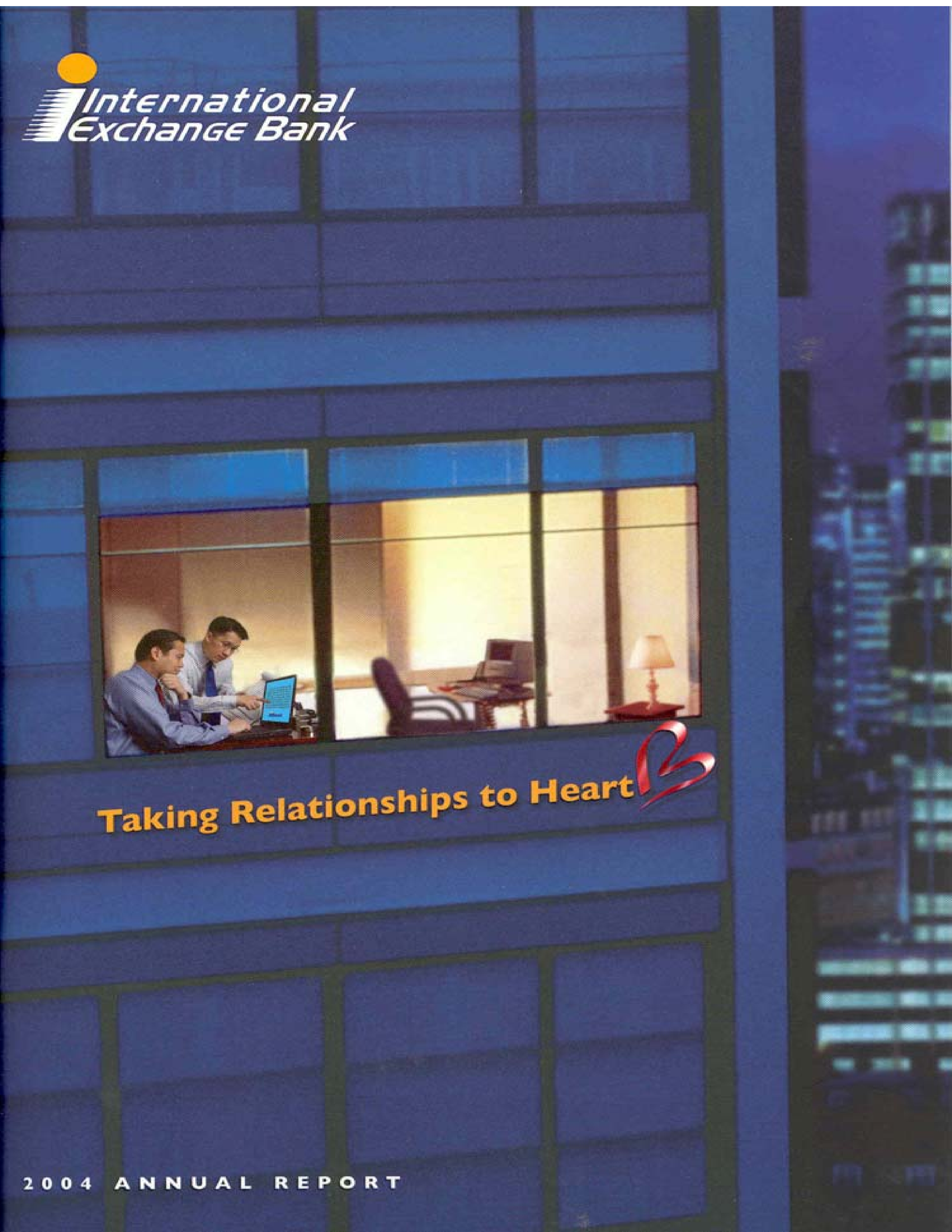
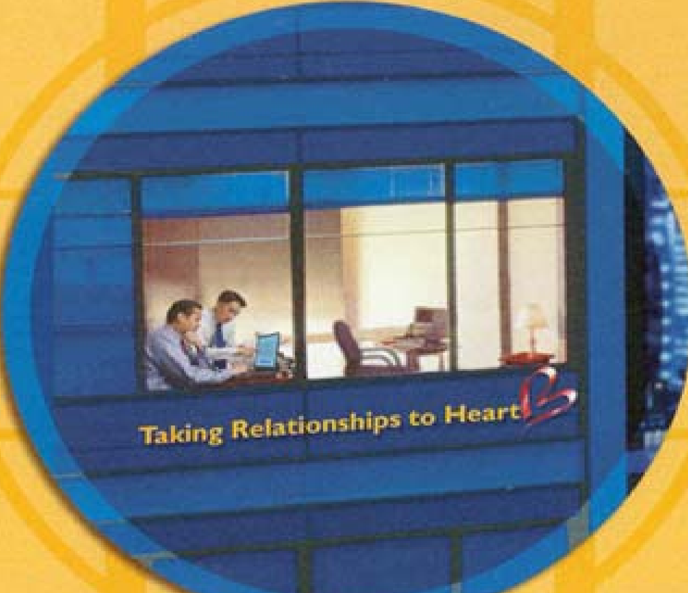


International Exchange Bank

Taking Relationships to Heart

2004 ANNUAL REPORT

About our Cover



Taking Relationships to Heart

In a banking industry driven by wired and wireless technology, iBank defines itself apart from competition with an unbridled passion for human interconnection. Pesos and centavos, coupled with bits and bytes can never substitute for that intangible feeling of personal warmth and sincerity embodied in iBank's service philosophy.

On the cover is an iBanker at work beyond usual banking hours. This depicts how iBankers go the extra mile to meet and exceed customer needs and expectations.

At iBank, we believe in 'Taking Relationships to Heart' with our clients, with our employees, and with the communities we serve.

This is who we are. For us, service is a way of life.

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Financial Highlights

FOR THE YEAR ENDED DECEMBER 31, 2004 (Amounts in Pesos)

Total Income	3,974,182,881
Total Expenses and Taxes	3,451,127,009
Net Income	523,055,872
Earnings Per Share	1.94

AT YEAR END (Amounts in Pesos)

Total Resources	51,948,457,559
Receivables from Customers - net	21,256,775,039
Deposit Liabilities	39,476,315,853
Capital Funds	5,707,355,242
Book Value Per Share	17.12


International
Exchange Bank

Message to our Shareholders, Depositors, and Friends

The Economic Environment

The economy has one of its best runs in 2004. GDP grew by 6.1% with a growth that is broader-based compared to previous years. Agriculture, industry, and services registered impressive gains. The Fiscal Deficit improved to ₱186.1 billion or 3.9% of GDP. While a welcome development given the 4.2% target, this area remains a major vulnerability of the economy. The recent slew of taxes passed by Congress and the -0.8% decline in government consumption attest to breadth of the issue and government's efforts to arrest further deterioration. Official unemployment rate on the other hand at 11.7% remains one of the highest in the Southeast Asian region.

Ben C. Tiu
Vice Chairman of the Board
Chairman of the Executive Committee

Gerardo O. Lanuza, Jr.
Chairman of the Board

Ramon Y. Sy
President and Chief Executive Officer

In accord with the economy as a whole, the commercial banking industry had one of its best performances in years. Total resources went up by 9.6% to ₱3.8 trillion. Non-performing assets (NPAs) went down 2.7% to ₱430.4 billion while probable loss provisions cover for NPAs went up to 35.6% from 32.6%. Total NPAs as a percentage of total assets stood at 11.4% from 12.9% in 2003. However, the industry continued to register lethargic loans growth which only went up by 2.1% to ₱1,784 billion.

Operating Results

We are pleased to report that your bank did much better than the industry. Total resources went up by 18.4% to ₱51.9 billion from ₱43.9 billion while net income improved by 20.8% from ₱433.0 million to ₱ 523.0 million. Return on average equity was registered at 11.4%. Earnings attributable to common shares grew by 17.0% to ₱1.94 from ₱1.66 per share. While still modest, our income figures are one of the highest in the industry.

Better Earnings Quality

There was a significant shift in our 2004 earnings structure. We continue to make progress in building our core interest differential and fees business. Its income contribution significantly increased, even as trading revenues recede in importance. Net Interest Income (NII) went up 24.8% to ₱ 2.1 billion, Fees and Commissions jumped 32.8% to ₱399.9 million while trading income went down by 44.1% to only ₱165.8 million.

The improvement in NII was made more meaningful as it was a result of improvements in the structure of our assets and liabilities and not because of higher interest rate levels. The spread between asset yields and funding costs marginally increased to 4.5% from 4.4% in 2003 but on a bigger assets base.

Average yield on earning assets went up to 8.7% from 2003's 8.2%. Our treasury was able to invest in high yielding and high grade fixed income securities and the loans group expanded the loan portfolio by 16.4%. Combined, total earning assets went up 23.6%.

Our money market and fixed income securities portfolios of mostly sovereign papers increased by 25.2% to ₱24.8 billion. Gross revenues generated by these portfolios were up by 35.8% as our investment managers were able to take advantage of good investment opportunities. We likewise saw a resurgent loan operations. Gross loan portfolio went up by 16.1% to end the year at ₱24.0 billion. Correspondingly, gross interest income on loans went up by 14.5%.

The increases in our earning assets were funded by the ₱5.7 billion or 15.4% growth in our interest bearing liabilities. A significant part of the increase was the expansion of our low cost Current & Savings Accounts (CaSa) which went up by 10.9%. Average deposit interest rates, on the other hand, were maintained inspite of the increases in both domestic and US interest rates.

In 2004, operating free cash flows on average, was higher by around ₱760 million which likewise contributed to the increase in NII. We continued our policy to be always long on our liquidity. Having extra cash on the side lessened the pressure on our branches to run after more expensive funds and results in lower average cost of bought funds. In our estimate, iBank is one of the top 25% banks in the industry in terms of better average costs for its bought funds.

These developments, not only increased the Bank's core interest differential business, but likewise improved the risk profile and flexibility of the balance sheet. Money market and fixed income securities now comprise 47.7% of total assets. Aside from being of the highest credit quality grade, these are very liquid assets that give the bank a good platform to expand its loan portfolio when the opportunity presents itself.

In 2004, we booked an additional ₱265.5 million in provisions for probable losses. This brings total provisions to ₱2.6 billion. We now have provisions for

probable losses (exclusive of NPLs fully covered by allowances) of 71.3% and 37.9% of our Non-performing loans (NPL) and NPAs, respectively, versus the industry's average of 60.4% for NPLs and 35.6% for NPAs.

Fees, commissions, and service charges went up by 32.8% to ₱399.9 million as a result of business expansion and industry wide adjustments on certain fees. Trading revenues, on the other hand, was lower by 44.1% to only ₱165.8 million, the lowest in years. This was a result of the general uptrend in global interest rates and the success of monetary policy in containing volatility in the financial markets.

In sum, gross revenues or NII plus non-interest income, increased 17.0% to ₱2.7 billion.

Contained Costs & Expenses

Operating expenses went up by 18.1% to ₱1.8 billion. Of the ₱282.7 million increase, a good 34.3% or ₱96.8 million was due to transactions taxes which more than doubled to ₱185.5 million. These were notably the shift back to Gross Receipts Tax (GRT) from Value Added Tax (VAT), and the first time imposition of Documentary Stamp Taxes (DST) on special savings. The rest were mostly due to business expansion. Operating expenses excluding said taxes went up by 12.6% which compares favorably to the 26.0% increase in core revenues of NII and fees, and the 17.0% increase in gross revenues including trading.

Profits before income taxes (corporate and deferred) and provisions for probable losses were registered at ₱762.6 million, up by 12.7% from the ₱676.9 million in 2003. Net income, on the other hand, was at ₱523.0 million from ₱433.0 million in 2003.

The IPO

Towards the end of 2003, we were confident that the consolidation initiatives we had set forth and the investments we made in the past years will bear better results for 2004. And while the signs were just starting, we put our bet that the economy will fare better. These twin convictions of brighter macroeconomic environment and higher operating results gave us the confidence to launch iBank's Initial Public Offering (IPO). By January 2004, we were done with the selection process and gave ATR Kim Eng Capital Partners, Inc. the mandate to underwrite the offering.

Doing an IPO has always been part of the plan since the inception of iBank. The founding shareholders and their board representatives had always believed that going public is an important component for the growth of the Bank. Broadening the shareholder and capital base of the bank will allow it to gain the prominence and give it the platform to grow. It likewise signals that the Bank's practice of transparency and good governance and its adaption of best business practices can subject itself to the discipline of a listed company.

The IPO was well received. The order book from the PSE trading participants was more than four times oversubscribed. Customers' and other investors' orders have to be significantly reduced and carefully allocated.

In December 6th of 2004, iBank broke ground and formally listed in the Philippine Stock Exchange. It was the only significant IPO in almost two years. This is only the first of the programmed capital raising activity for the Bank. Your board and management foresee that it will return to the capital markets as it pursues its growth objectives and its intention to be a

more significant player in the commercial banking industry.

Taking Relationships to Heart

Over the last 9 years, we have seen a steady improvement in our balance sheet and operating results. Our total resources have grown at an annual compounded growth of 34.6%. On the other hand, annual compounded profit growth was recorded at 43.5%.

At the center of these results are our customers and the relationships we have built through the years. These relationships were built by nurturing our single most important resource: our people. It is our employees who built and will continue to build relationships. To succeed further, your board and management firmly believe that iBank should continue to build an organization and business practices that will allow its people to realize their potential.

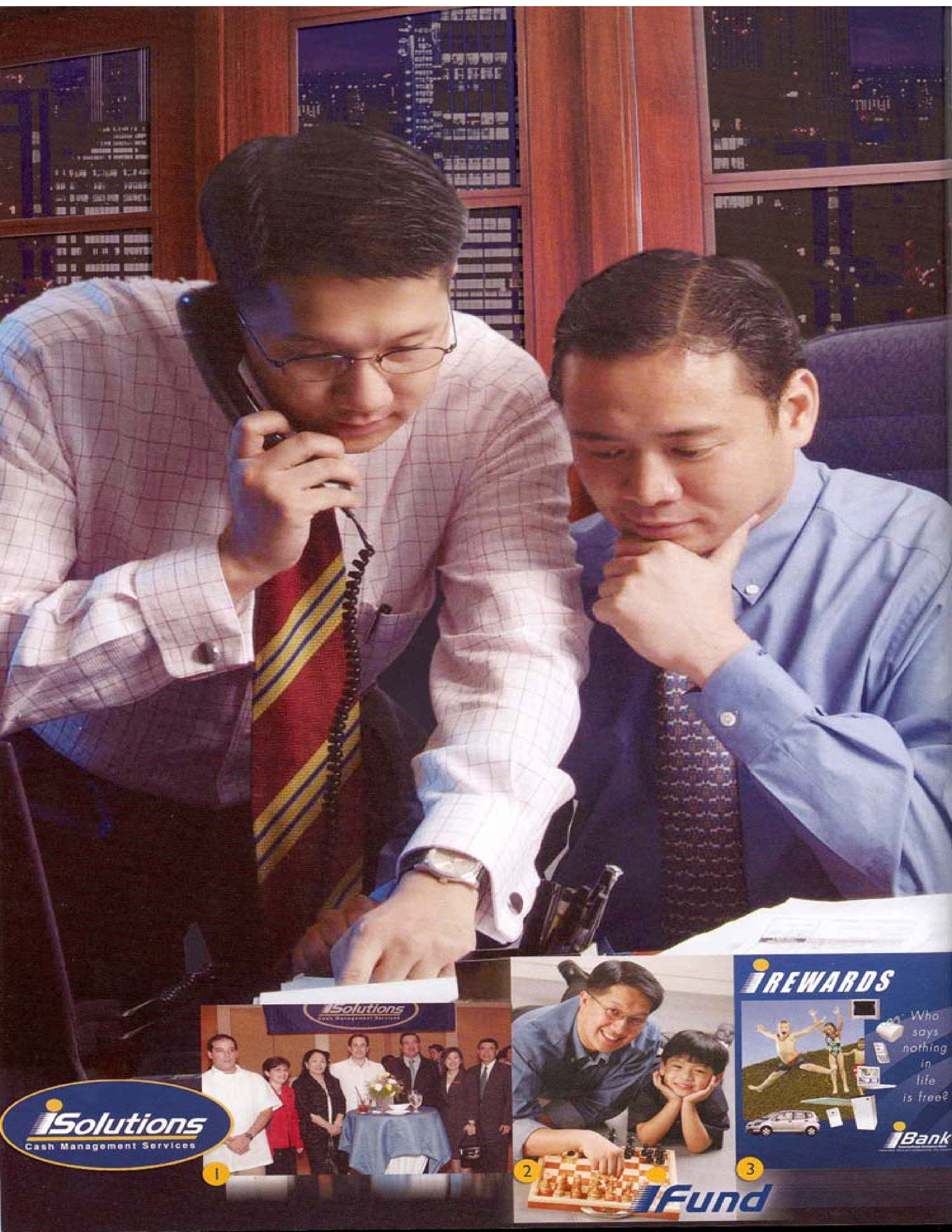
In the end, only competent and satisfied employees will deliver excellent service. From the very start, we have always said superior service delivery will be our tool to differentiate ourselves from competition. This differentiation and our focus on well-defined market segments to offer an appropriate menu of products and services define our strategy of 'Focus and Differentiate'. It's no fancy business model but has been proven to be effective.

We anchored the execution of our strategy on our service management processes. We aligned the whole organization so that every part of it realizes that there is but a single objective: to make our customers feel SPECIAL. This, we said will be the foundation of our corporate culture. We then put in place the infrastructure - products, delivery channels, support and control units, and information technology, to complete our whole service delivery architecture.

While we were busy building our business, we never forgot our corporate social responsibility. In 2004, we again sponsored 'Operation Cleft Lip and Cleft Palate', supported the project of Elsie Gaches Village in building residential cottages for their patients, and participated in the Department of Education's 'Brigada Eskwela' project by adopting a public elementary school in Cavite. We did our share in helping calamity victims, supported socially oriented foundations and non-government organizations, and participated in outreach projects. We intend to continue these efforts this year and the years to come.

Challenges Ahead

As the industry's balance sheet continues to improve and banks regain its composure, we now brace ourselves for stiffer competition. Furthermore, as our customer base grows, it becomes more difficult to deliver the same level of service quality our customers has been accustomed to. On the other hand, the forces of liberalization, globalization, and digitization are hastening the process of integration and dependencies of the local financial markets to the international markets. New products and structures are landing our shores bringing with it more competition for the customers that used to be the local banks' sole


iSolutions
Cash Management Services
1
2
3
iREWARDS
Who says nothing in life is free?
iBank
iFund

Forging meaningful ties with our clients!

1 : ***'iSolutions'*** is a suite of cash management services that help iBank clients improve the productivity and efficiency of their businesses. To showcase the varied and flexible benefits of iSolutions, iBank mounted a series of launch blitzes in top hotels and country clubs.

2 : The launching of 2 new iFund variants: ***iFund-Philippine Dollar Bond Portfolio*** and ***iFund-Philippine Peso Bond Portfolio***, help clients achieve the two most important benefits of wise investing without the hassle of having to actively manage an investment portfolio themselves: maximizing returns while minimizing risks.

3 : 'Who says nothing in life is free?' iBank introduced ***'iRewards'*** – the first depositors loyalty program that generously rewards eligible clients with more points and a wider selection of gift items. iBank makes the process even more convenient by centralizing redemption thru the iContact Call Center.

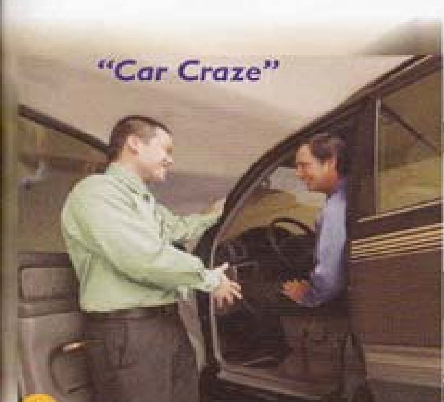
"iBank's unique e-Payroll system, its professionalism and 'best-friend' type of servicing are only a few of the things I have relied on since our partnership with iBank began in 2001. The bank truly takes its relationship with its clients to heart!

Mr. Francisco D. Magsaysay
President/CEO
Asian Vision Cable Holdings, Inc.

4 : iBank introduced yet another first in the banking industry when it mounted the ***'Car Craze'*** exhibit where attendees got on-the-spot discounts from car dealers and a chance to compare prices of all reputable car brands in one venue.

5 : Not all ATMs are created equal! ***iBank's ATM*** cardholders enjoyed reliable ATM service plus sumptuous meals at ***Jollibee***, for FREE!

6 : ***Survey kiosks*** in all iBank branches give clients a faster and more convenient way to send feedback on service delivery and any other aspect of banking.



"Car Craze"

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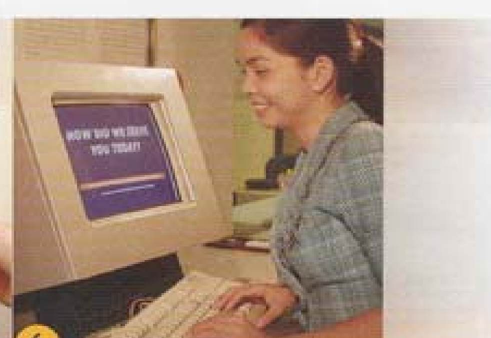

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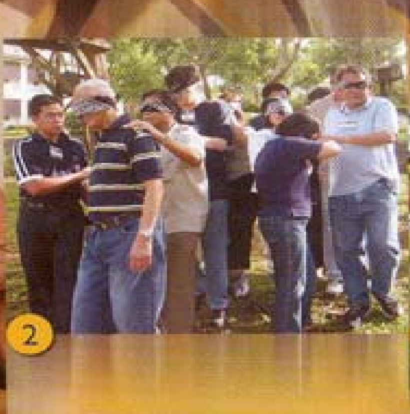
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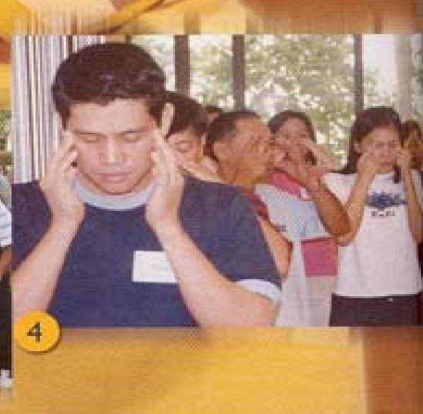
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Developing our employees' personal and professional strengths!

1 : In a move to become more competitive in the banking industry, iBank enhanced its ***Benefits Program*** strengthening employee engagement in the organization.

2 & 3 : iBank senior officers participated in the '***Principle-Centered Leadership Week***' conducted by Mr. Blaine Lee of the Franklin Covey Leadership Center. The program was geared towards aligning managerial and organizational goals using the key principles and roles of leadership. Participants also established coaching relationships using 360-degree feedback results.

4 : Learning is a never-ending journey! iBank's Center For Learning launched '***In Search of Best People Practices***' which gives managers and supervisors the chance to explore global models on best people practices towards achieving greater employee engagement. The '***Self-Enhancement for Effectiveness and Development (S.E.E.D.)***' introduced to iBank staff a process of self-awareness, mission identification, and self-management.

"The collegial atmosphere in iBank breaks down barriers and allows for the free exchange of information. Because of this, iBankers are more open to give suggestions, and feel more valued and confident both at work and at play."

Ms. Buena V. Chanco
iBank – HRMC Cluster Head

5 & 6 : Business melded with pleasure as iBank officers flocked to NBC Tent at the Fort for its ***Annual Officer's Night***. Excellent performers and service providers who went beyond expectations were once again honored in this yearly tradition.

7 & 8 : Undeterred by the summer heat, iBankers trooped to Ultra to show their team spirit and athletic prowess during the ***2004 iBank Olympics***.

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iBank

Empowering our beneficiaries to take on a brighter future!

1 : iBank in partnership with its adopted school Bayan Luma I, Elementary School in Cavite, mobilized volunteers to help out the school during the week-long ***'Brigada Eskwela'*** program of Department of Education.

2 to 5 : At the end of one week, a once dilapidated classroom in Bayan Luma I emerged with a brand-new look. Drainage canals all over campus that previously emitted foul smell were cleaned. Installed were new cement drainage covers that double as footpaths.

6 to 8 : Through the help of iBank, Philip Morris Philippines, and the Friends of EGV, 38 ***Elsie Gaches Village*** patients now have a new home.

"It took iBank volunteers just a week to repair our classroom and replace the broken drainage covers, but these will be of use to our students for years to come. This kind of opportunity comes once, if not rarely, and I am certain that Bayan Luma I will always value and appreciate iBank's contributions."

Ms. Adora T. Bautista
Grade 4 Teacher
Bayan Luma I, Elementary School

9 : Once again, more cleft-lip and cleft palate children have a reason to smile after undergoing free cleft lip/cleft palate surgery, courtesy of iBank, Operations Smile Philippines, Ospital ng Muntinlupa and the Muntinlupa City Government.

10 : Exhibiting a high level of social awareness among iBankers, members of the Information and Technology Management Cluster (ITMC) stood as baptismal sponsors to orphans of ***C.R.I.B.S.*** (Create Responsive Infants By Sharing) during ITMC's annual outreach program.


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Risk Management

Risk management is at the core of iBank's activities. It is essentially about optimizing the Bank's risk-reward profile. The Bank identifies and analyzes the risks it takes, and reckons and manages these vis-à-vis expected returns. The Bank's risks are broadly categorized into credit, market, liquidity, and operational risk.

Risk Organization

The Board of Directors is ultimately responsible for and directly manages the Bank's risks through the Executive Committee, the Risk Management Committee and the Audit Committee.

The Executive Committee is the steward of the Bank's credit agenda. Credit is still the greatest source of risk for the Bank. The Committee approves credit risk limits and oversees bankwide credit strategy, profile and performance.

The Risk Management Committee oversees the Bank's risk policy, strategy, processes and control framework. It evaluates and approves risk tolerances including portfolio credit, market, and liquidity risk limits as well as operational risk parameters.

The Audit Committee assesses the over-all effectiveness of the Bank's risk management program.

The Risk Management Center, headed by the Chief Risk Officer, leads the implementation, throughout the Bank, of the risk management framework established by the Board and its Committees. It recommends and codifies policies that will govern the Bank's risk taking activities.

Business and process owners are accountable for risk management in their respective operations. As such, they comply with the Bank's risk policies and standards and ensure that these are imbedded into day-to-day activities.

Internal Audit Center ensures the Bank's compliance with the risk framework. It provides an independent opinion and reports to the Board (through the Audit Committee) on the framework's effectiveness.

Credit Risk

Credit risk is the risk that a customer or counterparty fails to fulfill its contractual obligations to the Bank. This includes risk of non-payment by borrowers and issuers, failed settlement of transactions and default on outstanding contracts.

The Bank's lending activities are governed by its Credit Risk Policy Manual which defines guiding principles and parameters for credit activities as well as roles and responsibilities of every party to the over-all credit process. Credit policies and standards are periodically reviewed to ensure effectiveness and relevance.

The Bank utilizes a credit granting process founded on a thorough understanding of each account's creditworthiness. A system of credit signing limits approved by the Board is in place for all the Bank's credit origination activities. Credit administration policies ensure that all credits granted comply with Bank requirements in terms of approval limits, and facility and transactional documentation.

The Bank ensures quality of borrowing relationships are maintained through:

- *Credit training*. All credit personnel are given opportunities for training and development to continually update them of industry trends, global best-practices, and cutting-edge products and techniques.
- *Credit lines*. Credit lines are the basic tool for controlling exposure to individuals and related credits.
- *Credit risk grading system*. The Bank is set to implement its enhanced credit risk grading system, fully compliant with the BSP standards on internal risk grading for corporate accounts (per BSP Circular 439). Review of and changes to existing rating systems for other sources of credit exposure are to be undertaken in the coming year.

The Bank has dedicated teams composed of experienced senior credit officers and seasoned lawyers to handle distressed and past due accounts.

Market Risk

Market risk refers to the potential volatility of the Bank's earnings due to changes in market variables such as interest rates and currency exchange rates. It applies to the Bank's trading and accrual positions.

Market risk of the Bank's trading portfolio is measured by a statistical measure of probable loss called Value-at-Risk (VaR). The Bank uses an exponentially-weighted parametric VaR with a 99% one-tailed confidence level. The resulting VaR figure is interpreted as the amount of loss that only has a 1% chance of being exceeded within a certain time horizon.

Value-at-Risk as of December 31, 2004 (in Millions)

Fixed Income Securities	PHP	21.7
Foreign Exchange		15.6
Total Trading VaR	**PHP**	**20.6**

Note: Time horizon ranges from 1 to 5 days depending on volume per asset class. Total VaR not equal to the sum of individual components due to the effect of diversification and resulting correlations.

Accrual positions may also be subject to market risk. The timing differences between the repricing of assets and liabilities can result into a higher or lower net interest income. To quantify this risk, the Bank uses a measure called Earnings-at-Risk (EaR). EaR is computed on a cumulative basis at a 99% confidence level with a one year holding period.

Earnings-at-Risk as of December 31, 2004 (in Millions)

Peso Rate Sensitive Items	PHP	57.2
Dollar Rate Sensitive Items		16.9
Total EaR	**PHP**	**60.8**

Note: Total EaR not equal to the sum of individual components due to the effect of diversification and resulting correlations.

Market risk is controlled by setting limits for VaR and EaR, as well as for mark-to-market values, position size, and portfolio duration.

To validate these risk measurement models, iBank back-tests projected volatility against actual gains and losses on a monthly basis. Stress testing is likewise performed to complement these models.

Liquidity Risk

Liquidity risk is the possibility of not meeting funding requirements at a reasonable cost. To ensure sufficient liquidity levels, the Bank has a set of internal limits which allocates a portion of liabilities into cash, marketable securities and other liquid assets. A Contingency Funding Plan has been developed to prepare the Bank for any liquidity crisis situation.

The Bank's Asset and Liability Committee (ALCO) is directly responsible for market and liquidity risk exposures. The ALCO regularly monitors the Bank's positions and sets the appropriate transfer prices to govern business activities bankwide.

Operational Risk

Operational risk is the probability of loss arising from fraud, unauthorized activities, errors, omissions, system failures or from external events. These usually relate to people, systems and processes.

The Bank has a reliable and robust internal control framework. Management support units are mandated to drive, safeguard and continually fine-tune this framework. Aside from Risk Management, these units are:

- *Internal Audit.* Reviews the Bank's activities for compliance with regulatory and internal policies and standards.
- *Compliance.* The repository of and main resource for all policies and regulations, whether external or internal.
- *Legal Management.* Reviews the Bank's practices, contracts and documentation to secure the Bank's legal position in any eventuality.
- *Controllership.* Implements an accounting policy that presents a true and fair picture of the Bank's performance.

In 2004, the risk control and backroom functions for the lending, trade and treasury operations of the Bank were centralized under the *International Trade and Transactions Settlements Group* (INTRASG) in order to improve controls, standardize service levels and share costs across business lines.

The *Human Resource Management Cluster* implements competency building and assessment programs to ensure that iBankers are equipped with the right skills and attitude to deliver the job and work within the Bank's service and control parameters.

The Bank believes that automation is the main driver for consistency of service, operational efficiency and firmer controls. The *Information and Technology Management Cluster* is working toward the upgrade of the Bank's existing platforms and system functionalities.

A *Business Continuity Plan* is in place to ensure minimal disruption of operations in the event of system downtime and other crisis situations or calamities.

The Bank continues to take steps to ensure that, as a minimum, it complies with the Basel II requirements on capital adequacy.

SGV & Co

The Stockholders and the Board of Directors
International Exchange Bank

We have audited the accompanying statements of condition of International Exchange Bank as of December 31, 2004 and 2003, and the related statements of income, changes in capital funds and cash flows for each of the three years in the period ended December 31, 2004. These financial statements are the responsibility of the Bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of International Exchange Bank as of December 31, 2004 and 2003, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2004 in conformity with accounting principles generally accepted in the Philippines.

Sycip Gorres Velayo + Co.

Renato J. Galve
Partner
CPA Certificate No. 37759
SEC Accreditation No. 0081-A
Tax Identification No. 102-087-055
PTR No. 9404006, January 3, 2005, Makati City

March 16, 2005

Statements of Condition

	December 31	
	2004	2003
RESOURCES		
Cash and Other Cash Items (Note 11)	**P1,820,943,670**	P1,406,224,039
Due from Bangko Sentral ng Pilipinas (Note 11)	**664,008,495**	651,937,027
Due from Other Banks	**1,969,209,826**	1,886,661,510
Interbank Loans Receivable and Securities Purchased Under Resale Agreements	**3,995,388,376**	2,504,057,572
Trading Account Securities - at market (Note 4)	**2,570,415,454**	2,248,703,305
Available-for-Sale Securities - at market (Notes 4 and 23)	**5,186,366,988**	4,237,416,986
Investments in Bonds and Other Debt Instruments - at amortized cost (Note 4)	**8,556,152,514**	6,846,514,894
Receivables from Customers - net (Notes 5 and 22)	**21,256,775,039**	18,256,971,404
Bank Premises, Furniture, Fixtures and Equipment - net (Note 6)	**1,119,566,783**	1,194,508,955
Real and Other Properties Owned or Acquired - net (Note 7)	**2,512,638,324**	2,619,229,788
Equity Investments (Note 8)	**21,139,626**	21,139,626
Other Resources - net (Note 9)	**2,275,852,464**	2,014,715,371
	P51,948,457,559	P43,888,080,477
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities (Notes 11 and 22)		
Demand	**P12,370,326,607**	P11,757,372,448
Savings	**17,208,538,346**	15,030,909,561
Time	**9,897,450,900**	9,042,912,670
	39,476,315,853	35,831,194,679
Bills Payable (Note 12)	**3,137,703,196**	1,097,244,509
Outstanding Acceptances (Note 13)	**286,684,236**	176,696,835
Accrued Taxes, Interest and Other Expenses (Note 14)	**607,137,504**	375,259,460
Manager's Checks	**146,459,314**	169,099,269
Other Liabilities (Note 15)	**2,586,802,214**	2,003,172,544
	46,241,102,317	39,652,667,296
Capital Funds		
Preferred stock (Note 16)	**250,000,000**	250,000,000
Common stock (Note 16)	**3,186,800,000**	2,500,000,000
Additional paid-in capital	**335,638,334**	–
Surplus reserves (Note 16)	**10,000,000**	10,000,000
Surplus (Note 16)	**1,953,147,924**	1,458,050,386
Net unrealized gain (loss) on available-for-sale securities (Note 4)	**(28,231,016)**	17,362,795
	5,707,355,242	4,235,413,181
	P51,948,457,559	P43,888,080,477

See accompanying Notes to Financial Statements.

Statements of Condition

	December 31	
	2004	2003
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Equity Investments (Note 8)	21,139,626	21,139,626
Other Resources - net (Note 9)	2,275,852,464	2,014,715,371
	P51,948,457,559	P43,888,080,477
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities (Notes 11 and 22)		
Demand	P12,370,326,607	P11,757,372,448
Savings	17,208,538,346	15,030,909,561
Time	9,897,450,900	9,042,912,670
	39,476,315,853	35,831,194,679
Bills Payable (Note 12)	3,137,703,196	1,097,244,509
Outstanding Acceptances (Note 13)	286,684,236	176,696,835
Accrued Taxes, Interest and Other Expenses (Note 14)	607,137,504	375,259,460
Manager's Checks	146,459,314	169,099,269
Other Liabilities (Note 15)	2,586,802,214	2,003,172,544
	46,241,102,317	39,652,667,296
Capital Funds		
Preferred stock (Note 16)	250,000,000	250,000,000
Common stock (Note 16)	3,186,800,000	2,500,000,000
Additional paid-in capital	335,638,334	–
Surplus reserves (Note 16)	10,000,000	10,000,000
Surplus (Note 16)	1,953,147,924	1,458,050,386
Net unrealized gain (loss) on available-for-sale securities (Note 4)	(28,231,016)	17,362,795
	5,707,355,242	4,235,413,181
	P51,948,457,559	P43,888,080,477

See accompanying Notes to Financial Statements.

Statements of Income

	Years Ended December 31		
	2004	2003	2002
INTEREST INCOME ON			
Receivables from customers (Notes 5 and 22)	**P1,693,928,171**	P1,478,833,686	P1,656,053,223
Trading and investment securities (Note 4)	**1,253,409,818**	914,065,532	692,312,856
Interbank loans receivable and securities purchased under resale agreements	**88,807,773**	55,743,347	100,709,191
Deposits with other banks and others	**372,312,435**	293,037,299	100,238,360
	3,408,458,197	2,741,679,864	2,549,313,630
INTEREST EXPENSE ON			
Deposit liabilities (Notes 11 and 22)	**1,169,376,788**	988,928,182	950,581,419
Bills payable and other borrowings (Note 12)	**102,847,564**	40,626,535	37,264,159
	1,272,224,352	1,029,554,717	987,845,578
NET INTEREST INCOME	**2,136,233,845**	1,712,125,147	1,561,468,052
PROVISION FOR PROBABLE LOSSES (Note 10)	**265,512,529**	140,000,000	476,952,400
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOSSES	**1,870,721,316**	1,572,125,147	1,084,515,652
OTHER INCOME (CHARGES)			
Service charges, fees and commissions	**356,589,974**	279,157,480	294,452,346
Trading and securities gain - net (Note 4)	**137,045,576**	268,492,556	492,552,048
Foreign exchange gain - net	**28,754,209**	28,051,822	5,885,567
Income from trust operations (Note 21)	**9,471,912**	4,682,932	3,305,899
Miscellaneous - net (Note 8)	**33,863,013**	17,254,082	(7,301,223)
	565,724,684	597,638,872	788,894,637
OTHER EXPENSES			
Compensation and employees' benefits (Note 19)	**594,221,008**	526,486,638	479,998,515
Occupancy and other equipment-related expenses (Note 17)	**269,206,412**	232,225,496	209,870,296
Depreciation and amortization (Note 6)	**198,837,068**	197,379,209	202,274,171
Taxes and licenses (Note 20)	**185,540,215**	88,722,884	122,706,036
Amortization of computer software (Note 9)	**17,001,296**	20,597,543	20,639,102
Amortization of deferred charges (Note 9)	**10,660,871**	6,703,257	14,832,591
Miscellaneous (Note 18)	**572,103,560**	492,793,262	549,900,808
	1,847,570,430	1,564,908,289	1,600,221,519
INCOME BEFORE INCOME TAX	**588,875,570**	604,855,730	273,188,770
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 20)	**65,819,698**	171,838,766	(79,106,766)
NET INCOME (Note 24)	**P523,055,872**	P433,016,964	P352,295,536
Earnings Per Share (Note 24)	**P1.94**	P1.66*	P1.32*

See accompanying Notes to Financial Statements.

**After retroactive adjustment for split up in 2004 (see Note 16).*

Statements of Changes in Capital Funds

	Years Ended December 31		
	2004	2003	2002
CAPITAL STOCK (Note 16)			
Preferred	**P250,000,000**	P250,000,000	P250,000,000
Common	**3,186,800,000**	2,500,000,000	2,500,000,000
	3,436,800,000	2,750,000,000	2,750,000,000
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	**–**	–	–
Additional capital	**424,442,401**	–	–
Stock issuance expense	**(88,804,067)**	–	–
Balance at end of year	**335,638,334**	–	–
SURPLUS RESERVES (Note 16)	**10,000,000**	10,000,000	10,000,000
SURPLUS			
Balance at beginning of year	**1,458,050,386**	1,042,732,416	712,138,679
Net income (Note 24)	**523,055,872**	433,016,964	352,295,536
Dividends on preferred shares (Notes 16 and 24)	**(27,958,334)**	(17,698,994)	(21,701,799)
Balance at end of year	**1,953,147,924**	1,458,050,386	1,042,732,416
NET UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE SECURITIES (Note 4)	**(28,231,016)**	17,362,795	82,056,022
	P5,707,355,242	P4,235,413,181	P3,884,788,438

See accompanying Notes to Financial Statements.

Statements of Cash Flows

	Years Ended December 31		
	2004	2003	2002
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	**P588,875,570**	P604,855,730	P273,188,770
Adjustments to reconcile income before income tax to net cash generated from operations:			
Provision for probable losses (Note 10)	**265,512,529**	140,000,000	476,952,400
Depreciation and amortization (Note 6)	**198,837,068**	197,379,209	202,274,171
Gain on sale of ROPOA	**(22,257,706)**	(5,254,334)	(4,610,485)
Unrealized trading loss (gain) (Note 4)	**(20,164,888)**	7,826,072	–
Amortization of computer software (Note 9)	**17,001,296**	20,597,543	20,639,102
Amortization of deferred charges (Note 9)	**10,660,871**	6,703,257	14,832,591
Equity in net earnings of an investee (Note 8)	**–**	(420,394)	(326,952)
Changes in operating resources and liabilities:			
Decrease (increase) in the amounts of:			
Trading account securities	**(301,547,261)**	(2,256,529,377)	153,196,436
Receivables from customers	**(3,026,479,593)**	180,863,819	(780,539,033)
Other resources	**(241,079,800)**	(430,171,241)	244,570,882
Increase (decrease) in the amounts of:			
Deposit liabilities	**3,645,121,174**	4,713,854,535	1,828,617,717
Accrued taxes and other expenses	**223,330,153**	142,705,171	55,128,792
Manager's checks	**(22,639,955)**	(48,617,835)	(8,914,263)
Other liabilities	**583,629,670**	127,652,196	407,061,899
Net cash generated from operations	**1,898,799,128**	3,401,444,351	2,882,072,027
Income taxes paid	**(104,991,267)**	(75,377,180)	(59,392,030)
Net cash provided by operating activities	**1,793,807,861**	3,326,067,171	2,822,679,997
CASH FLOWS FROM INVESTING ACTIVITIES			
Net disposals of (additional) investments in:			
Available-for-sale securities	**(994,543,813)**	(715,171,915)	(2,962,277,763)
Bonds and other debt instruments	**(1,709,637,620)**	166,905,471	(503,049,689)
Additions to bank premises, furniture, fixtures and equipment (Note 6)	**(129,916,709)**	(153,888,907)	(140,525,652)
Proceeds from disposals of bank premises, furniture, fixtures and equipment (Note 6)	**6,021,813**	16,211,563	23,447,157
Additional equity investments (Note 8)	**–**	–	(1,250,000)
Net cash used in investing activities	**(2,828,076,329)**	(685,943,788)	(3,583,655,947)
CASH FLOWS FROM FINANCING ACTIVITIES			
Net proceeds from bills payable (Note 12)	**2,040,458,687**	28,089,599	241,082,160
Proceeds from issuance of common stock (Note 16)	**1,022,438,334**	–	–
Payment of dividends (Note 16)	**(27,958,334)**	(17,698,994)	(21,701,799)
Net cash provided by financing activities	**3,034,938,687**	10,390,605	219,380,361
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	**2,000,670,219**	2,650,513,988	(541,595,589)

(Forward)

	Years Ended December 31		
	2004	2003	2002
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	**P1,406,224,039**	P1,190,137,830	P931,209,679
Due from Bangko Sentral ng Pilipinas	**651,937,027**	324,514,251	73,495,236
Due from other banks	**1,886,661,510**	1,067,444,079	2,817,962,083
Interbank loans receivable and securities purchased under resale agreements	**2,504,057,572**	1,216,270,000	517,294,751
	6,448,880,148	3,798,366,160	4,339,961,749
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	**1,820,943,670**	1,406,224,039	1,190,137,830
Due from Bangko Sentral ng Pilipinas	**664,008,495**	651,937,027	324,514,251
Due from other banks	**1,969,209,826**	1,886,661,510	1,067,444,079
Interbank loans receivable and securities purchased under resale agreements	**3,995,388,376**	2,504,057,572	1,216,270,000
	P8,449,550,367	P6,448,880,148	P3,798,366,160

See accompanying Notes to Financial Statements.

1. General Information

International Exchange Bank (the Bank) is a domestic commercial bank incorporated in the Philippines and provides such services as deposit products, loan and trade finance, domestic and foreign fund transfers, treasury, foreign exchange, and trust services. The Bank's principal address is at iBank Exchange Building, 142 Amorsolo Street, Legaspi Village, Makati City. As of December 31, 2004 and 2003, the Bank had 1,502 and 1,414 employees, respectively.

On December 6, 2004, the Bank's shares of stock were listed and traded on the First Board of the Philippine Stock Exchange.

The accompanying financial statements of the Bank were authorized for issue by the board of directors (BOD) on March 16, 2005.

2. Summary of Significant Accounting Policies

Basis of Financial Statement Preparation

The Bank's financial statements have been prepared in accordance with the accounting principles generally accepted in the Philippines (Philippine GAAP) for the banking industry. These financial statements are prepared under the historical cost convention, except for the measurement at fair value of trading account securities (TAS), available-for-sale securities (ASS) and certain derivative instruments.

The accompanying financial statements reflect the accounts maintained in the Regular Banking Unit (RBU) and Foreign Currency Deposit Unit (FCDU). The financial statements individually prepared for these units are combined after eliminating inter-unit accounts. The books of accounts of the RBU are maintained in Philippine pesos, while those of the FCDU are maintained in United States dollars. For financial reporting purposes, the accounts of the FCDU are translated into their equivalents in Philippine pesos based on the Philippine Dealing System weighted average rate (PDSWAR) prevailing at the end of the year (for resources and liabilities) and at the actual PDSWAR at the dates of transaction (for income and expenses). Gains or losses arising from foreign exchange transactions and translation of foreign currency-denominated resources and liabilities are credited to or charged against current operations.

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

Changes in Accounting Policies

On January 1, 2004, the following new applicable accounting standards became effective and were adopted by the Bank:

- Statement of Financial Accounting Standards (SFAS) 12/International Accounting Standard (IAS) 12, *Income Taxes*, prescribes the accounting treatment for current and deferred income taxes. The standard requires the use of the balance sheet liability method of 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.

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

New accounting standards based on IASs and International Financial Reporting Standards (IFRSs), referred to as Philippine Accounting Standards (PASs) or Philippine Financial Reporting Standards (PFRSs), respectively, will become effective in 2005. The Bank will adopt the following new accounting standards approved by the Accounting Standards Council (ASC), to the extent that they are applicable, effective (or beginning) January 1, 2005:

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

  The effect of adopting this standard will result in a transition asset amounting to ₱3.5 million as of January 1, 2005. Transition asset is the fair value of plan assets minus the present value of the obligations and any past service cost that should be recognized in later periods at the time of adoption. The Bank will recognize the amount as part of its defined retirement asset as a credit to surplus. The disclosures required by this standard will be reflected in the 2005 financial statements, where applicable.

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

- PAS 30, *Disclosures in the Financial Statements of Banks and Similar Financial Institutions*, provides for the required disclosures and presentation in respect of the accounts of banks and similar financial institutions. It also provides that provision for general banking risks is treated as appropriation of surplus and should not be included in the determination of net income for the year. The Bank has yet to determine the effect of this standard in the context of the need to reallocate the general reserve to cover any increase in specific loan loss reserves required under PAS 39 (see discussion on PAS 39 below). The disclosures required by this standard will be reflected in the 2005 financial statements, where applicable.

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

- PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for recognizing and measuring the Bank's financial assets and financial liabilities. The standard requires a financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Bank should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently measured at fair value.

  PAS 39 also covers the accounting for derivative instruments. The standard has expanded the definition of a derivative instruments to include derivatives (derivative-like provisions) embedded in non-derivative contracts. Under the standard, every derivative instrument is recorded in the statements of condition as either an asset or liability measured at its fair value. Derivatives that are not hedges are adjusted to fair value through income. If a derivative is designated and qualifies as a hedge, depending on the nature of the hedge, changes in the fair value of the derivative are either offset against the change in fair value of the hedged assets, liabilities, or firm commitments through earnings, or recognized in capital funds until the hedged item is recognized in income. The Bank must formally document, designate, and assess the effectiveness of derivative transactions that receive hedge accounting treatment.

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

- The Bank is still in the process of formalizing its policies related to the adoption of these standards.

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

On the impact of account classification and related measurement, in February 2005, the Bank submitted to the BSP the proposed reclassification of its trading and investment securities portfolio. As of December 31, 2004, the Bank has reclassified its trading and investment securities portfolio in accordance with PAS 39. The Bank does not expect any material impact on the classification of financial assets and liabilities other than trading and investment portfolio.

The effect of adopting the effective interest rate method in measuring amortized cost for loans, held-to-maturity investments and available-for-sale securities (AFS) has not yet been quantified since the existing systems of the Bank have not yet been reconfigured to adopt the effective interest rate method of amortization. Due to the volume of transactions, it is impracticable to compute for the financial impact manually. The Bank will report the financial effects as soon as the information is available.

PAS 39 requires that in the absence of quoted market rates, the discounted cash flow method will be used in determining whether an asset is impaired. The effect of adopting this provision will not be material to the financial assets and liabilities of the Bank, except for the impairment of loans and other receivables, if any. Currently, the adequacy of allowance for probable losses on loans and other receivables is determined based on management criteria and BSP requirements. The existing systems of the Bank have not yet been programmed to adopt the discounted cash flow method. Due to the volume of transactions, it is impracticable to compute for the financial impact manually. The Bank will report the financial implication as soon as the information is available.

The Bank currently follows fair valuation method for all its derivatives transactions. However, the Bank will further review such method in light of the adoption of PAS 39.

In general, the effect of adopting these standards will not result in a restatement of prior years' financial statements. Any cumulative effect of adopting the standards, however, will be charged against surplus as of January 1, 2005. The disclosures required by these standards will be reflected in the 2005 financial statements, where applicable.

- PAS 40, *Investment Property*, prescribes the accounting treatment for investment property and related disclosure requirements. This standard permits the Bank to choose either the fair value model or cost model in accounting for investment property. Fair value model requires an investment property to be measured at fair value with fair value changes recognized directly in the statements of income. Cost model requires that an investment property should be measured at depreciated cost less any accumulated impairment losses. Upon effectivity of PAS 40, if applicable, the Bank will adopt the cost model and will carry its investment property (currently classified under Real and Other Properties Owned or Acquired or ROPOA) at depreciated cost less any accumulated impairment losses. Existing valuation reserve determined under BSP rules will be evaluated and adjusted in accordance with PAS 40. Considering the number of the Bank's ROPOA, detailed assessment will be made in 2005 in order to quantify the impact of PAS 40.

- PFRS 2, *Share-Based Payments*, will result in a charge to net income for the cost of share options granted. Currently, the Bank has no transaction involving share-based payments but will comply with requirements of this standard in the future as may be applicable.

- PFRS 3, *Business Combination*, will result in the cessation of the amortization of goodwill and a requirement for an annual test for goodwill impairment. Any resulting negative goodwill after performing reassessment will be credited to income. Moreover, pooling of interests in accounting for business combination will no longer be permitted. The adoption of PFRS 3 will have no impact on the financial statements of the Bank.

- PFRS 5, *Non-current Assets Held for Sale and Discontinued Operations*, specifies the accounting for assets held for sale and the presentation and disclosure of discontinued operations. It requires assets that meet the criteria to be classified as held-for-sale to be measured at the lower of carrying amount and fair value less costs to sell, and the depreciation on such assets to cease. Furthermore, assets that meet the criteria to be classified as held-for-sale should be presented separately on the face of the statements of condition and the results of discontinued operations to be presented separately in the statements of income. The adoption of PFRS 5 will have no impact in the financial statements of the Bank other than the change in the presentation of the results and cash flows of discontinued operations, if any.

The Bank will also adopt in 2005 the following revised standards as may be applicable:

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

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

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

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

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

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

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

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

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

The Bank does not expect that the adoption of the foregoing revised standards will have any significant impact on the financial statements.

The disclosures required by these revised PAS will be reflected in the 2005 financial statements, where applicable.

Cash Equivalents

For purposes of reporting cash flows, cash equivalents include amounts due from Bangko Sentral ng Pilipinas (BSP) and other banks, and interbank loans receivable and securities purchased under resale agreements with original maturities of three months or less from dates of placements and that are subject to an insignificant risk of changes in value.

Repurchase and Resale Agreements and Lending Securities

Repurchase agreements are contracts under which a party purchases securities and simultaneously agrees to resell the same securities at a specified future date at a fixed price. Securities sold under repurchase agreements (repos) are retained in the financial statements as investment securities and the counterparty liability is included in bills payable. Securities purchased under resale agreements (reverse repos) are recorded as Securities Purchased under Reverse Repurchase Agreement. The corresponding interest expense or interest income is accrued when incurred or earned. Securities lent to counterparties are also retained in the financial statements.

Trading and Investment Securities

Trading Account Securities

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

When a security is transferred to TAS, the unrealized holding gain or loss at the date of transfer is recognized in the statements of income immediately.

Available-for-Sale Securities

Securities are classified as ASS when purchased and held indefinitely, i.e., neither held to maturity nor for trading purposes, where the Bank anticipates to sell the securities 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.

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

Investments in Bonds and Other Debt Instruments

IBODI are debt securities where the Bank 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 Securities Gain - Net in the statements of income. An allowance for probable losses is established by a charge against current operations (included in Provision for Probable Losses) to reflect other-than-temporary impairments in value. Under current banking regulations, IBODI shall not exceed 50% of adjusted statutory net worth plus 40% of total deposit liabilities.

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

Receivables from Customers

Receivables from customers are stated at outstanding principal balance, reduced by unearned discounts and allowance for probable losses.

Unearned discounts are recognized as income over the terms of the receivables using the effective interest method. Interest income on nondiscounted receivables is accrued as earned, except in the case of nonaccruing accounts as required by existing regulations of the BSP. Interest income on these nonaccruing receivables are recognized upon actual collection.

Receivables are classified as nonaccruing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Receivables from customers are not reclassified as accruing until interest and principal payments are brought current or the receivables are restructured in accordance with existing BSP regulations, and future payments appear assured.

Allowance for Probable Losses

The allowance for probable losses, which comprises 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 collateral, 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 receivables in establishing specific loan loss reserves.

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

Bank Premises, Furniture, Fixtures and Equipment

Bank premises, furniture, fixtures and equipment is stated at cost less accumulated depreciation and amortization, and any impairment in value. Depreciation is computed using the straight-line method based on the estimated useful lives of the respective assets. The cost of leasehold improvements is amortized over the estimated useful lives of the improvements or the terms of the related leases, whichever is shorter.

The estimated useful lives of the depreciable assets are as follows:

Buildings	50 years
Furniture, fixtures and equipment	3-5 years
Leasehold improvements	5-20 years

The useful life and 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.

Costs of minor repairs and maintenance are charged to expense as incurred; significant renewals and betterments are capitalized. When assets are retired or otherwise disposed of, both the cost and the related accumulated depreciation and amortization, and impairment in value are removed from the accounts and any resulting gain or loss is credited to or charged against current operations.

The carrying values of the bank premises, furniture, fixtures and equipment are reviewed by the Bank's management for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amount (see policy on Impairment of Assets).

Real and Other Properties Owned or Acquired

Resources acquired in settlement of receivables are initially recorded at the total outstanding exposure of the receivables at the time of foreclosure or bid price, whichever is lower. Nonrefundable capital gains tax and documentary stamp tax incurred in connection with the foreclosures are capitalized as part of the carrying values of the foreclosed properties provided that such carrying values do not exceed its appraised values. Security, maintenance and other holding costs are charged against current operations as incurred. Management performs periodic appraisal of the estimated realizable values of these properties and provides allowance accordingly, based on BSP provisioning requirements and for any anticipated shortfalls from the recorded values based on appraisal reports, current negotiations and programs to dispose of these properties.

Equity Investments

The Bank's investment in shares of stock of iCurrencies, Inc. is accounted for based on the equity method. Under the equity method, the cost of the investment is increased or decreased by the equity in net earnings or losses of and dividends received from the investee since the date of acquisition.

Other equity investments are stated at cost less any allowance for substantial and permanent decline in the carrying value of the investments.

Computer Software Costs

Computer software (included under Other Resources in the statements of condition) includes costs incurred relative to the development of the Bank's software. Costs are amortized on a straight-line basis over five years.

Deferred Charges

Deferred charges include payments made to BSP for securing authority to operate additional branches which is carried at cost less accumulated amortization and allowance for impairment loss, if any. This asset is amortized over ten years starting on the date the corresponding branch commences operations.

Income Taxes

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

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

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

The carrying amount of deferred tax assets is reviewed at each statement of condition date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are applicable to the period when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the statement of condition date.

Impairment of Assets

An assessment is made at each statement of condition date 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 at the higher of the asset's value in use or its net selling price.

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

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

Income Recognition

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

Interest Income

Interest on receivables from customers and other interest-bearing placements and securities are recognized based on the accrual method of accounting, except in the case of nonaccruing receivables where interest income is recognized only to the extent of cash collections received.

Capitalized interest income on restructured loans is deferred and shown under Other Liabilities.

Loan Commitment Fees, Service Charges and Penalties

Loan commitment fees, service charges and penalties are recognized only upon collection or accrued when there is a reasonable degree of certainty as to its collectibility.

Retirement Cost

The Bank determines retirement expense under 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. The accrued actuarial liability is the present value of benefits payable in the future with respect to services rendered to date. Unfunded service costs, experience adjustments and actuarial gains or losses (in excess of 10% of plan assets) are amortized over the average of the expected remaining working lives of employees. Retirement expense includes current service cost plus amortization of past service cost, experience adjustments and actuarial gains or losses.

Leases

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

Derivative Instruments

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

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

Earnings Per Share

Basic earnings per share is determined by dividing net income for the period by the weighted average number of common shares outstanding during the period, after giving retroactive effect to stock dividends declared during the period, if any. Contingently issuable common shares are considered in the earnings per share computation only when the specified conditions have been met.

Provisions and Contingencies

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

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

Segment Reporting

The Bank's operating businesses are organized and managed separately according to the nature of the products and services provided, with each segment representing a strategic business unit that offers different products. Financial information on business segment is presented in Note 3. The Bank's resources producing revenues are all located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is not presented.

Subsequent Events

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

3. Segment Information

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

- Retail Banking - principally handling corporate and individual customers' deposits, and providing consumer type loans, cash management products and funds transfer facilities;
- Corporate Banking - principally handling loans and other credit facilities;
- Treasury - principally managing the Bank's liquidity and funding requirements, and handling transactions in the financial markets covering foreign exchange and fixed income trading and investment; and
- Others - principally includes trust banking, ROPOA management, costs of support units and corporate offices, and elimination items.

Segment information as of and for the years ended December 31, 2004 and 2003 are as follows (in millions):

2004	Retail Banking	Corporate Banking	Treasury	Others	Total
Results of Operations					
Income - net of interest expense	₱1,698	₱343	₱948	(₱287)	₱2,702
Noninterest expense	1,097	103	52	595	1,847
Income before income tax	₱601	₱240	₱896	(₱882)	855
Provision for probable losses					(266)
Income tax provision					(66)
Net income					₱523
Statement of Condition					
Segment resources	₱39,220	₱21,234	₱19,510	₱1,031	₱80,995
Eliminations					(29,047)
Total resources					₱51,948
Segment liabilities	₱39,220	₱21,234	₱19,510	₱869	₱80,833
Eliminations					(34,592)
Total liabilities					₱46,241
Average Balances for the Year					
Segment resources	₱36,340	₱18,419	₱14,903	₱2,503	₱72,165
Eliminations					(26,534)
Total resources					₱45,631
Segment liabilities	₱36,340	₱18,419	₱14,903	₱3,424	₱73,086
Eliminations					(32,079)
Total liabilities					₱41,007
Other Segment Information					
Capital expenditures	₱56	₱10	₱2	₱64	₱132
Depreciation and amortization	₱153	₱12	₱6	₱56	₱227

2003	Retail Banking	Corporate Banking	Treasury	Others	Total
Results of Operations					
Income - net of interest expense	P1,282	P277	P902	(P151)	P2,310
Noninterest expense	861	72	77	555	1,565
Income before income tax	P421	P205	P825	(P706)	745
Provision for probable losses					(140)
Income tax provision					(172)
Net income					P433
Statement of Condition					
Segment resources	P36,232	P17,646	P15,846	P1,615	P71,339
Eliminations					(27,451)
Total resources					P43,888
Segment liabilities	P36,232	P17,646	P15,846	P2,110	P71,834
Eliminations					(32,181)
Total liabilities					P39,653
Average Balances for the Year					
Segment resources	P32,132	P16,570	P12,936	P1,867	P63,505
Eliminations					(23,892)
Total resources					P39,613
Segment liabilities	P32,132	P16,570	P12,936	P2,525	P64,163
Eliminations					(28,622)
Total liabilities					P35,541
Other Segment Information					
Capital expenditures	P63	P10	P4	P80	P157
Depreciation and amortization	P142	P 9	P5	P69	P225

4. **Trading and Investment Securities**

Net unrealized gain in 2004 and loss in 2003 on revaluation to market of TAS amounting to P20.2 million and P7.8 million, respectively, is included under Trading and Securities Gain - net in the statements of income.

Net unrealized loss as of December 31, 2004 and gain as of December 31, 2003 and 2002 on revaluation to market of ASS amounting to P28.2 million, and P17.4 million and P82.1 million, respectively, is shown as a separate component of capital funds in the statements of changes in capital funds.

As of December 31, 2004 and 2003, TAS and ASS include dollar-linked peso notes (DLPNs) as follows:

	2004	2003
TAS	**P2,155,420,320**	P2,248,703,305
ASS	**625,151,978**	642,187,251
	P2,780,572,298	P2,890,890,556

The Bank's IBODI account consists of:

	2004	2003
Treasury bonds	**P4,422,331,350**	P4,099,650,808
Treasury bills	**2,755,709,742**	1,968,553,516
Government bonds	**1,041,836,025**	452,603,648
Private bonds - net of allowance for probable losses of P8.4 million in 2004 and 2003 (Note 9)	**336,275,397**	325,706,922
	P8,556,152,514	P6,846,514,894

IBODI bear nominal annual interest rates ranging from 2.1% to 9.9% as of December 31, 2004 and 2003, for foreign-currency denominated IBODI and 6.0% to 15.5% and 4.4% to 15.5% as of December 31, 2004 and 2003, respectively, for peso-denominated IBODI.

As of December 31, 2004 and 2003, the market value of IBODI amounted to P8.7 billion and P7.1 billion, respectively.

The following table presents the breakdown of trading and investment securities by contractual maturity dates:

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
TAS - at market	**P968,743,915**	**P1,601,671,539**	**P2,570,415,454**	P196,839,797	P2,051,863,508	P2,248,703,305
ASS - at market	**1,052,806,421**	**4,133,560,567**	**5,186,366,988**	91,711,131	4,145,705,855	4,237,416,986
IBODI - at gross	**2,975,467,036**	**5,589,042,463**	**8,564,509,499**	1,981,672,140	4,873,199,739	6,854,871,879
	P4,997,017,372	**P11,324,274,569**	**P16,321,291,941**	P2,270,223,068	P11,070,769,102	P13,340,992,170

5. **Receivables from Customers**

This account consists of:

	2004	2003
Loans and discounts (Note 7)	**P18,948,485,722**	P16,962,915,356
Customers' liabilities under letters of credit and trust receipts	**2,603,075,058**	1,904,292,476
Bills purchased	**2,430,341,135**	1,796,121,078
	23,981,901,915	20,663,328,910
Unearned discounts	**(422,578,337)**	(414,817,817)
Allowance for probable losses (Note 10)	**(2,302,548,539)**	(1,991,539,689)
	P21,256,775,039	P18,256,971,404

Receivables amounting to P153.8 million and P150.8 million as of December 31, 2004 and 2003, respectively, are pledged as collateral to the BSP to secure loans under rediscounting privileges of the same amount (see Note 12).

Of the total receivables from customers of the Bank as of December 31, 2004 and 2003, 47.6% and 49.0%, respectively, are subject to periodic interest repricing. The remaining peso-denominated loans earn annual fixed interest rates ranging from 7.8% to 18.0% in 2004 and 2003, while foreign currency-denominated loans earn annual fixed interest rates ranging from 4.9% to 9.0% in 2004 and 4.7% to 11.0% in 2003.

The following table presents the breakdown of receivables by contractual maturity dates (amounts in thousands):

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Loans and discounts	**P7,643,063**	**P11,305,423**	**P18,948,486**	P7,917,280	P9,045,635	P16,962,915
Customers' liabilities under letters of credit and trust receipts	**2,603,075**	**–**	**2,603,075**	1,904,293	–	1,904,293
Bills purchased	**2,430,341**	**–**	**2,430,341**	1,796,121	–	1,796,121
	P12,676,479	**P11,305,423**	**P23,981,902**	P11,617,694	P9,045,635	P20,663,329

The following table presents the breakdown of deposit liabilities by contractual settlement dates:

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Demand	**P12,370,326,607**	**P–**	**P12,370,326,607**	P11,757,372,448	P–	P11,757,372,448
Savings	**17,208,538,346**	**–**	**17,208,538,346**	15,030,909,561	–	15,030,909,561
Time	**8,376,019,900**	**1,521,431,000**	**9,897,450,900**	7,460,384,997	1,582,527,673	9,042,912,670
	P37,954,884,853	**P1,521,431,000**	**P39,476,315,853**	P34,248,667,006	P1,582,527,673	P35,831,194,679

12. Bills Payable

This account consists of borrowings from:

	2004	2003
Banks and other financial institutions (Note 23)	**P2,983,873,426**	P946,476,478
BSP - rediscounting (Note 5)	**153,829,770**	150,768,031
	P3,137,703,196	P1,097,244,509

Bills payable are subject to interest rates ranging from 1.0% to 3.7% and 1.0% to 2.9% as of December 31, 2004 and 2003, respectively, for foreign currency-denominated bills payable and 6.0% to 9.7% as of December 31, 2004 and 2003 for peso-denominated bills payable.

As of December 31, 2004 and 2003, bills payable, except for the borrowings from the BSP under rediscounting privileges, are unsecured.

The following table presents the breakdown of bills payable by contractual settlement dates:

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Banks and other financial institutions	**P2,531,903,311**	**P451,970,115**	**P2,983,873,426**	P547,122,455	P399,354,023	P946,476,478
BSP - rediscounting	**153,829,770**	**–**	**153,829,770**	150,768,031	–	150,768,031
	P2,685,733,081	**P451,970,115**	**P3,137,703,196**	P697,890,486	P399,354,023	P1,097,244,509

13. Outstanding Acceptances

As of December 31, 2004 and 2003, the balances of this account will mature within one year from the respective statement of condition dates.

14. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2004	2003
Accrued interest	**P422,176,167**	P242,995,963
Accrued income tax	**21,738,511**	13,190,620
Accrued other expenses	**163,222,826**	119,072,877
	P607,137,504	P375,259,460

Accrued income tax represents the MCIT due as of December 31, 2004 and 2003.

Accrued taxes, interest and other expenses as of December 31, 2004 and 2003 are all due within one year from the respective statement of condition dates.

15. Other Liabilities

This account consists of:

	2004	2003
Bills purchased - contra	**P2,147,378,281**	P1,566,952,469
Payment orders payable	**156,690,255**	65,186,746
Capitalized interest and other charges	**80,198,733**	85,480,061
Accounts payable	**58,483,787**	119,151,180
Withholding taxes payable	**43,209,753**	34,111,057
Cash letters of credit	**30,754,538**	3,510,928
Interoffice float items - net	**16,512,414**	–
Due to BSP	**15,794,620**	13,654,567
Margin deposits	**455,010**	1,055,049
Sundry credits	**211,636**	168,332
Miscellaneous	**37,113,187**	113,902,155
	P2,586,802,214	P2,003,172,544

7. Real and Other Properties Owned or Acquired

This account consists of:

	2004	2003
ROPOA	**P2,783,183,097**	P2,996,708,771
Less allowance for probable losses (Note 10)	**270,544,773**	377,478,983
	P2,512,638,324	P2,619,229,788

As of December 31, 2004 and 2003, this account includes investment in IEB Premium Properties Corporation (IEB Premium) amounting to P113.9 million and P264.1 million, respectively, acquired by the Bank in settlement of loans. IEB Premium has invested mainly in the Garden Heights Condominium project (the Project), which covers 335 condominium units. As of December 31, 2004 and 2003, 317 condominium units and 79 parking slots and 178 condominium units and 38 parking slots, respectively, were sold for a total contract price of P464.1 million and P248.5 million, respectively.

On December 22, 2003, receivables from unit buyers amounting to P204.0 million were assigned by IEB Premium to the Bank. These receivables are classified as Loans and Discounts under Receivables from Customers.

8. Equity Investments

This account consists of investment in shares of stock of:

	2004	2003
At equity:		
Acquisition cost:		
iCurrencies, Inc. - 40% owned	**P5,000,000**	P5,000,000
Accumulated equity in net earnings:		
Balance at beginning of year	**354,555**	(65,839)
Equity in net earnings	**–**	420,394
Balance at end of year	**354,555**	354,555
	5,354,555	5,354,555
At cost:		
Philippine Clearing House Corporation	**5,000,100**	5,000,100
LGU Guarantee Corporation	**5,000,000**	5,000,000
Megalink, Inc.	**4,534,971**	4,534,971
BAP Consulting, Inc.	**1,250,000**	1,250,000
	15,785,071	15,785,071
	P21,139,626	P21,139,626

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

Equity in net earnings of iCurrencies, Inc. is included in Miscellaneous Income - Net in the statements of income.

9. Other Resources

This account consists of:

	2004	2003
Deferred tax assets (Note 20)	**P846,624,899**	P798,905,439
Accrued interest receivable	**509,123,584**	447,704,466
Sales contract receivables	**260,134,353**	151,320,201
Foreign currency notes and coins on hand	**225,608,328**	232,177,498
Accounts receivable	**214,100,645**	157,536,809
Deferred charges - net	**84,852,430**	69,429,566
Returned checks and other cash items	**55,774,521**	63,382,891
Prepaid expenses	**40,160,945**	48,334,539
Deficiency judgment receivable	**30,554,963**	30,554,963
Other investments	**20,470,894**	5,406,022
Computer software - net	**17,637,166**	31,998,645
Interoffice float items - net	**–**	17,262,704
Miscellaneous	**167,086,264**	196,827,127
	2,472,128,992	2,250,840,870
Unrealized gross profit	**(18,637,288)**	(11,071,259)
Allowance for probable losses (Note 10)	**(177,639,240)**	(225,054,240)
	P2,275,852,464	P2,014,715,371

The movements in deferred charges follow:

	2004	2003
Balance at beginning of year	**P69,429,566**	P49,129,816
Additions	**26,083,735**	27,003,007
Amortization	**(10,660,871)**	(6,703,257)
Balance at end of year	**P84,852,430**	P69,429,566

The movements in computer software follow:

	2004	2003
Cost		
Balance at beginning of year	**P142,960,890**	P139,544,196
Additions	**2,639,817**	3,416,694
Balance at end of year	**145,600,707**	142,960,890
Accumulated amortization		
Balance at beginning of year	**110,962,245**	90,364,702
Amortization	**17,001,296**	20,597,543
Balance at end of year	**127,963,541**	110,962,245
	P17,637,166	P31,998,645

Miscellaneous assets include foreign exchange revaluation on forward exchange contracts amounting to P24.8 million and P105.5 million as of December 31, 2004 and 2003, respectively.

The following table presents other resources by contractual maturity and settlement dates as of December 31, 2004 and 2003:

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Accrued interest receivable	**P509,123,584**	**P–**	**P509,123,584**	P447,704,466	P–	P447,704,466
Sales contract receivables	**36,795,718**	**223,338,635**	**260,134,353**	22,609,336	128,710,865	151,320,201
Accounts receivable	**214,100,645**	**–**	**214,100,645**	157,536,809	–	157,536,809
Deficiency judgment receivable	**30,554,963**	**–**	**30,554,963**	30,554,963	–	30,554,963

10. Allowance for Probable Losses

Changes in the allowance for probable losses are as follows:

	2004	2003
Balance at beginning of year		
IBODI	**P8,356,985**	P8,356,985
Receivables from customers	**1,991,539,689**	2,137,980,114
ROPOA	**377,478,983**	226,843,200
Other resources	**225,054,240**	178,950,242
	2,602,429,897	2,552,130,541
Provisions charged to operations	**265,512,529**	140,000,000
Reversals	**(108,852,889)**	(89,700,644)
	156,659,640	50,299,356
Balance at end of year		
IBODI	**8,356,985**	8,356,985
Receivables from customers	**2,302,548,539**	1,991,539,689
ROPOA	**270,544,773**	377,478,983
Other resources	**177,639,240**	225,054,240
	P2,759,089,537	P2,602,429,897

With the foregoing level of allowance for probable losses, management believes that the Bank has sufficient allowance to take care of any losses that may be incurred from the noncollection or nonrealization of its receivables from customers and other risk assets.

11. Deposit Liabilities

Under existing BSP regulations, non-FCDU deposit liabilities are subject to liquidity reserve and statutory reserve equivalent to 19% and 17%, as of December 31, 2004 and 2003, respectively. These reserves are maintained in cash and other cash items, due from BSP and IBODI accounts of the Bank. As of December 31, 2004 and 2003, the Bank is in compliance with such regulation.

The total liquidity and statutory reserves as reported to the BSP follow:

	2004	2003
Cash and due from BSP	**P2,440,913,509**	P2,236,938,948
IBODI	**2,677,408,647**	1,927,653,160
	P5,118,322,156	P4,164,592,108

The following table presents the breakdown of deposit liabilities by contractual settlement dates:

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Demand	**P12,370,326,607**	**P–**	**P12,370,326,607**	P11,757,372,448	P–	P11,757,372,448
Savings	**17,208,538,346**	**–**	**17,208,538,346**	15,030,909,561	–	15,030,909,561
Time	**8,376,019,900**	**1,521,431,000**	**9,897,450,900**	7,460,384,997	1,582,527,673	9,042,912,670
	P37,954,884,853	**P1,521,431,000**	**P39,476,315,853**	P34,248,667,006	P1,582,527,673	P35,831,194,679

12. Bills Payable

This account consists of borrowings from:

	2004	2003
Banks and other financial institutions (Note 23)	**P2,983,873,426**	P946,476,478
BSP - rediscounting (Note 5)	**153,829,770**	150,768,031
	P3,137,703,196	P1,097,244,509

Bills payable are subject to interest rates ranging from 1.0% to 3.7% and 1.0% to 2.9% as of December 31, 2004 and 2003, respectively, for foreign currency-denominated bills payable and 6.0% to 9.7% as of December 31, 2004 and 2003 for peso-denominated bills payable.

As of December 31, 2004 and 2003, bills payable, except for the borrowings from the BSP under rediscounting privileges, are unsecured.

The following table presents the breakdown of bills payable by contractual settlement dates:

	2004			2003		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Banks and other financial institutions	**P2,531,903,311**	**P451,970,115**	**P2,983,873,426**	P547,122,455	P399,354,023	P946,476,478
BSP - rediscounting	**153,829,770**	**–**	**153,829,770**	150,768,031	–	150,768,031
	P2,685,733,081	**P451,970,115**	**P3,137,703,196**	P697,890,486	P399,354,023	P1,097,244,509

13. Outstanding Acceptances

As of December 31, 2004 and 2003, the balances of this account will mature within one year from the respective statement of condition dates.

14. Accrued Taxes, Interest and Other Expenses

This account consists of:

	2004	2003
Accrued interest	**P422,176,167**	P242,995,963
Accrued income tax	**21,738,511**	13,190,620
Accrued other expenses	**163,222,826**	119,072,877
	P607,137,504	P375,259,460

Accrued income tax represents the MCIT due as of December 31, 2004 and 2003.

Accrued taxes, interest and other expenses as of December 31, 2004 and 2003 are all due within one year from the respective statement of condition dates.

15. Other Liabilities

This account consists of:

	2004	2003
Bills purchased - contra	**P2,147,378,281**	P1,566,952,469
Payment orders payable	**156,690,255**	65,186,746
Capitalized interest and other charges	**80,198,733**	85,480,061
Accounts payable	**58,483,787**	119,151,180
Withholding taxes payable	**43,209,753**	34,111,057
Cash letters of credit	**30,754,538**	3,510,928
Interoffice float items - net	**16,512,414**	–
Due to BSP	**15,794,620**	13,654,567
Margin deposits	**455,010**	1,055,049
Sundry credits	**211,636**	168,332
Miscellaneous	**37,113,187**	113,902,155
	P2,586,802,214	P2,003,172,544

Miscellaneous liabilities include foreign exchange revaluation on forward exchange contracts amounting to ₱8.0 million and ₱74.6 million as of December 31, 2004 and 2003, respectively.

Payment orders payable, accounts payable, withholding taxes payable, cash letters of credit, due to BSP and margin deposits as of December 31, 2004 and 2003 are all due within one year.

16. Capital Funds

Capital stock consists of:

	2004	2003	2002
Preferred stock - ₱10 par value in 2004 and ₱100 par value in 2003 and 2002			
Authorized - 200,000,000 shares in 2004 and 20,000,000 shares in 2003 and 2002			
Issued - 25,000,000 shares in 2004 and 2,500,000 shares in 2003 and 2002	₱250,000,000	₱250,000,000	₱250,000,000
Common stock - ₱10 par value in 2004 and ₱100 par value in 2003 and 2002			
Authorized - 500,000,000 shares in 2004 and 50,000,000 shares in 2003 and 2002			
Issued - 318,680,000 shares in 2004 and 25,000,000 shares in 2003 and 2002	3,186,800,000	2,500,000,000	2,500,000,000
	₱3,436,800,000	₱2,750,000,000	₱2,750,000,000

On October 15, 2004 the Securities and Exchange Commission approved the following amendments among others, in the Articles of Incorporation of the Bank, which were approved by the BOD and the stockholders on May 18, 2004 and July 20, 2004, respectively:

a. Reduction of par value of common and preferred shares from ₱100 to ₱10;
b. Denial of pre-emptive right to subscribe to or purchase any or all issues or dispositions of shares of any class of the Bank;
c. Grant of stock options and issuance of warrants; and
d. Limitation to holders of preferred shares of rights of first refusal.

The Bank's original common shares issued were split up 10 shares to 1 share. In 2004, the Bank issued 250 million shares to replace the 25 million original common shares issued (see Note 24).

The movements in the capital stock follow:

	Shares			Amount		
	2004	2003	2002	2004	2003	2002
Preferred stock						
Issued and paid up capital:						
Balance at beginning of year	2,500,000	2,500,000	2,500,000	₱250,000,000	₱250,000,000	₱250,000,000
Increase due to par reduction	22,500,000	-	-	-	-	-
Balance at end of year	25,000,000	2,500,000	2,500,000	₱250,000,000	₱250,000,000	₱250,000,000
Common stock						
Issued and paid up capital:						
Balance at beginning of year	25,000,000	25,000,000	25,000,000	₱2,500,000,000	₱2,500,000,000	₱2,500,000,000
Increase due to par reduction	225,000,000	-	-	-	-	-
Issuance	68,680,000	-	-	686,800,000	-	-
Balance at end of year	318,680,000	25,000,000	25,000,000	₱3,186,800,000	₱2,500,000,000	₱2,500,000,000

On October 15, 2002, the BOD approved the following new terms and conditions of existing preferred shares:

Type of Issue	- Fixed rate for 5 years, non-redeemable, convertible, non-participating, non-voting, cumulative preferred shares
Issue Price	- At par or 100% of face value
Issue Amount	- Two hundred fifty million (₱250,000,000)
Dividend Rate	- Fixed, based on the 5-year fixed-rate treasury bond fixing rate published in MART 1 page of Bloomberg the day preceding the effective day of conversion from floater to fixed, payable semi-annually, less 1%. In the event that conversion has not happened after 5 years, future dividend rate shall be set based on the prevailing market yield of 5-year government bond at the time the 5-year period had elapsed.
Put Option	- None
Call Option	- None
Yield Protection	- All dividends to holders of preferred shares shall be made without deduction of any taxes. Taxes on dividends shall be for the account of the Bank.
Waiver of Rights	- Waiver of preemptive rights and rights of first refusal of each holder of preferred shares shall be contained in the Subscription Agreement.
Redemption Price	- None
Conversion to Common Stock	- To be converted when the Bank goes on initial public offering (IPO), at a price equivalent to IPO price less 15% discount.

As of December 31, 2004 and 2003, the Bank has 25 million and 2.5 million preferred shares, respectively, that are potential common shares.

On May 18, 2004, the BOD approved the terms of conversion of the Bank's existing preferred shares to common shares. The holders of 25 million preferred shares are given the option to convert, in whole or in part, to common shares on the last trading day of any month starting on the last trading day of April 2007 at a price equivalent to the average of the closing prices of the last 15 trading days, prior to the said last trading of the month, excluding the day of conversion, less 15% discount provided that at least in 10 days of the said 15 trading days, the stock has been traded in the exchange.

Surplus reserves account pertains to appropriation of surplus for self-insurance.

Under existing BSP regulations, the determination of the Bank's compliance with regulatory requirements and ratios is based on the amount of the Bank'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.

Under current banking regulations, the combined capital accounts of a commercial bank should not be less than an amount equal to ten percent (10%) of its risk assets. Risk assets consist of total resources after exclusion of cash on hand, due from BSP, loans covered by hold-out on or assignment of deposits, loans or acceptances under letters of credit to the extent covered by margin deposits, and other non-risk items as determined by the Monetary Board of the BSP.

Under BSP Circular No. 360, effective July 1, 2003, the capital-to-risk assets ratio is to be inclusive of a market risk charge. Using this formula, the Bank's capital-to-risk assets ratio (CAR) as of December 31, 2004 and 2003 were 15.8% and 12.2%, respectively.

Under the previous computation provided for under BSP Circular No. 280, which BSP Circular No. 360 above amended, the CAR of the Bank was 18.4% and 15.0% as of December 31, 2004 and 2003.

17. Lease Contracts

The Bank leases the premises occupied by most of its branches. The lease contracts are for periods ranging from one (1) to fifteen (15) years and are renewable upon mutual agreement between the Bank and its lessors. Rentals charged against current operations amounting to P170.1 million, P144.7 million and P154.6 million in 2004, 2003 and 2002, respectively, are included under Occupancy and Other Equipment-related Expenses in the statements of income.

Estimated future minimum rentals under non-cancelable operating leases are as follows:

	2004	2003
Within one year	**P127,501,262**	P132,342,767
After one year but not more than five years	**213,246,285**	320,493,703
After more than five years	**34,002,848**	54,256,632
	P374,750,395	P507,093,102

18. Miscellaneous Expenses

This account consists of:

	2004	2003	2002
Insurance	**P108,782,109**	P90,271,145	P79,371,586
Security, messengerial, clerical and janitorial	**92,874,046**	77,655,630	87,867,526
Advertising and publicity	**56,921,468**	36,045,412	28,891,657
Information and technology	**54,476,600**	49,190,176	47,762,337
Litigation	**46,415,722**	39,915,724	52,586,795
Travel and transportation	**42,890,628**	27,541,332	22,589,101
Communication	**37,253,320**	25,564,240	39,790,350
Entertainment, amusement and recreation (Note 20)	**35,422,571**	76,029,337	113,297,636
Stationery and supplies used	**33,389,071**	19,703,183	23,990,490
Supervision fees	**15,856,894**	13,771,668	12,541,668
Management and professional fees	**10,419,807**	11,470,821	6,471,114
Miscellaneous	**37,401,324**	25,634,594	34,740,548
	P572,103,560	P492,793,262	P549,900,808

19. Retirement Plan

The Bank has a funded, noncontributory defined benefit retirement plan covering substantially all of its employees. The retirement fund is administered by the Bank's Trust Center which acts as the trustee under the plan. Total retirement expense included under Compensation and Employees' Benefits amounted to P27.5 million, P21.4 million and P18.5 million in 2004, 2003 and 2002, respectively. The Bank's annual contribution consists of payments covering the current service cost, interest on the unfunded actuarial accrued liability, the annual amortization of the unfunded accrued liability and the amortization of experience loss adjustment.

Based on the latest actuarial valuation as of December 31, 2004, the actuarial accrued liability for the retirement benefits amounted to P182.4 million and the fair market value of the plan assets amounted to P185.9 million. The principal actuarial assumptions used to determine retirement benefits were 8.0% salary increase and 10.3% return on plan assets, both compounded annually and a discount rate of 10.3% per annum. Actuarial valuations are to be made at least every two years.

20. Income and Other Taxes

Provision for (benefit from) income tax consists of:

	2004	2003	2002
Current			
Final taxes	**P91,800,647**	P67,913,019	P51,707,449
MCIT	**21,738,511**	15,450,474	12,888,888
	113,539,158	83,363,493	64,596,337
Deferred	**(47,719,460)**	88,475,273	(143,703,103)
	P65,819,698	P171,838,766	(P79,106,766)

Under Philippine tax laws, the RBU of the Bank is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income) as well as income taxes. Percentage and other taxes paid consist principally of gross receipts tax or GRT (GRT was in effect until 2002) and documentary stamp taxes. Effective January 1, 2003, the Bank is subject to the value-added tax (VAT) instead of GRT. However, Republic Act No. 9238 reimposes GRT on banks and financial intermediaries effective January 1, 2004.

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

Under current tax regulations, the regular corporate income tax rate is 32%. Interest allowed as a deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. In addition, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expense that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense for sellers of services like the Bank is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. The regulations also provide for MCIT of 2% on modified gross income and allow a NOLCO. The MCIT and NOLCO may be applied against the Bank's income tax liability and taxable income, respectively, over a three-year period from the year of inception.

Effective in May 2004, Republic Act 9294 restores the tax exemption of FCDUs and offshore banking units (OBUs). Under such law, the income derived by the FCDU from foreign currency transactions with nonresidents, OBUs, local commercial banks including branches of foreign banks is tax-exempt while interest income on foreign currency loans from residents other than OBUs or other depository banks under the expanded system is subject to 10% gross income tax.

The components of deferred tax assets (included under Other Resources) are as follows:

	2004	2003
Tax effect of:		
Allowance for probable losses	**P824,568,176**	P777,303,332
Accrued sick leave credits	**12,418,454**	11,581,119
Unrealized loss on sale of sales contract receivable	**7,153,503**	7,153,503
Unamortized past service costs	**1,725,094**	2,180,745
Unfunded retirement costs	**759,672**	686,740
	P846,624,899	P798,905,439

The Bank did not set up deferred tax assets on the following temporary differences:

	2004	2003
NOLCO	**P13,581,106**	P21,513,180
MCIT	**50,077,873**	28,339,362

The Bank believes that it is not highly probable that these temporary differences will be realized in the future.

Details of the Bank's NOLCO are as follows:

Inception Year	Amount	Expired	Balance	Expiry Year
2001	P43,747,457	P43,747,457	P –	2004
2003	23,481,230	–	23,481,230	2006
2004	18,959,727	–	18,959,727	2007
	P86,188,414	P43,747,457	P42,440,957	

Details of the Bank's MCIT are as follows:

Inception Year	Amount	Expired/Used	Balance	Expiry Year
2002	P12,888,888	P–	P12,888,888	2005
2003	15,450,474	–	15,450,474	2006
2004	21,738,511	–	21,738,511	2007
	P50,077,873	P–	P50,077,873	

Management believes that the balance of deferred tax assets, mainly pertaining to valuation reserves on loans, can be utilized within a reasonable time in the future against expected taxable income. Accordingly, no write-off of such deferred tax assets has been made.

A reconciliation of the statutory income tax rate to effective income tax rate follows:

	2004	2003	2002
Statutory income tax rate	**32.00%**	32.00%	32.00%
Tax effect of:			
FCDU income after income tax	**(24.85)**	(32.70)	(71.51)
Nondeductible expense	**9.00**	8.69	11.06
Tax-paid income	**(8.81)**	(6.51)	(10.91)
Nonrecognition of deferred tax asset	**4.71**	16.19	7.31
Others	**(0.87)**	10.74	3.09
Effective income tax rate	**11.18%**	28.41%	28.96%

21. **Trust Assets**

Properties held by the Bank in fiduciary or agency capacities for its customers are not included in the accompanying statements of condition since these items are not resources of the Bank. Total resources held by the Bank's Trust Center amounted to P2.3 billion and P1.4 billion as of December 31, 2004 and 2003, respectively.

In compliance with the requirements of current banking regulations relative to the Bank's trust functions, government securities owned by the Bank with a total face value of P16.5 million (with a carrying value of P16.8 million) as of December 31, 2004 and 2003, were deposited with the BSP.

22. **Related Party Transactions**

In the ordinary course of business, the Bank enters into loans and other transactions with its subsidiary and affiliate and with certain directors, officers, stockholders, and related interests (DOSRI). Under the Bank's policy, these loans and other transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Under current banking regulations, the amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective unencumbered deposits and book value of their respective investments in the Bank. In the aggregate, loans to DOSRI generally should not exceed the lower of the Bank's total regulatory capital or 15% of the total loan portfolio. As of December 31, 2004 and 2003, the Bank was in compliance with such regulations.

As of December 31, 2004 and 2003, about 61% and 77%, respectively, of total DOSRI loans were loans to officers approved by the BSP under the Bank's fringe benefit program. The balance represents DOSRI loans which were fully secured by deposit hold-outs.

On March 15, 2004, the BSP issued Circular No. 423 which provides for the amended definition of DOSRI accounts. The following table shows information relating to DOSRI loans:

	2004	2003
Total outstanding DOSRI loans	**P263,566,647**	P200,605,571
Total outstanding DOSRI loans granted under regulations existing prior to Circular No. 423	**168,412,403**	200,605,571
New DOSRI loans granted under Circular No. 423	**95,154,244**	–
Total outstanding non-DOSRI loans prior to Circular No. 423	**–**	–
Percent of DOSRI loans to total loans	**1.10%**	0.98%
Percent of unsecured DOSRI loans to total DOSRI loans	**10.60%**	12.27%
Percent of past due DOSRI loans to total DOSRI loans	**–**	–
Percent of nonperforming DOSRI loans to total DOSRI loans	**–**	–

Any violation of the provisions under Circular No. 423 is subject to regulatory sanctions. However, loans, other credit accommodations and guarantees, as well as availments of previously approved loans and committed credit lines that are not considered DOSRI (non-DOSRI) accounts prior to the issuance of Circular No. 423 are not covered by such sanctions for a transition period of two years from the effectivity of the Circular or until said loan, other credit accommodations and guarantees become past due, or are extended, renewed or restructured, whichever comes later.

The balances of loans to DOSRI and corresponding interest income included in the Bank's financial statements are as follows:

	Loans		Interest Income		
	2004	2003	2004	2003	2002
Officers	**P167,544,288**	P163,303,277	**P11,508,806**	P14,430,977	P14,268,836
Related interests	**96,022,359**	37,302,294	**2,618,810**	4,510,186	5,728,646
	P263,566,647	P200,605,571	**P14,127,616**	P18,941,163	P19,997,482

The balances of deposit liabilities of DOSRI and corresponding interest expense included in the Bank's financial statements are as follows:

	2004	2003
Deposit liabilities	**P362,304,511**	P396,721,970
Interest expense	**1,725,954**	877,695

The balances of commitments to DOSRI (see Note 23) included in the Bank's financial statements are as follows:

	2004	2003
Officers	**P16,025,143**	P32,912,239
Related interests	**46,883,452**	90,920,696
	P62,908,595	P123,832,935

23. Commitments and Contingent Liabilities

In the normal course of the Bank's operations, there are various outstanding commitments, contingent liabilities, such as bank guarantees, commitments to extend credit, forward exchange contracts and similar arrangements which are not reflected in the accompanying financial statements. The Bank does not anticipate material unreserved losses as a result of these transactions.

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

	2004	2003
Forward exchange sold	**P9,775,163,500**	P8,004,384,000
Forward exchange bought	**3,020,597,352**	2,560,492,460
Trust center accounts (see Note 21)	**2,268,554,283**	1,431,381,005
Spot exchange bought	**2,129,689,800**	130,470,135
Spot exchange sold	**1,126,820,000**	19,275,472
Sight import LC outstanding	**558,945,043**	226,366,312
Standby LC	**264,773,992**	178,572,707
Usance import LC outstanding	**115,561,822**	151,546,795
Late deposits/payments received	**82,919,799**	79,695,254
Inward bills for collection	**74,852,816**	87,922,159
Outstanding guarantees issued	**70,871,364**	229,674,443
Outward bills for collection	**69,036,647**	70,039,018
Domestic LC outstanding	**21,517,343**	12,833,620
Traveller's checks unsold	**18,446,889**	20,223,299
Items held for safekeeping	**136,805***	114,493*
Items held as collateral	**11,272***	10,047*
Forward securities purchased	**-**	1,863,833,022
Revolving LC	**-**	77,820,400
Others	**420,836,602**	461,424,873

* Based on a nominal value of P1 for each item of safekeeping and collateral.

As of December 31, 2003, forward securities purchased amounting to P1.9 billion represents a cash settled securities swap transaction (CSSST) agreement with a counterparty under which the Bank committed to buy on a forward basis at a predetermined price of $33.5 million in 2003 certain government securities that were previously sold to the counterparty on a spot basis at a price of $33.3 million in 2003. The transaction has been accounted for on the basis of the treatment described under the Bankers Association of the Philippines (BAP) Cash Settled Securities Swap Transaction Manual (the Manual), for which the BSP had yet to provide definitive guidance on the related accounting issues. Under the Manual, the spot sale is recognized as an outright sale and the asset is derecognized from the accounts since legal ownership and control has been transferred to the buyer; the forward securities purchased is recognized as a firm commitment. The Bank marks-to-market the forward securities purchased.

Under PAS 39, Financial Instruments: Recognition and Measurement, which will be in effect beginning January 1, 2005, this transaction would have been accounted for as a financing transaction that would have required the Bank to retain as assets the securities sold and to book a liability (bills payable) for the cash received from the sale. The asset recognition required under PAS 39 is based on the view that the Bank (as the seller) has not effectively surrendered control over the securities by virtue of the commitment to buy back similar securities in the future at the predetermined price and therefore effectively retains the risks and rewards associated with such securities. The Bank decided to follow the CSSST manual in 2003. However, in June 2004, the Bank decided to change its accounting treatment on CSSST to comply with the requirements of PAS 39. As of December 31, 2004, the Bank recognized a liability (included in bills payable) amounting to P1.9 billion and retained in its books the securities sold under CSSST (included in ASS). The Bank's December 31, 2003 financial statements were not adjusted to reflect such change.

The Bank has received letter notices from the Bureau of Internal Revenue on two industry tax issues. Management and tax counsels believe that they have a valid defense against such claims. Accordingly, no provision has been provided.

24. Financial Performance

The earnings per share is computed as follows:

	2004	2003	2002
a) Net income	**P523,055,872**	P433,016,964	P352,295,536
b) Dividends on preferred shares	**27,958,334**	17,698,794	21,701,799
c) Net income attributable to common shares (a-b)	**495,097,538**	415,317,970	330,593,737
d) Weighted average number of outstanding common shares	**254,704,110**	250,000,000*	250,000,000*
e) Earnings per share (c/d)	**P1.94**	P1.66*	P1.32*

* *After retroactive adjustment for split up in 2004 (see Note 16).*

The following basic ratios measure the financial performance of the Bank:

	2004	2003	2002
Return on average equity	**11.38%**	10.64%	9.28%
Return on average assets	**1.11**	1.07	0.94
Net interest margin on average earning assets	**5.39**	5.15	5.45


Board of Directors
Walter W. Brown
Wilson L. Sy
Wilfrido C. Tecson
Ruben C. Tiu
Enrique K. Razon, Jr.
Dante G. Santos
Ben C. Tiu
Gerardo O. Lanuza, Jr.
Gregorio T. Yu
A. Bayani K.
Ramon Y. Sy


Senior Management Team
TAKING
RELATIONSHIPS
TO HEART
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Antonio C. Moncupa, Jr.
Buena V. Chanco
Nilo L. Pacheco, Jr.
Tañafranca
Arturo P. Plata, Jr.
Roberto F. Abastillas
Gerardo Susmerano
William C. Whang
Charito E. Aquilizan
Vicki O. Perlas
Alex Luis M. Pesigan
Evelyn Q. Santos

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President and Chief Executive Officer
Ramon Y. Sy

Executive Vice Presidents

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Chief Finance Officer

Buena V. Chanco
Cluster Head - Human Resource Management and Customer Relations

Nilo L. Pacheco, Jr.
Cluster Head - Retail Banking

Beatriz R. Barredo-Romulo
Cluster Head - Corporate Banking

Ramon B. Tañafranca
Cluster Head - Information and Technology Management

Senior Vice Presidents

Arturo P. Plata, Jr.
Compliance Officer/Cluster Head - Management Services

Roberto F. Abastillas
Center Head - Account Management 1

Edmundo Marco P. Bunyi, Jr.
Head - Treasury Cluster

Gerardo Susmerano
Center Head - Kalookan Area

William C. Whang
Center Head - Makati/Tektite Area

First Vice Presidents

Charito E. Aquilizan
Center Head - Internal Audit and Credit Review

Vicki O. Perlas
Center Head - Center for Learning

Alex Luis M. Pesigan
Center Head - Branch Operations

Evelyn Q. Santos
Group Head - International Trade and Transaction Settlements

Ma. Alicia A. Tagle
Group Head - Strategic Management

Benedicto M. Valerio, Jr.
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Michael Jack B. Garcia
Center Head - Trust

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Center Head - Account Management 3

Joseph C. Justiniano
Center Head - Collection, Asset Recovery and Disposal

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Center Head- Accounting

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Distribution Trader - Treasury

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Rosa Maria Treichler
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Ivy B. Uy
Center Head - Binondo Area

Assistant Vice Presidents

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Branch Head - Ayala Alabang

Susan E. Bautista
Sector Head - IAC/Information Systems

Augusto L. Bondoc
Sector Head - Appraisal and Credit Investigation

Dollie B. Buenconsejo
Branch Head - Iloilo

Doli D. Cabahug
Branch Head - Cebu Maxilom

Ma. Angelica D. Cabanit
Center Head - INTRASG/Corporate and Treasury Services

Ralph B. Cadiz
Center Head - Consumer Banking

Manuel A. Castañeda III
Sector Head - Account Management 1

Socorro Jessymel T. Cruz
Account Officer - Remedial Management

Leila L. Dejan
Sector Head - BOC/Quality Assurance

Ronald J. Del Rosario
Account Officer - Remedial Management

Vivian R. Faustino
Center Head - Retail Marketing

Rachel Christine T. Geronimo
Account Officer - Remedial Management

Jose Gerardo E. Guillen
Sector Head - IAC/Credit Review

Leonides F. Intalan
Branch Head - Greenhills

Jose Raul E. Jereza IV
Branch Head - Ayala Avenue

Melanio S. Ma
Center Head - Account Management 4

Ma. Cristina P. Maceren
Center Head - Account Management 2

Derrick J. Nicdao
Operational Risk Officer - Strategic Management

Antonio R. Ocampo, Jr.
Account Officer - Account Management 1

Jonathan P. Ong
Sector Head - Litigation/Legal Management

Joel Arcangel S. Regino
Foreign Exchange Trader - Treasury

Ben Valentino U. Rodriguez, Jr.
Branch Head - Kalookan

Bennett Clarence D. Santiago
Credit Risk Officer - Strategic Management

Carlos M. Taganas
Security Officer

Lorita H. Tee
Branch Head - T. Alonzo

Jose Rodelio B. Tolentino
Sector Head - ITMC/Network, Telecoms and Web Services Management

Remy Y. Wong
Branch Head - Dagupan

Elsie D. Cabaluna
Branch Head - Bacolod

Teresita M. Ylagan
Sector Head - INTRASG/Consumer Loans Services

Products and Services

I. Deposit Products and Services
- A. Current Account/ Savings Account
  1. Peso Checking Account
     - Regular Checking with Recordbook
     - Regular Checking without Recordbook
     - iCheckpoints (gift items)
     - iCheck Premium (tiered interest rates)
  2. Peso Savings Account
     - Passbook Savings
     - ATM Savings
     - My First Account (kiddy account)
     - iSave
  3. US Dollar Savings Account
  4. SSS Pensioner Deposit Program
- B. Short Term Deposit
  1. Peso Time Deposit
  2. US Dollar Time Deposit
- C. Other Services
  1. iDeal ATM Service
  2. Bills Payment – iDeal ATM and over-the-counter
  3. iText (Smart Mobile Phone banking)
  4. iContact (Phone banking and Call Center)
  5. Safety Deposit Box

II. Cash Management Services (iSolutions)
- A. Disbursement Services
  1. Check Cutting Service
     - Check Writer Plus
     - My Checkwriter
     - CheckMaster
  2. ATM Payroll Service
  3. Secured Allotment Fund Express (SAFE)
- B. Collection Services
  1. Check Instore (Post Dated Check Warehousing Service)
  2. Armored car services (cash and check pick-up)
  3. Motorized messenger services (check pick-up)
- C. PC Banking
  1. Remote Link (Remote Banking Terminal)

III. Treasury Products
- A. Fixed Income Securities
  1. Treasury Bills
  2. Fixed Rate Treasury Notes
  3. Commercial Papers
  4. Dollar-Linked Peso Notes
  5. Eurobonds
- B. Foreign Exchange
  1. USD/PhP Spot and Forwards
  2. Multi-Currency Spot and Forwards
  3. Currency Swaps
  4. International Fund Transfers and Payments

IV. Trust Products and Services
- A. Trust and Fiduciary Activities
  1. Personal Trusts
  2. Institutional Trusts
     - Employee Benefit Trusts
     - Trust Funds for Pre-Need Companies
- B. Agency Functions
  1. Investment Management Agreements
  2. Escrow
  3. Safekeeping and Custodianship
- C. Unit Investment Trust Fund
  1. iFund Philippine Peso Bond Portfolio
  2. iFund Philippine Dollar Bond Portfolio
  3. iFund Large Capitalization Philippine Equity Portfolio

V. Loans
- A. Consumer Loans
  1. iDeal Auto Loan
     - Brand New and Second Hand Vehicle Financing
     - Fleet Financing
     - Brand New and Reconditioned Truck Financing
  2. iDeal Housing Loan
     - Purchase of residential real estate properties
     - Home improvement
     - Refinancing
  3. Salary Loan
- B. Commercial Loans
  1. Peso Commercial Loans
  2. US Dollar Commercial Loans
  3. Term Loans
  4. Post Dated Check Discounting Line
  5. Project Loans
  6. Back-to-back Loans
- C. Special Funded Loans
  1. Via the Development Bank of the Philippines
     - Overseas Economic Cooperation Fund - Industrial and Support Services Expansion Program (OECF-ISSEP)
     - Industrial Guarantee and Loan Fund (IGLF)
     - Domestic Shipping Modernization Program II (DSMP II)
     - Japan Export - Import Bank Facility (JEXIM)
  2. Via the Land Bank of the Philippines
     - Countryside Loan Fund I, II, III (CLF I, II, III)
     - Agricultural Loan Fund (ALF)
  3. Via the Social Security System
     - Financing Program for Educational Institutions
     - SSS-GSIS Special Financing Program
     - Financing Program for Tourism Projects
     - Hospital Financing Program
     - Special Financing Program for Vocational and Technical School
- D. Other Credit Facilities
  1. Export Bills Purchase
  2. Domestic Bills Purchase
  3. Foreign Bills Purchase
  4. Drawing Against Uncollected Deposit Lines

VI. Trade Finance and Services
- A. Documentary Credits and Services
  1. Import and Domestic Letters of Credit
  2. Standby Letters of Credit
  3. Peso and US Dollar Trust Receipts
  4. Documents against Payment / Acceptance
  5. Open Account
  6. Export Advances
  7. Direct Remittance

VII. Remittance Services
- A. iRemit Global Remittance
- B. eBusiness - Western Union Money Transfer Service

Branch Directory

METRO MANILA BRANCHES

MAIN OFFICE CENTER
G/F iBank Exchange Bldg., 142 Amorsolo St.
Legaspi Village, Makati City
Tel. # : 753-3000; 810-3310 Locs. 8102 to 8110

ANNAPOLIS
G/F Mercedes I Bldg., Annapolis St., Greenhills, San Juan
Tel. # : 722-0938/39; 744-6123 to 25

ARANETA AVENUE
Del Moral Bldg., 341 G. Araneta Ave., Quezon City
Tel. # : 714-4345; 715-3646

AURORA BOULEVARD
708 A. Doña Consuelo Bldg., Aurora Blvd. cor.
Hemady, New Manila, Quezon City
Tel. # : 415-9536/37/39

AYALA AVENUE
G/F Don Vicente Madrigal Bldg., 6793 Ayala Ave., Makati City
Tel. # : 891-5519; 891-5852/53 to 56

AYALA ALABANG
G/F NOL Bldg., Commerce Ave., Madrigal Business Park
Alabang, Muntinlupa City
Tel. # : 809-0689 to 93

BANAWE
Banawe St. cor. Quezon Ave., Quezon City
Tel. # : 740-0421; 743-4668/71/77

BF HOMES
55 President's Ave., BF Homes Subd., Parañaque City
Tel. # : 807-4483 to 86

BICUTAN
28 Doña Soledad Ave., Better Living Subd., Parañaque City
Tel. # : 822-1515/17 to 21

BINONDO
Haphong Bldg., Quintin Paredes cor. Dasmariñas St.
Binondo, Manila
Tel. # : 243-8201 to 04; 244-6829

BONI AVENUE
655 Boni Ave. cor. Ligaya St., Mandaluyong City
Tel. # : 531-8865; 531-9418; 532-8737; 533-1054

COMMONWEALTH AVENUE
G/F Units 12 & 13, Diliman Commercial Center
Commonwealth Ave., Diliman, Quezon City
Tel. # : 931-9691; 932-8596; 951-0152

CONGRESSIONAL AVENUE
Congressional Ave. cor. Mindanao Ave., Quezon City
Tel. # : 454-5098; 455-8536/46/61

CUBAO
P. Tuazon St. cor. 7th Ave., Cubao, Quezon City
Tel. # : 912-1754; 912-1846

DEL MONTE AVENUE
447 Del Monte Ave. cor. Biak na Bato St., Quezon City
Tel. # : 330-0227 to 32

EDSA KALOOKAN
512 EDSA cor. Urbano Plata St., Kalookan City
Tel. # : 330-9923 to 25; 366-5801/02

EMERALD AVENUE
G/F Wynsum Corporate Plaza Bldg., Emerald Ave.
Ortigas Center, Pasig City
Tel. # : 633-7604/28; 910-5658/59

ESCOLTA
G/F Regina Bldg., Escolta, Manila
Tel. # : 241-8544; 242-4483; 245-8955

GREENHILLS
Ortigas Ave. near cor. Wilson St., Greenhills, San Juan, Metro Manila
Tel. # : 726-1391 to 93/95; 726-4694

INTRAMUROS
G/F BF Condominium Bldg., A. Soriano Ave., Intramuros, Manila
Tel . # : 404-1719 to 21; 521-4294; 522-1931

KALOOKAN
9th Ave. cor. Rizal Ave., Grace Park, Kalookan City
Tel. # : 361-1165/66; 361-4491; 361-9660; 365-9113/14/99

KAMIAS
G/F TDS Bldg., 72 Kamias Road, Quezon City
Tel. # : 929-7665/67; 929-7745; 929-7846

KATIPUNAN
355 AGCOR Bldg., Katipunan Ave., Loyola Heights, Quezon City
Tel. # : 426-1258; 433-2694; 926-8140

LAS PIÑAS
Alabang-Zapote Road cor. Crispina Ave., Pamplona, Las Piñas City
Tel # : 871-1189; 874-3696/98; 874-3702

LIBIS
184-B E. Rodriguez Jr. Ave., Bagumbayan, Quezon City
Tel. # : 421-0311 to 13; 638-1689

MAKATI AVENUE
Makati Ave. cor. Durban St., Makati City
Tel. # : 895-1774; 896-9231 to 33

MALABON
Gov. Pascual Ave. cor. Rivera St. Malabon, Metro Manila
Tel. # : 288-7376/77/79/92

MALATE
G/F Marioco Bldg., 1945 M. Adriatico St., Malate, Manila
Tel. # : 525-2711/18/41/42/56

MALINTA
G/F Mirjan Bldg., 295 Maysan Road, Paso de Blas, Valenzuela City
Tel. # : 277-2920 to 22; 443-1797

MARIKINA
233 J.P. Rizal St. cor. Sta. Inez, Sta. Elena, Marikina City
Tel. # : 681-6274 to 76; 933-2700

MASANGKAY
911-913 G. Masangkay St., Binondo, Manila
Tel. # : 241-5364/69/72

MAYHALIGUE
G/F One Masangkay Place, 1420 Masangkay near cor.
Mayhaligue St., Sta. Cruz, Manila
Tel. # : 252-5440/46 to 48

NAVOTAS
807-817 M. Naval St., Navotas, Metro Manila
Tel. # : 282-7502 to 05

NEW DIVISORIA
Stall Nos. UG 5-6, Sto. Cristo St. cor. M. de Santos St.
Binondo, Manila
Tel. # : 244-4271 to 73/76

NOVALICHES
854 Quirino Highway, Gulod, Novaliches, Quezon City
Tel. # : 417-9738; 417-9982; 418-0191; 935-1819/21

PASAY ROAD
912 Gemland Commercial Bldg., Pasay Road
San Lorenzo Village, Makati City
Tel. # : 752-7120/21; 813-5429

PASONG TAMO
G/F JTKC Center, 2155 Pasong Tamo St., Makati City
Tel. # : 840-4780/82 to 86

PASONG TAMO EXTENSION
G/F Priscilla 100 Bldg., 2297 Pasong Tamo Ext., Makati City
Tel. # : 892-0306/96/97; 892-1087

PEREA
G/F Greenbelt Mansion, Perea St., Legaspi Village, Makati City
Tel. # : 751-3654; 752-0985/86

RETIRO
Amoranto cor. Mayon St., Quezon City
Tel. # : 410-9216/37; 742-2787/88

ROOSEVELT
244 Roosevelt Ave., San Francisco del Monte, Quezon City
Tel. # : 371-2019/24; 448-6630/31/33

SAN FERNANDO
493-495 San Fernando St., San Nicolas, Binondo, Metro Manila
Tel. # : 241-2711; 244-4281 to 83

SHAW BOULEVARD
131-133 Shaw Blvd., Pasig City
Tel. # : 632-9813/16; 747-9872 to 74

SOUTH TRIANGLE
Quezon Ave., cor. Scout Albano, Quezon City
Tel. # : 410-7098; 425-1101 to 03

SUCAT
8200 Dr. A. Santos Ave., Sucat, Parañaque City
Tel. # : 820-2337 to 39/55

TAFT AVENUE
G/F Kassel Condominium, Taft Ave. near cor. P. Ocampo St.
Vito Cruz St., Malate, Manila
Tel. # : 404-1533 to 35

TEKTITE
G/F West Tower, Phil. Stock Exchange Center, Exchange Road
Ortigas Center, Pasig City
Tel. # : 636-3528 to 30/32; 637-3279 to 81; 638-8745/46

T. ALONZO
593 Teodora Alonzo St., Sta. Cruz, Manila
Tel. # : 734-4580/83; 736-1880/81

TOMAS MORATO
Tomas Morato near cor. Scout Lozano St., Quezon City
Tel. # : 928-5801/02; 928-6508

TORDESILLAS
G/F Le Domaine Condominium, 104 Tordesillas St.
Salcedo Village, Makati City
Tel. # : 810-0230; 813-1302/37/63

TUTUBAN
Unit LH-PL12 and LH-PL12A Looproad Shophouse
Prime Block Mall, Tutuban cor. C.M. Recto Ave., Manila
Tel. # : 253-5955/77/78

UNITED NATIONS AVENUE
UN Ave. cor. M.H. del Pilar and M. Guerrero Sts., Ermita, Manila
Tel. # : 525-2690 to 93

VALENZUELA
Km. 12 McArthur Highway cor. Serrano St., Marulas, Valenzuela City
Tel. # : 291-8486; 293-1446; 443-7748 to 50

VALERO
G/F Antel Platinum Tower, 154 Valero St., Salcedo Village, Makati City
Tel. # : 752-4435/36; 843-7002 to 04

WACK-WACK
6 Shaw Blvd. cor. Laurel St., Mandaluyong City
Tel. # : 718-1368; 725-1227; 725-2915

WEST AVENUE
73 G/F Rose Bldg., West Ave. cor. Catanduanes St., Quezon City
Tel. # : 372-2582 to 84; 414-3303/04

PROVINCIAL BRANCHES

BACOLOD
G/F Philamlife Bldg., Lacson cor. Galo St., Bacolod City
Tel. # : (034) 434-2706; (034) 434-4290; (034) 434-5510; (034) 434-6572

BATANGAS CITY
GNG Realty Bldg., P. Burgos near cor. Diego Silang St., Batangas City
Tel. # : (043) 980-5280 to 83

CAGAYAN DE ORO
G/F Philamlife Bldg., Don Apolinar Velez St., cor. Echem St.
Cagayan de Oro City
Tel. # : (088) 856-6101 to 04/06

CALAMBA
G/F Anderson Bldg., Bgy. Parian, Calamba, Laguna
Tel. # : (049) 545-7421/23

CEBU-CENTER
Gen. Maxilom Ave., Cebu City
Tel. # : (032) 255-6222 to 24; (032) 255-6900 to 04

CEBU-MANDAUE
G/F Khuz'ns Bldg., North Highway, Estancia, Mandaue City
Tel. # : (032) 343-7500 to 04

CEBU-PLARIDEL
104 Plaridel St., Barangay Sto. Niño, Cebu City
Tel. # : (032) 255-0081 to 85

DAGUPAN
Angel B. Fernandez, Dagupan City
Tel. # : (075) 523-5575; (075) 523-6086

DASMARIÑAS CAVITE
Aguinaldo Highway cor. Congressional Ave., Dasmariñas Cavite
Tel. # : (046) 432-1730/31; (046) 973-2791/92

DAVAO-MONTEVERDE
G/F Mintrade Bldg., Monteverde Ave. cor. Sales St., Davao City
Tel. # : (082) 222-3413/14

DAVAO-QUIRINO
Quirino Ave. cor. San Pedro St., Davao City
Tel. # : (082) 225-1701 to 04

GENERAL SANTOS
G/F Laiz Bldg., 127 Pioneer Ave., General Santos City
Tel. # : (083) 553-6026/28/29

ILOILO
Ledesma St. cor. Liberation Road, Iloilo City
Tel. # : (033) 336-1630 to 33

IMUS-CAVITE
G/F Melta Bldg., Aguinaldo Highway cor.
Sampaguita Village, Imus, Cavite
Tel. # : (046) 471-7770; (046) 571-0701/02 to 04

LIPA
B. Morada Ave., Lipa City
Tel. # : (043) 312-2622; (043) 756-3822; (043) 981-0316

MEYCAUAYAN
G/F Marian Bldg., McArthur Highway, Calvario, Meycauayan
Tel. # : (044) 840-2622/23; (044) 935-2344

PAMPANGA
G/F Mel-V Bldg., Olongapo Gapan Road, Dolores
San Fernando, Pampanga City
Tel. #: (045) 961-5712; (045) 961-6300

TARLAC
Jaral Bldg., McArthur Highway cor. Juan Luna St., Tarlac City
Tel. # : (045) 982-6480/85/89/90

ZAMBOANGA
G/F ZAEC Bldg., Mayor Jaldon cor., Alvarez St., Zamboanga City
Tel. # : (062) 991-4499; (062) 991-4899; (062) 991-5199;
(062) 991-5499; (062) 991-6399

Our Vision

We will be the epitome of service excellence in our chosen fields as we seize every challenge to make a difference for you.