank's bills payable (see Note 11).

The rehabilitation plan, including the proposed merger of UBI, UII and EIB was approved by the PDIC and the BSP (through MB Resolution No. 1074) on July 9, 2001 and July 12, 2001, respectively.

The rehabilitation plan of UBI and UII has the following features:

a. Submission of irrevocable proxy in favor of EIB by the major shareholders of UBI and UII covering all common shares upon signing of the Memorandum of Agreement;

b. BOD and shareholders' resolutions of the merged bank committing to infuse additional capital in order to comply with the BSP's minimum capital requirement;

c. Identification of the owners of numbered accounts in UII Trust Department after the transactions have been redocumented;

d. Availment of incentives under BSP Circular No. 237, Series of 2000 as follows including among others:

   i. Revaluation of bank premises, improvements and bank equipment provided that such revaluation shall be based on fair valuation of properties conducted by a reputable appraisal company subject to review and approval by the BSP;

   ii. Non-imposition of reserves on UBI and UII redocumented deposits and similar liabilities and other accountabilities, bills payable, and preferred shares, provided that the deposits and similar liabilities shall not constitute as deposits or deposit substitutes after obtaining clearance from the BSP general counsel;

   iii. Exemption from DOSRI regulations, single borrower's limits, real estate and fixed asset ceilings and exemption from limits on investments in non-allied undertakings which shall be limited to accounts already in the books of UBI and UII at the time of merger and for a period of one year from re-opening;

   iv. Relocation of existing branches/offices within one year where the merger resulted in duplication of branches/offices in a service area within Metro Manila, Metro Cebu, Metro Davao and/or within the same province subject to the application by the merged bank;

   v. Staggered recognition of loan loss provision for a maximum of seven years. However, any additional valuation reserves that may be required after the merger shall be booked immediately;

   vi. Access to rediscounting windows pursuant to the provision of RA No. 7653, as amended; and

   vii. Incentives shall be limited to those granted before and up to the date of approval of merger.

e. Lifting of the statutory receivership upon the approval of the rehabilitation plan; and

f. Temporary interlocking directorship/officership during the transition period before the completion of the merger but not to exceed six (6) months from date of reopening.

The rehabilitation plan, including the proposed merger, was approved by the BOD and shareholders of EIB on July 27, 2001. The BOD and shareholders of UBI and UII approved the merger in separate special BOD and shareholders' meeting on July 31, 2001.

On July 12, 2001, PDIC turned over the management and control of UBI to the management of EIB. Thereafter, on September 14, 2001, UBI commenced the initial payout of liabilities in accordance with the Liability Servicing Plan (LSP) (see Note 11).

Merger Information
On January 30, 2002, the BSP issued the Certificate of Authority to register with the SEC the covering merger documents. The SEC approved the Articles and Plan of Merger on January 31, 2002.

The salient features of the Articles and Plan of Merger are as follows:

a. UII and EIB shall be merged into UBI;

b. The exchange ratio shall be as follows:

   i. With respect to the shares of UII, the exchange ratio shall be one (1) common share of UBI for every one (1) UII common or preferred share;

   ii. With respect to the common shares of EIB, the exchange ratio shall be one hundred (100) common shares of UBI for every one (1) EIB common share; and

   iii. With respect to the preferred shares of EIB, the exchange ratio shall be one hundred (100) preferred shares of UBI for every one (1) EIB preferred share.

As of December 31, 2001, UBI, UII and EIB had the following outstanding shares:

a. UBI had 15,754,692 outstanding common shares (inclusive of subscribed and unpaid 268,200 shares) with a par value of P100 per share;

b. UII had 2,554,000 outstanding and issued common shares, of which 2,153,986 shares were owned by UBI, and 707,750 outstanding and issued preferred shares (excluding subscribed and issued 2,123,250 shares) both with a par value of P100 per share; and

c. EIB had 15,599,035 outstanding and issued common shares and 10,000,000 outstanding and issued preferred shares both with a par value of P100 per share.

Based on the exchange ratio cited above, the following will be undertaken by the merged bank (see Note 15):

a. UBI shall issue one common share for each UII common share and preferred share. Thus, UBI shall issue 1,107,764 common shares, given the number of outstanding and fully paid UII common and preferred shares, excluding the shares owned by UBI;

b. UBI shall issue one hundred (100) common shares for each EIB common share. Thus, UBI shall issue 1,559,903,500 common shares, given the number of outstanding EIB common shares; and

c. UBI shall issue one hundred (100) preferred shares at a series different from its existing preferred shares for each EIB preferred share. Thus, UBI shall issue 1,000,000,000 new series preferred shares, given the number of outstanding EIB preferred shares at the said exchange ratio.

On January 31, 2002, the SEC approved the amended Articles of Incorporation of UBI as approved by its BOD and shareholders on July 31, 2001. The amendments are as follows:

a. To change the name of UBI from Urban Bank, Inc. to Export and Industry Bank, Inc.;

b. To decrease the par value of the common and preferred shares of UBI from P100.00 per share to P1.00 per share;

c. To increase the authorized capital stock of UBI to 7.5 billion divided into 6 billion common shares with a par value of P1.00 per share and 1.5 billion preferred shares with a par value of P1.00 per share; and

d. To provide that the preferred shares shall have such features as the BOD may prescribe, provided that, in no case shall preferred shares be cumulative, redeemable or voting.

3. Summary of Significant Accounting Policies

Basis of Financial Statements Preparation and Consolidation

The Group's financial statements have been prepared in accordance with the accounting principles generally accepted in the Philippines (Philippine GAAP) for the banking industry. These financial statements are prepared under the historical cost convention, except that certain investment securities and real estate properties are carried at fair values and net realizable value (NRV), respectively.

On January 31, 2002, in accordance with the merger plan, the outstanding common shares and preferred shares of EIB and UII have been exchanged with the corresponding UBI common and preferred shares following the agreed exchange ratio (see Note 2). For financial reporting purposes, the acquisition has been treated as recapitalization of EIB with EIB as the acquirer (reverse acquisition). The historical financial statements prior to February 1, 2002 are those of EIB. The following pro forma consolidated results of operations assume that the purchase occurred on January 1, 2002 and do not include elimination of intercompany accounts and expenses.

	For the Year Ended December 31, 2002
Gross income	P1,796,481
Net income	285,413
Basis earnings per share (EPS)	P0.10

The Group's consolidated financial statements include the accounts of EIB, as the Parent Company, and its wholly and majority owned subsidiaries mentioned in Note 1.

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

The financial statements of the Parent Company reflect the accounts maintained in the Regular Banking Unit (RBU) and the Foreign Currency Deposit Unit (FCDU). The financial statements of these units are combined after eliminating inter-unit accounts. The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in United States (US) dollars.

Investments in subsidiaries and associates in the statements of condition are accounted for under the equity method. Under the equity method, investments in subsidiaries and associates are carried in the statements of condition at cost plus post-acquisition changes in the Parent Company's share in the net assets of the subsidiaries and associates less any impairment in value. Post acquisition changes include the share in the subsidiaries' and associates' net income or losses.

Unrealized gains arising from transactions with a subsidiary are eliminated in the consolidated statements of condition to the extent of the interest in the subsidiary against the equity investment account. Unrealized losses are eliminated similarly but only to the extent that there is no evidence of impairment of the asset transferred.

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 investment in associates is being made for financial reporting purposes to comply with the provisions of Statement of Financial Accounting Standards (SFAS) 28/International Accounting Standards (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 decline in value, if any. The allowance for decline in value is set up by a charge to operations (included in Miscellaneous Expense in the statement of income).

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

Adoption of New Accounting Standards
The Group adopted SFAS 16/IAS 16, "Property, Plant and Equipment," SFAS 24/IAS 24, "Related Party Disclosures," SFAS 27/IAS 27, "Consolidated Financial Statements and Accounting for Investments in Subsidiaries," and SFAS 36/IAS 36, "Impairment of Assets" effective January 1, 2002.

The adoption of the new standards in 2002 did not result in the restatement of prior years financial statements. Additional disclosures required by the new standards, however, were included in prior years financial statements, where applicable.

New Accounting Standards Effective Subsequent to 2002
The following applicable SFAS/IAS approved by the Accounting Standards Council will be effective subsequent to 2002:

SFAS 10/IAS 10, "Events After the Balance Sheet Date," which prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events.

SFAS 17/IAS 17, "Leases," which prescribes the accounting policies and disclosures to apply to finance and operating leases. The Group is a party to numerous leases for which an assessment must be made to determine whether these would qualify as financial leases. The Group has not yet determined the financial statement impact of the adoption of SFAS 17/IAS 17.

SFAS 22/IAS 22, "Business Combinations," which requires that an acquisition where an acquirer can be identified should be accounted for by the purchase method. Any goodwill arising from the acquisition should be amortized generally over 20 years.

SFAS 37/IAS 37, "Provisions,Contingent Liabilities and Contingent Assets," which provides the criteria for the recognition and bases for measurement of provisions, contingent liabilities and contingent assets. It also specifies the disclosures that should be included with respect to these items.

SFAS 38/IAS 38, "Intangible Assets," which establishes the criteria for the recognition and measurement of intangible assets. Intangible assets that are recognized should be amortized generally over 20 years.

The Group will adopt the foregoing SFAS/IAS when they become effective in 2003 (except SFAS 17/IAS 17 which will be effective in 2004) and, based on current circumstances does not believe the effects of the adoption will be material to the financial statements.

Trading and Investment Securities
Trading account 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 Foreign Exchange Gain – net in the statements of income. Interest earned on debt instruments is reported as interest income.

Securities are classified as available-for-sale securities (ASS) when purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the Group anticipates that the securities will be available to be sold in response to liquidity requirements or in anticipation of changes in interest rates or other factors. ASS are carried at fair market value; unrealized gains and losses are excluded from reported income and are reported as a separate component of capital funds.

Investments in bonds and other debt instruments (IBODI) are debt securities where the Group has the positive intent and ability to hold to maturity. These securities are carried at amortized cost; realized gains and losses are included in Trading and Foreign Exchange Gain – net in the statements of income. An allowance for probable losses is established by a charge to income to reflect other-than-temporary impairments in value. Under current BSP regulations, IBODI shall not exceed 50% of adjusted statutory net worth plus 40% of total deposit liabilities.

Receivables from Customers
Receivable from customers are stated at outstanding balances, reduced by unearned discounts and allowance for probable losses.

Unearned discounts are recognized as income under the accrual method of accounting. Interest income on nondiscounted loans is accrued as earned, except in the case of nonaccruing accounts as required by existing BSP regulations. Interest income on these nonaccruing loans is recognized upon actual collection.

Receivables from customers are classified as nonaccruing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. At the time the receivables from customers are classified as nonaccruing, interest previously recorded but not collected is reversed and charged against current operations. Interest income on these loans 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 loans 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 loan 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 values based on fair market values of underlying collaterals, 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 loan loss reserves.

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

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, including leasehold rights and improvements, furniture, fixtures and equipment are stated at cost less accumulated depreciation and any impairment in value. The initial cost of bank premises, furniture, fixtures and equipment comprises its purchase price and any directly attributable cost of bringing the asset to its working condition and location for its intended use. Expenditures incurred after the fixed assets have been put into operation, such as repairs and maintenance are charged to income in the period the costs are incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts and any resulting gain or loss is reflected as income or loss in the statements of income.

Depreciation is computed using the straight-line method based on the estimated useful lives of the respective resources. The cost of leasehold rights and improvements is amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases.

The estimated useful lives of Bank Premises, Furniture, Fixtures and Equipment are as follows:

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

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

Starting in 2002, the carrying values of the bank premises, furniture, fixtures and equipment are reviewed for impairment when events or changes in circumstances indicate that the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets are written down to their recoverable amount (see policy on Impairment of Assets).

Real and Other Properties Owned or Acquired (ROPOA)
ROPOA is stated at the total outstanding loan exposure at the time of acquisition or bid price, whichever is lower, less allowance for probable losses. Nonrefundable capital gains and documentary stamp tax which were incurred by the Parent Company in connection with foreclosures are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed appraised values. Holding costs subsequent to foreclosure or acquisition are charged to operations as incurred. Allowance for probable losses is set up for any anticipated shortfalls from the recorded values based on appraisal reports, current negotiations and programs to dispose of these properties, including estimated selling costs.

Deferred Income Tax
Deferred tax assets and liabilities are recognized for: (a) the estimated future tax effects attributable to temporary differences between the financial reporting bases of resources and liabilities and their related tax bases and (b) the carryforward benefits of the minimum corporate income tax (MCIT) and net operating loss carryover (NOLCO). Deferred tax assets and liabilities are measured using the tax rate expected to apply to taxable income in the years in which the temporary differences, MCIT and NOLCO, are expected to be recovered, settled or applied. A valuation allowance is provided for the portion of deferred tax assets which is not expected to be realized in the future.

Goodwill
Goodwill arising from the merger represents the excess of the total acquisition price over the fair value of the net assets acquired, is amortized on a straight-line basis over 20 years. This intangible asset is also subject to an annual impairment test by comparing its carrying amount (at amortized cost) to net recoverable amount.

Real Estate Projects and Condominium Units Held for Sale
Real estate projects and condominium units held for sale are carried at lower of cost or NRV. Costs include cost of land and expenditures for development and land improvements and the cost of borrowed funds.

Borrowing Costs
Borrowing costs are generally recognized as expense in the year in which these costs are incurred, except those borrowing costs that are directly attributable to the development of real estate projects and are capitalized as part of the cost of such resources.

Condominium Units Held for Lease
Condominium units held for lease are carried at cost less accumulated depreciation. Depreciation is computed on a straight-line basis over the estimated remaining useful life of the asset.

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

Interest on interest-bearing placements and securities are 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 earned over the term of the credit lines granted to each borrower.

Loan syndication fees are recognized upon completion of all syndication activities and where the Group does not have 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.

Real Estate Transactions

a. Gross profit on sales of real estate are accounted for under the percentage-of-completion method. Under this method, the gain on sale is recognized as the related obligations of the Group to provide improvements on the property sold are fulfilled;

b. Rent income is recognized on a straight-line basis over the term of the lease;

c. Commission income is recognized upon sale of condominium units.

Cost of condominium units sold before completion of the project is determined based on actual costs and project estimates of building contractors and technical staff.

Premium Revenue

Premiums from life insurance contracts are recognized as earned when due. Premiums from short duration nonlife insurance contracts are recognized as revenue over the period of the contracts using the 24th method.

Foreign Currency Translation and Transactions

Foreign currency denominated monetary resources and liabilities are translated to Philippine pesos using the Philippine Dealing System weighted average rate (PDSWAR) prevailing at the end of the period while foreign currency income and expenses are translated at their equivalent PDSWAR at transaction date. Foreign exchange differentials arising from foreign currency transactions and revaluation adjustments of foreign currency denominated resources and liabilities are credited or charged to current operations.

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

Derivative Instruments

The Parent Company is a party to foreign exchange contracts entered into as a service to customers and as a means of reducing and managing the Parent Company's foreign exchange exposures as well as for trading purposes.

For forward contracts which qualify and are designated as hedges, the discounts or premiums are amortized over the terms of the contracts and the revaluation gains and losses are deferred or recognized as income or expense to match the treatment for the hedged exposures. Forward contracts which are not designated or do not qualify as hedges are marked to market with revaluation gains and losses credited or charged to current operations.

Retirement Expense

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

Claims Costs

Liabilities for unpaid claim costs and loss adjustment expenses relating to insurance contracts are accrued when insured events occur. The liabilities for unpaid claims, including those for incurred but not reported losses, are based on the estimated ultimate cost of settling the claims. The method of determining such estimates and establishing reserves are continually reviewed and updated. Changes in estimates of claim costs resulting from the continuous review process and differences between estimates and payments for claims are recognized as income or expense of the period in which the estimates are changed or payments are made. Estimated recoveries on settled and unsettled claims are evaluated in terms of the estimated realizable values of the salvage recoverables and deducted from the liabilities for unpaid claims.

Reinsurance

Amounts recoverable from reinsurers that relate to paid and unpaid claims and loss adjustment expenses are classified as assets, with an allowance for estimated uncollectible amounts. Reinsurance receivables and the related liabilities are reported separately.

Impairment of Assets

An assessment is made at each statement of condition date of whether there is any indication of impairment of any asset, or whether 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. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. Impairment losses are recognized in the statement of income

An impairment loss is recognized only if the carrying amount of an asset exceeds its recoverable amount. An impairment loss is charged to operations in the period in which it arises.

A previously recognized impairment loss is reversed to current operations to the extent that it does not restate the asset to an amount higher than the carrying amount that would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years.

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, and interbank loans receivable with maturities of three months or less from dates of acquisition and are subject to insignificant risk of changes in value. Where actual cash flows are not determinable, the reported cash flows are determined based on samples and other estimating procedures.

Earnings Per Share
Basic earnings per share is computed based on the weighted average number of common shares outstanding after giving retroactive effect to stock dividends declared and stock rights exercised during the year.

Related Parties
Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subjected to common control or common significant influence. Related parties may be individuals or corporate entities. Transactions between related parties are based on terms similar to those offered to non-related parties.

4. Due from Other Banks

The Parent Company has deposits with a certain foreign bank which serve as guarantee for the performance of its obligation relating to the loans assigned to such foreign bank in the same amount. The Parent Company authorizes the foreign bank to withdraw from the deposit an amount equivalent to any principal repayment that is received by the Parent Company from the borrower. The balance of the Parent Company's deposits with the foreign bank and the assigned loans amounted to US$5.91 million or P314.63 million as of December 31, 2002, net of withdrawals by the foreign bank for repayments received by the Parent Company from the borrower.

5. Trading and Investment Securities

This account consists of:

	Group	Parent Company	
	2002	**2002**	2001
TAS	**P396,013**	**P396,013**	P441,859
ASS - after unrealized gain of P239 in 2001	**186**	**186**	19,873
IBODI - net of allowance for probable losses of P58,861 in 2002 (see Note 19)	**2,361,405**	**2,267,010**	3,505,546
	P2,757,604	**P2,663,209**	P3,967,278

As of December 31, 2002, the market value of the Group's and the Parent Company's IBODI amounted to P2.40 billion and P2.36 billion (P3.55 billion as of December 31, 2001), respectively.

6. Receivables from Customers

This account consists of:

	Group	Parent Company	
	2002	**2002**	2001
Loans and discounts (see Note 11)	**P12,310,880**	**P12,874,841**	P3,689,575
Customers' liabilities under acceptances, import bills and trust receipts	**483,746**	**483,746**	311,722
Bills purchased	**77,621**	**77,621**	48,224
	12,872,247	**13,436,208**	4,049,522
Unearned interest and discounts	**(363,500)**	**(363,500)**	(3,031)
Allowance for probable losses (see Note 10)	**(2,768,336)**	**(2,768,336)**	(445,126)
	P9,740,411	**P10,304,372**	P3,601,365

Loans amounting to P451.97 million and P37.21 million as of December 31, 2002 and 2001, respectively, are pledged as collateral with the BSP (partly secured) and SSS to secure borrowings with the same amount under their rediscounting privileges (see Note 11).

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security:

	Group	
	2002	
	Amount	**%**
Secured:		
Real estate	**P7,609,084**	**59.27**
Deposit hold-out	**1,186,663**	**9.22**
Others	**1,569,992**	**12.20**
	10,365,739	**80.53**
Unsecured	**2,506,508**	**19.47**
	P12,872,247	**100.00**

	Parent Company			
	2002		2001	
	Amount	**%**	Amount	%
Secured:				
Real estate	**P7,609,084**	**56.63**	P1,954,787	48.27
Deposit hold-out	**1,186,663**	**8.83**	287,428	7.10
Others	**2,133,953**	**15.89**	630,032	15.56
	10,929,700	**81.35**	2,872,247	70.93
Unsecured	**2,506,508**	**18.65**	1,177,275	29.07
	P13,436,208	**100.00**	P4,049,522	100.00

As of December 31, 2002 and 2001, nonaccruing or nonperforming loans (NPLs) of the Group and Parent Company, as defined under existing BSP regulations are as follow:

	2002	2001
Secured nonaccruing loans	**P4,044,909**	P822,898
Unsecured nonaccruing loans	**1,490,299**	362,411
	P5,534,239	P1,185,309

On September 19, 2002, the BSP issued Circular No. 351 which allows 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. The NPL not fully covered by allowance for probable losses of the Group and the Parent Company in 2002 and 2001 are as follows:

	2002	2001
Total NPLs	**P2,635,572**	P1,194,677
NPLs fully covered by allowance for probable losses	**991,150**	554,003
	P1,644,422	P640,674

The following table shows information on the concentration of credit as to industry:

	Group	
	2002	
	Amount	**%**
Real estate, renting and business services	**P4,788,368**	**37.20**
Manufacturing (various)	**2,722,088**	**21.15**
Wholesale and retail trade	**1,300,873**	**10.11**
Financial intermediaries	**788,066**	**6.12**
Community, social and personal activities	**556,313**	**4.32**
Agriculture	**531,622**	**4.13**
Transport, storage and communications	**266,266**	**2.07**
Others	**1,918,651**	**14.90**
	P12,872,247	**100.00**

	Parent Company			
	2002		2001	
	Amount	**%**	Amount	%
Real estate, renting and business services	**P5,353,280**	**39.84**	P955,001	23.58
Manufacturing (various)	**2,722,088**	**20.26**	1,412,883	34.89
Wholesale and retail trade	**1,300,873**	**9.68**	309,591	7.65
Financial intermediaries	**788,066**	**5.87**	447,589	11.05
Community, social and personal activities	**556,313**	**4.14**	307,481	7.59
Agriculture	**531,622**	**3.96**	432,476	10.68
Transport, storage and communications	**266,266**	**1.98**	150,950	3.73
Others	**1,917,700**	**14.27**	33,551	0.83
	P13,436,208	**100.00**	P4,049,522	100.00

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

7. **Equity Investments**

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

	Group	Parent Company	
	2002	**2002**	2001
Investments in subsidiaries	**P-**	**P798,746**	P–
Investments in associates	**50,768**	**46,959**	–
	50,768	**845,705**	–
Other investments	**23,367**	**23,367**	16,302
Less Allowance for decline in value	**5,508**	**5,508**	–
	P68,627	**P863,564**	P16,302

The details of iInvestments in associates in the Group's financial statements and investments in subsidiaries and associate in the Parent Company's financial statements follow:

		Group	Parent Company	
		2002	**2002**	2001
At equity:				
Acquisition cost:				
Subsidiaries:				
EIB Realty	71.75	**P–**	**501,243**	P–
PHDFC	100.00	**–**	**132,309**	–
ValueLife	85.60	**–**	**124,950**	–
ESI	100.00	**–**	**57,782**	–
UDB	100.00	**–**	**54,681**	–
URHI	99.00	**–**	**6,545**	–
UTC	100.00	**–**	**1,045**	–
UIBI	60.00	**–**	**–**	–
UBTI	100.00	**–**	**–**	–
Associates:				
One Mckinley Place, Inc. (OMPI)	35.86	**33,321**	**–**	–
UMC Finance	42.73	**48,514**	**48,514**	–
EIBI	30.00	**300**	**300**	–
		82,135	**927,369**	–
Equity in net losses for the period		**(31,367)**	**(81,664)**	–
		P50,768	**P845,705**	–

Financial information for investment in associates are not presented since these associates are not considered significant.

The details of other investments carried at cost are as follows:

	Group	Parent Company	
	2002	**2002**	2001
BancNet, Incorporated	**6,152**	**6,152**	P6,152
Philippine Clearing House Corporation	**7,175**	**7,175**	5,000
LGU Guarantee Corporation	**5,000**	**5,000**	5,000
Megalink, Incorporated	**3,333**	**3,333**	–
Philippine Central Depository, Incorporated	**1,057**	**1,057**	–
Exchange Incorporated	**500**	**500**	–
EIB Forex Corporation	**150**	**150**	150
	P23,367	**P23,367**	P16,302

The cost basis of the investments in subsidiaries and associates acquired in the merger includes the balance of accumulated equity at the time of merger and the fair value merger adjustments.

UDB has been under the receivership of PDIC since April 2000, its temporary closure date and of UBI (see Note 2). The Parent Company is awaiting for the necessary regulatory approvals before taking over the operations of UDB.

8. Bank Premises, Furniture, Fixtures and Equipment

The movements in Bank Premises, Furniture, Fixtures and Equipment account in 2002 follows:

Group					
	Land	Buildings	Furniture Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost					
At January 1, 2002	P22,050	P21,782	P227,861	P46,003	P317,696
Additions	–	1,458,757	266,857	22,402	1,748,016
Disposals/write-off	–	(721,177)	(29,513)	–	(750,690)
Amortization of leasehold rights and improvements	–	–	(23)	(17,702)	(17,725)
At December 31, 2002	22,050	759,362	465,182	50,703	1,297,297
Accumulated Depreciation					
At January 1, 2002	–	3,127	158,160	–	161,287
Depreciation	–	12,886	43,554	–	56,440
Additions	–	69,810	204,392	–	274,202
Disposals/write-off	–	–	(21,810)	–	(21,810)
At December 31, 2002	–	85,823	384,296	–	470,119
Net Book Value at December 31, 2002	P22,050	P673,539	P80,886	P50,703	P827,178

Parent Company					
	Land	Buildings	Furniture Fixtures and Equipment	Leasehold Rights and Improvements	Total
Cost					
At January 1, 2002	P22,050	P21,782	P223,508	P 46,003	P313,343
Additions	–	1,458,757	261,981	22,402	1,743,140
Disposals	–	(721,177)	(26,863)	–	(748,040)
Amortization of leasehold rights and improvements	–	–	–	(17,702)	(17,702)
At December 31 , 2002	22,050	759,362	458,626	50,703	1,290,741
Accumulated Depreciation					
At January 1, 2002	–	3,127	157,036	–	160,163
Depreciation	–	12,886	43,112	–	55,998
Additions	–	69,810	204,392	–	274,202
Disposals	–	–	(21,582)	–	(21,582)
At December 31, 2002	–	85,823	382,958	–	468,781
Net Book Value at December 31, 2002	P22,050	P673,539	P75,668	P50,703	P821,960
Net Book Value at December 31, 2001	P22,050	P18,655	P66,472	P46,003	P153,180

Depreciation and amortization are included in Occupancy and Equipment-Related Expenses in the statements of income.

9. Other Resources

This account consists of:

	Group	Parent Company	
	2002	**2002**	2001
Deferred tax assets - net (see Note 16)	**P1,261,845**	**P1,261,845**	P155,573
Accrued interest receivable	**1,145,833**	**1,141,792**	655,671
Real estate projects - net	**1,089,446**	**–**	–
Goodwill-net	**830,960**	**830,960**	–
Condominium units held for sale	**781,965**	**901,650**	–
Condominium units held for lease - net of accumulated depreciation of P10,382	**734,986**	**734,986**	–
Advances to affiliates	**261,234**	**15,964**	–
Accounts receivable	**P132,387**	**P114,468**	P157,858
Investment in real estate	**75,000**	**–**	–
Input tax	**59,244**	**–**	–
Prepaid expenses	**57,064**	**56,802**	24,337
Foreign currency notes and coins on hand	**51,234**	**51,234**	50,304
Other investments	**45,326**	**45,326**	16,313
Due from PDIC	**43,017**	**1,730**	–
Other receivables	**23,360**	**22,665**	–
Deficiency judgement receivable	**33,523**	**33,523**	–
Exchange membership seat	**20,000**	**–**	–
Miscellaneous	**136,079**	**107,062**	82,961
	6,758,503	**5,320,007**	1,143,017
Less allowance for probable losses (see Note 10)	**1,144,877**	**975,503**	28,385
	P5,637,626	**P4,344,504**	P1,114,632

Condominium units held for sale and for lease includes the units sold by EIB Realty to the Parent Company in July 2002 with carrying value of P699.76 million. A portion of the proceeds from the sale was used by EIB Realty to pay P766.00 million of its loan to the Parent Company. The gain on the sale amounting to P215.19 million has been deferred by EIB Realty and will be recognized when the Parent Company sells or transfers such property to a third party. This deferred gain has been eliminated in the Group's financial statements. The total value of condominium units held for sale and for lease includes the adjustments to recognize their fair values, less estimated selling costs, at the time of merger.

EIB Realty's real estate projects consists of:

Land and land development cost	P1,495,886
Less allowance for probable losses	406,440
	P1,089,446

The land and land development cost includes the following:

a. *A real estate project amounting to P49.30 million in 2002 and P139.20 million in 2001 of Urbancorp Property Holdings, Inc. (UPHI), EIB Realty's subsidiary.*

   This is a project between the EIB Realty and PR Builders, Developers and Managers, Inc. (PR) which covers the development of a housing project on two parcels of land in Calamba, Laguna with an aggregate area of about 330,000 square meters. EIB Realty and PR agreed to contribute 55% and 45%, respectively, to UPHI's equity. Likewise, non-interest bearing advances for the real estate project shall be made in the same ratio.

b. *Land purchased by EIB Realty amounting to P840.00 million, net of price adjustment, discount and rebates of P707.10 million (which was charged against the contract amount payable), located in Fort Bonifacio, Makati City.*

   This land was contributed to the Joint Venture Corporation (JVC) formed under the Memorandum of Understanding (MOU) executed on February 27, 1998 by and between EIB Realty, Fort Bonifacio Development Corporation (FBDC), Social Security System and Metro Pacific Corporation. The latter three entities shall also contribute to JVC certain lots they own in Fort Bonifacio. The JVC intended to develop on five key sites within the Fort Bonifacio Global City, an integrated system of structures and buildings which shall accommodate the main interchange for three mass transit stations, basement parking and retail mall, six tower buildings for hotel, service apartments, and office spaces, sitting on an interconnected podium. Within a certain period provided in the MOU, the parties shall execute a shareholders' agreement which shall provide, among others, the appropriate share structure and schedule of equity infusion.

   The MOU provides for a term of 12 months from February 28, 1998 and that in the event that a shareholders' agreement is not executed within the said period, the parties agreed that the MOU shall be deemed terminated. There was no shareholders' agreement executed by the parties within the term of the MOU.

c. *EIB Realty's syndicated investment of P424.10 million in a certain parcel of land located along Roxas Boulevard, Pasay City.*

   Operations related to the properties under land and land development costs account have been suspended from the time UBI and UII were placed under receivership. Management is presently taking steps to continue the related projects.

Changes in goodwill are as follows:

Goodwill at the time of merger	P870,875
Amortization over 20 years starting February 1, 2002	39,915
	P830,960

On April 1, 2002, the EIB Realty signed an agreement with the Parent Company, PTI and OMPI to enable the completion of One McKinley Place (the Project), a condominium project. The parties have agreed to the following:

1. Cash infusion. The Parent Company and PTI shall each infuse cash of P300.00 million into the Project (on an initial basis but with further infusion should the initial amount of P600.00 million not be sufficient to complete the Project) through purchase from OMPI of residential condominium units (at P80,000 per square meter) and receivables of OMPI from buyers (at a discount rate of 15%).

2. OMPI Loan. OMPI's loans and other credit obligations to the Parent Company totalling P960.00 million as of March 31, 2002 shall be offset against OMPI's deposit with the Parent Company of P12.00 million, with the balance subject to interest at 6.32% for a maximum of one year from the date of signing. The loan continues to be secured by mortgage on the condominium units of OMPI, the mortgage of which is to be released as proceeds from the sale of such units are remitted to the Parent Company. Any balance of the loan that remains unpaid upon completion of the Project or thirty days before the end of the one-year period, whichever comes first, shall be settled by way of dacion en pago of the unsold condominium units.

3. Advances. As of the execution date of the MOA, the advances to OMPI by EIB Realty and PTI of P260.00 million each shall be settled by way of dacion en pago of residential condominium units to the extent of P130.00 million, with the balance to be settled upon full settlement by OMPI of its loan to EIB from the sale proceeds of the remaining units, or by transferring units equally to the EIB Realty and PTI.

In accordance with the said agreement, EIB Realty purchased condominium units from OMPI totaling P75.00 million (recorded as Investment in Real Estate), representing its additional cash infusion into the project.

EIB Realty's input tax amounting to P59.24 million has been provided with a full valuation allowance as management believes it may no longer be realizable.

The carrying value of the exchange membership seat has been reduced by P5.00 million, which represents the excess of the carrying value of the membership in the stock exchange over its estimated fair value amounting to

P5.00 million. The fair value of P20.00 million consists of the trading rights amounting to P12.00 million and the equity investment of 50,000 shares amounting to P8.00 million.

Miscellaneous assets include foreign exchange revaluation on forward exchange contracts amounting to P27.16 million and P11.16 million as of December 31, 2002 and 2001, respectively (see Note 13).

Due from PDIC represents the balance of the fund of UDB with the PDIC for all cash receipts, net of disbursements for expenses, during the receivership period (see Note 7). All cash receipts are deposited to such fund and any disbursements for normal business expenses are charged against the fund. The fund is invested mainly in government securities and any income generated during the receivership period accrues to the benefit of the UDB.

Accrued interest receivable, advances to affiliates, accounts receivable, due from PDIC and deficiency judgment receivable are all due within one year.

10. Allowance for Probable Losses

Changes in the allowance for probable losses are summarized as follows:

	Group	Parent Company	
	2002	**2002**	2001
Balance at beginning of year:			
Loans	**P445,126**	**P445,126**	P418,114
IBODI	**–**	**–**	–
ROPOA	**–**	**–**	–
Other resources	**28,385**	**28,385**	52,917
	473,511	**473,511**	471,031
Provisions charged to operations	**290,438**	**262,734**	2,480
Reversals	**(213,662)**	**(213,662)**	–
Others	**3,622,803**	**3,481,134**	–
Balance at end of year:			
Loans	**2,768,336**	**2,768,336**	445,126
IBODI	**58,861**	**58,861**	–
ROPOA	**195,508**	**195,508**	–
Equity investments	**5,508**	**5,508**	–
Other resources	**1,144,877**	**975,503**	28,385
	P4,173,090	**P4,003,716**	P473,511

As discussed in Note 3, the Parent Company's allowance for probable loan losses has been determined with due consideration to the BSP's guidelines on loan loss provisioning.

Others pertain to allowance for probable losses of UBI and UII accounts recorded on merger date.

In 2001, pursuant to the provisions of BSP Circular No. 237 allowing merging banks to build up allowance for probable losses on specific accounts from the date of merger and in accordance with MB Resolution No. 1074 dated July 12, 2001, the management of the Parent Company decided to set up the 2001 required additional allowance for probable losses on loans, ROPOA and other resources totaling to P673.2 million on a staggered basis over seven years, starting after January 31, 2002, the effectivity date of the merger in 2002. Under Philippine GAAP the P673.2 million provision for probable losses should have been charged to 2001 operations.

As of December 31, 2002, however, management has determined that no additional allowance for probable losses was necessary taking into account favorable developments affecting the Parent Company's risk assets.

11. Bills and Acceptances Payable

This account consists of:

	Group	Parent Company	
	2002	**2002**	2001
Bills payable:			
LSP	**P9,356,070**	**P9,356,070**	P–
Banks and other financial intermediaries	**1,294,683**	**1,294,683**	2,717,006
BSP and SSS - rediscounting (see Note 6)	**377,770**	**377,770**	37,207
Others	**2,658,639**	**2,658,639**	–
Outstanding acceptances	**21,638**	**21,638**	93,861
	P13,708,800	**P13,708,800**	P2,848,074

The LSP incorporated in UBI's rehabilitation plan (see Note 2) covers UBI's deposit liabilities, bills payable, managers' check and drafts issued, and preferred shares (see Note 15), as well as placements in UII.

Under the LSP, 10% of the deposits and other similar liabilities, excluding the top three accounts, and all of the preferred shares of UBI shall be converted into common stock of the merged bank; with the remaining 90% balance to be paid over a three-year period, where 30%, 30% and 40% of the said balance to be paid at the end of the 1st, 2nd and 3rd years, respectively, from pay-out date. Interest at the rate of 6% and 2% per annum shall accrue to unconverted peso-denominated and FCDU deposits and similar liabilities, respectively, from pay-out dates. Interest shall be payable quarterly.

The top three deposit accounts as well as the bills payable to other financial institutions shall not be subject to equity conversion, but shall be repaid as follows: a) 75% of the balance shall be paid over a three-year period using the same repayment scheme as that of the deposits and similar liabilities and b) the remaining 25%, which shall be secured by collaterals, shall be paid in three equal installments at the end of the 4th year up to the end of the 6th year. Interest rates on the 75% balance shall be 6% and 2% on peso-denominated and foreign currency-denominated deposits and similar liabilities, respectively. For the 4th to the 6th year interest rate on the remaining 25% shall be 7% and 3.5% on peso-denominated and foreign currency-denominated deposits and similar liabilities, respectively. The remaining 25% of the balance of amounts due to the top three deposit accounts are secured by the Parent Company's loans (see Note 6) and ROPOA with carrying values of P790.56 million and P424.50 million, respectively.

UBI's other bills payable shall be entitled to the same repayment scheme as the deposits and similar liabilities, except that these are not subject to the 10% equity conversion into common stock of the merged bank.

At least 10% of UBI's existing preferred shares shall be, converted into common stock of the merged bank. The remaining 90% balance shall be paid over a three-year period similar to deposits and similar liabilities. Interest, which shall be paid quarterly at the rate of 6% per annum, shall accrue to unconverted balances of preferred shares.

Under the terms of payment under the LSP, an initial payment of P500,000 net of amounts already paid by PDIC shall be made by UBI and which will be deducted from the initial installment.

The total liabilities of the merged bank covered by the LSP will be repaid as follows:

Excluding the top three deposit accounts and other financial institutions:	
2003	P2,530,571
2004	3,967,187
	6,497,758
Top three deposit accounts:	
2003	458,051
2004	610,869
2005	169,686
2006	169,686
2007	169,686
	1,577,978
Other financial institutions:	
2003	372,537
2004	494,579
2005	125,029
2006	125,029
2007	163,160
	1,280,334
	P9,356,070

Of the total liabilities, included in the LSP amounting to P14.5 billion as of January 31, 2002 or the merger date, P8.9 billion and P5.6 billion pertains to UBI and UII, respectively. Such balance has been reduced by the scheduled payments in 2002 and the discounting of certain accounts. The total amount of discount recognized as income amounted to P138.21 million in 2002 (included as part of Miscellaneous Income in the 2002 statement of income). The corresponding repayment notes related to the foregoing liabilities were issued in February 2002, after the effectivity of the merger as approved by the regulatory authorities.

Demand deposit accounts of subsidiaries and associates of UBI totaling P828.7 million, which were not made part of the LSP, were settled by the Parent Company in 2002. Of this amount, P378.1 million pertains to payable to Common Investment Trust Fund of UII. As discussed in Note 2, UII was eventually merged with the Parent Company such liability was offset against the related deposit in bank account of UII.

The bills payable - others include borrowings from PDIC totalling P499.10 million as of December 31, 2002 which consist of: (a) borrowings of P200 million which are secured by the Parent Company's land, buildings and ROPOA with carrying value of P22.05 million, P318.70 million and P23.90 million, respectively, and (b) unsecured borrowings with maturities of less than one year amounting to P299.10 million (includes US dollar borrowing amounting to US$217,790 or P11.60 million) resulting from the conversion of subrogated deposits to a borrowing under the Financial Assistance Agreement dated September 14, 2001 between the Parent company and PDIC. The balance of bills payable others are owed to other corporate and individual creditors totaling P2.16 billion of which a portion is secured by the Parent Company's ROPOA with a carrying value of P884.05 million.

12. Accrued Taxes, Interest and Other Expenses

	Group	Parent Company	
	2002	**2002**	2001
Accrued interest payable	**P189,339**	**P147,198**	P86,996
Income tax payable	**10,187**	**10,187**	3,061
Accrued other taxes and other expenses payable	**103,073**	**96,989**	41,308
	P302,599	**P254,374**	P131,365

13. **Other Liabilities**

This account consists of:

	Group	Parent Company	
	2002	**2002**	2001
Accounts payable	**P283,494**	**P290,995**	P45,188
Payment orders payable	**57,783**	**57,783**	62,050
Unearned income and other deferred credits	**36,867**	**36,867**	25,394
Due to BSP (see Note 11)	**13,719**	**13,719**	2,912
Withholding taxes payable	**11,827**	**11,827**	5,397
Miscellaneous	**168,414**	**91,565**	24,420
	P572,104	**P502,756**	P165,361

Accounts payable, payment orders payable and due to BSP are all due within one year.

Miscellaneous liabilities include: (a) foreign exchange revaluation on forward exchange contracts (see Note 9) amounting to P30.71 million and P0.21 million as of December 31, 2002 and 2001, respectively, and (b) advances from a stockholder by UPHI amounting to P54.69 million (for the Group).

14. **Maturity Profile of Financial Resources and Financial Liabilities**

The following tables present the financial resources and financial liabilities by contractual maturity and settlement dates as of December 31, 2002 and 2001:

	Group		
		2002	
Financial Resources	**Due Within One Year**	**Due Beyond One Year**	**Total**
Due from BSP	**P395,286**	**P–**	**P395,286**
Due from other banks	**269,302**	**314,635**	**583,937**
Interbank loans receivable	**1,730,755**	**–**	**1,730,755**
Trading and investment securities (see Note 5)	**118,212**	**2,639,392**	**2,757,604**
Loans (see Note 6)	**8,158,996**	**4,713,251**	**12,872,247**
	P10,672,551	**P7,667,278**	**P18,339,829**

	Group		
		2002	
Financial Liabilities	**Due Within One Year**	**Due Beyond One Year**	**Total**
Deposit Liabilities			
Demand	**P510,900**	**P–**	**P510,900**
Savings	**4,153,130**	**–**	**4,153,130**
Time	**3,178,327**	**126,883**	**3,305,210**
Due to BSP	**13,719**	**–**	**13,719**
Bills payable (see Note 11)	**7,332,108**	**6,376,692**	**13,708,800**
	P15,188,184	**P6,503,575**	**P21,691,759**

	Parent Company					
		2002			2001	
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Financial Resources						
Due from BSP	**P394,313**	**P–**	**P394,313**	P255,847	P64,197	P320,044
Due from other banks	**269,082**	**314,635**	**583,717**	535,417	14,883	550,300
Interbank loans receivable	**1,730,755**	**–**	**1,730,755**	32,176	–	32,176
Trading and investment securities(see Note 5)	**23,817**	**2,639,392**	**2,663,209**	2,029,277	1,938,001	3,967,278
Loans (see Note 6)	**8,722,957**	**4,713,251**	**13,436,208**	2,437,475	1,612,047	4,049,522
	P11,140,924	**P7,667,278**	**P18,808,202**	P5,290,192	P3,629,128	P8,919,320
Financial Liabilities						
Deposit Liabilities						
Demand	**P510,900**	**P–**	**P510,900**	P623,984	P–	P623,984
Savings	**4,152,650**	**–**	**4,152,650**	2,696,437	14,532	2,710,969
Time	**3,178,327**	**126,883**	**3,305,210**	669,724	138,519	808,243
Due to BSP	**13,719**	**–**	**13,719**	2,912	–	2,912
Bills payable (see Note 11)	**7,332,108**	**6,376,692**	**13,708,800**	2,323,894	524,180	2,848,074
	P15,187,704	**P6,503,575**	**P21,691,279**	P6,316,951	P677,231	P6,994,182

15. **Capital Funds**

The Parent Company's capital stock consists of:

	2002	2001	2000
Preferred stock - P1 par value			
Authorized - 1.5 billion shares			
Issued - 1.0 billion shares	P1,000,000	P1,000,000	P1,000,000
Common stock - P1 par value			
Authorized - 6.0 billion shares			
Issued - 2,753,249,000 shares in 2002 and 1,559,904,000 shares in 2001 and 2000	2,753,249	1,559,904	1,559,904
	P3,753,249	P2,559,904	P2,559,904

Prior to the merger the details of UBI's capital stock are as follows:

Preferred - P100 par value	
Authorized - 10,000,000 shares	
Common - P100 par value	
Authorized - 24,000,000 shares	
Outstanding - 15,754,692 shares	
(net of subscription receivable of P26,820,000)	P1,548,649

In accordance with the SEC approved amended Articles of Incorporation of UBI (the Parent Company) the following changes have been effected in respect of the Parent Company's capital stock:

a. Reduction in the par value of common and preferred shares from P100.00 per share to P1.00 per share;
b. Increase in the authorized capital stock to 7.5 billion shares divided into 6.0 billion common shares and 1.5 billion preferred shares.

Under the amended Articles of Incorporation the preferred shares shall have features as the BOD may prescribe, provided that in no case shall preferred shares be cumulative, redeemable or voting.

The common shareholders of UBI now holds 15,486,490 shares. Out of the 10 million authorized preferred shares, 5,372,000 shares which were previously outstanding, were converted into Bills Payable in accordance with the LSP (see Note 11) in 2001. The remaining unissued 4,628,000 shares have accordingly, been eliminated as a result of the increase in authorized preferred stock discussed above.

The movements in common stock follows:

	Shares			Amount		
	2002	2001	2000	**2002**	2001	2000
Issued and outstanding						
Balance at beginning of year	**1,559,904,000**	1,559,904,000	1,559,904,000	**P1,559,904**	P1,559,904	P1,559,904
Issuance during the year	**1,193,345,256**	–	–	**1,193,345**	–	–
Balance at end of year	**2,753,249,256**	1,559,904,000	1,559,904,000	**P2,753,249**	P1,559,904	P1,559,904

As discussed in Note 2, in accordance with the exchange ratio indicated in the Articles and Plan of Merger, the Parent Company issued the following to UII and EIB shareholders:

a. 1,107,764 common shares to UII shareholders
b. 1,559,905 common shares and 1 billion preferred shares to EIB shareholders.

Issuances during the year includes the conversion of certain deposits to common stocks (in accordance with the LSP as discussed in Note 11) amounting to P1,176,751 (1,176,751,002 shares) and the shares issued to UII shareholders amounting to P1,108 (1,107,764 shares) and the shares of UBI shareholders amounting to P15,486 (15,486,490 shares).

The previous shares held by EIB shareholders were exchanged with the new shares of the merged bank. The details of EIB's capital stock prior to the merger are as follows:

	2002	2001	2000
Preferred P100 par value, cumulative non-voting and convertible			
Authorized and issued - 10 million shares			
Series "K" - 3.5 million shares	**P350,000**	P350,000	P350,000
Series "L" - 3.5 million shares	**350,000**	350,000	350,000
Series "M" - 3.0 million shares	**300,000**	300,000	300,000
	1,000,000	1,000,000	1,000,000
Common P100 par value			
Authorized:			
Class "A" - 24.0 million shares			
Class "B" - 16.0 million shares			
Issued:			
Class "A" - 9.0 million shares	**909,904**	909,904	909,904
Class "B" - 6.0 million shares	**650,000**	650,000	650,000
	1,559,904	1,559,904	1,559,904
	P2,559,904	P2,559,904	P2,559,904

As EIB was considered the accounting acquirer, as discussed in Notes 1 and 3, the capital stock in 2001 and 2000 have been restated for the equivalent number of shares received by EIB shareholders in the merger.

The listing of the Parent Company's common shares in the PSE (see Note 1) has been suspended following its temporary closure. Management is presently taking steps to reactivate such listing.

Under existing BSP regulations, the determination of the Parent Company's compliance with regulatory requirements and ratios is based on the amount of the Parent Company's "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from Philippine GAAP in some respects. Specifically, under current banking regulations, the combined capital accounts of each commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets consist of total resources after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the MB. As of December 31, 2002, 2001 and 2000, the capital-to-risk assets ratios (CAR) of the Parent Company were 13.26%, 27.96% and 33.48%, respectively, which were in compliance with the minimum requirement. The Group's CAR as of December 31, 2002 was 14.34%.

16. **Income Taxes**

Under Philippine tax laws, the Parent Company and its banking subsidiary 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) and documentary stamps taxes. Unless otherwise repealed by law, the Parent Company and its banking subsidiary will be subject to the value-added tax (VAT) instead of GRT, effective January 1, 2003. The liability for VAT will be based on the related regulations issued by tax authorities. 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 Income Tax in the statements of income.

Under current tax regulations, the corporate income tax rate applicable 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 the 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, the NOLCO is allowed as a deduction from taxable income in the next three years.

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

Provision for income tax consists of:

	Group	Parent Company		
	2002	**2002**	2001	2000
Current:				
Final taxes	**P43,074**	**P38,925**	P38,876	P29,528
MCIT	**10,577**	**10,188**	3,061	–
Deferred	**(22,800)**	**(22,806)**	916	1,641
	P30,851	**P26,306**	P42,853	P31,169

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

	Group	Parent Company		
	2002	**2002**	2001	2000
Statutory income tax	**P124,943**	**P130,302**	P25,093	P26,100
Additions to (reductions in) income tax resulting from the tax effects of:				
Valuation allowance on deferred tax assets	**167,025**	**141,136**	–	–
Nondeductible interest expense	**14,936**	**15,307**	9,505	7,987
Nondeductible expense	**12,773**	**12,773**	–	–
Applied NOLCO	**(109,884)**	**(109,884)**	–	–
Tax-paid income	**(128,829)**	**(129,370)**	(13,537)	(8,144)
FCDU income before income tax	**(59,974)**	**(59,974)**	(6,257)	(2,905)
Tax-exempt income	**(1,103)**	**(1,103)**	(83)	(3,137)
Others	**10,964**	**27,119**	28,132	11,268
Provision for income tax	**P30,851**	**P26,306**	P42,853	P31,169

The components of deferred tax assets - net (included in Other Resources) are as follows:

	Group	Parent Company	
	2002	**2002**	2001
Tax effects of:			
Allowance for probable losses	**P1,261,511**	**P1,260,592**	P151,524
NOLCO	**425,448**	**121,178**	9,084
MCIT	**10,207**	**10,188**	3,061
Unamortized past service cost	**878**	**878**	988
Unfunded retirement expenses	**375**	**375**	–
	1,698,419	**1,393,211**	164,657
Less valuation allowance	**436,574**	**131,366**	9,084
	P1,261,845	**P1,261,845**	P155,573

Management believes that the deferred tax asset from the NOLCO and MCIT may not be realized in the future. Hence, a valuation allowance was provided.

The details of the Group's and Parent Company's NOLCO and MCIT are as follows:

Group
NOLCO

Year Incurred	Amount	Applied/ Expired	Balance	Expiry Date
1999	P149,912	P149,912	P–	December 31, 2002
2000	417,172	622	416,550	December 31, 2003
2001	239,813	–	239,813	December 31, 2004
2002	673,162	–	673,162	December 31, 2005
	P1,480,059	P150,534	P1,329,525	

MCIT

Year Incurred	Amount	Applied/ Expired	Balance	Expiry Date
2000	P8	P–	P8	December 31, 2003
2002	10,199	–	10,199	December 31, 2005
	P10,207	P–	P10,207	

Parent Company
NOLCO

Year Incurred	Amount	Applied/ Expired	Balance	Expiry Date
1999	P140,418	P140,418	P–	December 31, 2002
2000	251,552	–	251,552	December 31, 2003
2001	127,129	–	127,129	December 31, 2004
	P519,099	P140,418	P378,681	

MCIT

Year Incurred	Amount	Applied/ Expired	Balance	Expiry Date
2002	P10,188	P–	P10,188	December 31, 2005

Revenue Regulations No. 10-2002 define expenses to be classified as entertainment, amusement and representation (EAR) expenses and set a limit for the amount that is deductible for tax purposes. EAR expenses are limited to 0.5% of net sales for sellers of goods or properties or 1% of net revenue for sellers of services. For sellers of both goods or properties and services, an apportionment formula is used in determining the ceiling on such expenses. EAR expenses amounted to P4,680 in 2002 and P5,516 in 2001. EAR expenses of the Parent Company for the periods January to August 2002 and September to December 2002 amounted to P2,296 and P2,434, respectively.

17. Retirement Plan

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its employees. Retirement contributions to the fund amounted to about P5.61 million in 2002 and P5.23 million in 2001.

As of March 16, 2002, the latest actuarial valuation date, the actuarial accrued liability for retirement benefits amounted to P7.7 million. The fair value of the plan assets amounted to P3.61 million. The unfunded actuarial accrued liability of retirement benefits amounted to P4.1 million. The principal actuarial assumption used to determine retirement benefits was an interest rate of 10% per annum.

The Parent Company's annual contribution to the retirement plan consists of a payment covering the current service cost and interest on the unfunded actuarial liability.

18. Leases

The Parent Company leases the premises occupied by its head office and branches for a period ranging from five to ten years, renewable upon mutual agreement of the parties. Most of the leases contain renewal options which provide for the right to extend the leases for varying periods, at terms to be agreed upon with the lessors. Rentals under these lease contracts amounting to P70.99 million in 2002 and P58.91 million in 2001 are included in Occupancy and Equipment-Related Expenses in the statements of income.

Lease commitments under lease contracts of the Group and the Parent Company for the next five years follow:

Year	
2003	P34,583
2004	35,709
2005	39,171
2006	43,038
2007	47,309

19. Trust Operations

Properties held by the Parent Company in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these items are not resources of the Parent Company.

In connection with the trust operations of the Parent Company, government securities with a carrying value of P15.02 million (face value of P14.08 million) and P11.74

million (face value of P10.88 million) as of December 31, 2002 and December 31, 2001, respectively, are deposited with the BSP.

In compliance with existing BSP regulations, 10% of the Parent Company's profit from trust business is appropriated to surplus reserve. This yearly appropriation is required until the surplus reserve for trust business equals 20% of the Parent Company's authorized capital stock. No part of the surplus reserve shall at anytime be paid out in dividends, but losses accruing in the course of its business may be charged against such surplus.

20. Related Party Transactions

In the ordinary course of business, the Parent Company enters into loan transactions with its affiliates, and with certain directors, officers and related interests (DOSRI). Under the existing policies of the Parent Company, these loans are made substantially on the same terms as with other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, 70% of which must be secured, should not exceed the amount of their deposits and book value of their investments in the Parent Company. In the aggregate, DOSRI loans should not exceed the total capital funds or 15% of the total loan portfolio of the Parent Company, whichever is lower.

The following table shows information relating to DOSRI loans of the Group and the Parent Company as of December 31, 2002 and December 31, 2001:

	2002	2001
Total outstanding DOSRI loans (amounts in thousands)	**P42,401**	P353,166
Percent of DOSRI loans to total loans	**0.33%**	8.71%
Percent of unsecured DOSRI loans to total DOSRI loans	**–**	–
Percent of past due DOSRI loans to total DOSRI loans	**–**	13.58
Percent of nonperforming DOSRI loans to total DOSRI loans	**–**	13.58

Total interest income on these DOSRI loans amounted to P1.50 million and P27.09 million in 2002 and 2001, respectively.

Deposit liabilities to associates and other related parties amounted to P 7.56 million and P1.10 million as of December 31, 2002 and 2001, respectively. Interest expense amounted to P0.27 million in 2002 and P0.10 million in 2001.

21. Segment Information

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

Branch Banking - principally handling the Parent Company's branches' individual customers' deposits, and providing consumer type loans, overdrafts and funds transfer facilities;

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

Treasury and Financial Institutions - principally providing money market, trading and treasury services, as well as the management of the Parent Company's funding operations by use of treasury bills, government securities, placements and acceptances with other banks and forward contracts, through treasury and wholesale banking.

Real Estate - represents the Group's real estate business engaged in building and development of residential, industrial and commercial properties.

Other Financial Services - includes the Group's other businesses which include insurance, stockbrokerage and a thrift bank.

These segments are the basis on which the Group reports its primary segment information. Other operations of the Group include the operations, accounting and reports groups and other nonmajor subsidiaries. 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.

The business segment information of the Group as of and for the year ended December 31, 2002 follows:

	Branch Banking	Corporate & Retail Banking	Treasury & Financial Institution	Real Estate	Other Financial Services	Others	Total
Results of operations							
Net interest income	(P89,139)	P1,010,584	P53,946	(P61,678)	P25,251	(P41,401)	P897,563
Noninterest income	18,483	30,076	525,228	39,288	4,746	(165,262)	452,559
Revenue - net of interest expense	(70,656)	1,040,660	579,174	(22,390)	29,997	(206,663)	1,350,122
Noninterest expense	324,889	100,819	15,768	57,009	20,166	141,025	959,676
Income before income tax	(395,545)	939,841	563,406	(79,399)	9,831	(647,688)	390,446
Provision for income tax							(30,851)
Minority interest in net loss of a subsidiary							21,293
Net income (loss)							P380,888
Segment Assets	P749,810	P16,870,624	P5,924,265	P1,396,815	P384,764	P3,166,627	P28,492,905
Investment in associate							(926,101)
Intra-segment assets							(506,676)
Total assets							27,060,128
Segment Liabilities	P624,056	P14,041,185	P4,930,683	P926,525	P7,860	P2,873,125	P23,403,438
Intra-segment liabilities							(833,650)
Total liabilities							P22,569,785

22. **Commitments and Contingent Liabilities**

In the normal course of the Group's operations, there are various lawsuits filed against the Group, pending tax assessments, outstanding commitments and contingent liabilities, such as guarantees, commitments to extend credit, etc., which are not reflected in the accompanying financial statements. Management does not anticipate material unreserved losses as a result of these transactions.

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

	Group	Parent Company	
	2002	**2002**	2001
Trust department accounts	**P3,018,006**	**P3,018,006**	P1,869,656
Forward exchange bought	**1,057,015**	**1,057,015**	89,224
Unused commercial letters of credit	**348,716**	**348,716**	163,298
Spot exchange bought	**159,762**	**159,762**	25,845
Outward bills for collection	**75,402**	**75,402**	54,734
Forward exchange sold	**51,827**	**51,827**	455,777
Outstanding guarantees issued	**49,905**	**49,905**	33,396
Inward bills for collection	**21,809**	**21,809**	33,876
Others	**77,047**	**77,047**	24,579

23. **Financial Performance**

The following table presents information used to calculate basic earnings per share (EPS):

		2002	2001	2000
a.	Net income	**P380,888**	P35,562	P50,394
b.	Weighted average number of outstanding common shares	**2,753,249**	1,599,904	1,559,904
c.	Basic EPS (a/b)	**P0.14**	P0.02	P0.03

As of December 31, 2002 and 2001, there were no shares of stock that had a dilutive effect on the basic EPS of the Group.

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

	Group	Parent Company		
	2002	**2002**	2001	2000
Return on average capital funds (ROE)	**10.75%**	**10.75%**	1.30%	2.00%
Return on average assets (ROA)	**2.05**	**2.06**	0.39	0.67
Net interest margin on average earning assets	**7.58**	**7.72**	3.89	6.11

As discussed in Notes 10, provision for probable losses amounting to P673.2 million should have been charged to 2001 operations. Had such provision been charged to 2001 operations, net income for 2001 would have decreased by P457.8 million, net of deferred income tax, with corresponding proportionate effects on the 2001 ROE and ROA indicated above.