EXPORTBANK

ANNUAL REPORT 2003

- Letter to Shareholders
- Financial Highlights
- Corporate Governance
- Board of Directors
- Board Committees
- Senior Management
- Senior Officers in Board Committees
- Corporate Profile
- Exportbank Group of Companies
- Statement of Management’s Responsibility
- Report of Independent Public Accountants
- Statements of Condition
- Statements of Income
- Statements of Changes in Capital Funds
- Statements of Cash Flows
- Notes to Financial Statements
- Products and Services
- Branches

Letter to Shareholders

Dear Fellow Shareholders,

Amidst the economic and political difficulties, 2003 turned out to be a productive year for Export and Industry Bank (EIB). The operating results are noteworthy taking into account the tough post merger challenges that EIB faced. In 2003 the bank consolidated and prioritized sound liquidity management and strengthening of the balance sheet and took on the final and crucial stages of the Liability Servicing Plan (LSP).

The EIB Group managed to register an after tax profit of Php130.1 million in 2003 as against the previous year's net income of Php380.8 million. The results are not as impressive but they actually reveal the growing confidence of customers in your merged bank. 2002's income was boosted primarily by revenues coming from the discounting of repayment notes issued under the LSP. This business activity significantly declined in 2003 indicating that there was a significantly higher population of LSP depositors and investors retained by and affirming their faith in the bank.

The Bank's solvency and economic capital position stayed within prudential standards in 2003. The risk based capital adequacy ratio (CAR) stood at 16.3% and 15.9% on a consolidated and solo basis, respectively, which were way above the minimum CAR requirements of the Bank for International Settlements (BIS) of 8% and Bangko Sentral ng Pilipinas of 10%, respectively. EIB's CAMELS rating likewise remained at an acceptable level.

As of December 31, 2003, EIB's total assets stood at Php26.74 billion, marginally lower by 1.2% versus the end of 2002 level. This was underpinned mainly by the contraction in the loan portfolio by 31.5% to Php6.67 billion, reflecting the sluggish credit demand, aggressive past due collection and intensified asset recovery efforts.

EIB's non-performing loan (NPL) ratio inclusive of inter-bank loans (which averaged 17.9% for all commercial banks in 2003) slightly increased to 18.5% as of year-end 2003, from 17.62% in 2002. It is important to understand that the increase was not caused by additional soured loans but by a lower loan portfolio that resulted from the conservative lending stance of EIB. It is worth noting though that EIB's NPL ratio has significantly improved from 80% upon turnover of Urban Bank assets to EIB. Loan loss provisions decreased to Php2.51 billion from Php2.77 billion the previous year indicating the adequacy of existing reserves to cover expected losses on classified credits in relation to minimum regulatory requirements. Notwithstanding the lower provisioning levels, the coverage ratio for NPA and NPL of 36.1% and 122.8%, respectively, remained markedly above the regulatory benchmarks and industry counterpart levels of 29.2% and 50.9%, respectively, in 2003.

Letter to Shareholders

On the liability side of the balance sheet, total funds consisting of deposits and bills payable, which include regular deposits, re-structured deposits and placements under the LSP, aggregated Php15.3 billion by year-end, lower by 12.1% versus the end of 2002 level mainly due to significant reduction in the LSP. The successful repayment of deposits and similar obligations for the 2nd year of the LSP contributed to the reduction in bills payable. From Php17.8 billion as of the formal turnover date in August 2001, LSP obligations outstanding was further reduced to a gross amount of Php5.59 billion as of end 2003 from Php9.36 billion as of end of 2002. The settlement of scheduled payments, the discounting of the repayment notes issued for the second year of the program combined with loan offsets against LSP receivables of debtors contributed to the further decline in the LSP servicing burden. Meanwhile, traditional deposits contributed to the growth of funding as it increased by 21.5% to Php9.68 billion as of end of 2003, emanating primarily from savings accounts.

EIB's service reach continued to grow in 2003 through the continued expansion of the branch network, which grew to 50 sites by year-end, establishment of Expert Banking Centers and broadening of on line and over the counter delivery channels. Innovative products such as Premium Savings Plus which offer the convenience of a passbook savings account and personal insurance features were introduced to raise transactional deposit volumes and lower funding costs relative to purchased money market savings accounts. Our customer base for deposits increased significantly, from about 35,089 accounts in 2002 to 45,969 by end 2003.

Letter to Shareholders

The trust and funds management business of the group slid marginally to Php2.95 billion as of end of 2003 from Php 3.0 billion as of end of the previous year due to the increased equity and fixed income market volatility arising from uncertainties preceding the May 2004 elections. However, the product menu was further diversified in 2003 with the introduction of new Common Trust Funds (CTFs) for strategic positioning in a highly promising asset management market. In 2003, daily Net Asset Values are provided for investors in these pooled funds.

Asset management efforts in 2003 focused on the restructuring and recovery from Non-Performing Assets [which is largely composed of Real and Other Properties Owned and Acquired (ROPOA)] mainly through negotiated asset disposals. While the ROPOA portfolio increased in 2003, it was to a large extent due to settlement of outstanding obligations of One McKinley Place (OMP) to the Bank through the dacion of condominium units. This component of the ROPOA however continued to be reduced from end 2003 through early 2004 through aggressive sale of the units to selected investors.

A major corporate milestone during the second half of 2003 was the reactivation of the listing and resumption of trading of the former UBI shares in the Philippine Stock Exchange to provide a secondary market liquidity mechanism for investors as well as to provide a realistic valuation of shares of the merged bank.

Letter to Shareholders

The banking environment for 2004 remain fraught with difficulties amidst looming increase in US interest rates and recent upswing in international oil prices. These, together with the fiscal deficit and the rising public debt to GDP ratio portend an increase in domestic inflation, interest rates, and peso-dollar exchange rate which may dampen economic prospects for the rest of 2004.

These uncertainties in the business outlook and pressures on corporate earnings growth notwithstanding, we are confident that EIB will emerge resilient in 2004. We continue to pursue balance sheet restructuring, expand risk capital, provide cost effective products and dispose of non-core subsidiaries. To improve further the quality of our balance sheet, we are fast tracking the disposition of our NPA portfolio through a Special Purpose Asset Vehicle (SPAV) or a joint venture asset management company. We continue to focus on the growth of the retail-banking portfolio of residential mortgage loans, small business and guaranty program SME loans, personal and salary credits and micro-enterprise financing while pursuing our core competence in trade finance. EIB Savings Bank, the franchise of which was recently granted by the Bangko Sentral, is envisioned to be a major vehicle for our retail banking strategy.

We continue to streamline our subsidiaries through their selective disposition and functional integration with the EIB operations.

Letter to Shareholders

To augment liquidity and streamline funding structure, EIB continues to aggressively pursue Transaction and E-Banking businesses to capture low-cost deposit base, while aggressively marketing competitively priced products and services. In 2004, we intend to fully service the maturing obligations for the 3rd year of the LSP program with the end in view of maximizing retention of clients through innovative financial instruments.

Alongside business focus rationalization and balance sheet quality enhancements, we continue to focus on enterprise-wide risk management to comply with Basel 2 standards. A Central Liability System was installed in 2003 to support our account performance and exposure management. In 2004, an Internal Credit Risk Rating System shall be established in compliance with regulatory requirements and best risk practices. Our Board of Directors has also approved the acquisition and implementation of an integrated Treasury solution to upgrade our transaction processing, dealing, and control infrastructure that will also support a Value At Risk (VAR) and Risk Adjusted Return on Capital (RAROC) based risk and performance management systems.

In the area of human resource management, we conduct educational programs that are immediately needed to meet organizational objectives focusing on credit risk management, operations risk management, customer service excellence program, business process reengineering and leadership training.

Letter to Shareholders

In summary, we hurdled another challenging and difficult year. With the completion of the repayment and servicing of deposits and similar obligations under the LSP in 2004, our focus in the coming year is to lay a solid foundation for a sustainable future growth in shareholder value. In closing, we would like once again to take this opportunity to thank our Board of Directors, business partners, employees and other stakeholders for their unwavering dedication and support.

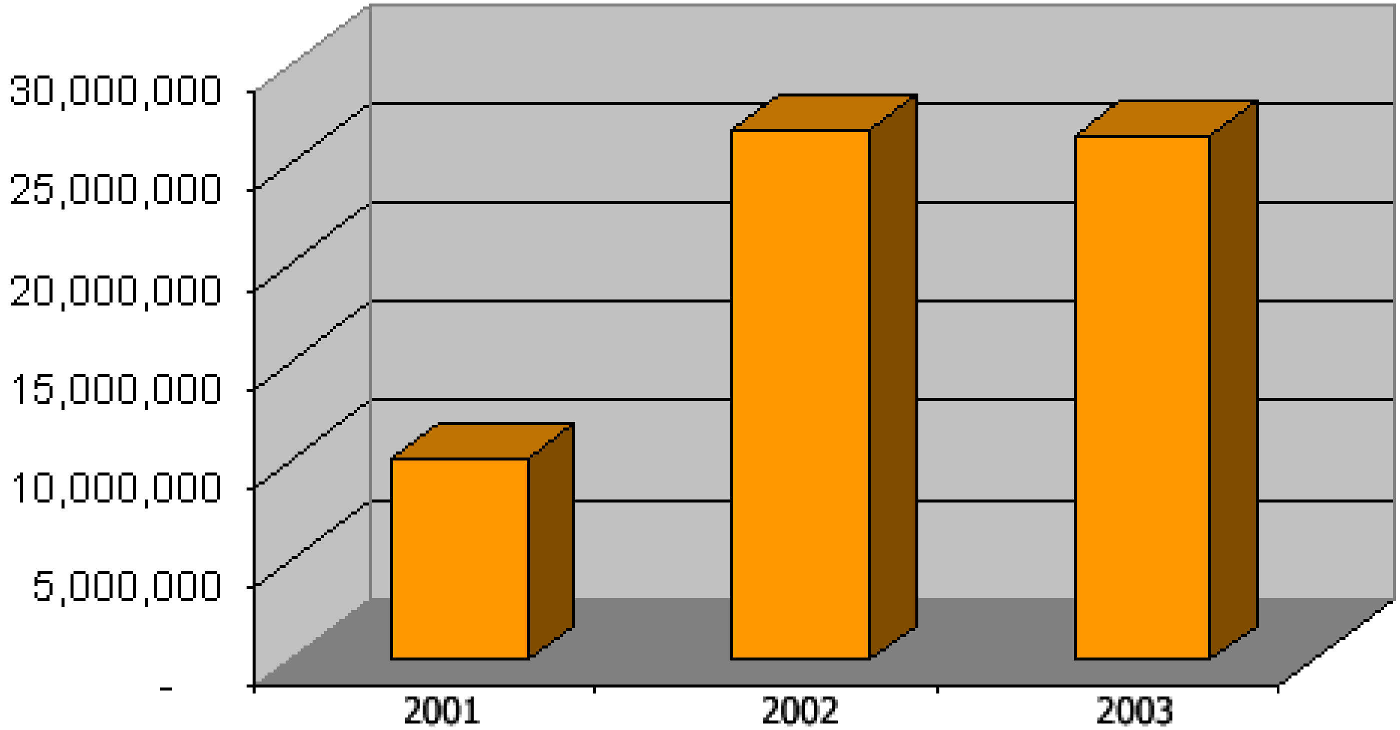
SERGIO R. ORTIZ-LUIS, JR.
Chairman

REYNALDO G. DAVID
Vice-Chairman

BENJAMIN P.CASTILLO
President

Financial Highlights

Assets
(Amounts in Thousands)

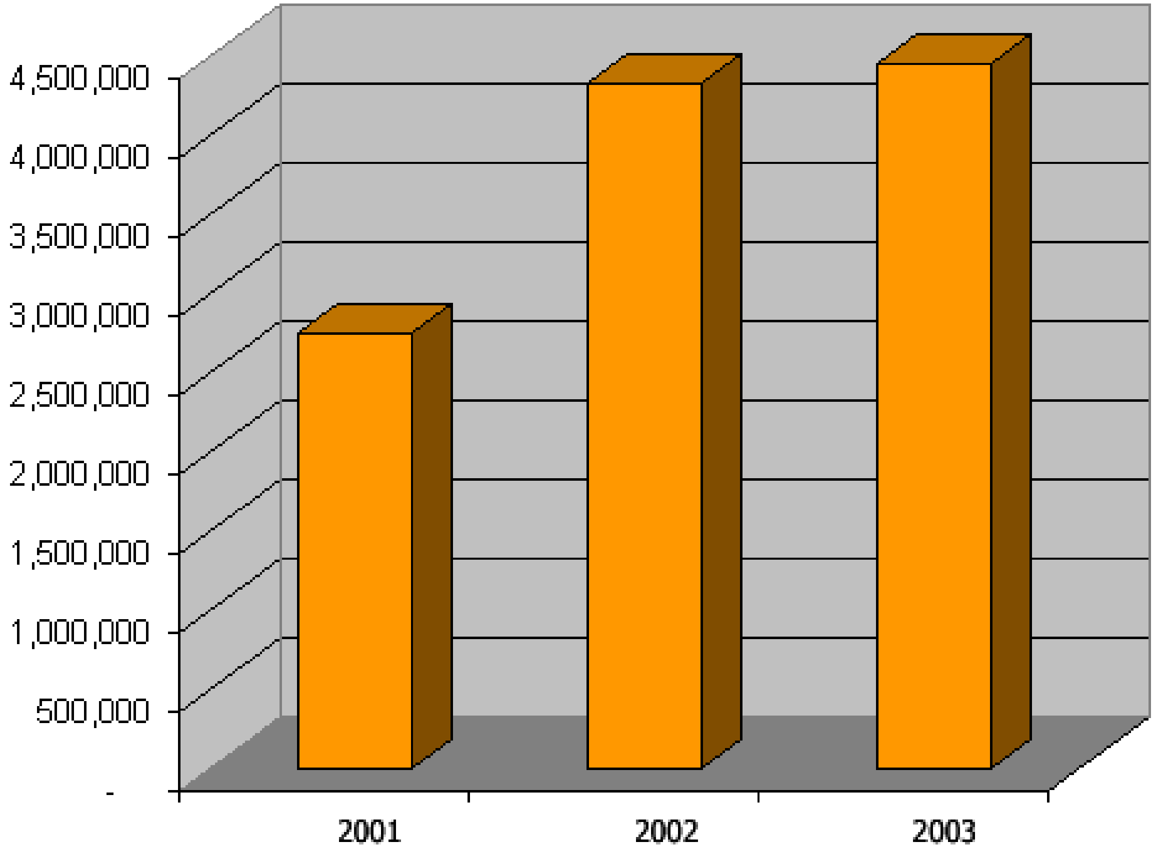


Year	Amount
2001	Php 10,117,764
2002	Php 26,780,974
2003	Php 26,470,518

EXPORTBANK

Financial Highlights

Capital Funds
(Amount in Thousands)

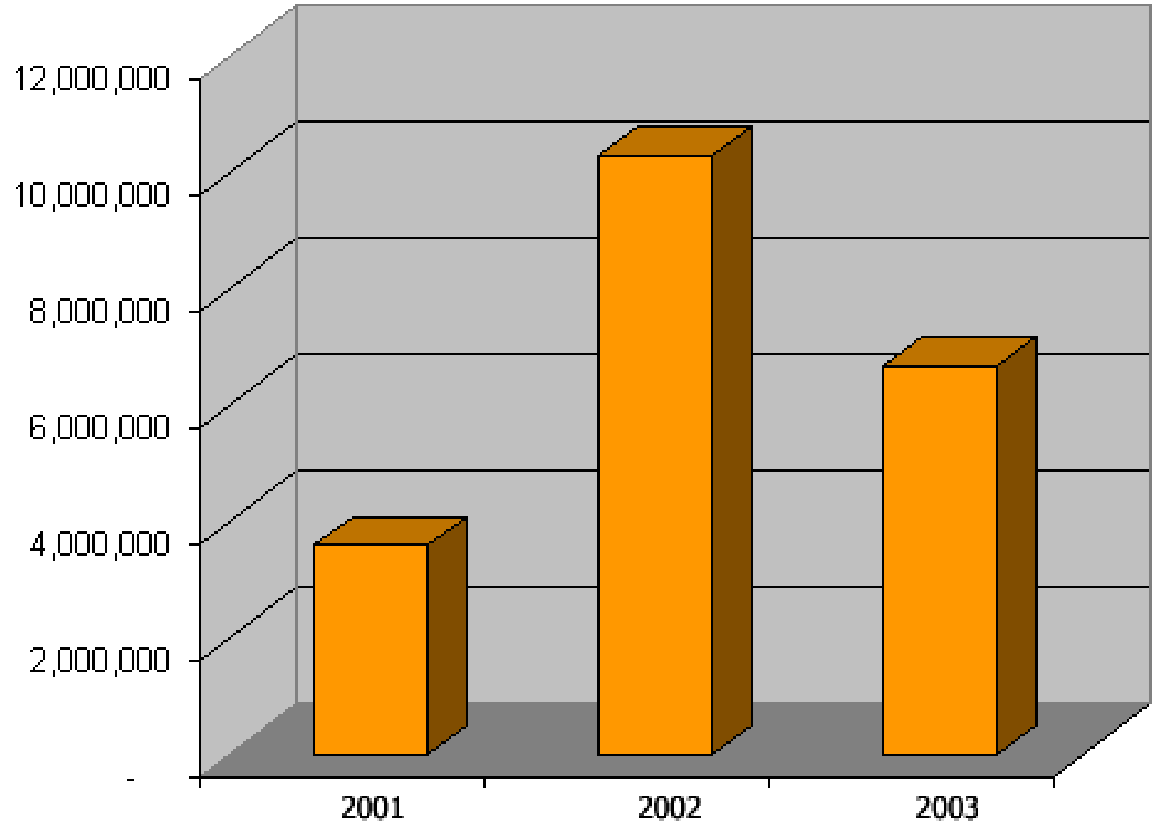


Year	Amount
2001	Php 2,755,248
2002	Php 4,329,242
2003	Php 4,459,380

EXPORTBANK

Financial Highlights

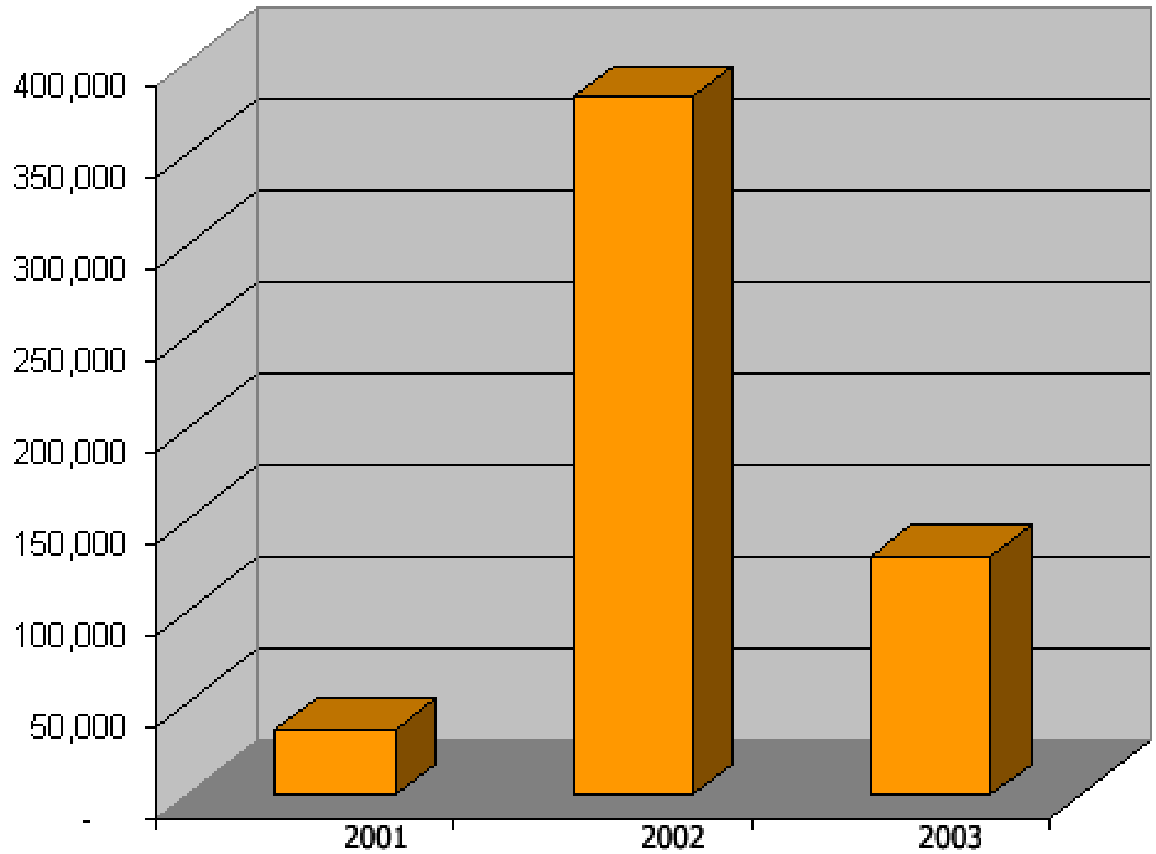
Loans (Net)
(Amount in Thousands)



Year		Amount
2001	Php	3,601,365
2002	Php	10,304,372
2003	Php	6,680,615

Financial Highlights

Net Income
(Amount in Thousands)



Year	Amount
2001	Php 35,562
2002	Php 380,888
2003	Php 130,138

EXPORTBANK

Corporate Governance

The EIB Group is committed to high standards of corporate governance believing that these are essential to achieving the Bank's objective of maximizing the growth of shareholder value and safeguarding the rights of shareholders.

Under the SEC rules, the Bank is required to disclose its corporate governance policies and practices with specific reference to the approved Code of Good Corporate Governance Manual as described in its Corporate Governance Evaluation and Monitoring System. The following describe the good governance practices during 2003, which are in line with the Code:

BOARD OF DIRECTORS

The Board sets the overall business directions, policies and objectives of the Bank. It approves the Bank's annual budget, oversees management actions and monitors operating performance results against targets. The Board also sets guidelines and approves processes to ensure sound and adequate corporate risk management, internal controls and financial transparency to regulators and shareholders.

Corporate Governance

The Board comprises of 18 members, three (3) of which are independent directors and three (3) are executive directors. The current Board comprises members with diverse corporate and business experiences, who as a group provide core competencies relevant to the businesses of the Bank. As independent and non-executive directors comprise more than two thirds of the Board, no individual group is able to dominate the Board's decision-making process.

The Chairman leads the Board discussions, sets the agenda for the Board and stockholders' meetings and ensures that the directors are provided with timely and adequate information. Together with the Board and management, he develops appropriate strategies and policies on the Bank's operations and business. In furtherance of its duties, the Board delegates specific responsibilities to the six (6) board committees.

Corporate Governance

Executive Committee

The Executive Committee (EXECOM) of EIB is composed of the Vice-Chairman, President, three (3) directors, and the Chairman of the Board as ex-officio member. The Board may delegate some of its powers and authorities, which may lawfully be delegated, to the EXECOM, which in turn will supervise the other committees of the Board, subject to such limitations or restrictions as may be imposed by the Board.

Audit Committee

The responsibilities of this Committee include financial reporting, conducting external and internal audit, monitoring and overseeing the system of internal control and accounting, and establishing and monitoring compliance with regulatory requirements. The committee is composed of at least three (3) members designated by the Board of Directors, one of whom an independent non-executive director.

Credit Committee

The Credit Committee handles various credit issues and concerns as provided for in the Corporate Risk Policy and Procedures Manual. It is composed of Board Members, with the President designated as Committee Chairperson and at least four (4) members, including the Vice-Chairman.

EXPORTBANK

Corporate Governance

Trust and Investment Committee

The primary function of this committee is to oversee and supervise the trust and other fiduciary business and services provided by Exportbank, including the management of high net worth accounts, portfolio management, estate planning and the formulation and implementation of trust and asset products. Headed by the Vice-Chairman or his designee, the Trust and Investment Committee is composed of at least five (5) members including the President, the trust officer and Directors appointed by the Board of Directors on a regular rotation basis and who are not officers of the bank proper.

Human Resources Management, Compensation and Remuneration Committee

This committee is responsible for setting human resource management performance standards in the areas of recruitment, training and development, compensation and benefits planning and administration, performance appraisal and merit program, employee relations and corrective action, retirement and separation. It is composed of at least three (3) members designated by the Board, one (1) of whom an independent director, and with the President as the committee Chair.

Corporate Governance

Risk Management Committee (RIMCO)

A board level committee, RIMCO is responsible for the development, in coordination with bank line management, of the Bank's corporate risk policy as well as the oversight of the said policy. It is headed by the RIMCO Chairman and comprised of designated members of the Board, with the Chairman of the Board as ex-officio. Aside from providing management oversight in the areas of liquidity, credit and market risks, it acts jointly with management in the creation of risk policy and as such serves as the Board's oversight committee/check and balance leg in the risk process. It provides guidance on and reviews the risk policies and procedures as defined in the Corporate Risk Policy and Procedures Manual, which is approved by the Board.

CORPORATE RISK MANAGEMENT

As the management of risk is fundamental to the financial soundness and integrity of EIB, the Board has overall responsibility for corporate risk management. Our risk management philosophy is that all risks must be identified, measured, monitored and managed within a risk policy framework aligned with best practices and standards. The Board provides an oversight role in determining the level and type of business risks that EIB undertakes to achieve its objective of attaining sustainable growth in shareholder value.

CREDIT RISK MANAGEMENT

Credit and counter-party risk is defined as the potential loss arising from the failure of customers to fulfill their obligations as and when they fall due. All credit exposures, on and off balance sheet which may arise from lending, trade finance, trading and investment as well as derivative contracts are assessed and reported regularly to the RIMCO and Board of Directors under the Circular 280 and 360 framework. A rigorous credit risk approval and review process is in place within an established credit and counter-party limit framework reflecting the Board's risk tolerance. The Credit Committee establishes guidelines and procedures to control and monitor risks under delegated authority from the Board. It also has direct responsibility for the oversight of portfolio risk concentration and industry exposures. Information on exposures per specific borrower, NPLs, collateral support and loan loss reserves are regularly reviewed and relayed to the Board and EXECOM. The risk parameters including among others single borrower limits (SBL), obligor, collateral type, security concentrations and high-risk areas as well as acceptance criteria for retail and corporate accounts are clearly defined. The general lending policy of the Bank is based on sound credit and financial evaluation of applicants, which is performed by an independent Credit Administration Group. To compliment rigorous credit analysis, EIB plans to establish in 2004 an Internal Credit Risk rating system consistent with Basel requirements.

ASSET AND LIABILITY MANAGEMENT (ALM) AND LIQUIDITY RISK

Balance sheet or ALM risk is defined as the potential loss in earnings arising from the effect of movements in interest rates and foreign exchange rates on the banking or accrual book. Liquidity risk, which arises in the funding of business activities and in the management of assets, is the potential loss arising from the inability of the bank to meet its contractual obligations when due. The ALCO meets weekly to assess funding requirements in relation to the LSP and other commitments to fulfill regulatory reserves, lending and trade related obligations. The ALCO sets guidelines on the level and maturity structure of funds sources, pricing of assets and liabilities including the internal Transfer Pool Rates and asset allocation. The Treasury Group under ALCO's guidance ensures that the bank has sufficient day to day liquidity to meet contractual payments and unanticipated funding needs by maintaining a reasonable level of liquid and readily marketable investments and trading securities, devising alternative contingency liquidity plans and maintaining adequate lines with counterparties. At the tactical level, the Treasury Group is responsible for the effective management of balance sheet risk in the banking book in accordance with approved risk management policies including the interest rate sensitivity gap and Maximum Cumulative Outflow (MCO) limits as approved by the Board of Directors.

MARKET RISK

Market risk is defined as the loss in market value of a trading portfolio that may be incurred in response to changes and volatility in market prices including foreign exchange rates, interest rates, and bond prices. EIB is exposed to market risks because of its proprietary trading and commercial dealing activities in money market, foreign exchange and regular derivative instruments. Market risk is measured using both standardized and VAR methodology in accordance with Circular 360 guidelines. Market risk is a framework of risk management policies and controls such as notional, stop loss and Value at Risk (VAR) limits as recommended by Treasury and ALCO, reviewed by the RIMCO and approved by the Board of Directors. RIMCO also monitors the compliance with approved trading and counterparty limits. To enhance market risk quantification, analysis, reporting and control, the bank aims to implement the Treasury Risk Management system, starting end of 2004. This will enable EIB to automate its risk process, fully employ VAR methodology such as parametric variance-covariance and non-parametric Historical Price Simulation models and regularly conduct stress and back-testing processes.

OPERATIONAL RISK

Operational risk is defined as the potential loss arising from the breakdown in EIB's internal controls or corporate governance that results in fraud, error, failure to or delay in transaction processing. It also arises from major information technology system failures and natural/ man-made disasters. EIB's internal control system includes a constant process of operations review, documentation and streamlining. The Internal Audit Group reviews the bank's activities and regularly ensure compliance with internal control policies and procedures. Findings are reported to the Audit Committee and the Board. Moreover, the Compliance Officer also ensures that the Bank adheres with regulations of BSP and other regulatory bodies. As part of EIB's operational risk and compliance framework, a Business Continuity Plan has been developed. Also included in the overall operational risk framework is a product process, which aims to ensure that risks associated with each new product or service are identified, analyzed and approved by management and the Board of Directors before it is launched. Legal risk, which arises from documentation, legal or regulatory incapacity and uncertainty in the enforcement of contracts is managed in consultation with the external counsels and EIB Legal Division to ensure that legal advice is appropriately taken when necessary.

Other Board Committees are the **Asset and Liability Committee, Branches Committee, Compliance Committee** and **Real Asset Management Committee**.

Board of Directors

SERGIO R. ORTIZ-LUIS, JR
Chairman of the Board

Chairman, Philippine Chamber of Commerce and Industry (PCCI)
Chairman, One Mckinley Place, Inc.
Chairman, EIB Realty Developers, Inc.
Chairman, EIB Securities, Inc.
Director, UMC Finance and Leasing Corp.
President, Philippine Exporters Confederation (PHILEXPORT)
Vice President, Employers' Confederation of the Philippines
Vice Chairman, Export Development Council
Board Member, WTO/AFTA Advisory Commission Trade
Board Member, Investment Development Corp.
Business Sector Representative, National Consumer Affairs Council
Commissioner, Social Security Commission

Board of Directors

REYNALDO G. DAVID

Vice Chairman

Director, One Mckinley Place, Inc.
Director, UMC Finance and Leasing Corp.
Director, EIB Securities, Inc.
Director, EIB Realty Developers, Inc.
Director, Proxyway Ltd.
Director, Group Stock Ltd.
Director, Pratt Capital Asia Ltd.
Director, Pratt Finance Asia Ltd.
Director, Pratt International Trading Co.
Former Director, Unicorp Finance Ltd.
Former VP & Country Treasurer, Citibank Philippines

BENJAMIN P. CASTILLO

President

Director, Bankers' Association of the Philippines
Director, Philippine Clearing House Corp.
Director, LGU Guaranty Corp.
Director, Phil-Indo Business Council
Director, EIB Insurance Brokerage, Inc.
Director, EIB Securities Inc.
Director, EIB Realty Developers, Inc.
Former Senior Vice President, PT Lippo Bank
Former Country Operations Head, Citibank Philippines
Former Country Manager-Transaction Banking, Citibank Australia

EXPORTBANK

Board of Directors

JOSE E.B. ANTONIO

Chairman, Century Properties Group, Inc.
Chairman, Meridien Development Grp.
Chairman, Prestige Car, Inc.,
Chairman, Corporate Financial Advisors Inc.
Chairman, Century Asia Corp.
Chairman, Subic Air Charter Corp.
Chairman, Centennial Air Cargo, Inc.
Chairman, Penta Helicopters Corp.
Vice Chairman, Penta Pacific Realty Corp.
Vice Chairman, Philtranco

DIONISIO E. CARPIO, JR.

Director, EIB Securities, Inc.
Director, UMC Finance and Leasing Corp.
Director, EIB Realty Developers, Inc.
Director, ValueLife Financial Insurance Co.
President, Keytrend Technology Philippines, Inc.
President, YesMobile Philippines, Inc.
Director, Manila Exposition Complex, Inc.
Former Treasurer, Medco Holdings, Inc.
Former Treasurer/Director, Medco Asia Investment Corp.
Former President, Lippo Securities, Inc.
Former Vice President, Lippo Asia Investment Corp.
Former First Vice President, Far East
Bank and Trust Co.

JOSUE A. CAMBA, JR.

President & CEO Value Finance, Inc.
President & CEO, Corporate Financial Advisors, Inc.
President & CEO, ValueLife Financial Insurance Co., Inc.

EXPORTBANK

Board of Directors

OSCAR C. DE VENECIA*

Chairman and President, Basic Consolidated, Inc. and its subsidiaries
Advisory Board Member, Manila Economic Cultural Office
Advisory Board Member, Systems Technology, Inc.

*independent director

DONALD G. DEE

Chairman and President, Yarn Ventures Resources, Inc.
Chairman and President, Enroute Fashions, Inc.
Chairman and President, Redson Textile Mfg. Corp.
Chairman and President, Fantex Manufacturing Corp.
Director, Rightfield Properties, Inc.
Chairman, Confederation of Garment Exporters of the Philippines
President, Employers' Confederation of the Philippines
Director, Philippine Exporters' Confederation
Director, Philippine Chamber of Commerce and Industries
Adviser, Garment & Textile Board
Commissioner, Social Security Commission

SAI CHONG CHENG

Vice President, Head Office Operations, Export and Industry Bank
Former Assistant Vice-President, Lippo Bank, Los Angeles USA
Former Manager, Hong Kong Chinese Bank, Ltd.

EXPORTBANK

Board of Directors

PATERNO H. DIZON*

President, Science Park of the Philippines
President, Cebu Light Industrial Park, Inc.
President, RFM-Science Park of the Philippines
Director, Hermosa Ecozone Development Corp.
Director, EIB Securities, Inc.
Chairman and Associate Trustee, Philippine Exporters' Confederation

Independent Director

WONG SAY HING

Vice President, Production Head, Export and Industry Bank
Director, Hing Sang Enterprises Corp.
Former Assistant Vice President, First Pacific Bank, Ltd., HK
Former Senior Assistant Manager, Far East Bank Ltd., HK.

FRANCIS T. LEE*

Vice Chairman, Philippine Business Bank
Director, Galvanized Specialized Company
Proprietor, Mabuhay Pawnshop

Independent Director

Board of Directors

PAULINE C. TAN

Treasurer, EIB Realty Developers, Inc.
Officer-in-charge, EIB Securities, Inc.
Former Director, Lippo Securities, Inc.
Former Director, Lippo Asia Investment Corp.
Former Director, Medco Holdings, Inc.
Former Director, Manila Exposition Complex,Inc.
Former Managing Director, Sung Hung Kai Securities Philippines, Inc.

EDNA D. REYES

Member, Lippo Securities.
Member, Board of Medco Holding, Inc., Medco Asia Investment Corp.

EXPORTBANK

Board of Directors

VICTOR N. TE

President, Mansfield International, Inc.
President, Excelland Properties, Inc.
President, Futura Clothing International Corp.
President, Consumer Plastic Products, Inc.
Managing Director, Hanford Phils., Inc.
Managing Director, Philstone Industrial & Mfg. Corp.
Managing Director, Team Ads, Inc.
Vice President/Director , Globus Care, Inc.
Vice President/Director , Globus Ventures Holdings, Inc.

ALFREDO M. YAO

Director, One Mckinley Place, Inc.
Director, EIB Realty Developers, Inc.
Director, UMC Finance and Leasing Corp.
General Manager, Solmac Marketing, Inc.
President, Harman Foods (Phils.), Inc.
President, Uni-Ipel Industries, Inc.
President, SMI Development, Inc.
President, Zesto Philippines, Inc.
President, Amchem Marketing Corp.
Chairman, Semexco Marketing Corp.
Chairman, Philippine Business Bank

HECTOR R.R. VILLANUEVA**

**PDIC representative

EXPORTBANK

Board of Directors

JEFFREY S. YAO

Director, Solmac Marketing, Inc.
Director, Harman Foods (Phils.), Inc.
Director, Amchem Marketing, Inc.
Director, Semexco Marketing Corp.
Director, SMI Development Corp.
Director, Zesto Corporation
Director, American Brands (Phils.), Inc.

HERMENEGILDO C. ZAYCO

President, Textile Mills Association of the Phils.
President, Universal Gourmet Corp.
Director, Eastern Peninsula Capital Resources
Director, Jackbilt Industries, Inc.
Director, Philnico Mining & Industrial Corp.
Director, First Galleon Family Fund
Private Sector Representative, Export Development Council
Trustee for Textile Sector, Philippine Exporters' Confederation

RAMON F. AVIADO, JR.

Corporate Secretary

Board Committees

EXECUTIVE COMMITTEE

Ramon F. Aviado, Jr., Sai Chong Cheng, Edna D. Reyes, Alfredo M. Yao, Sergio R. Ortiz-Luis, Jr., Reynaldo G. David, Benjamin P. Castillo, Donald G. Dee, Paterno H. Dizon

CREDIT COMMITTEE

Sai Chong Cheng, Annette C. Gonzalvo, Alfredo M. Yao, Reynaldo G. David, Sergio R. Ortiz-Luis, Jr., Benjamin P. Castillo, Dionisio E. Carpio, Jr., Donald G. Dee

AUDIT COMMITTEE

Benigno J. Aquino, Sai Chong Cheng, Francis T. Lee, Sergio R. Ortiz-Luis, Jr., Jose E.B. Antonio, Paterno H. Dizon, Jeffrey S. Yao, Victor N. Te

Board Committees

TRUST AND INVESTMENTS COMMITTEE

Teresita S. Sion, Pauline C. Tan, Oscar C. De Venecia, Alfredo M. Yao, Reynaldo G. David, Benjamin P. Castillo, Dionisio E. Carpio, Jr., Hermenegildo C. Zayco, Josue A. Camba, Jr.

RISK MANAGEMENT COMMITTEE

Jose E.B. Antonio, Edna D. Reyes, Alfredo M. Yao, Sergio R. Ortiz-Luis, Jr., Dionisio E. Carpio, Jr., Hermenegildo C. Zayco, Paterno H. Dizon, Rolando E. Valenzuela

HUMAN RESOURCE MANAGEMENT AND REMUNERATION COMMITTEE

Pauline C. Tan, Oscar C. De Venecia, Reynaldo G. David, Sergio R. Ortiz-Luis, Jr., Benjamin P. Castillo, Jeffrey S. Yao, Ma. Luisa I. Caraig

ASSET AND LIABILITY MANAGEMENT COMMITTEE

Hector R.R. Villanueva, Dionisio E. Carpio, Jr., Noemi A. Trinidad, Teresita S. Sion, Sai Chong Cheng, Reynaldo G. David, Sergio R. Ortiz-Luis, Jr., Benjamin P. Castillo, Donald G. Dee, Dalisay N. Rubio, Marcelo A. Mirasol, Jr., Manuel C. Valdez

Board Committees

BRANCHES COMMITTEE

Oscar C. De Venecia, Alfredo M. Yao, Sergio R. Ortiz-Luis, Jr., Reynaldo G. David, Benjamin P. Castillo, Marcelo A. Mirasol, Jr.

COMPLIANCE COMMITTEE

Romulo D. Carandang, Pauline C. Tan, Francis T. Lee, Sergio R. Ortiz-Luis, Jr., Paterno H. Dizon, Oscar C. De Venecia

REAL ASSET MANAGEMENT COMMITTEE

Jose E.B. Antonio, Paterno H. Dizon, Alfredo M. Yao, Benjamin P. Castillo, Sergio R. Ortiz-Luis, Jr., Reynaldo G. David, Donald G. Dee, Oscar C. De Venecia, Victor N. Te

Senior Management

Marcelo A. Mirasol, Jr.	EVP	Head – Account mgt. & Branch Marketing
Danilo D. Camacho	FVP	Group Head – Branch Operations and OIC of HOOG
Reuben H. Santos	FVP	Group Head – Treasury
Amelia Z. Isaac	FVP	Region Head – MM Area I Makati Branches
Josemaria P. Valdes	CIO	Group Head – Information Technology
Luellia E. Cayas	VP	Group Head – Account Management
Ma. Luisa I. Caraig	VP	Group Head – Human Resources Management
Benigno J. Aquino	VP	Group Head - Audit
Wong Say Hing	VP	Division Head – Trade & Loans/Cable Operations
Alex A. Pimentel	VP	Region Head – Visayas/Mindanao
Eulinia P. Dalapatan	VP	Region Head - MM Area 4 South
Violeta M. Tirol	VP	Region Head - MM Area 2 East
Jose R. Ledesma	VP	Branch Head – Iloilo Branch
Andres F. Ibarra	VP	Unit Head – Account Management
Rolando E. Valenzuela	VP	Unit Head - Risk Management
Pedro M. Cadavida	VP	Operations and Customer Service Supervisor
Teresita Q. De Ocampo	AVP	OIC – Accounting and Reports Group
Alexis R. Borlaza	Specialist Hire	Unit Head - Remedial Management
Ma. Norma A. Trinidad	Specialist Hire	Group Head - Private Banking
Ramon F. Aviado Jr.	Specialist Hire	Corporate Secretary

Senior Officers in Board Committees

BENIGNO J. AQUINO

VP, Group Head - Audit

ROMULO D. CARANDANG

AVP, Compliance Division

MA. LUISA I. CARAIG

VP, Group Head – Human Resources Management

EXPORTBANK

Senior Officers in Board Committees

JANNETTE C. GONZALVO

Senior Manager, Group Head -
Credit Administration

DALISAY N. RUBIO

VP, Group Head -

Accounting and Reports

MARCELO A. MIRASOL, JR.

EVP, Head -

Account Management and
Branch Marketing

EXPORTBANK

Senior Officers in Board Committees

TERESITA S. SION

AVP, Division Head - Trust and Investments

MA. NORMA A. TRINIDAD

Specialist Hire, Group Head - Private Banking

Senior Officers in Board Committees

MANUEL C. VALDEZ

Specialist Hire, Treasury

ROLANDO E. VALENZUELA

VP, Unit Head - Risk Management

EXPORTBANK

Corporate Profile

Export and Industry Bank is one of the Philippine's fastest growing commercial banks. It was established in January 1997 with the primary purpose of supporting the export industry in its goal to be one of the country's leading income-generating sectors.

As such, Exportbank's niche is in trade finance and commercial banking. Its diverse line of products and services range from electronic banking, foreign exchange, investment funds, financial instruments trading and distribution, corporate and mortgage banking to corporate finance.

In a span of seven years since its establishment, Exportbank has built a solid total asset base of Php 26.74 Billion and a total capital of Php 4.45 Billion.

In September 2001, Exportbank embarked on a successful merger with Urban Bank, Inc. (UBI) and Urbancorp Investments, Inc. (UII). The merger entailed taking on an enormous task of rehabilitating the closed UBI and UII. The challenge brought out the best in the bank's management and has proven its worth as it fulfilled its commitments with exceptional achievements.

The Bank has covered significant ground on its second year of the rehabilitation program. Primarily, Exportbank has successfully carried out the Php 10.1 Billion settlement of Year 1 and Year 2 Repayment Notes of the Liability Servicing Program (LSP). These settlements were both accomplished ahead of time and remarkably without having to call on the standby funds made available by the BSP, PDIC and SSS.

Exportbank has also succeeded in reviving former UBI subsidiaries now operating with new names: ValueLife Financial Insurance, EIB Realty Developers, EIB Securities and ValueFinance.

One more success of Exportbank is the listing of its shares simultaneous with the resumption of trading of former UBI shares in the Philippine Stock Exchange. This new development gives the various investors of the Bank the chance to enjoy the full value of their shares. The stock is now traded under its new symbol EIB.

Exportbank presently has 50 branches strategically located in major business hubs nationwide and will continue expanding in growth areas where it will be able to extend its full range of commercial banking services. Exportbank is also set to open soon EIB Savings Bank, a private development bank that will cater to the needs of our small, medium and even micro entrepreneurs.

The Exportbank Group of Companies

EIB Insurance Brokers, Inc.

EIB Insurance Brokers, Inc. (EIBI) is the insurance brokerage arm of the Export and Industry Bank EIB Group established on August 2, 2002. EIBI was envisioned to provide the insurance requirements of EIB, its other subsidiaries, as well as its own clients, and other assistance and expert advice in all insurance-related matters. With the purpose of extending the service of reliable general insurance carriers to the insuring public, EIBI was authorized by the Insurance Commission (IC) to operate as life and non-life insurance broker. It offers fire, motor car, marine hull/cargo, aviation, engineering, surety, directors and officers liability (D & O), miscellaneous casualty insurance, life, accident and healthcare covers. The company's principal office is located at the 20th Floor of the Exportbank Plaza, Chino Roces Ave. corner Sen. Gil Puyat Avenue, Makati.

EIB INSURANCE BROKERS, INC.

The Exportbank Group of Companies

ValueFinance, Inc.

ValueFinance, Inc. (VFI), a wholly owned subsidiary of EIB, started its operation on July 1, 2003. VFI offers loan products to employees of various companies such as salary loans, ready check facilities against club shares, employee car loans, loans for employee housing, and e-tech loans for employees and SMEs, all at competitive rates. Their main office is located at the 11th Floor of the Exportbank Plaza, Chino Roces Ave. corner Sen. Gil Puyat Avenue, Makati.

EIB Realty Developers, Inc.

EIB REALTY DEVELOPERS, INC.

Originally called Urbancorp Realty Developers, Inc., (URDI), EIB Realty Developers, Inc. (EIB Realty) officially adopted its new name during the URDI shareholders meeting on July 22, 2002. A majority owned subsidiary (71.75%) of Export and Industry Bank, EIB Realty is primarily engaged in real estate development including building and development of residential, industrial and commercial properties. Current major investment projects of EIB Realty include the EIB Plaza, One McKinley Place, Capital Place (in Fort Bonifacio), Roxas Boulevard Property Land and the Tagaytay Project.

The Exportbank Group of Companies

ValueLife Financial Insurance Company, Inc.

ValueLife Financial Insurance Company, Inc. (VLFI) was incorporated in the Philippines on November 27, 1996 and was originally granted by the Insurance Commission (IC) a license to transact life insurance business on June 2, 1997. A year after, on July 22, 1998, it was granted a license to transact both life and non-life insurance businesses. The company is 45.45% and 54.55% directly owned by Export and Industry Bank and ValueFinance, Inc. (VFI), respectively. Its main office is located at the 11th Floor of the Exportbank Plaza, Chino Roces Ave. corner Sen. Gil Puyat Avenue, Makati, City.

The Exportbank Group of Companies

EIB Securities, Inc.

EIB Securities, Inc. (e.securities) is a wholly owned subsidiary of Export and Industry Bank, licensed by the Securities and Exchange Commission (SEC) to deal and trade in equity and debt securities and other financial instruments traded in the Philippine Stock Exchange (PSE). Its main office is located at the 11th Floor of the Exportbank Plaza, Chino Roces Ave. corner Sen. Gil Puyat Avenue, Makati.

EIB SECURITIES, INC.
e.securities

UMC Finance and Leasing Corporation

UMC FINANCE & LEASING CORPORATION

UMC Finance and Leasing Corporation is a domestic corporation engaged in the business of extending credit facilities to consumers and business enterprises. It is licensed to operate as a finance company under the provisions of Republic Act No. 8556, "The Financing Company Act of 1998". It is 42.73%-owned each by Export and Industry Bank and UMC Core Holdings, Inc. The company's principal place of business is at the 5th Floor of One Marian Centre, 106 Esteban St., Legaspi Village, Makati.

Statement of Management's Responsibility

The management of the Export and Industry Bank, Inc. is responsible for all information and representations contained in the financial statements as of December 31, 2003 and 2002 and for each of the three years in the period ended December 31, 2003. The financial statements have been prepared in conformity with accounting principles generally accepted in the Philippines and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

Statement of Management's Responsibility

The **Board of Directors** reviews the financial statements before such statements are approved and submitted to the Stockholders of the Bank.

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

TERESITA Q. DE OCAMPO	**BENJAMIN P. CASTILLO**	**SERGIO R. ORTIZ-LUIS, JR.**
Chief Financial Officer	**President**	**Chairman of the Board**

Report of Independent Public Accountants

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

We have audited the accompanying statements of condition of Export and Industry Bank, Inc. and subsidiaries (the Group) and of Export and Industry Bank, Inc. (the Parent Company) as of December 31, 2003 and 2002, and the related statements of income, changes in capital funds and cash flows of the Group for the years ended December 31, 2003 and 2002 and the statements of income, changes in capital funds and cash flows of the Parent Company for each of the three years in the period ended December 31, 2003. 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.

Report of Independent Public Accountants

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 Php 673.2 million total provision for probable losses should have been charged to 2001 operations. Had the Php 673.2 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 Php 457.8 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. This was confirmed by the Bangko Sentral ng Pilipinas in their Report of Examination as of December 31, 2002 which was issued to the Bank on September 30, 2003.

Report of Independent Public Accountants

In our opinion, except for the effects on the 2001 statements of income, changes in capital funds and cash flows 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 and of the Parent Company as of December 31, 2003 and 2002, and the results of operations and cash flows of the Group for the years ended December 31, 2003 and 2002 and of the Parent Company for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

SyCip Gorres Velayo + Co

January 5, 2004
Makati City

March 26, 2004

Statements of Condition (Amounts in Thousands)

	December 31			
	Group		Parent Company	
	2003	2002	**2003**	2002
RESOURCES				
Cash and Other Cash Items (Note 11)	**₱385,995**	₱378,429	**₱180,020**	₱134,303
Due from Bangko Sentral ng Pilipinas (Notes 11 and 15)	**535,427**	395,286	**534,454**	394,313
Due from Other Banks (Notes 4, 15 and 25)	**547,475**	583,936	**521,248**	583,717
Interbank Loans Receivable (Note 15)	**1,434,064**	1,730,755	**1,434,064**	1,730,755
Trading Account Securities - at market (Note 15)	**356,735**	396,199	**356,735**	396,199
Investment in Bonds and Other Debt Instruments				
- net (Notes 5, 10, 11 and 15)	**4,588,896**	2,361,405	**4,498,369**	2,267,010
Receivables from Customers - net (Notes 6, 15 and 21)	**6,671,647**	9,740,411	**6,680,615**	10,304,372
Equity Investments (Note 7)	**88,288**	97,355	**833,654**	863,564
Bank Premises, Furniture, Fixtures and				
Equipment - net (Notes 8 and 9)	**809,889**	834,868	**833,425**	866,843
Real and Other Properties Owned or Acquired - net of allowance for probable losses amounting to ₱244.9 million in 2003 and ₱195.5 million in 2002 (Notes 10 and 12)	**5,600,317**	4,940,275	**5,600,317**	4,940,275
Other Resources - net (Notes 9 and 15)	**5,723,183**	5,601,209	**4,997,617**	4,299,623
	₱26,741,916	₱27,060,128	**₱26,470,518**	₱26,780,974

EXPORTBANK

Statements of Condition (Amounts in Thousands)

	December 31			
	Group		Parent Company	
	2003	2002	**2003**	2002
LIABILITIES AND CAPITAL FUNDS				
Liabilities				
Deposit Liabilities (Notes 11, 15 and 21)				
Demand	**₱688,688**	₱510,900	**₱688,688**	₱510,900
Savings	**5,808,136**	4,153,130	**5,807,656**	4,152,650
Time	**3,183,910**	3,305,210	**3,183,910**	3,305,210
	9,680,734	7,969,240	**9,680,254**	7,968,760
Bills and Acceptances Payable (Notes 12 and 15)	**11,505,906**	13,708,800	**11,505,906**	13,708,800
Manager's Checks (Note 15)	**32,185**	17,042	**32,185**	17,042
Accrued Taxes, Interest and Other Expenses (Notes 13 and 15)	**329,151**	302,599	**317,860**	254,374
Other Liabilities (Notes 14 and 15)	**612,899**	572,104	**474,933**	502,756
	22,160,875	22,569,785	**22,011,138**	22,451,732
Minority Interest	**121,661**	161,101	**–**	–
Capital Funds				
Capital stock (Note 16)	**3,753,249**	3,753,249	**3,753,249**	3,753,249
Additional paid-in capital	**72,004**	72,004	**72,004**	72,004
Surplus (Notes 16 and 20)	**624,289**	500,054	**624,289**	500,054
Surplus reserve (Note 20)	**9,838**	3,935	**9,838**	3,935
	4,459,380	4,329,242	**4,459,380**	4,329,242
	₱26,741,916	₱27,060,128	**₱26,470,518**	₱26,780,974

EXPORTBANK

Statements of Income (Amounts in Thousands)

	Years Ended December 31				
	Group		Parent Company		
	2003	2002	**2003**	2002	2001
INTEREST INCOME					
Loans (Note 21)	**₱874,458**	₱929,145	**965,147**	₱1,002,405	₱408,908
Trading and investment securities	**358,288**	264,924	**352,705**	244,301	207,739
Interbank loans receivable and deposits with other banks	**30,778**	102,616	**30,491**	95,592	15,142
	1,263,524	1,296,685	**1,348,343**	1,342,298	631,789
INTEREST EXPENSE					
Deposit liabilities (Note 21)	**259,284**	148,055	**259,284**	148,055	215,755
Bills payable and other borrowings	**323,090**	251,067	**320,320**	261,574	120,018
	582,374	399,122	**579,604**	409,629	335,773
NET INTEREST INCOME	**681,150**	897,563	**768,739**	932,669	296,016
PROVISION FOR PROBABLE LOSSES (Note 10)	**58,611**	290,438	**114,744**	262,734	2,480
NET INTEREST INCOME AFTER PROVISION					
FOR PROBABLE LOSSES	**622,539**	607,125	**653,995**	669,935	293,536
OTHER INCOME					
Trading gain – net	**108,806**	177,204	**108,806**	177,204	32,686
Service charges, fees and commissions	**98,919**	47,811	**91,975**	47,497	29,165
Foreign exchange gain (loss) - net	**(85,279)**	8,218	**(86,593)**	7,693	50,238
Equity in net losses of investees (Note 7)	**(8,567)**	(2,639)	**(29,410)**	(81,664)	–
Miscellaneous (Note 12)	**192,891**	222,235	**166,353**	206,146	19,584
	306,770	452,829	**251,131**	356,876	131,673

EXPORTBANK

Statements of Income (Amounts in Thousands)

	Years Ended December 31				
	Group		Parent Company		
	2003	2002	**2003**	2002	2001
OTHER EXPENSES					
Occupancy and equipment-related expenses (Note 17)	**132,999**	132,878	**132,999**	124,363	80,878
Compensation and fringe benefits (Note 18)	**160,903**	146,095	**154,795**	137,593	101,971
Depreciation and amortization (Notes 8 and 9)	**85,663**	84,606	**85,523**	84,141	64,359
Taxes and licenses (Note 19)	**72,870**	69,141	**68,750**	63,399	22,971
Amortization of goodwill (Note 9)	**43,544**	39,915	**43,544**	39,915	–
Litigation/assets acquired expenses	**31,475**	35,579	**31,475**	35,578	–
Management and professional fees	**32,826**	34,231	**28,330**	27,880	6,639
Communications	**19,519**	21,305	**17,680**	20,636	10,640
Insurance	**31,062**	18,006	**31,078**	17,725	8,182
Information technology	**11,522**	16,644	**11,522**	16,644	16,340
Stationery and supplies	**8,398**	8,086	**8,255**	7,747	7,415
Miscellaneous (Note 19)	**91,437**	63,022	**54,690**	43,996	27,399
	722,218	669,508	**668,641**	619,617	346,794
INCOME BEFORE INCOME TAX	**207,091**	390,446	**236,485**	407,194	78,415
PROVISION FOR INCOME TAX (Note 19)	**108,687**	30,851	**106,347**	26,306	42,853
INCOME BEFORE MINORITY INTEREST	**98,404**	359,595	**130,138**	380,888	35,562
MINORITY INTEREST	**31,734**	21,293	–	–	–
NET INCOME	**₱130,138**	₱380,888	**₱130,138**	₱380,888	₱35,562
Basic Earnings Per Share (Note 24)	**₱0.05**	₱0.14	**₱0.05**	₱0.14	₱0.02

See accompanying Notes to Financial Statements.

Statements of Changes in Capital Funds (Amounts in Thousands)

	Years Ended December 31		
	2003	2002	2001
CAPITAL STOCK (Note 16)			
Preferred - ₱1 par value			
Authorized - 1,500,000,000 shares			
Issued - 1,000,000,000 shares	**₱1,000,000**	₱1,000,000	₱1,000,000
Common - ₱1 par value			
Authorized - 6,000,000,000 shares			
Issued - 2,753,248,756 shares in 2003 and 2002 and 1,559,903,500 shares in 2001			
Balance at beginning of year	**2,753,249**	1,559,904	1,559,904
Issuances during the year - 1,193,345,256 shares	–	1,193,345	–
	2,753,249	2,753,249	1,559,904
	3,753,249	3,753,249	2,559,904
ADDITIONAL PAID-IN CAPITAL	**72,004**	72,004	72,004
SURPLUS (Note 16)			
Balance at beginning of year	**500,054**	119,485	86,239
Net income	**130,138**	380,888	35,562
Transfer to surplus reserve (Note 20)	**(5,903)**	(319)	(2,316)
Balance at end of year	**624,289**	500,054	119,485
SURPLUS RESERVE (Note 20)			
Balance at beginning of year	**3,935**	3,616	1,300
Transfer from surplus	**5,903**	319	2,316
Balance at end of year	**9,838**	3,935	3,616
NET UNREALIZED GAIN ON AVAILABLE - FOR-SALE SECURITIES	–	–	239
	₱4,459,380	₱4,329,242	₱2,755,248

EXPORTBANK

Statements of Cash Flows (Amounts in Thousands)

	Years Ended December 31				
	Group		Parent Company		
	2003	2002	2003	2002	2001
CASH FLOWS FROM OPERATING ACTIVITIES					
Income before income tax	₱207,091	₱390,446	₱236,485	₱407,194	₱78,415
Adjustments to reconcile income before income tax					
to net cash provided by operations:					
Interest income	(1,263,524)	(1,296,685)	(1,348,343)	(1,342,298)	(631,789)
Interest expense	582,374	399,122	579,604	409,629	335,773
Provision for probable losses	58,611	290,438	114,744	262,734	2,480
Depreciation and amortization	85,663	84,606	85,523	84,141	64,359
Amortization of goodwill	43,544	39,915	43,544	39,915	–
Equity in net losses of investees	8,567	2,639	29,410	81,664	–
Changes in operating resources and liabilities:					
Decrease (increase) in:					
Trading account securities	39,278	105,369	39,278	114,804	(357,059)
Loans	393,644	(233,844)	948,638	(797,805)	740,891
Other resources	70,941	792,054	92,053	651,305	(176,390)
Increase (decrease) in:					
Deposit liabilities	1,711,494	3,825,568	1,711,494	3,825,564	1,997,334
Manager's checks	15,142	(57,477)	15,142	(57,477)	67,379
Accrued taxes, interest and other expenses	9,020	(201,443)	8,934	(100,921)	12,698
Other liabilities	44,329	(2,263,560)	(27,824)	(881,999)	75,452
Net cash provided by operations	2,006,174	1,877,148	2,528,682	2,696,450	2,209,543
Interest received	1,419,873	1,753,183	1,501,021	1,719,643	417,985
Interest paid	(566,065)	(626,321)	(525,050)	(485,715)	(295,815)
Income taxes paid	(37,724)	(46,864)	(36,608)	(42,924)	(39,422)
Net cash provided by operating activities	2,822,258	2,957,146	3,468,045	3,887,454	2,292,291

EXPORTBANK

Statements of Cash Flows (Amounts in Thousands)

	Years Ended December 31				
	Group		Parent Company		
	2003	2002	**2003**	2002	2001
CASH FLOWS FROM INVESTING ACTIVITIES					
Cash acquired in merger	**₱–**	₱702,916	**₱–**	₱672,983	₱–
Proceeds from placements with other banks	**–**	222,965	**–**	222,965	–
Decrease (increase) in:					
Available-for-sale securities	**186**	19,448	**186**	20,923	78,240
Investments in bonds and other debt instruments	**(611,550)**	1,781,412	**(615,418)**	1,807,725	(2,227,471)
Disposal of bank premises, furniture, fixtures and equipment	**15,685**	728,880	**10,590**	726,458	–
Additions to bank premises, furniture, fixtures, and equipment	**(63,121)**	(179,113)	**(49,448)**	(170,975)	(55,744)
Additions to properties/ condominium units held for sale	**–**	–	**(646,059)**	(1,018,097)	–
Decrease (increase) in equity investments	**500**	(300)	**500**	(300)	–
Net cash provided by (used in) investing activities	**(658,300)**	3,276,208	**(1,299,649)**	2,261,682	(2,204,975)
CASH FLOWS FROM FINANCING ACTIVITIES					
Increase (decrease) in minority interest	**(7,706)**	161,101	**–**	–	–
Payments of bills payable	**(2,202,894)**	(4,626,183)	**(2,202,894)**	(4,626,183)	(52,156)
Net cash used in financing activities	**(2,210,600)**	(4,465,082)	**(2,202,894)**	(4,626,183)	(52,156)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**(46,642)**	1,768,272	**(34,498)**	1,522,953	35,160
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR					
Cash and other cash items	**378,429**	102,981	**134,303**	102,981	84,358
Due from Bangko Sentral ng Pilipinas	**395,286**	320,044	**394,313**	320,044	111,240
Due from other banks (Note 25)	**269,302**	550,299	**269,082**	550,299	193,746
Interbank loans receivable	**1,730,755**	32,176	**1,730,755**	32,176	580,996
	2,773,772	1,005,500	**2,528,453**	1,005,500	970,340
CASH AND CASH EQUIVALENTS AT END OF YEAR					
Cash and other cash items	**385,995**	378,429	**180,020**	134,303	102,981
Due from Bangko Sentral ng Pilipinas	**535,427**	395,286	**534,454**	394,313	320,044
Due from other banks (Note 25)	**371,644**	269,302	**345,417**	269,082	550,299
Interbank loans receivable	**1,434,064**	1,730,755	**1,434,064**	1,730,755	32,176
	₱2,727,130	₱2,773,772	**₱2,493,955**	₱2,528,453	₱1,005,500

See accompanying Notes to Financial Statements.

1. General Information and Basis of Presentation

As of December 31, 2003 and 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 renamed Export and Industry Bank, Inc.), the accounting acquirer for financial reporting purposes is EIB. Accordingly, the 2001 statements of income, changes in capital funds and cash flows 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 16).

Notes to Financial Statements

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 Avenue corner Sen. Gil Puyat Avenue, Makati City.

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

Notes to Financial Statements

	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) (a listed company)	71.75
Urbancorp Realty Holdings, Inc. (URHI)	99.00
Others:	
ValueFinance, Inc. (VFI)	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, VFI, 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. Subsequent to January 31, 2003, management had decided to continue the operations of VFI.

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

	2003	2002
Parent Company	479	444
Subsidiaries	47	22

The accompanying comparative financial statements of the Group and of the Parent Company were authorized for issue in accordance with a resolution of the BOD on March 26, 2004.

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 (RA) 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 Php 1.13 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 United States (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 12).

Notes to Financial Statements

The rehabilitation plan, including the proposed merger of UBI, UII and EIB was approved by the PDIC and the Bangko Sentral ng Pilipinas (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 (MOA);

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:

EXPORTBANK

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' meetings on July 31, 2001.

Notes to Financial Statements

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 12).

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 Php100 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 Php100 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 Php100 per share.

Based on the exchange ratio cited above, the following share issuances were undertaken by the merged bank (see Note 16):

a. UBI issued one(1) common share for each UII common share and preferred share. Thus, UBI issued 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 issued one hundred (100) common shares for each EIB common share. Thus, UBI issued 1,559,903,500 common shares, given the number of outstanding EIB common shares; and

c. UBI issued one hundred (100) preferred shares at a series different from its existing preferred shares for each EIB preferred share. Thus, UBI issued 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. Change of name of UBI from Urban Bank, Inc. to Export and Industry Bank, Inc.;
b. Decrease in the par value of the common and preferred shares of UBI from Php100.00 per share to Php1.00 per share;
c. Increase in the authorized capital stock of UBI to Php7.5 billion divided into 6 billion common shares with a par value of Php1.00 per share and 1.5 billion preferred shares with a par value of Php1.00 per share; and
d. Provision that the preferred shares 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) and with reporting practices applicable to the banking industry. These financial statements are prepared under the historical cost convention, except that certain investment securities are carried at fair values.

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.

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 Group 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.

Investments in subsidiaries and associates in the Parent Company 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 and dividends.

Unrealized gains arising from transactions with a subsidiary are eliminated in the Group's 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 Standard (IAS) 28, *Accounting for Investments in Associates*, and is not intended for BSP reporting purposes.

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

Notes to Financial Statements

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

Changes in Accounting Policies

On January 1, 2003, the following new accounting standards became effective:

- SFAS 8A, *Deferred Foreign Exchange Differences*, which eliminates the deferral of foreign exchange differences.
- SFAS 10/IAS 10, *Events After the Balance Sheet Date*, prescribes the accounting and disclosures related to adjusting and non-adjusting subsequent events.
- SFAS 20/IAS 20, *Government Grants*, which prescribes the accounting for and disclosures of government grants and the disclosure of other forms of government assistance.

Notes to Financial Statements

- SFAS 22/IAS 22, *Business Combinations*, 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*, 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*, establishes the criteria for the recognition and measurement of intangible assets. It also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred.

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

Notes to Financial Statements

New Accounting Standards Effective in 2004

The Accounting Standards Council has approved the following accounting standards relevant to the Group which will be effective in 2004:

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

- SFAS 17/IAS 17, *Leases*, prescribes the accounting policies and disclosures applicable to finance and operating leases. Finance leases are those that transfer substantially all risks and rewards of ownership to the lessee.

A lessee is required to capitalize finance leases as assets and recognize the related liabilities at the lower of the fair value of the leased asset and the present value of the minimum lease payments. The lessee should also depreciate the leased asset. On the other hand, a lessee should expense operating lease payments.

A lessor is required to record finance leases as receivables at an amount equal to the net investment in the lease. Lease income should be recognized on the basis of a constant periodic rate of return on the lessor's outstanding net investment. On the other hand, assets that are leased out as operating leases should be presented as assets in the statements of condition and depreciated accordingly.

The Group is a party to numerous leases for which an assessment must be made to determine whether these would qualify as finance leases.

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

Notes to Financial Statements

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.

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 collectibility.

Real Estate Transactions

a) Sales of real estate are generally accounted for under the full accrual method. Under this method, income is recognized when the earnings process is substantially complete and collectibity of the sales price is reasonably assured. When a sale does not meet the requirements for the income recognition, income is deferred until those requirements are met; and
b) Rent income is recognized when earned.

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.

Trading Account 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.

Available-for-Sale Securities

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.

Notes to Financial Statements

Investment in Bonds and Other Debt Instruments

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

Receivables from customers are stated at outstanding balances, reduced by unearned interest and 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. Unearned interest which were capitalized upon restructuring of certain loans is taken into income upon 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. 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 Loan Losses

The allowance for probable loan 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. To supplement the specific loan reserves, a general reserve on unclassified loans is set aside.

The allowance for probable losses is established through provisions charged to current operations. Receivables from customers are written off against 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 amortization 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 and impairment in value are removed from the accounts 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 the depreciation and amortization method are reviewed periodically to ensure that the period and the method of depreciation and amortization are consistent with the expected pattern of economic benefits from items of bank premises, furniture, fixtures and equipment.

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 incurred in connection with foreclosures are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed 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 applicable 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, and is amortized on a straight-line basis over 20 years. This intangible asset is also subject to an annual impairment review.

Notes to Financial Statements

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 net realizable value, less impairment in value. Costs include cost of land and expenditures for development and land improvements and the cost of borrowed funds. In determining the impairment in value, the Group used the selling price as the recoverable amount of the condominium units (see policy on Impairment of Assets).

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. Such borrowing costs 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 lives of the assets. In general, the estimated useful life of the condominium units held for lease is 50 years.

Notes to Financial Statements

Exchange Trading Right

Exchange trading right (presented under Other Resources) is carried at the amount allocated from the original cost of the exchange membership seat (after a corresponding allocation was made to the value of the PSE shares as discussed in Note 9) less accumulated amortization and allowance for impairment loss. This asset is amortized over 20 years beginning 2003. The Company does not intend to sell the exchange trading right in the near future.

In accordance with SFAS 36/IAS 36, such investment is tested for any impairment in realizable value. Any impairment loss is taken up as a charge against current operations (see accounting policy on impairment of assets).

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 U.S. 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).

Provisions and Contingencies

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

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

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 that 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 that 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 adjustments are amortized over the average of the expected remaining working lives of employees. Retirement expense is composed of current service cost and amortization of past service cost and experience adjustment, if any.

Notes to Financial Statements

Claims Costs

Liabilities for unpaid claims 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.

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 by a credit to current operations to the extent that it does not restate the asset to a carrying amount in excess of what would have been determined (net of any depreciation) had no impairment loss been recognized for the asset in prior years.

Notes to Financial Statements

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 original maturities of three months or less from dates of acquisition and that 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 (EPS) 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.

Subsequent Events

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

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$3.2 million or Php175.8 million and US$5.9 million or Php314.6 million as of December 31, 2003 and 2002, respectively, net of withdrawals by the foreign bank for repayments received by the Parent Company from the borrower (see Note 25).

5. Investment in Bonds and Other Debt Instruments

IBODI consists of:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Government bonds (see Notes 11 and 20)	**₱2,862,183**	₱1,882,978	**₱2,810,877**	₱1,783,196
Private bonds	**1,794,121**	299,732	**1,754,900**	299,732
Treasury notes	**24,257**	237,556	**24,257**	242,943
	4,680,561	2,420,266	**4,590,034**	2,325,871
Less allowance for probable losses (see Note 10)	**91,665**	58,861	**91,665**	58,861
	₱4,588,896	₱2,361,405	**₱4,498,369**	₱2,267,010

As of December 31, 2003, the market value of the Group's and of the Parent Company's IBODI amounted to Php4.8 billion and Php4.7 billion, respectively (Php2.4 billion as of December 31, 2002 for both the Group and the Parent Company).

As of December 31, 2003 and 2002, IBODI bear nominal annual interest rates ranging from 8.00% to 8.75%.

6. Receivables from Customers

This account consists of:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Loans and discounts (see Note 12)	**₱8,870,327**	₱12,310,880	**₱8,879,294**	₱12,874,841
Customers' liabilities under acceptances,				
import bills and trust receipts	**516,333**	483,746	**516,333**	483,746
Bills purchased	**85,220**	77,621	**85,221**	77,621
	9,471,880	12,872,247	**9,480,848**	13,436,208
Unearned interest and discounts	**(288,992)**	(363,500)	**(288,992)**	(363,500)
Allowance for probable losses (see Note 10)	**(2,511,241)**	(2,768,336)	**(2,511,241)**	(2,768,336)
	₱6,671,647	₱9,740,411	**₱6,680,615**	₱10,304,372

Loans amounting to Php148.0 million and Php377.8 million as of December 31, 2003 and 2002, respectively, were pledged as collateral with the BSP and Social Security System (SSS) to secure borrowings with the same amount under their rediscounting privileges (see Note 12).

As of December 31, 2003 and 2002, 14.13% and 21.51% of the total loans were subject to periodic interest repricing, respectively. Remaining loans earn annual fixed interest rates ranging from 9% to 22% in 2003 and 2002.

Notes to Financial Statements

Portion of unearned interests and discounts amounting to Php233.6 million and Php363.5 million as of December 31, 2003 and 2002, respectively, pertain to capitalized interest of restructured loans.

The following table shows the breakdown of loans as to secured and unsecured and the breakdown of secured loans as to type of security (amounts in thousands):

Group	2003		2002	
	Amount	%	Amount	%
Secured:				
Real estate	₱4,953,051	52.29	₱7,609,084	59.11
Deposit hold-out	465,955	4.92	1,186,663	9.22
Others	2,295,548	24.24	1,569,992	12.20
	7,714,554	81.45	10,365,739	80.53
Unsecured	1,757,326	18.55	2,506,508	19.47
	₱9,471,880	100.00	₱12,872,247	100.00

Parent Company	2003		2002	
	Amount	%	Amount	%
Secured:				
Real estate	₱4,953,051	52.24	₱7,609,084	56.63
Deposit hold-out	465,955	4.91	1,186,663	8.83
Others	2,304,513	24.31	2,133,953	15.89
	7,723,519	81.46	10,929,700	81.35
Unsecured	1,757,329	18.54	2,506,508	18.65
	₱9,480,848	100.00	₱13,436,208	100.00

Notes to Financial Statements

The nonaccruing loans of the Group and Parent Company were as follows:

	2003	2002
	(In Thousands)	
Secured nonaccruing loans	**₱1,548,235**	₱4,044,909
Unsecured nonaccruing loans	**1,914,222**	1,490,299
	₱3,462,457	₱5,535,208

Generally, nonperforming loans (NPLs) refer to loans whose principal and/or interest is unpaid for thirty (30) days or more after due date or after they have become past due in accordance with existing rules and regulations. As of December 31, 2003 and 2002, the Group's and Parent Company's nonperforming loans amounted to Php2.0 billion and Php2.6 billion, respectively.

Notes to Financial Statements

Current banking regulations allow banks that have no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification those receivables classified as Loss in the latest examination of the BSP which are fully covered by allowance for probable losses, provided that interest on said receivables shall not be accrued. The NPLs of the Group and the Parent Company under such regulation are as follows:

	2003	2002
	(In Thousands)	
Total NPLs	**₱2,044,280**	₱2,635,572
Less NPLs fully covered by allowance for probable losses	**764,005**	991,150
	₱1,280,275	₱1,644,422

Restructured loans as of December 31, 2003 and 2002, amounted to Php3.5 billion and Php4.4 billion, respectively.

The following table shows information on the concentration of credit as to industry (amounts in thousands):

	Group			
	2003		2002	
	Amount	**%**	Amount	%
Real estate, renting and business services	**₱2,402,030**	**25.36**	₱4,790,209	37.21
Manufacturing (various)	**1,923,745**	**20.31**	2,722,088	21.15
Wholesale and retail trade	**1,282,156**	**13.54**	1,300,873	10.11
Financial intermediaries	**1,081,463**	**11.42**	788,066	6.12
Other individual	**729,136**	**7.70**	1,078,440	8.38
Agriculture and fishing	**577,294**	**6.09**	539,322	4.19
Hotel and restaurant	**478,774**	**5.05**	522,954	4.06
Community, social and personal activities	**287,720**	**3.04**	441,313	3.43
Transport, storage and communications	**257,786**	**2.72**	266,266	2.07
Mining and quarrying	**175,740**	**1.86**	167,768	1.30
Computer and related services	**115,000**	**1.21**	115,000	0.89
Construction	**86,387**	**0.91**	85,896	0.67
Others	**74,649**	**0.79**	54,052	0.42
	₱9,471,880	**100.00**	₱12,872,247	100.00

	Parent Company			
	2003		2002	
	Amount	%	Amount	%
Real estate, renting and business services	**₱2,437,030**	**25.71**	₱5,335,121	39.71
Manufacturing (various)	**1,923,748**	**20.29**	2,722,088	20.26
Wholesale and retail trade	**1,282,156**	**13.52**	1,300,873	9.68
Financial intermediaries	**1,101,463**	**11.62**	788,066	5.87
Other individual	**683,101**	**7.21**	1,078,440	8.03
Agriculture and fishing	**577,294**	**6.09**	539,322	4.01
Hotel and restaurant	**478,774**	**5.05**	522,954	3.89
Community, social and personal activities	**287,720**	**3.03**	441,313	3.28
Transport, storage and communications	**257,786**	**2.72**	266,266	1.98
Mining and quarrying	**175,740**	**1.85**	167,768	1.25
Computer and related services	**115,000**	**1.21**	115,000	0.86
Construction	**86,387**	**0.91**	85,896	0.64
Others	**74,649**	**0.79**	73,101	0.54
	₱9,480,848	**100.00**	₱13,436,208	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	
	2003	2002	**2003**	2002
	(In Thousands)			
At Equity:				
Investments in subsidiaries	**₱–**	₱–	**₱767,731**	₱798,746
Investments in associates	**70,929**	79,496	**48,564**	46,959
	70,929	79,496	**816,295**	845,705
At Cost:				
Other investments	**22,867**	23,367	**22,867**	23,367
Less allowance for probable losses (see Note 10)	**5,508**	5,508	**5,508**	5,508
	17,359	17,859	**17,359**	17,859
	₱88,288	₱97,355	**₱833,654**	₱863,564

The details of investments in associates in the Group's financial statements and investments in subsidiaries and associates in the Parent Company's financial statements follow (amounts in thousands):

	% of Ownership	Group 2003	Group 2002	Parent Company 2003	Parent Company 2002
At equity:					
Acquisition cost:					
Subsidiaries:					
EIB Realty	71.75	**₱–**	₱–	**₱501,243**	₱501,243
VFI	100.00	–	–	**132,309**	132,309
ValueLife	100.00	–	–	**124,950**	124,950
ESI	100.00	–	–	**57,782**	57,782
UDB	100.00	–	–	**54,681**	54,681
URHI	99.00	–	–	**6,545**	6,545
UTC	100.00	–	–	**1,045**	1,045
UIBI	60.00	–	–	–	–
UBTI	100.00	–	–	–	–
Associates:					
UMC Finance	42.73	**48,514**	48,514	**48,514**	48,514
One Mckinley Place, Inc. (OMPI)	35.86	**33,321**	33,321	–	–
EIBI	30.00	**300**	300	**300**	300
		82,135	82,135	**927,369**	927,369
Accumulated losses:					
Balance at beginning of year		**(2,639)**	–	**(81,664)**	-
Equity in net losses		**(8,567)**	(2,639)	**(29,410)**	(81,664)
Balance at end of year		**(11,206)**	(2,639)	**(111,074)**	(81,664)
		₱70,929	₱79,496	**₱816,295**	₱845,705

Financial information pertaining to investments in associates are not presented since these associates are not considered significant.

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.

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

	2003	2002
	(In Thousands)	
Philippine Clearing House Corporation	**₱7,175**	₱7,175
BancNet, Incorporated	**6,152**	6,152
LGU Guarantee Corporation	**5,000**	5,000
Megalink, Incorporated	**3,333**	3,333
Philippine Central Depository, Incorporated	**1,057**	1,057
Exchange Incorporated	–	500
EIB Forex Corporation	**150**	150
	₱22,867	₱23,367

Notes to Financial Statements

UDB has been under the receivership of PDIC since April 2000, its temporary closure date (see Note 2). On November 20, 2003, the MB, in its resolution number 1687 approved the reopening of UDB, subject to the following terms and conditions:

1. All obligations of UDB as of December 31, 2002 shall be paid before its opening;

2. The receivership of UDB shall be lifted in accordance with Section 30 of RA No. 7653, provided that the Receivership Team shall be given three (3) months from the date of lifting of the receivership within which to effect the turnover of documents to the new UDB management;

3. The Certificate of Authority to operate as a development bank shall be issued upon submission of the following requirements not later than sixty (60) days from approval of the rehabilitation plan:
    a. UDB’s amended articles of incorporation and by-laws incorporating the change in its corporate name; and
    b. A list of UDB’s members of the BOD and its principal officers for approval of the MB; and
    c. UDB shall commence operations as a thrift bank within three (3) months from the date the proponents are notified of the approval by the MB of UDB’s rehabilitation plan.

8. Bank Premises, Furniture, Fixtures and Equipment

The composition of and movements in this account are as follows:

	Group					
	Land	Buildings	Furniture Fixtures and Equipment	Leasehold Rights and Improvements	2003 Total	2002 Total
	(In Thousands)					
Cost						
Balance at beginning of year	₱22,050	₱759,362	₱465,182	₱50,703	₱1,297,297	₱317,696
Additions	–	2,644	45,379	15,098	63,121	1,748,016
Disposals/write-off	–	(5,686)	(20,073)	–	(25,759)	(750,690)
Amortization of leasehold rights and improvements	–	–	–	(18,187)	(18,187)	(17,725)
Balance at end of year	22,050	756,320	490,488	47,614	1,316,472	1,297,297
Accumulated Depreciation						
Balance at beginning of year	–	78,133	384,296	–	462,429	161,287
Depreciation	–	17,890	36,338	–	54,228	56,440
Additions	–	–	–	–	–	266,512
Disposals/write-off	–	(458)	(9,616)	–	(10,074)	(21,810)
Balance at end of year	–	95,565	411,018	–	506,583	462,429
Net Book Value at December 31	₱22,050	₱660,755	₱79,470	₱47,614	₱809,889	₱834,868

	Parent Company					
			Furniture Fixtures and	Leasehold Rights and	2003	
	Land	Buildings	Equipment	Improvements	Total	2002
	(In Thousands)					
Cost						
Balance at beginning of year	**₱22,050**	**₱759,362**	**₱458,626**	**₱50,703**	**₱1,290,741**	₱313,343
Additions	**–**	**2,644**	**34,323**	**12,481**	**49,448**	1,743,140
Disposals	**–**	**(4,381)**	**(16,283)**	**–**	**(20,664)**	(748,040)
Amortization of leasehold rights and improvements	**–**	**–**	**–**	**(18,061)**	**(18,061)**	(17,702)
Balance at end of year	**22,050**	**757,625**	**476,666**	**45,123**	**1,301,464**	1,290,741
Accumulated Depreciation						
Balance at beginning of year	**–**	**40,940**	**382,959**	**–**	**423,899**	160,163
Depreciation	**–**	**17,890**	**36,324**	**–**	**54,214**	55,998
Additions	**–**	**–**	**–**	**–**	**–**	229,319
Disposals	**–**	**(458)**	**(9,616)**	**–**	**(10,074)**	(21,582)
Balance at end of year	**–**	**58,372**	**409,667**	**–**	**468,039**	423,898
Net Book Value at December 31	**₱22,050**	**₱699,253**	**₱66,999**	**₱45,123**	**₱833,425**	₱866,843

9. Other Resources

This account consists of:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Deferred tax assets - net (see Note 19)	**₱1,190,105**	₱1,259,845	**₱1,190,105**	₱1,259,845
Properties/condominium units held for sale - net of allowance for impairment of ₱78.3 million in 2003	**1,431,527**	812,082	**1,508,859**	856,767
Accrued interest receivable	**989,484**	1,145,833	**989,114**	1,141,792
Goodwill - net	**₱787,417**	₱830,960	**₱787,417**	₱830,960
Condominium units held for lease - net of accumulated depreciation of ₱24.1 million in 2003 and ₱10.4 million in 2002 and allowance for impairment of ₱35.8 million in 2003	**599,149**	734,986	**607,424**	734,986
Real estate projects - net	**494,469**	1,089,446	–	–
Accounts receivable	**271,937**	132,387	**194,055**	114,468
Advances to affiliates	**182,127**	261,234	**15,964**	15,964
Returned checks and other cash items	**157,200**	6,939	**157,200**	6,939
Accounts receivable - nonperforming assets pool (NPAP)	**74,450**	33,103	**74,450**	33,103
Prepaid expenses	**62,790**	57,064	**62,621**	56,802
Foreign currency notes and coins on hand	**58,931**	51,234	**58,931**	51,234
Other investments	**45,380**	53,326	**45,380**	45,326
Input tax	**44,504**	59,244	**39,383**	–
Due from PDIC	**43,869**	43,017	–	1,730
Deficiency judgment receivable	**33,523**	33,523	**33,523**	33,523
Foreign currency checks and other cash items	**29,977**	14,519	**29,977**	14,519
Exchange trading right	**11,400**	12,000	–	–
Miscellaneous	**139,529**	115,344	**114,690**	77,168
	6,647,768	6,746,086	**5,909,093**	5,275,126
Less allowance for probable losses (see Note 10)	**924,585**	1,144,877	**911,476**	975,503
	₱5,723,183	₱5,601,209	**₱4,997,617**	₱4,299,623

Properties/Condominium units held for sale and for lease

The movements in these accounts are as follows:

Condominium units held for lease:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Cost				
Balance at beginning of year	**₱745,427**	₱–	**₱745,427**	₱–
Additions	–	745,427	–	745,427
Transfers/adjustments	**(86,354)**	–	**(78,079)**	–
Balance at end of year	**659,073**	745,427	**667,348**	745,427
Accumulated depreciation				
Balance at beginning of year	**10,441**	–	**10,441**	–
Depreciation	**13,248**	10,441	**13,248**	10,441
Transfers/adjustments	**459**	–	**459**	–
Balance at end of year	**24,148**	10,441	**24,148**	10,441
Net book value (before allowance for impairment)	**634,925**	734,986	**643,200**	734,986
Allowance for impairment	**(35,776)**	–	**(35,776)**	–
Net book value at December 31	**₱599,149**	₱734,986	**₱607,424**	₱734,986

Notes to Financial Statements

Properties/condominium units held for sale:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Balance at beginning of year	**₱812,082**	₱–	**₱856,767**	₱–
Additions	**646,059**	1,018,097	**646,059**	1,018,097
Transfers/adjustments	**51,735**	(206,015)	**84,382**	(161,330)
Balance at end of year	**1,509,876**	812,082	**1,587,208**	856,767
Allowance for impairment	**(78,349)**	–	**(78,349)**	–
Net book value at December 31	**₱1,431,527**	₱812,082	**₱1,508,859**	₱856,767

Properties/condominium units held for sale and condominium units held for lease include the units sold by EIB Realty to the Parent Company with carrying values totaling Php1.4 billion and Php699.8 million as of December 31, 2003 and 2002, respectively. Proceeds from the sale was used by EIB Realty to settle its loan to the Parent Company.

The sale of various condominium units by EIB Realty to the Parent Company totaling Php1.0 billion in 2002 consisting of condominium units carried in the financial statements as condominium units held for sale amounting to Php718.2 million and bank premises amounting to Php323.0 million (see Note 8) resulted in a gain of Php215.2 million. Such gain 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, net of impairment.

Depreciation expense on condominium units held for lease (included in Depreciation and Amortization in the statements of income) amounted to Php13.2 million in 2003 and Php10.4 million in 2002.

Goodwill

Changes in goodwill are as follows:

	2003	2002
	(In Thousands)	
Goodwill at original value	**₱870,875**	₱870,875
Accumulated Amortization:		
Balance at beginning of year	**39,915**	-
Amortization	**43,543**	39,915
Balance at end of year	**83,458**	39,915
	₱787,417	₱830,960

Goodwill is being amortized for 20 years. The use of 20-year amortization period is made for financial reporting purposes (allowed by the provisions of SFAS 22/IAS 22) and is not intended for BSP reporting purposes. Under BSP regulations, goodwill is generally allowed to be amortized only up to ten(10) years.

Real Estate Projects

Real estate projects consisted of:

	2003	2002
	(In Thousands)	
Land and land development cost	**₱726,668**	₱1,495,886
Less allowance for probable losses	**232,199**	406,440
	₱494,469	₱1,089,446

Land and land development cost includes the following:

a. A real estate project 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, noninterest-bearing advances for the real estate project shall be made in the same ratio.

As of December 31, 2003 and 2002, the carrying value of the abovementioned project amounts to Php139.5 million and Php88.9 million, respectively.

b. Land purchased by EIB Realty located in Fort Bonifacio, Makati City.

In July 2003, EIB Realty sold a portion of the property, with a carrying value of Php127.8 million (approximating its fair market value) to the Parent Company (recorded as Properties/Condominium units held for sale by the Parent Company). Proceeds from sale of this property was used to partially settle EIB Realty's loan payable to the Parent Company.

As of December 31, 2003 and 2002, the carrying value of the Fort Bonifacio property in the books of EIB Realty amounts to Php342.9 million and Php523.4 million, respectively.

c. EIB Realty's investment in a parcel of land located along Roxas Boulevard, Pasay City.

In July 2003, EIB Realty sold to the Parent Company the entire property, with a net book value of Php375.5 million, corresponding to its fair market value at the time of sale (recorded as Properties/Condominium units held for sale by the Parent Company). The proceeds from sale was used to partially settle EIB Realty's loan payable to the Parent Company.

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 has yet to decide whether to continue developing the related projects or sell them to other parties.

Advances to Affiliates

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

1. *Cash infusion*. EIB Realty and PTI shall each infuse cash of Php300.0 million into the Project (on an initial basis but with further infusion should the initial amount of Php600.0 million not be sufficient to complete the Project) through purchase from OMPI of residential condominium units (at Php80,000 per square meter) and receivables of OMPI from buyers (at a discount rate of 15%).

   In accordance with the foregoing agreement, EIB Realty, in 2002, purchased condominium units from OMP totaling Php75.0 million (recorded as Properties/condominium units held for sale), representing its additional cash infusion into the project. In 2003, EIB Realty sold the said condominium units to the Parent Company.

2. *OMPI Loan.* OMPI's loans and other credit obligations to the Parent Company totaling Php960.0 million as of March 31, 2002 shall be offset against OMPI's deposit with the Parent Company of Php12.0 million, with the balance subject to interest at 6.32 for a maximum of one year from the date of signing. The loan continued 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.

   In 2003, OMPI settled the loans with the Parent Company through *dacion* of OMPI condominium units (included in ROPOA with carrying value of Php946.5 million).

3. *Advances.* The advances to OMPI by EIB Realty (included in Advances to Affiliates) and PTI of Php260.0 million each shall be settled by way of *dacion en pago* of residential condominium units to the extent of Php130.0 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 2003, OMPI transferred condominium units amounting to Php80.8 million to EIB Realty to partially settle the Php260.0 million advances.

Exchange trading right
Under the PSE rules, all exchange trading rights are pledged at their full value to the PSE to secure the payment of all debts due to other members of the PSE arising out of or in connection with the present or future members' contracts.

Republic Act No. 8799 entitled "Securities Regulation Code" prescribed the conversion of the PSE into a stock corporation effective on August 8, 2001, pursuant to a conversion plan approved by the SEC.

In August 2001, the SEC approved the conversion plan with the following salient features, among others:

a. Existing 184 member-brokers as of August 8, 2001 are eligible to subscribe to the shares and to retain access to the trading facilities of the PSE;

b. Each member shall subscribe to 50,000 shares at a par value of Php1.00;

The balance of the members' contribution amounting to Php277,427,000 shall be treated as additional paid-in capital;

c. Separation of ownership of the PSE from access to trading;

d. Issuance of certificate of trading rights;

e. Policy of imposing a moratorium on the issuance of new trading rights; and

f. Transferability of trading rights.

PSE, however, did not issue shares of stock for the value of its donated assets. The donated assets consisting of two pieces of real property located in the cities of Makati and Pasig, where its trading floors are located, are subject to restrictions on their transferability.

Notes to Financial Statements

As a result of the conversion plan and on the basis of the relative fair values of the PSE shares and the exchange trading right as of the time of the demutualization, the Company's membership in stock exchange originally amounting to Php25.0 million, has been bifurcated and presented in the financial statements as follows:

	2003	2002
	(In Thousands)	
Marketable securities owned (50,000 shares) - net of allowance for market decline	**₱10,000**	₱8,000
Exchange trading right - net	**11,400**	12,000
	₱21,400	₱20,000

The marketable securities owned and exchange trading right are included in Other Investments and Exchange Trading Right sections, respectively, under Other Resources.

Notes to Financial Statements

Exchange trading right consists of:

	2003	2002
	(In Thousands)	
Cost - net of amortization of ₱600,000 in 2003	**₱11,900**	₱12,500
Less accumulated impairment loss	**500**	500
	₱11,400	₱12,000

As of December 31, 2003, the latest transacted price of the exchange trading right, including the 50,000 PSE shares as provided by the PSE, amounted to Php8.0 million. As of the same date, the market value of the PSE shares based on quoted price is Php200 per share.

Accounts Receivable - NPAP

As part of the Rehabilitation Plan for UBI, the Parent Company, on June 7, 2001 entered into a MOA with the major stockholders of UBI and UII to set up an assets pool. The assets pool was created to allow recoveries to be made by UBI common shareholders and UII common and preferred shareholders on their shareholdings in UBI and UII.

Composition of the Assets Pool

The assets pool is comprised of the following:

a. Nonperforming Assets Pool (NPAP)

NPAP, which consists of nonperforming loans, receivables and other claims from debtors, and other assets for write-off of UBI and UII, which were identified within a reasonable period from merger date amounted to Php1.7 billion.

The following claims, costs and expenses are chargeable against the NPAP (included in Accounts Receivable - NPAP):

— other expenses not reflected in the books of UBI/UII;

— contingent claims arising from or related to legal suits referring to situations prior to the rehabilitation of UBI and UII;

— costs and expenses relative to the rehabilitation of UBI/UII and the merger of UBI, UII and EIB, including the long-form audit required prior to the merger with EIB;

— other expenses, fees and taxes incurred by PDIC and the interim receiver of UII in connection with the rehabilitation plan of UBI and UII;

— liabilities of UBI for the payment of the retirement and separation benefits of UBI employees; and

— additional amounts for allowances on account of net losses which may be incurred on settlement of loans and other receivables via *dacion en pago* or foreclosure arrangements.

As of December 31, 2003 and 2002, Accounts Receivable - NPAP amounted to Php74.4 million and Php22.7 million, respectively. The amounts recorded as Accounts Receivable - NPAP was fully provided for.

- Real Properties Pool (RPP)

RPP consists of an amount equivalent to fifty percent of the increase in the realizable value of the following real estate properties: Exportbank Plaza, Capital Place and the Roxas Boulevard and Tagaytay properties, over their book values or acquisition costs as of April 25, 2000, whichever is lower, upon their sale within a six-year period from the opening of the Parent Company or upon their appraisal at the end of the said period.

Collection, sale and disposition of the assets pool

Within a period of six years from the opening of the Parent Company, the assets in the assets pool shall be collected, sold and/or liquidated. The manner of distribution of the proceeds of NPAP is indicated in the second memorandum of agreement dated June 7, 2001 between UBI and UII major shareholders and the Parent Company.

Miscellaneous assets

Miscellaneous assets include foreign exchange revaluation on forward exchange contracts amounting to 9.5 million and 27.2 million as of December 31, 2003 and 2002, respectively (see Note 14).

Due from PDIC

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.

10. Allowance for Probable Losses

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

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Balance at beginning of year:				
Loans	**₱2,768,336**	₱445,126	**₱2,768,336**	₱445,126
ROPOA	**195,508**	–	**195,508**	–
IBODI	**58,861**	–	**58,861**	–
Equity investments	**5,508**	–	**5,508**	–
	3,028,213	445,126	**3,028,213**	445,126
Other resources				
Accrued interest receivable	**387,043**	–	**387,043**	–
Input taxes	**59,244**	–	–	–
Accounts receivable	**55,557**	–	**44,753**	–
Deficiency judgment receivable	**33,523**	–	**33,523**	–
Accounts receivable - NPAP	**33,103**	–	**33,103**	–
Advances to affiliates	**15,964**	–	**15,964**	–
Other investments	**14,404**	–	**14,404**	–
Others	**546,039**	28,385	**446,713**	28,385
	1,144,877	28,385	**975,503**	28,385
	4,173,090	473,511	**4,003,716**	473,511
Provisions charged to operations	**58,611**	290,438	**114,744**	262,734
Reversals	**(453,771)**	(213,662)	**(353,639)**	(213,662)
Others	–	3,622,803	–	3,481,134

Notes to Financial Statements

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Balance at end of year:				
Loans	**₱2,511,241**	₱2,768,336	**₱2,511,241**	₱2,768,336
ROPOA	**244,931**	195,508	**244,931**	195,508
IBODI	**91,665**	58,861	**91,665**	58,861
Equity investments	**5,508**	5,508	**5,508**	5,508
	2,853,345	3,028,213	**2,853,345**	3,028,213
Other resources				
Accrued interest receivable	**639,232**	387,043	**639,232**	387,043
Accounts receivable - NPAP	**74,450**	33,103	**74,450**	33,103
Accounts receivable	**69,274**	55,557	**56,165**	44,753
Deficiency judgment receivable	**33,523**	33,523	**33,523**	33,523
Other investments	**23,402**	14,404	**23,402**	14,404
Input taxes	**19,691**	59,244	**19,691**	–
Advances to affiliates	**15,964**	15,964	**15,964**	15,964
Others	**49,049**	546,039	**49,049**	446,713
	924,585	1,144,877	**911,476**	975,503
	₱3,777,930	₱4,173,090	**₱3,764,821**	₱4,003,716

As discussed in Note 3, the Parent Company's allowance for probable loan losses has been determined with due consideration of 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 Php673.2 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 Php673.2 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. This was confirmed by the BSP in their Report of Examination as of December 31, 2002 which was issued to the Parent Company on September 30, 2003.

11. Deposit Liabilities

Under existing BSP regulations, non-FCDU deposit liabilities are subject to liquidity reserve equivalent to 8% and 7% as of December 31, 2003 and 2002, respectively, and statutory reserve of 9% as of December 31, 2003 and 2002. As of December 31, 2003 and 2002, the Parent Company is in compliance with such regulation.

The total liquidity and statutory reserves of the Parent Company are as follows:

	2003	2002
	(In Thousands)	
Cash	**₱180,020**	₱134,303
Due from BSP	**534,454**	394,313
IBODI	**381,475**	148,480
	₱1,095,949	₱677,096

11. Bills and Acceptances Payables

This account consists of:

	2003	2002
	(In Thousands)	
Bills payable:		
LSP	**₱5,593,422**	₱9,356,070
Banks and other financial intermediaries	**3,892,959**	1,294,683
BSP and SSS - rediscounting (see Note 6)	**148,011**	377,770
Others	**1,808,417**	2,658,639
Outstanding acceptances	**63,097**	21,638
	₱11,505,906	₱13,708,800

The LSP, which is 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 16), 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 rates 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 Php885.8 million and Php458.2 million, respectively, as of December 31, 2003 and Php790.6 million and Php424.5 million, respectively, as of December 31, 2002.

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 LSP, an initial payment of Php500,000 net of amounts already paid by PDIC shall be made by UBI and will be deducted from the initial installment.

As of December 31, 2003 and 2002, the total liabilities of the merged bank covered by the LSP will be repaid as follows:

Notes to Financial Statements

	2003	2002
	(In Thousands)	
Excluding the top three deposit accounts and other financial institutions:		
2003	₱–	₱2,530,571
2004	3,600,520	3,967,187
	3,600,520	6,497,758
Top three deposit accounts:		
2003	–	458,051
2004	621,878	610,869
2005	172,744	169,686
2006	172,744	169,686
2007	172,744	169,686
	1,140,110	1,577,978
Other financial institutions:		
2003	–	372,537
2004	460,553	494,579
2005	118,735	125,029
2006	118,735	125,029
2007	154,769	163,160
	852,792	1,280,334
	₱5,593,422	₱9,356,070

Of the total liabilities included in the LSP amounting to Php14.5 billion as of January 31, 2002 or the merger date, Php8.9 billion and Php5.6 billion billion pertains to UBI and UII, respectively. Such balance has been reduced by the scheduled payments in 2003 and 2002 and the discounting of certain accounts. The total amount of discount recognized as income amounted to Php69.6 million in 2003 and Php138.2 million in 2002 (included as part of Miscellaneous Income in the statements 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 Php828.7 million, which were not made part of the LSP, were settled by the Parent Company in 2002. Of this amount, Php378.1 million pertains to payable to Common Investment Trust Fund of UII. As discussed in Note 2, UII was eventually merged with the Parent Company and such liability was offset against the related deposit in bank account of UII.

Notes to Financial Statements

Breakdown of Bills Payable - others follows:

	2003	2002
	(In Thousands)	
PDIC		
Secured	**₱150,000**	₱200,000
Unsecured	**171,204**	299,099
	321,204	499,099
Others	**1,487,213**	2,159,540
Total	**₱1,808,417**	₱2,658,639

Several borrowings from PDIC are secured by the Parent Company's properties as follows: (a) land with carrying value of Php22.1 million in 2003 and 2002; (b) buildings with carrying value of Php313.8 million and Php318.7 million in 2003 and 2002, respectively; and (c) ROPOA with carrying value of Php25.2 million and Php23.9 million in 2003 and 2002, respectively. Unsecured borrowings pertain to the converted subrogated deposits under the Financial Assistance Agreement dated September 14, 2001 between the Parent Company and PDIC.

Others represent borrowings from other corporate and individual creditors totaling Php1.2 billion in 2003 and Php2.2 billion in 2002. A portion of the 2002 balance amounting to Php966.9 million (settled in 2003) is secured by the Parent Company's ROPOA with a carrying value of Php884.1 million.

13. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Accrued interest payable	**₱205,648**	₱189,339	**₱201,692**	₱147,138
Accrued other taxes and other expenses payable	**112,093**	103,073	**105,982**	97,049
Income tax payable	**11,410**	10,187	**10,186**	10,187
	₱329,151	₱302,599	**₱317,860**	₱254,374

14. Other Liabilities

This account consists of:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Accounts payable	**₱346,014**	₱283,494	**₱311,731**	₱290,995
Advances from affiliates	**70,222**	54,818	–	–
Payment orders payable	**17,767**	57,783	**17,767**	57,783
Unearned income and other deferred credits	**11,473**	36,867	**10,897**	36,867
Due to BSP	**9,751**	13,719	**9,751**	13,719
Withholding taxes payable	**7,431**	11,827	**7,344**	11,827
Miscellaneous	**150,241**	113,596	**117,443**	91,565
	₱612,899	₱572,104	**₱474,933**	₱502,756

Miscellaneous liabilities include: (a) premium on forward exchange contracts (see Note 9) amounting to Php38.8 million and Php30.7 million as of December 31, 2003 and 2002, respectively; and (b) advances from a stockholder of UPHI amounting to Php54.7 million as of December 31, 2003 and 2002 (for the Group).

15. 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, 2003 and 2002:

	Group					
	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousands)					
Financial Resources						
Due from Bangko Sentral ng Pilipinas	**₱535,427**	**₱–**	**₱535,427**	₱395,286	₱–	₱395,286
Due from other banks	**371,644**	**175,831**	**547,475**	269,301	314,635	583,936
Interbank loans receivable	**1,434,064**	–	**1,434,064**	1,730,755	–	1,730,755
Trading account securities	**206,419**	**150,316**	**356,735**	118,212	277,987	396,199
IBODI - at gross (see Note 5)	**₱–**	**₱4,680,561**	**₱4,680,561**	₱–	₱2,420,266	₱2,420,266
Receivables from customers - at gross (see Note 6)	**6,112,651**	**3,359,229**	**9,471,880**	8,158,996	4,713,251	12,872,247
Other resources (see Note 9)						
Accrued interest receivable	**989,483**	–	**989,483**	1,145,833	–	1,145,833
Accounts receivable	**271,937**	–	**271,937**	132,387	–	132,387
Advances to affiliates	**182,127**	–	**182,127**	261,234	–	261,234
Accounts receivable - NPAP	**74,450**	–	**74,450**	33,103	–	33,103
Prepaid expenses	**62,790**	–	**62,790**	57,064	–	57,064
Input taxes	**44,504**	–	**44,504**	59,244	–	59,244
Due from PDIC	**43,869**	–	**43,869**	43,017	–	43,017
Deficiency judgment receivable	**33,523**	–	**33,523**	33,523	–	33,523
	₱10,362,888	**₱8,365,937**	**₱18,728,825**	₱12,437,955	₱7,726,139	₱20,164,094

	Group					
	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
	(In Thousands)					
Financial Liabilities						
Deposit Liabilities						
Demand	**₱688,688**	**₱–**	**₱688,688**	₱510,900	₱–	₱510,900
Savings	**5,808,136**	**–**	**5,808,136**	4,153,130	–	4,153,130
Time	**3,049,757**	**134,153**	**3,183,910**	3,178,327	126,883	3,305,210
Bills and acceptances payable (see Note 12)	**10,380,191**	**1,125,715**	**11,505,906**	7,332,108	6,376,692	13,708,800
Manager's checks	**32,185**	**–**	**32,185**	17,042	–	17,042
Accrued taxes, interest and other expenses (see Note 13)	**329,151**	**–**	**329,151**	302,599	–	302,599
Other liabilities (see Note 14)	**612,899**	**–**	**612,899**	572,104	–	572,104
	₱20,901,007	**₱1,259,868**	**₱22,160,875**	₱16,066,210	₱6,503,575	₱22,569,785

	Parent Company					
	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousands)					
Financial Resources						
Due from Bangko Sentral ng Pilipinas	**₱534,454**	**₱–**	**₱534,454**	₱394,313	₱–	₱394,313
Due from other banks	**345,417**	**175,831**	**521,248**	269,082	314,635	583,717
Interbank loans receivable	**1,434,064**	**–**	**1,434,064**	1,730,755	–	1,730,755
Trading account securities	**206,419**	**150,316**	**356,735**	118,212	277,987	396,199
IBODI - at gross (see Note 5)	**–**	**4,590,033**	**4,590,034**	–	2,325,871	2,325,871
Receivables from customers - at gross (see Note 6)	**6,121,619**	**3,359,229**	**9,480,848**	8,722,957	4,713,251	13,436,208
Other resources (see Note 9)						
Accrued interest receivable	**989,114**	**–**	**989,114**	1,141,792	–	1,141,792
Accounts receivable	**194,055**	**–**	**194,055**	114,468	–	114,468
Accounts receivable - NPAP	**74,450**	**–**	**74,450**	33,103	–	33,103
Prepaid expenses	**62,621**	**–**	**62,621**	56,802	–	56,802
Input taxes	**39,383**	**–**	**39,383**	–	–	–
Advances to affiliates	**15,964**		**15,964**	15,964	–	15,964
Due from PDIC	**–**	**–**	**–**	1,730	–	1,730
Deficiency judgment receivable	**33,523**	**–**	**33,523**	33,523	–	33,523
	₱10,051,083	**₱8,275,409**	**₱18,326,493**	₱12,632,701	₱7,631,744	₱20,264,445

	Parent Company					
	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
	(In Thousands)					
Financial Liabilities						
Deposit Liabilities						
Demand	**₱688,688**	**₱–**	**₱688,688**	₱510,900	₱–	₱510,900
Savings	**5,807,656**	–	**5,807,656**	4,152,650	–	4,152,650
Time	**3,049,757**	**134,153**	**3,183,910**	3,178,327	126,883	3,305,210
Bills and acceptances payable (see Note 12)	**10,380,191**	**1,125,715**	**11,505,906**	7,332,108	6,376,692	13,708,800
Manager's checks	**32,185**	–	**32,185**	17,042	–	17,042
Accrued taxes, interest and other expenses (see Note 13)	**317,860**	–	**317,860**	254,374	–	254,374
Other liabilities (see Note 14)	**474,933**	–	**474,933**	502,756	–	502,756
	₱20,761,021	**₱1,259,868**	**₱22,020,889**	₱15,961,876	₱6,503,575	₱22,465,451

16. Capital Funds

The Parent Company's capital stock consists of:

	2003	2002	2001
	(In Thousands)		
Preferred stock - ₱1 par value			
Authorized - 1.5 billion shares			
Issued - 1.0 billion shares	**₱1,000,000**	₱1,000,000	₱1,000,000
Common stock - ₱1 par value			
Authorized - 6.0 billion shares			
Issued - 2,753,248,756 shares in 2003 and 2002 and 1,559,903,500 shares in 2001	**2,753,249**	2,753,249	1,559,904
	₱3,753,249	₱3,753,249	₱2,559,904

Notes to Financial Statements

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

Preferred - ₱100 par value	
Authorized - 10,000,000 shares	
Common - ₱100 par value	
Authorized - 24,000,000 shares	
Outstanding - 15,754,692 shares (net of subscription receivable of ₱26,820,000	₱1,548,649, 200

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 Php100.00 per share to Php1.00 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 that were previously outstanding were converted into Bills Payable in accordance with the LSP (see Note 12) in 2001.

The movements in common stock are as follows:

	Shares			Amount		
	2003	2002	2001	**2003**	2002	2001
				(In Thousands)		
Issued and outstanding						
Balance at beginning of year	**2,753,248,756**	1,559,903,500	1,559,903,500	**₱2,753,249**	₱1,559,904	₱1,559,904
Issuance during the year	–	1,193,345,256	–	–	1,193,345	–
Balance at end of year	**2,753,248,756**	2,753,248,756	1,559,903,500	**₱2,753,249**	₱2,753,249	₱1,559,904

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.) 1,559,903,500 common shares and 1 billion preferred shares to EIB shareholders.

Issuances in 2002 included the conversion of certain deposits to common stocks (in accordance with the LSP as discussed in Note 12) amounting to Php1.18 billion (1,176,751,002 shares) and the shares issued to UII shareholders amounting to Php1.11 million (1,107,764 shares) and the shares issued to UBI shareholders amounting to Php15.49 million (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 were as follows:

	Amount (In Thousands)
Preferred - ₱100 par value, cumulative non-voting and convertible	
Authorized and issued - 10 million shares	
Series "K" - 3.5 million shares	₱350,000
Series "L" - 3.5 million shares	350,000
Series "M" - 3.0 million shares	300,000
	1,000,000
Common - ₱100 par value	
Authorized:	
Class "A" - 24.0 million shares	
Class "B" - 16.0 million shares	
Issued:	
Class "A" - 9.0 million shares	₱909,904
Class "B" - 6.0 million shares	650,000
	1,559,904
	₱2,559,904

The Parent Company's common shares in the PSE were relisted on October 1, 2003 (see Note 1).

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 nonrisk items as determined by the MB. As of December 31, 2003, 2002 and 2001, the capital-to-risk assets ratios of the Parent Company were 15.9%, 13.3%, and 28.0%, respectively, which were in compliance with the minimum requirement.

17. Leases

The Parent Company leases the premises occupied by its other 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 Php73.0 million in 2003, Php71.0 million in 2002 and Php58.9 million in 2001 are included in Occupancy and Equipment-Related Expenses in the statements of income. The Parent Company's subsidiaries lease the office space they occupy from the Parent Company. Rentals paid to the Parent Company amounted to Php0.7 million in 2003 and Php0.2 million in 2002 (included in the Parent Company statements of income).

Lease commitments under lease contracts of the Parent Company for the next five years are as follows:

Year	Amount
	(In Thousands)
2004	₱42,348
2005	40,380
2006	35,711
2007	29,354
2008	26,270

18. Retirement Plan

The Parent Company has a funded, noncontributory defined benefit retirement plan covering substantially all of its employees. Qualified employees of the Parent Company which have been seconded to its subsidiaries are covered by the Parent Company's retirement plan. Retirement contributions to the fund amounted to about Php6.9 million in 2003 and Php5.6 million in 2002.

As of March 16, 2003, the latest actuarial valuation date, the actuarial accrued liability for retirement benefits amounted to Php22.2 million. The fair value of the plan assets amounted to Php10.1 million. The unfunded actuarial accrued liability of retirement benefits amounted to Php12.1 million. The principal actuarial assumptions used to determine the retirement benefits were an interest rate of 9% and salary increase of 10% per annum, both compounded annually. Actuarial valuation is done on an annual basis.

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

19. Income Taxes

Provision for income tax consists of:

	Group		Parent Company		
	2003	2002	**2003**	2002	2001
	(In Thousands)				
Current:					
Final taxes	**₱28,092**	₱43,074	**₱27,019**	₱38,925	₱38,876
MCIT	**10,855**	8,577	**9,588**	8,188	3,061
Deferred	**69,740**	(20,800)	**69,740**	(20,807)	916
	₱108,687	₱30,851	**₱106,347**	₱26,306	₱42,853

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 was in effect until 2002) and documentary stamps taxes. In 2003, the Parent Company and its banking subsidiary were subject to the value-added tax (VAT) instead of GRT. However, effective January 1, 2004 as prescribed under RA No. 9238, the Parent Company and its banking subsidiary will again be subject to GRT instead of VAT. RA No. 9238, which was enacted on February 10, 2004, provides for the reimposition of GRT on banks and non-bank financial intermediaries performing quasi-banking functions and other non-bank financial intermediaries beginning January 1, 2004. The liability for GRT will be based on the related regulations to be 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 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 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.

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

	Group		Parent Company		
	2003	2002	**2003**	2002	2001
	(In Thousands)				
Statutory income tax	**₱66,269**	₱124,943	**₱75,675**	₱130,302	₱25,093
Additions to (reductions in) income tax resulting from the tax effects of:					
Valuation allowance on deferred tax assets	**40,034**	167,025	**(94,857)**	141,136	–
Nondeductible expense	**25,816**	12,773	**25,382**	12,773	–
Nondeductible interest expense	**10,491**	14,936	**10,232**	15,307	9,505
FCDU income	**(45,194)**	(59,974)	**(45,194)**	(59,974)	(6,257)
Tax-paid income	**(42,531)**	(128,829)	**(37,413)**	(129,370)	(13,537)
Tax-exempt income	**(29,161)**	(1,103)	**(29,161)**	(1,103)	(83)
Others	**82,963**	(98,920)	**201,683**	(82,765)	28,132
Provision for income tax	**₱108,687**	₱30,851	**₱106,347**	₱26,306	₱42,853

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

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Tax effects of:				
Allowance for probable losses	**₱1,193,437**	₱1,261,511	**₱1,189,227**	₱1,260,592
NOLCO	**307,413**	425,448	**18,733**	121,178
Unamortized past service cost	**878**	878	**878**	878
Unfunded retirement expenses	–	375	–	375
Others	**69,931**	–	–	–
Carryforward benefit of MCIT	**19,426**	8,207	**17,776**	8,188
	1,591,085	1,696,419	**1,226,614**	1,391,211
Less valuation allowance	**400,980**	436,574	**36,509**	131,366
	₱1,190,105	₱1,259,845	**₱1,190,105**	₱1,259,845

Management believes that the deferred tax asset from the NOLCO and MCIT may not be realized in the future. Hence, a full 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 Year
	(In Thousands)			
2000	₱415,461	(₱415,461)	–	2003
2001	239,094	(68,587)	170,507	2004
2002	339,008	–	339,008	2005
2003	451,150	–	451,150	2006
	₱1,444,713	(₱484,048)	₱960,665	

MCIT

Year Incurred	Amount	Applied/Expired	Balance	Expiry Year
	(In Thousands)			
2000	₱8	(₱8)	₱–	2003
2002	8,199	–	8,199	2005
2003	11,227	–	11,227	2006
	₱19,434	(₱8)	₱19,426	

Parent Company

NOLCO

Year Incurred	Amount	Applied/ Expired	Balance	Expiry Year
	(In Thousands)			
2000	₱251,552	(₱251,552)	₱–	2003
2001	127,129	(68,588)	58,541	2004
	₱378,681	(₱320,140)	₱58,541	

MCIT

Year Incurred	Amount	Applied/ Expired	Balance	Expiry Year
	(In Thousands)			
2002	₱8,188	₱–	₱8,188	2005
2003	9,588	–	9,588	2006
	₱17,776	₱–	₱17,776	

Revenue Regulations No. 10-2002 define expenses to be classified as entertainment, amusement and recreation (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 of the Group amounted to Php4.6 million in 2003 and Php4.7 million in 2002. EAR expenses of the Parent Company amounted to Php2.3 million and Php2.4 million in 2003 and 2002, respectively. EAR expenses are included under Miscellaneous Expense in the statements of income.

20. 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 (see Note 23).

In connection with the trust operations of the Parent Company, government securities with carrying value of Php24.3 million (face value of Php24.3 million) and Php15.0 million (face value of Php14.1 million) as of December 31, 2003 and December 31, 2002, 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.

21. Related Party Transactions

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.

Notes to Financial Statements

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 Parent Company as of December 31, 2003 and December 31, 2002 (amounts in thousands):

	2003	2002
Total outstanding DOSRI loans	**₱84,518**	₱42,401
Percent of DOSRI loans to total loans	**0.89%**	0.32%
Percent of unsecured DOSRI loans to total DOSRI loans	–	–
Percent of past due DOSRI loans to total DOSRI loans	–	–
Percent of nonperforming DOSRI loans to total DOSRI loans	–	–

Total interest income on DOSRI loans amounted to Php6.1 million and Php1.5 million in 2003 and 2002, respectively.

Deposit liabilities to associates and other related parties amounted to Php0.1 million and Php7.6 million as of December 31, 2003 and 2002, respectively. Interest expense amounted to Php0.2 million in 2003 and Php0.3 million in 2002.

22. Segment Information

The Group's operating businesses are organized 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;

Account Management Group - principally handles loans and other credit facilities and deposit and current accounts for corporate, institutional and retail customers;

Treasury and Financial Institutions - principally provides 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.

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 are as follows:

As of and for the year ended December 31, 2003:

	Branch Banking	Corporate and Retail Banking	Treasury and Financial Institution	Real Estate	Other Financial Services	Others	Total
	(In Thousands)						
Results of operations							
Net interest income	₱371,605	₱220,115	₱145,082	(₱91,910)	₱3,330	₱991	₱649,213
Noninterest income	34,979	58,627	54,741	97,958	41,767	162,228	450,300
Revenue - net of interest expense	406,584	278,742	199,823	6,048	45,097	163,219	1,099,513
Noninterest expense	(207,249)	(22,001)	(23,427)	(60,397)	(44,322)	(535,006)	(892,402)
Income (loss) before provision for income tax and minority interest	199,335	256,741	176,396	(54,349)	775	(371,787)	207,111
Provision for income tax	–	–	–	(1,668)	(492)	(106,547)	(108,707)
Minority interest in net(income) loss of subsidiaries	–	–	–	-	–	–	31,734
Net income (loss)	(₱250,665)	₱706,741	₱176,396	(₱56,017)	₱283	(₱478,334)	₱130,138
Segment Assets	₱6,594,697	₱6,903,825	₱4,555,708	₱750,177	₱587,913	₱7,348,596	₱26,741,916
Segment Liabilities	₱6,395,362	₱6,647,084	₱4,379,313	₱328,384	₱119,092	₱4,291,640	₱22,160,875

Notes to Financial Statements

As of and for the year ended December 31, 2002:

	Branch Banking	Corporate and Retail Banking	Treasury and Financial Institution	Real Estate	Other Financial Services	Others	Total
	(In Thousands)						
Results of operations							
Net interest income	(₱89,139)	₱1,010,584	₱53,946	(₱61,678)	₱25,251	(₱41,401)	₱897,563
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 (loss) before provision for income tax and minority interest	(395,545)	939,841	563,406	(79,399)	9,831	(647,688)	390,446
Provision for income tax	–	–	–	(817)	(3,670)	(26,364)	(30,851)
Minority interest in net loss of a subsidiary	–	–	–	–	–	–	21,293
Net income (loss)	(₱395,545)	₱939,841	₱563,406	(₱80,216)	₱6,161	(₱674,052)	₱380,888
Segment Assets	₱749,810	₱16,870,624	₱5,924,265	₱1,733,850	₱384,764	₱1,733,850	₱27,060,128
Segment Liabilities	₱624,056	₱14,041,185	₱4,930,683	₱926,525	₱7,860	₱2,039,475	₱22,569,785

The Group has no operations outside of the Philippines.

23. 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	
	2003	2002	**2003**	2002
	(In Thousands)			
Trust department accounts (Note 20)	**₱2,945,765**	₱3,018,006	**₱2,945,765**	₱3,018,006
Forward exchange bought	**2,248,616**	1,057,015	**2,248,616**	1,057,015
Unused commercial letters of credit	**242,599**	348,716	**242,599**	348,716
Spot exchange bought	**190,337**	159,762	**190,337**	159,762
Forward exchange sold	**146,379**	51,827	**146,379**	51,827
Spot exchange sold	**90,263**	–	**90,263**	–
Outward bills for collection	**74,444**	75,402	**74,444**	75,402
Outstanding guarantees issued	**50,099**	49,905	**50,099**	49,905
Inward bills for collection	**16,111**	21,809	**16,111**	21,809
Others	**76,477**	77,047	**76,477**	77,047

24. Financial Performance

The following table presents information used to calculate basic EPS (amounts in thousands except EPS):

		2003	2002	2001
a.	Net income	**₱130,138**	₱380,888	₱35,562
b.	Weighted average number of outstanding common shares	**2,753,249**	2,653,803	1,599,904
c.	Basic EPS (a/b)	**₱0.05**	₱0.14	₱0.02

As of December 31, 2003, 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		
	2003	2002	**2003**	2002	2001
Return on average capital funds (ROE)	**2.96%**	10.75%	**2.96%**	8.80%	1.30%
Return on average assets (ROA)	**0.48**	2.05	**0.49**	1.42	0.39
Net interest margin on average earning assets	**4.64**	7.58	**5.18**	5.95	3.89

As discussed in Note 10, provision for probable losses amounting to Php673.2 million should have been charged to 2001 operations. Had such provision been charged to 2001 operations, net income for 2001 would have decreased by Php457.8 million, net of deferred income tax, with corresponding proportionate effects on the 2001 ROE and ROA indicated above.

25. Notes to Statements of Cash Flows

The amounts of Due from Other Banks considered as cash equivalents are as follows:

	Group		Parent Company		
	2003	2002	**2003**	2002	2001
	(In Thousands)				
Due from other banks	**₱547,475**	₱583,936	**₱521,248**	₱583,716	₱550,299
Less due from other banks not considered as cash equivalents (see Note 4)	**175,831**	314,634	**175,831**	314,634	–
	₱371,644	₱269,302	**₱345,417**	₱269,082	₱550,299

Notes to Financial Statements

The following summarizes the non-cash activities:

	Group		Parent Company	
	2003	2002	**2003**	2002
	(In Thousands)			
Additions to investment in bonds and other debt instruments in settlement of loans - net	**₱1,615,940**	₱–	**₱1,615,940**	₱–
Additions to real and other properties owned or acquired in settlement of loans - net	**660,042**	4,680,769	**660,042**	4,680,769
Additions to bank premises, furniture, fixtures and equipment resulting from merger	–	1,302,391	–	1,342,846
Additions (reductions) resulting from transfers/reclassifications:				
Condominium units held for lease	**(86,354)**	–	**(78,079)**	–
Condominium units held for sale	**51,755**	–	**84,382**	–

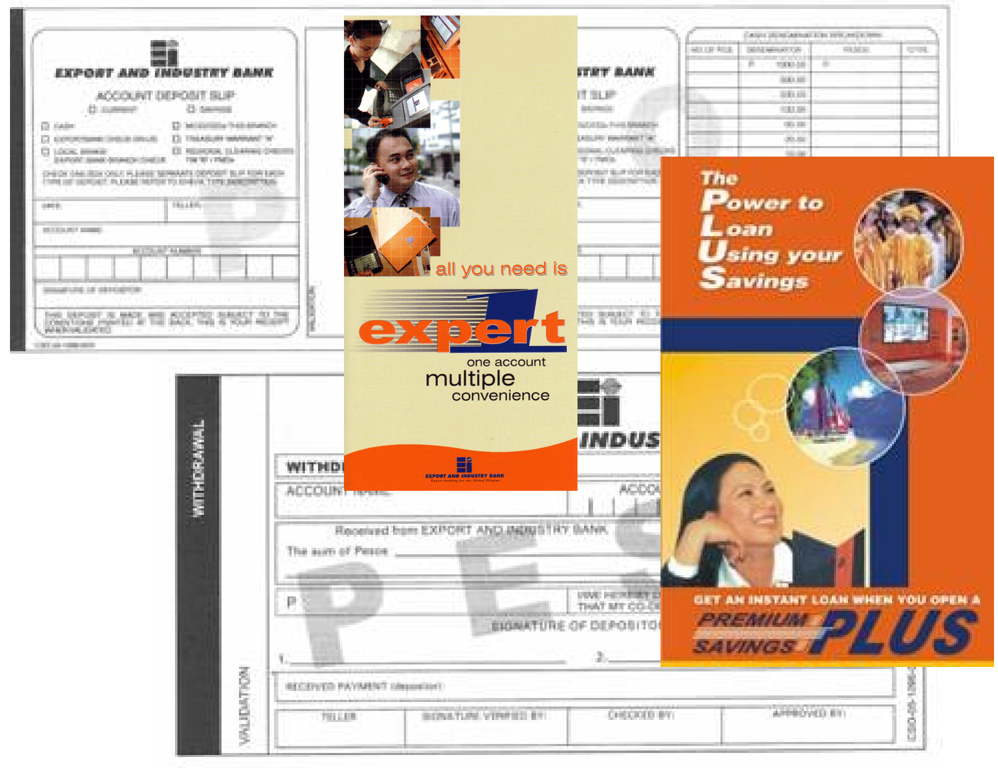
Products and Services

1. Deposit Services
2. Transaction Banking
3. Trade Finance
4. Trust Products
5. Treasury Products & Services
6. Mortgage Banking

Products and Services

Deposit Services:

1. Expert 1
2. Savings Account
3. Checking Account
4. Premium Savings
5. Expert Savings II
6. Peso Time Deposit
7. Dollar Savings
8. US$ Time Deposit
9. Short-Term US$ Time Deposit



Products and Services

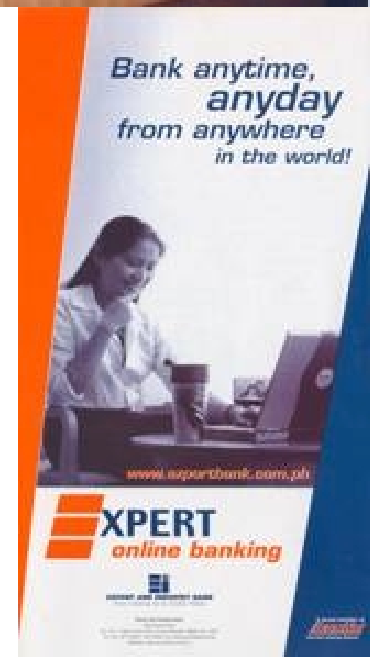
Transaction Banking:

Channels

- Expert Teller (ATM)
- Expert Phone (Mobile Banking)
- Expert Online Banking (Internet Banking)

More Power from
EXPERTeller

It's your
Money Card



Services

1. Bills Payment/Collection
2. EDI-SSS Net
3. E-Business Checks
4. E-Statements
5. Expert Payroll
6. Expert Trade (B2B Portal)

Products and Services

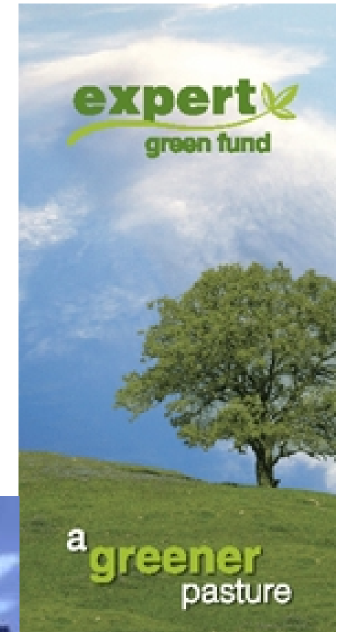
Trade Finance:

1. Pre-Shipment Financing
   - Documentary Credits (Import and Domestic/LC Opening)
   - Trust Receipt Loans
   - Export Packaging Credit/Export advance Loans (PHPeso or US Dollar)
2. Post-shipment Financing
   - Export Bills Purchase
3. Other Loan Products
   - Trade Fair financing
   - Medium and Long Terms Loans for expansion, building improvement and acquisition of machinery/equipment
4. Other Trade Services
   - Documentary Collection
   - Telegraphic Transfer Arrangement
   - Issuance of shipside Bond/bank Guarantee

Products and Services

Trust Products

1. Trust Administration/Estate Planning
2. Living Trust Account
3. Employee Benefit Trust
4. Insurance Trust Funds
5. Escrow Account
6. Investment Management Account
7. Mortgage Trust Indenture
8. Expertfund (Peso CTF)
9. Expert Green Fund (US Dollar CTF)
10. Expert Capital Protection Fund



Products and Services

Treasury Products & Services

1. Foreign Exchange services (Spot, Forward, Swaps, third Currency and USD/Peso)
2. FXTN, T-Bills and Bonds dealership (Local Currency)
3. Prime Short Term/Long term commercial Papers
4. US$ (ROP) Bonds Dealership
5. Promissory Notes

Mortgage Banking

1. EXPERT Home Advantage Loan
2. Developer's Receivables Purchase Facility

Branches

Head Office:

Exportbank Plaza
Exportbank Drive corner
Chino Roces Avenue
Makati City 1200

EXPORTBANK

Branches


Philippines
EXPORT AND INDUSTRY BANK
EXPORT AND INDUSTRY BANK
GREENHILLS BRANCH
NOW OPEN TO SERVE YOU!

Branches

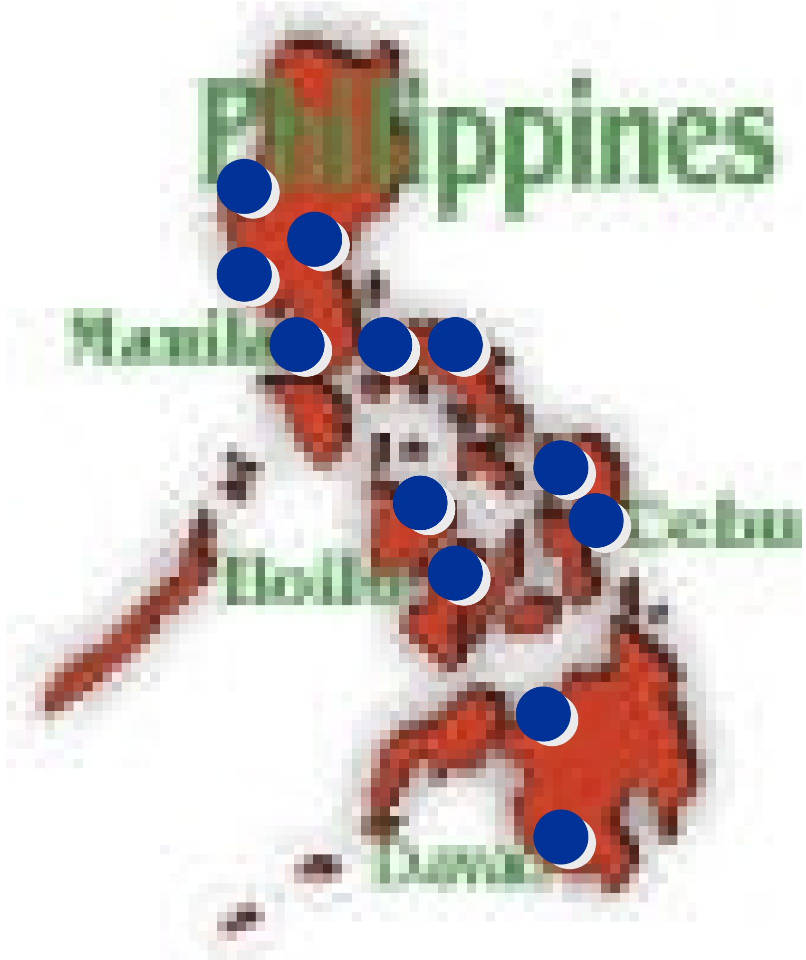
Metro Manila:

Alabang
Banawe
Binondo
Kaloocan
Chino Roces
Cubao
East Avenue
EDSA-Taft
Ermita
Escolta
Greenhills
Guadalupe
Juan Luna
Las Pinas
Legaspi Village
Libis
Malabon
Mandaluyong
Metro East-Pasig
LRT Monumento
Muntinlupa
Navotas
Ortigas
Pacific Star
Paco
Quezon Avenue
Rockwell
Rufino Pacific
Salcedo
Sampaloc
Sucat
Tutuban
Valenzuela

Branches

Provincial:

Angeles
Bacolod
Baguio
Cabanatuan
Cagayan De Oro
Calamba
Cebu Business Park
Cebu Downtown
Cebu Gorordo
Dagupan
Davao
Iloilo
Imus
Mabalacat
San Pedro
Sta. Rosa
Davao Gaisano Mall



EXPORTBANK

ANNUAL REPORT 2003

- Letter to Shareholders
- Financial Highlights
- Corporate Governance
- Board of Directors
- Board Committees
- Senior Management
- Senior Officers in Board Committees
- Corporate Profile
- Exportbank Group of Companies
- Statement of Management's Responsibility
- Report of Independent Public Accountants
- Statements of Condition
- Statements of Income
- Statements of Changes in Capital Funds
- Statements of Cash Flows
- Notes to Financial Statements
- Products and Services
- Branches