OPTIMISM

A STRONGER PBCOM RISES

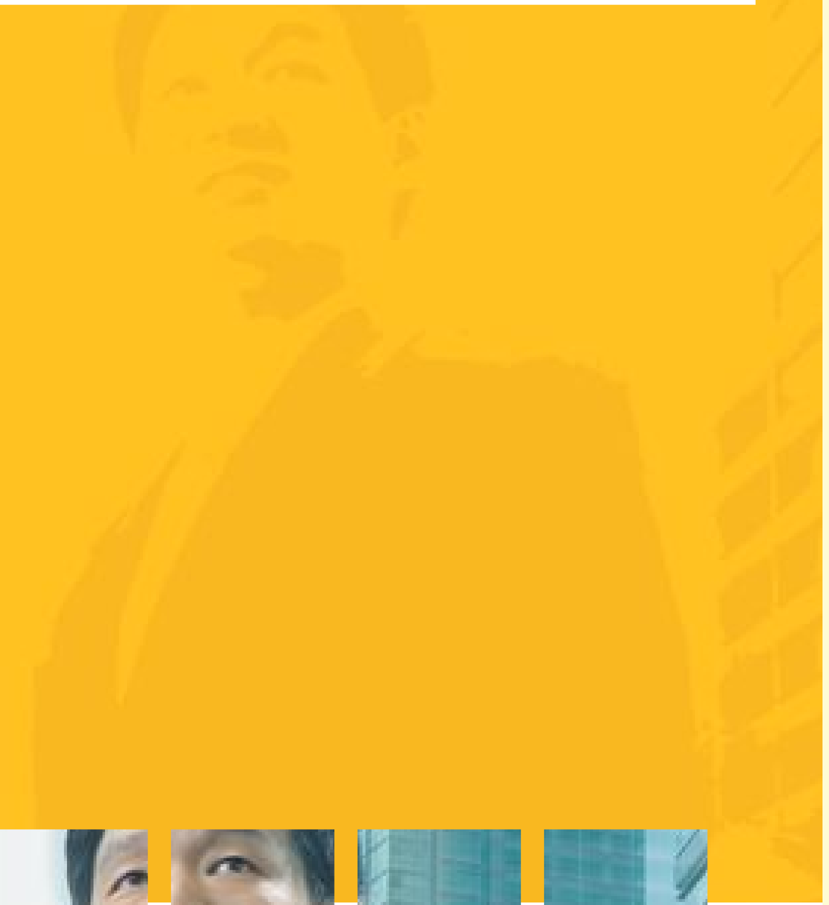
PBCOM

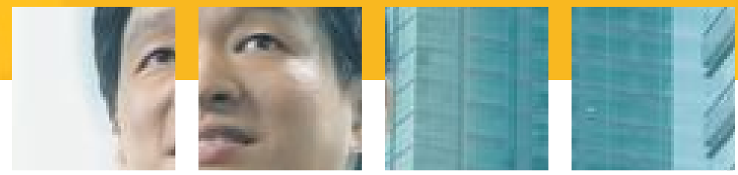
Philippine Bank of Communications

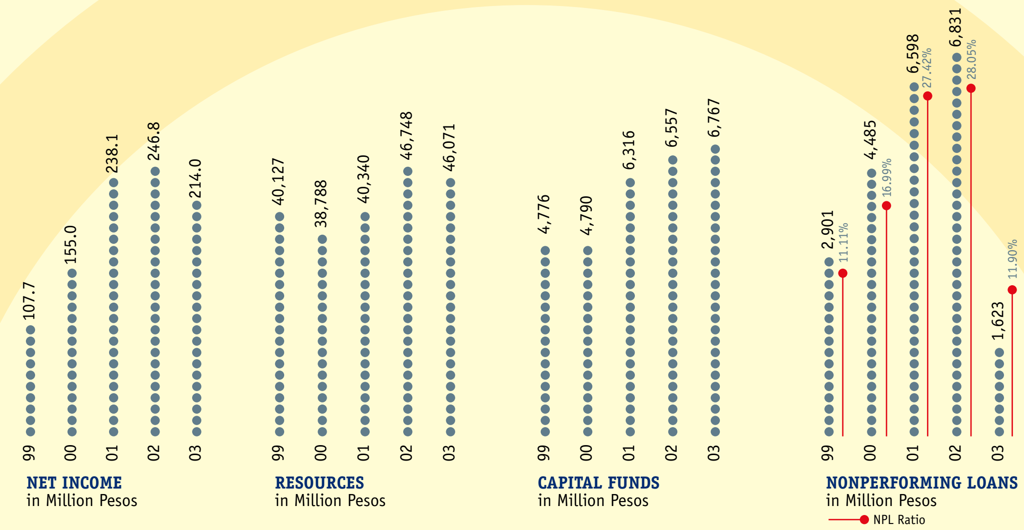
2003

A circle intersecting another circle.
Where one cycle ends, another begins.
As soon as a goal is achieved, another begins.
The process of transformation sets a new cycle of change and evolution into motion.

Starting anew with optimism, PBCOM moves forward.
Orchestrating its efforts.
Optimizing opportunities.
Overcoming obstacles.
So it can perform even better now and in the future.







	2003	2002	2001	2000	1999
OPERATING RESULTS FOR THE YEAR, IN MILLION PESOS					
Total Income	3,698.1	3,708.7	4,314.2	3,638.5	3,662.7
Total Expenses	3,484.1	3,461.8	4,076.0	3,483.5	3,555.0
Net Income	214.0	246.8	238.1	155.0	107.7
EARNINGS PER SHARE IN PESOS	4.07	4.69	5.22	4.91	3.41
STATEMENT OF CONDITION AS OF YEAR-END, IN MILLION PESOS					
Total Resources	46,071	46,748	40,340	38,788	40,127
Loans, Net	12,304	17,567	17,619	19,761	21,174
Nonperforming Loans	1,623	6,831	6,598	4,485	2,901
Deposits	26,213	33,751	30,323	22,640	29,452
Capital Funds	6,767	6,557	6,316	4,790	4,776
Nonperforming Loans to Total Loans	11.90%	28.05%	27.42%	16.99%	11.11%
Capital Adequacy Ratio	15.57%	15.16%	16.01%	12.61%	10.26%
HEADCOUNT AS OF YEAR-END	988	1,043	1,061	969	988
NUMBER OF BRANCHES AS OF YEAR-END	64	64	64	45	45

financial highlights

OPTIMUM

OVERVIEW

letter to stockholders

The year 2003 capped a period of concerted efforts by both the shareholders and the new management to transform PBCom and implement measures that would ensure the protection of the Bank's depositors, prevent the emergence of systemic risks, increase shareholder value and ensure the continuity of the professional careers of PBCom employees. While the year was also the most difficult one since the Bank took on the path of transformation, it also paved the way for setting a new direction that ensures PBCom's sustained growth and profitability.

This new direction was heralded by the launching of a comprehensive business plan put together by the new management and fully supported by the major shareholder groups. The basic element of this business plan was to obtain approval from the Philippine Deposit Insurance Corp. (PDIC) and the Bangko Sentral ng Pilipinas (BSP) for a financial enhancement package, which together with the beneficial effects of the transformation process, would result to a stronger bank. The critical element of the plan, however, was the use of a Special Purpose Vehicle (SPV) in accordance with public policy. The SPV was eyed as a mechanism through which the nonperforming assets (NPAs) that remained after implementing a comprehensive asset recovery program, would then be taken out of the balance sheet.

outperforming our past
ensuring our future

Luy Kim Guan
Chairman Emeritus

OVERVIEW

a stronger PBCom rises

Chung Tiong Tay
Chairman

With this business plan, we extended the "good bank-bad bank" strategy that had been adopted by other banks. The "good bank" was retained while the "bad bank" was eliminated together with the distractions such structure normally creates. This left us with more energy and an opportunity to focus on sustaining the "good bank."

The formalization of this business plan capped more than a year of tedious efforts to formulate a workable and permanent solution to address the NPA problem of the Bank. Strong loan recovery and asset management efforts and a holistic transformation drive put forth in the past three years have resulted in the disposal of a significant number of our acquired assets and the generation of additional revenues for the Bank. However, we realized that to achieve sustainable growth there was a need to develop a comprehensive business plan in order for PBCom to truly harness its inherent strengths and capabilities developed during the transformation drive.

The road leading to such a solution, though, was an arduous one that necessitated all our creative energies and unwavering determination. The complexities of addressing various issues ranging from market dynamics, to securing regulatory approvals to shareholder concerns over the viability of our proposals were extremely challenging. Furthermore, the reality that previous attempts in the industry to take the SPV route in resolving NPA problems failed had been discomforting.

In the end, however, sheer resolve and persistence heightened by our responsibility to assure sustained profitability prevailed. Last March 26, 2004, our three major shareholder groups crystallized their commitment to the future of the Bank by infusing ₱3.00 billion in fresh capital through the subscription of new preferred shares. This commitment is based on management's thorough understanding that the foremost objective was the protection of the interests of depositors. Management and the shareholders were likewise in agreement that burden-sharing was essential in soliciting the support of regulatory authorities for the business plan. To PBCom's benefit, the major shareholders were not only willing supporters of the plan but also have the financial resources to uphold their commitment.

This forceful display of commitment was duly acknowledged by the government through the BSP and the PDIC who recognized the viability of our business plan and the merits of rejuvenating one of the older institutions in the industry. As a show of support, PDIC with the concurrence of the Monetary Board and the BSP, packaged ₱7.64 billion in financial enhancement funds that formed an integral part of PBCom's comprehensive business plan. The funds were specifically used to purchase high-yielding government securities that will generate sufficient earnings to backstop the true sale of NPAs to an SPV.

The financial enhancement package provided us the unique opportunity to address our NPA problem through the SPV approach. The SPV Act of 2002 was enacted by the Philippine Congress in July 2002 specifically to address the NPA problems of the financial sector by encouraging private sector investments in NPAs and eliminating existing barriers in the acquisition of such assets. Tax exemptions and fee privileges to SPVs which will acquire the NPAs and to the disposing institution as well have been provided for under the law as incentives. On a much broader perspective, the SPV Act was ultimately geared to improve liquidity in the financial system which can then be harnessed to propel economic growth.

As of this writing, PBCom is well on its way to becoming probably one of the first domestic banks to undergo a true sale of its NPAs under the SPV Act. The completion of this project will undoubtedly become a major breakthrough in our campaign to attain sustainable growth and profitability. In retrospect, the business plan appears to be correct and has been well executed by management. Such plan takes on greater significance in our industry as this could very well encourage others to follow a proven solution in addressing their respective NPA problems.

A Stronger PBCom Rises. With the additional capital, a stronger PBCom now rises – well-capitalized, transformed, capable, dynamic and technologically driven. Our branches are now sales and service-focused, strategically located, and predominantly housed in modern, distinct and customer-friendly buildings. Where once weak credit policies and controls have resulted in process-inherent risks, the implementation of standardized credit policies and procedures and a comprehensive credit review process have minimized the Bank's exposure to potential losses. Our loan recovery and asset disposal approval processes are now systematic, transparent and institutionalized with the creation of manuals and strict implementation of policies and procedures.

Our revenue base had been greatly enhanced and is now more broad-based resulting in profitable operations for the past four years despite the carrying costs of our NPAs. We were able to accomplish this by generating new businesses, launching new products and revising our fees and business charges structure. We beefed up the marketing arms of both Treasury and Trust resulting in increased revenues. Our Treasury business, in particular, generated ₱2.55 billion in trading gains in the past four years while asset recoveries produced ₱1.05 billion as we benefited from the installation of an electronic dealing system and a highly focused asset recovery program. From a marginal participant in the Trust market, PBCom surfaced as a strong competitor among commercial banks. Meanwhile, the acquisition of Consumer Savings Bank, Inc. (CSBI) in 2001 allowed us to gain access to the high-yielding consumer and Small and Medium Enterprise (SME) markets.

We now have streamlined operational structures and processes with the automation of all aspects of operations, centralization of back-office operations, consolidation of selected functions and implementation of structural changes and functional realignments. Over-the-counter transactions in branches are now completely automated and we now have a fully integrated branch network that allows our customers to transact on a real-time basis. These efforts allowed us to reduce our headcount by 181 from a high of 1,169 after the integration of CSBI in August 2001 to 988 as of end-2003 thereby generating considerable cost savings for the Bank.

Meanwhile, training modules focusing on sales planning and team selling concepts and techniques were conducted for branch personnel in consonance with the upgrading of our deposit system using an integrated front-end and back-end delivery system. A Branch Operations Appreciation Course was even conducted in 2003 for non-branch head office-based officers with the objective of establishing a reserve pool to backstop branch personnel in case of contingencies. As a result of these efforts, we now have a skilled and flexible workforce that is lean yet efficient and productive.

Good corporate governance and best business practices are now widely observed throughout the organization from the Board of Directors down to the rank and file level. All policies and procedures in all areas of the Bank are now manualized with the adoption and approval of a Corporate Governance Manual in 2003 and the issuance of a Code of Conduct to all employees early this year. We now have a fully functioning risk management process which is anchored on a well-defined approval limits and authority structure.

We are represented by a revitalized and more vibrant logo that signifies our dynamism and depicts our image as a transformed bank. Our branches also now carry a distinctive modern look and are located at better sites that are nearer to the markets we serve. We also hold office at PBCom Tower, one of the most modern buildings and which is fast turning to be one of the more popular landmarks in the country's premiere business district of Makati.

While it was a very difficult and at times, painful course we had to endure, our

Isidro C. Alcantara, Jr.
President & CEO

transformation had no less been gratifying. Our newfound strengths and capabilities had never been more crucial as when we faced the challenges of 2003. Domestic political turmoils and threats to global peace and order such as the Iraq war and the SARS scare obscured the business landscape which was already reeling from changes brought about by globalization. Although there were pockets of growth and remittances of overseas workers buoyed the economy, the corporate sector generally had another lackluster year. Interest rates, meanwhile, showed signs of succumbing to pressures brought about by the government's fiscal problems particularly in the second semester. The benchmark 91-day T-bill rate had continuously been pressured upwards reaching 7.3% at one point and ending the year at 6.4%, higher than the end-2002 level of 5.2%.

Internally, the sense of urgency we instilled in ourselves to find a permanent solution to address our NPA problem had required much of our energies and managerial time. This required us to even redouble our efforts in order to address the day-to-day operational challenges and difficulties of 2003. Notwithstanding our predicament, we managed to turn in another profitable year although with a lower net income of ₱214.0 million.

Despite higher funding costs due to market-driven pressures on interest rates, we were able to preserve our net interest margins by actively managing our spread business. We went the extra mile in extending our services particularly to our core client base of depositors and commercial borrowers to maintain our core business volumes.

Non-interest revenues suffered a 14% drop to ₱1.32 billion mainly as a result of the comparatively lesser opportunities in securities trading. However, we still managed to make substantial trading gains of ₱1.01 billion as we continue to reap the benefits of our past decisions to invest in a new electronic dealing system and to recruit experienced professional market practitioners. We also managed to generate higher revenues of ₱98.4 million from our Trust business that similarly benefited from a new comprehensive application system for front- and back-office processing enabling us to successfully launch new fund-based products.

Our flat operating costs of ₱1.52 billion, meanwhile, reflected the savings we generated as a consequence of the operational streamlining, organizational restructuring and functional realignments we pursued. We managed to reduce our manpower costs by 2% to ₱585.2 million due to the benefits of a 15% reduction in headcount over the last two years. This reduction was realized even as we front-loaded the costs of the new collective bargaining agreement. The operational efficiencies we achieved for various processes and the rigid cost control measures we implemented enabled us to limit the growth of controllable expenses at 2.6%.

A Clean and Stronger Balance Sheet. The implementation of the comprehensive business plan is anchored on our objective to present a clean and stronger balance sheet and ensure PBCom's sustained growth and profitability. Already, the infusion of additional capital early this year by our major shareholders immediately brought our capital base to ₱9.5 billion making us the highest capitalized commercial bank. Our capital adequacy ratio now stands at around 27% which is considerably higher than the 10% minimum required and much better than the industry average of 17.7%.

The combination of improved business processes and operational efficiency, relentless cost-cutting measures, new revenue sources and the financial enhancement package extended by the BSP and the PDIC resulted in a cleaner and stronger balance sheet. The intensified recovery efforts put forth in the last three years and the permanent solution brought about by the true sale to an SPV will result in an immediate reduction of our nonperforming loans to total loan portfolio ratio from a high of 28.0% to around 12%-13% and our NPA ratio from a high of 50.1% to about 23%, both of which are within the industry averages of 14.1% and 22.8%, respectively.

Our comprehensive business plan, coupled with the continuation and furtherance of the improvements we have made in our business processes, incremental revenue generation, asset and risk management and good governance and business practices, has undoubtedly led to a stronger PBCom – one that has a clean balance sheet, well-capitalized and profitable.

In retrospect, it now becomes apparent that there are two distinct phases in the realization of a stronger PBCom. The first phase had just been completed and resulted in a PBCom that has a clean balance sheet, efficient operations, a more diversified business, standardized policies and procedures, fully automated business processes, expanded delivery network and all adhering to risk management principles and best business practices.

The second phase, on the other hand, marks the beginning of our drive towards sustainable growth and profitability. Basically, this involves sustaining the transformation efforts to ensure that the gains we have achieved will not be eroded. On a broader perspective, the second phase is about implementing a clear strategy and vision of growing the Bank that revolves around the principles of prudent lending, appropriate risk-taking, capital optimization, best business practices and low-cost funding base.

Specifically, we intend to strengthen our hold on the Filipino-Chinese market, engage

a clean and stronger balance sheet

in wholesale mortgage banking and tap medium-sized enterprises for high-margin business loans. We are also gearing up to introduce new services to expand our client base: cash management products to serve the cash transaction needs of our middle market clientele and electronic remittance services through tie-ups with remittance companies.

We are also in the final stages of setting up the platform for our internet banking services to provide banking convenience for our increasingly sophisticated clients. Later on, we will complement this by offering mobile banking services via a tie-up with a telecommunications company. Over the longer term, we will be opening 36 new branches to bring our branch network to an optimum level of over a hundred branches and ultimately lower our overall funding costs.

For a stronger transformed PBCom on the rise, the opportunities are indeed boundless. While our transformation objectives seemed daunting and impossible at the start, we ultimately felt gratified and confident by what we have achieved. For this, we are truly grateful to our employees for their dedication and to you our shareholders for your steadfast commitment and support in building a stronger PBCom.

Luy Kim Guan
Chairman Emeritus

Chung Tiong Tay
Chairman

Isidro C. Alcantara, Jr.
President & CEO

ORCHESTRATING CHANGE

PBCom transformation

Generation of New Businesses

Prior to the transformation process, PBCom's revenue base was focused mostly on commercial lending and trade transactions. The Bank's product line was limited and there was no significant Treasury business as reflected by meager trading gains of ₱9.3 million in 1998, ₱36.8 million in 1999 and ₱8.7 million in 2000. The surfacing of the Asian financial crisis exposed PBCom to various credit risks hampering its revenue generation capabilities. To enhance PBCom's profitability, the new management team strengthened its Treasury and Trust operations with the hiring of seasoned marketing officers and traders and the development of a more efficient backroom. The Bank's Treasury business has brought in substantial revenues since then with trading gains increasing from only ₱8.7 million in 2000 to ₱314.5 million in 2001, ₱1.23 billion in 2002 and ₱1.01 billion in 2003. The Bank's trust business, meanwhile, also contributed significant earnings of ₱66.8 million in 2002 and ₱98.4 million in 2003 as new common trust products were launched.

On the liability side, various new deposit products have been introduced in the past three years to cater to the differing needs of PBCom's clientele. In 2001, the Bank launched Premium 5, a five-year time deposit with tax-free interest. Premium 5 has provided the Bank with a long-term and stable funding source with the product's volume showing steady increases since its launching. The introduction of new products was supported by the strengthening of the branch network. The acquisition of Consumer Savings Bank in August of 2001 enabled the Bank to build up the branch network from only 45 branches to 64. The acquisition, likewise, enabled PBCom to gain some foothold in the high-margin consumer and retail lending market.

The Bank also penetrated the credit card market by entering into a tie-up with Standard-Chartered Bank to launch the PBCom Standard-Chartered MasterCard, which is the first international credit card to be co-branded by two banks.

Automation

Before the Bank's transformation in 2000, automation projects were focused on a few operational processes.

Since April 2001, the Bank has embarked on a two-year implementation/replacement program for its Core Banking Applications for Deposits, Loans, Treasury, Trade and Trust. By November 2001, the Bank had converted its Domestic Money Market and Foreign Exchange transactions into the Opics system consequently dropping the Unix-based Money Maker and Microbanker Treasury module. By February 2002, the Fixed Income module was also implemented. By July 2002, Trust converted its CTF, IMA and TOFA products into the Infoserve Infobanker Trust system, a complete and comprehensive application system for Trust front and back office processing.

In January 2003, all branches were converted to a single online transaction system environment. The system is composed of the Customer Information, Deposits, Remittance, Miscellaneous Transaction and ATM modules. The system also includes a front end branch delivery system, which allows the Bank to service its depositors in any of the branches nationwide.

The Misys' Trade Innovation System, meanwhile, was also implemented enabling the Trade Services Unit to handle all trade finance transactions such as Import and Export Letters of Credit, Bank Guarantees, Import Bills, Trust Receipts, Export Bills Purchased and Bills Received for Collection. Prospectively, the Bank will implement the Midas Loans to replace the UNIX-based Microbanker. The Midas Loans System provides the Bank a facility through the Credit Risk Management module to monitor its exposure to customers, industries and geographical regions over a broad range of products that will be offered.

Organizational Restructuring and Business Process Improvements

The senior staff of PBCom was formerly composed of long-standing employees whose professional experience was limited to their PBCom stint and nurtured under a patriarchal type of management. At the onset of the transformation in 2000, the senior staff was replaced by a team of professional managers with extensive experience, many of whom were former senior officers of leading commercial banks. The new management has since undertaken several management initiatives and utilized their experience in instituting professionalism throughout the organization.

Efforts to reduce overhead costs and improve operational efficiency were initiated since 2000 yielding significant cost savings for the Bank. The Operations and Information Technology Segment implemented, starting in 2001, key structural changes which included the establishment of the Makati and Binondo Clearing Centers, a Centralized Check Verification Unit and a Statement Rendition Unit at the Makati Clearing Center. Loan and trade transaction processing were also streamlined by establishing two separate loan processing centers in Visayas and Mindanao. Another major structural change was the centralization of the branch accounting function with Controllership in the head office following the conversion of branches to an integrated front and back-end delivery system. This allowed branches to focus more on marketing and cross-selling bank products.

A Credit Management and Asset Recovery Group was also formed to improve the Bank's overall asset quality. The Group worked to improve the Bank's collateral position, implement remedial measures and establish a monitoring system for past due and potential problem accounts. The credit documentation review process was strengthened through the revision and standardization of bank credit forms while a document deficiency tracking system was put in place.

The Group also established a systematic and transparent asset disposal & approval process. It also created a comprehensive and accurate acquired asset database for proper monitoring. This resulted in an improvement in asset recovery that generated substantial extraordinary income for the Bank. In 2001 and 2002, cash collections totaled ₱429.2 million and ₱606.3 million; foreclosures of ₱121.6 million and ₱756.4 million and dacion en pago of ₱780.4 million and ₱1.29 billion.

Manpower Rationalization

Automation and business process constraints before the transformation resulted in overstaffing in some areas of the Bank. Total headcount reached 988 as of end-1999 with a distribution network of only 45 branches. The headcount reached a high of 1,169 upon the integration of Consumer Savings Bank's 19-branch organization. Through the reorganization and improvement in business processes, the new management was able to reduce headcount by 181 or 15% from the highest level to its current level of 988 despite maintaining a 64-branch network. The reduction was also implemented without offering retiring employees additional incentives.

Manpower cost savings were also realized from the new Collective Bargaining Agreement reached with the employees' union. The last two CBAs prior to 2000 cost the Bank ₱199 million and P162 million, respectively. The succeeding two CBAs, however, have amounted to only ₱32 million and ₱29 million, respectively. The reduction in headcount and the reduced CBA costs have resulted in a relatively flat manpower cost that has increased by only 3.6% over the last 3 years to ₱571 million. During the transformation process, management also ensured the full funding of the retirement fund.

Image-Building

During the early stages of the transformation process, the Bank enhanced the logo which had become aesthetically outmoded in the context of a more dynamic business environment. A new logo was developed retaining the basic elements of the old logo but the colors, though the same, were made livelier and dynamic. The Bank also transferred its head office from Binondo to the new PBCom Tower in Makati signifying its emergence from a low-key Chinatown-based bank into a modern and highly competitive commercial bank. Attractive signages incorporating the new logo and a standard modern look was adopted in renovated branches.

Upgraded Risk Management Systems & Corporate Governance

Policies and procedures were previously not fully documented and standardized resulting in confusion and breeding an environment of non-compliance to agreed policies. There were no standard credit processes and procedures in place based on Board-approved institutional credit policies. Similarly, there were no standardized accounting entries eventually resulting in substantial float items that had to be written off. An operational manual was, likewise, non-existent resulting in operational inefficiencies and practices that did not conform to the principles of good governance. As part of the Bank's thrust for good corporate governance, the manualization of policies and procedures in all areas of the Bank was undertaken. During the initial stages of the transformation drive, four key manuals were established: an Operations Manual, a Credit Policy Manual, a Legal Manual and an Accounting Manual. In August of 2002 the creation of a Risk Management Manual was completed. The manual is the core document that provides a bank-wide functional setting by which risk management will be conducted and applied in all levels of management. This is consistent with the Bank's business objectives as well as standards required by the Bangko Sentral. Also created was an Approval Limits Handbook that outlines a well-defined approval limits and authority structure which is a major element of the Bank's risk management system and philosophy. In 2003, a Corporate Governance Manual was approved while a Code of Conduct for all employees was issued in early 2004.

During the transformation process, the involvement of the Directors in the Bank's operations was actively promoted in line with best business practices. Various Board Committees were created and headed by individual Directors. The Committees include the following: Executive Committee, Audit Committee, Trust Committee, Governance Committee, Anti-Money Laundering Council, Risk Management Committee and Asset Disposal Committee.

ONWARDS

optimizing our strengths
and opportunities

Taft Avenue - Nakpil Branch

Rising in New Areas

Locational convenience continues to be of importance to our customers' business decisions about where they do their banking, that is why improving the location of our branches and expanding our network remain a priority.

In the past months, we moved to new and better sites in Taft Avenue and Annapolis, Greenhills. Meanwhile, in the pipeline this year are the following sites: Malolos, Zamboanga-Veterans Avenue, Ongpin, Masangkay, Mandaue-Basak, Cubao and Dagupan.

New products and services:
looking forward to serving your needs

Optimism is an essential ingredient for innovation. And we at PBCom have always made sure that we respond to changes in the marketplace. Banking the way our customers want it is a big promise, but one we intend to keep.

With a stronger capital base, we will continue to invest in expanding our product and service capabilities to help our customers realize just how much more PBCom can deliver. Our products, services and methods will be in concert with our underlying philosophy, that is to service our loyal customers fully and attract new ones.

Product development initiatives now underway include a suite of new products specifically designed for our customers' evolving needs. Early this year, we launched two exciting products namely, PBCom TD Prime and PBCom Passbook TD. The PBCom Passbook TD is a short-term time deposit with features similar to a regular TD, except that it is evidenced by a passbook instead of the usual certificate issued. PBCom TD Prime, on the other hand, is a high-yielding one-year time deposit. It is an excellent investment alternative considering that clients can earn higher interest rates throughout the entire term.

We also introduced Premium 1 and Premium 2, two new time deposits that allow clients to earn higher interest similar to that of a long-term deposit aside from providing the flexibility of withdrawing the interest on repricing date without pre-terminating the placement.

E-banking: Bringing Banking at Your Fingertips

Technology rules in this day and age. Emerging technologies continue to transform how business is done. This is evidenced by the rising demand for sophisticated gadgets such as mobile phones, computers, digital TV, palm-pilots and the like (and oftentimes, the latest model is preferred).

Similarly with banking, high-tech convenience-banking is on the rise. A regular customer is no longer content with the usual traditional services a bank offers.

Not to be left behind in the e-banking game and with the desire to address the tech-savvyness of our market, PBCom's Internet Banking and Mobile Banking are currently underway to provide banking convenience to our customers.

Mobile Banking

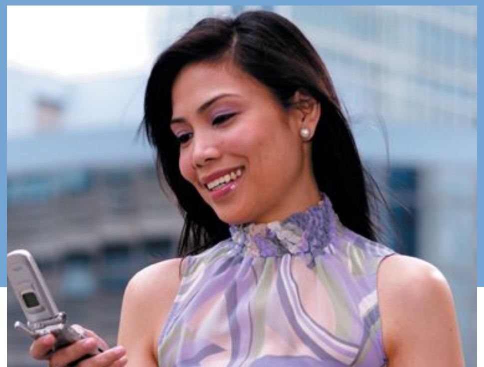
Do you happen to know anyone who does not own a mobile phone, cell phone or "cell" today?

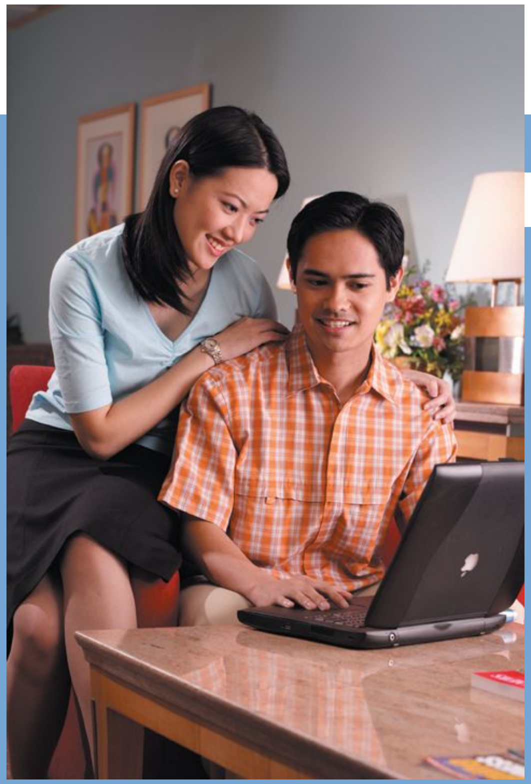
Everybody owns a cell phone, even a simple fishball vendor nowadays, owns one. The cellular phone or mobile phone has become something people "can't leave home without". Exaggerated as it seems, but today's working class regards the cell phone as the one gadget they "can't live without". As a universal device, the cellular phone makes it the ideal terminal for secure and convenient financial transactions.

With so many deadlines to fulfill, appointments to meet and meetings to attend, one hardly has time for anything else anymore, like doing banking transactions, which are an essential part of any businessman's personal life. Our solution – a tie up with a leading wireless service provider, to provide our customers with mobile banking service.

With our mobile banking facility, customers may carry out a range of transactions, on the move - wherever and whenever it's convenient. Customers will be able to do several transactions through cellular phones such as balance inquiry, fund transfer, statement request, checkbook request, mobile PIN change and other basic banking transactions with additional features using the cellular phone.

It's like having your bank within the grasp of your hands.





P2H Remittance Service: Bringing Your World Closer

All over the world you see Overseas Filipino Workers working hard in order to provide their families back home a better life. What could be more disappointing or painful to them than their families spending or splurging the money on unnecessary purchases and leaving the necessities still unpaid, all because they have no control over the money they sent.

This and other similar circumstances surrounding the OFWs' longing to give financial support to their family while still having control over the hard-earned money sent is what inspired PBCom to venture into a one of a kind remittance business.

PBCom has just recently completed its operational arrangements with P2H, a Singaporean remittance and technology company. P2H is a company that focuses on building and running Bills Payment, Remittance and Payment Logistics products and services, targeted at our Balikbayans. They utilize technology to provide faster, more efficient products with a much higher level of customer service and innovation than anything else in the market.

PBCom's P2H remittance service is unlike any other remittance services offered by other banks. With P2H, money sent home from abroad is guaranteed to be used as payment for the family's main needs such as electricity, water, and tuition fees. This is because the money remitted will be paid directly to the utility companies or schools by the OFW himself, thus, controlling how the money is spent at home. For the OFW, there is comfort and relief in the knowledge that his family's primary needs are already well-taken cared of.

Cash Management Services: Bringing Solutions that Work for Your Business

In any growing business, one of the biggest challenges is managing cash resources. Managing these on your own makes it even doubly difficult. That's why we at PBCom have come to realize that by developing cash management solutions, we can be a more effective and valuable partner in our clients' progress.

Our cash management package of services have been designed to ultimately improve your business' performance by helping you maximize returns, collect payments, make disbursements more efficient and consequently lower your costs and enhance productivity.

Among the cash management services we are offering are payroll services, transmission of SSS contributions and payment of SSS benefits, checkwriting facility, electronic payment settlement, post-dated check warehousing, point-of-sale facility (via Bancnet) and automatic fund transfers.

Internet Banking

PBCom is taking-off and as such, we are in the rush to expand our range of services being offered via an ever-increasing number of electronic channels including the Web. The roll out of our Internet Banking facility will enable our customers to have access to their own personal or business accounts anytime. It's the perfect tool to do banking whether from home, the office or when travelling.

It is not unusual, but a typical day of a busy man does not end at 5 p.m. Sometimes you need to take care of business beyond the normal 8-hour business day. With PBCom Internet Banking, you are put in charge of your banking by giving you the freedom to bank at a time that is best for you.

The PBCom Internet Banking facility allows corporate clients to do various transactions through the use of the internet via PBCom's website (www:pbcom.com.ph). Features that will be initially available in the PBCom Internet Banking facility are account information, funds transfer, third party payments, payroll services, rates inquiry and transaction status and alerts. Additional functions such as check management, bills payment, monitoring of loans, trade and remittance transactions, and automatic debit arrangement will be offered later on.

Internet Banking offers you the reassurance of being able to see your transactions on screen and print out receipts, providing visual confirmation of your banking.

It's literally banking at your fingertips.

ODYSSEY

milestones in PBCom history

1939

PBCom opened its doors to the public on September 1939 at the Trade and Commerce Building in Binondo.

World War II interrupts operations temporarily.

1947

First branch in Cebu opens.

A modern six-story building for the head office is built in Binondo.

1950

1974

Corporate seal and logo are launched.

Became 100% Filipino-owned

Industrialists led by Ralph Nubla, Sr. acquire majority of PBCom, infuse ₱83 million

Ralph Nubla, Jr.

Ralph Nubla, Sr.
† Former Chairman Emeritus

Luy Kim Guan
Chairman Emeritus

Enrique T. Luy

2000: Start of PBCom Transformation

The entry of the current management team signals the start of PBCom's transformation and modernization.

Isidro C. Alcantara, Jr.

Acquires 100% of Consumer Savings Bank

Transformation Initiatives
New Businesses
Full Automation
Operational Efficiency
Best Business Practices

Transfers head office to PBCom Tower in Makati

Carlos Chung Bunsit

Chung Tiong Tay
Chairman

2004 & Beyond:

Recovery Plan in Place

Infusion of ₱3 Billion in capital by major shareholders establishes PBCom as the highest capitalized commercial bank in the Philippines.

Implementation of Recovery Plan ensures sustained growth and profitability moving forward.

ORGANIZATION

board of directors

Luy Kim Guan
Chairman Emeritus

Chung Tiong Tay
Chairman

Ralph Nubla, Jr.
Vice Chairman

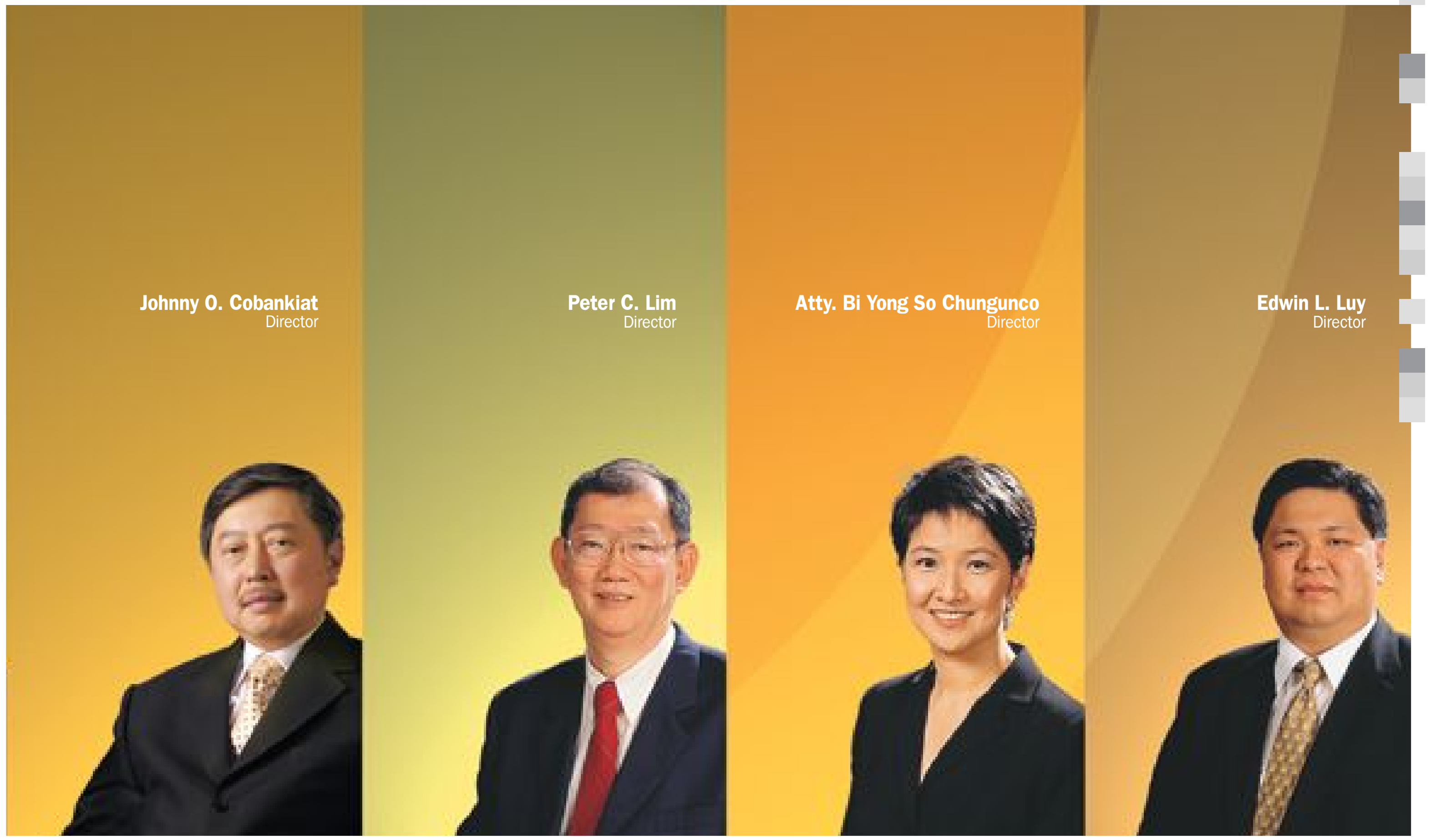
Enrique T. Luy
Vice Chairman

Isidro C. Alcantara, Jr.
President & CEO

Carlos Chung Bunsit
Director

Henry Y. Uy
Director

Ernesto T. Luy
Director



Johnny O. Cobankiat
Director

Peter C. Lim
Director

Atty. Bi Yong So Chungunco
Director

Edwin L. Luy
Director

ORGANIZATION

clockwise from center

Isidro C. Alcantara, Jr.
President & CEO

Angel M. Corpus
Executive Vice President

Jose R. Chanyungco
Senior Vice President

Virgilio J. Katigbak
Senior Vice President

Edgardo T. Nallas
Senior Vice President

Edmundo L. Tan
Corporate Secretary

Arthur D. Chung
Senior Vice President

management team

clockwise from left

Felimon F. Baltazar
First Vice President

James Y. Go
First Vice President

Christopher B. Mutuc
First Vice President

Aurora C. Manguerra
First Vice President

Carolina O. Yu
First Vice President

Edgardo R. Sancho
First Vice President

Serafin L. Bernardo IV
First Vice President

Melvin C. Lim
First Vice President

Roberto B. Reyes
First Vice President

Robert T. Tan
First Vice President

Chai Sen D. Uy
First Vice President

clockwise from left

Raul C. Diaz
First Vice President

Arnaldo L. Cruz
First Vice President

Juan B. Estioko
First Vice President

Dante T. Fuentes
First Vice President

Evelyn D. Vinluan
First Vice President

Evangeline Y. Qua
First Vice President

board committees

Executive Committee

Chairman Ralph Nubla, Jr.
Vice Chairmen Henry Y. Uy
Carlos Chung Bunsit
Members Enrique T. Luy
Isidro C. Alcantara, Jr.
Atty. Bi Yong So Chungunco
Ernesto T. Luy
Secretary Atty. Edmundo L. Tan

Audit Committee

Chairman Peter C. Lim
Members Carlos Chung Bunsit
Edwin L. Luy
Atty. Bi Yong So Chungunco
Juan B. Estioko

Trust Committee

Chairman Ernesto T. Luy
Members Ralph Nubla, Jr.
Henry Y. Uy
Isidro C. Alcantara, Jr.
Raul C. Diaz

Governance Committee

Chairman Johnny O. Cobankiat
Members Ralph Nubla, Jr.
Enrique T. Luy
Carlos Chung Bunsit

Anti-Money Laundering Council

Chairman Isidro C. Alcantara, Jr.
Members Ernesto T. Luy
Virgilio J. Katigbak
Dante T. Fuentes
Atty. Caesar D. Ramirez

Risk Management Committee

Chairman Atty. Bi Yong So Chungunco
Vice Chairman Isidro C. Alcantara, Jr.
Members Henry Y. Uy
Angel M. Corpus
Evelyn D. Vinluan

Asset Disposal Committee

Chairmen Ernesto T. Luy
Carlos Chung Bunsit
Members Marina U. Francisco
Robert T. Tan

management committees

Asset Liabilities Committee
Management Committee
Personnel Committee
Information Technology Steering Committee
Operations Committee
PBCom Tower Committee
Retirement and Provident Board
Trust Investment Committee
Bidding Committee

senior officers

CHAIRMAN EMERITUS
Luy Kim Guan

CHAIRMAN
Chung Tiong Tay

VICE CHAIRMEN
Enrique T. Luy
Ralph Nubla, Jr.

VICE CHAIRMAN – EXECUTIVE COMMITTEE
Henry Y. Uy

PRESIDENT & CEO
Isidro C. Alcantara, Jr.

EXECUTIVE VICE PRESIDENT
Angel M. Corpus

SENIOR VICE PRESIDENTS
Jose R. Chanyungco
Arthur D. Chung
Virgilio J. Katigbak
Edgardo T. Nallas

FIRST VICE PRESIDENTS
Felimon F. Baltazar
Serafin L. Bernardo IV
Arnaldo L. Cruz
Raul C. Diaz
Juan B. Estioko
Dante T. Fuentes
James Y. Go
Melvin C. Lim
Aurora C. Manguerra
Christopher B. Mutuc
Evangeline Y. Qua
Roberto B. Reyes
Edgardo R. Sancho
Robert T. Tan
Chai Sen D. Uy
Evelyn D. Vinluan
Carolina O. Yu

VICE PRESIDENTS
Rene C. Alejandrino
Raquel T. Bangayan
Enrique R. Bartolome, Jr.
Editha N. Bautista
Daniel C. Brion
Mary Jane T. Cuatico
Rose Margaret T. Cuatico
Romeo G. De La Rosa
Marie Antoinette L. Dela Cruz
Marina U. Francisco
Gloria Elena H. Go
Agnes M. Lamberte
Lolita Giok Pen G. Leh
Ester P. Lim
Caesar D. Ramirez
Leo P. Villanueva

ASSISTANT VICE PRESIDENTS
Froilan G. Alcantara
Virginia P. Basaca
Antonio Q. Beltran
Ricardo M. Bondoc
Vilma V. Bugia
Elsie D. Cabaluna
Fernando V. Carpio
Danilo Dominguez
Ma. Visitacion V. Gajitos
Ma. Rosario Lourdes S. Garcia
Emmanuel C. Geronimo
Maria Rosario C. Geronimo
Julie N. Go
Romeo L. Ibarra
Annabel C. Lee
Rainelda O. Rodriguez
Ma. Socorro I. Santos
Carmencita L. Tan
Alicia S. Yu

List of officers as of May 31, 2004.

O U T L O O K

how we performed

how far we've come in 2003

Corporate Governance

PBCOM's overall corporate governance is the primary responsibility of the Bank's Board of Directors(BOD). The BOD ensures that the Bank exercises full compliance to existing laws and regulations, and approves the overall corporate philosophy and mission statement; business plan and budget; investments and capital expenditures; appointment of senior officers; compensation policies; other programs and policies affecting business operations; and material transactions outside the banking business. The BOD is composed of 12 directors: 9 representing the three major shareholders, 2 independent directors and the President & CEO. In the last annual stockholders' meeting held on June 26, 2003, Mr. Luy Kim Guan was elected as Chairman Emeritus while Mr. Chung Tiong Tay was elected Chairman of the Board of Directors. Also elected as Vice Chairmen in the same meeting were Mr. Enrique T. Luy and Mr. Ralph Nubla, Jr.

The Executive Committee serves as the primary executory arm of the BOD. Composed of seven directors and headed by Vice Chairman of the Board of Directors Ralph Nubla, Jr., the Executive Committee exercises ultimate responsibility over the credit approval process.

Enrollment of Directors as Associates of The Institute of Corporate Directors. In line with PBCom's continuing thrust to comply with and exercise the highest standards of corporate governance, almost all Directors have enrolled at The Institute of Corporate Directors (ICD) as ICD Associates. As ICD Associates, the Directors will be conducting a regular self-assessment of the Bank's corporate governance practices once a year with the assistance of ICD facilitators. In addition, several PBCom Directors and selected senior officers have attended the following specialized courses on Corporate Governance: a) Audit Reforms and Audit Committees; b) Risk Oversight for Directors; c) Governance Committees; and d) Financial Issues (Financial Numeracy) for Directors.

Completion of Corporate Governance – Self-Rating Form. The Bank has completed its Corporate Governance – Self-Rating Form (CG-SRF) as required by the Securities and Exchange Commission (SEC). The Bank responded to a total of 99 practices/principles included in the CG-SRF, the results of which are as follows:

a. 87 practices/principles were rated 5 indicating that full compliance with the practices/principles has been made.
b. 12 practices/principles were rated 4 indicating that compliance with the practices/principles has been made but with minor deviation or incompleteness.

Approval of Governance Committee Charter. On August 28, 2003, the BOD approved the charter of the Governance Committee which was previously approved in line with the requirements of the SEC. Under the charter, the Committee shall serve as the primary resource for the BOD to study, evaluate and make recommendations about the structure, charter, policies and practices of the BOD and its committees and to address issues of corporate governance.

Code of Conduct. Last November 27, 2003, the BOD approved the PBCom Code of Conduct documenting the overriding corporate values of the Bank in order to sustain a high level of integrity and professionalism among PBCom officers, staff and consultants. The Code of Conduct defines the standards which must permeate in all business dealings and relationships maintained by PBCom employees. It also aims to standardize the application of policies in the Bank and the corrective measures that will be enforced in case of deviations from expected behavior.

Risk Management

PBCom's risk mission, objectives and philosophy are based on the strategy that for effective risk management, it is necessary to have both an appropriate risk management environment and a dynamic pro-active risk management process.

The risk management philosophy of PBCom is to develop risk awareness, and a risk/return consciousness in order to protect deposits, preserve and properly allocate capital and ensure an adequate return on capital. In order to achieve this, the Bank created the Risk Management Group, a distinct and independent unit directly reporting to the Risk Management Committee, to identify, measure and manage risks in the areas of Treasury, Credit, Operations and Trust. The Risk Management Committee which is composed of several board members and senior management meets regularly to oversee bankwide implementation of the risk management process and ensure compliance with defined risks parameters.

Treasury Risk Management

- Market risk arises from adverse fluctuations in the market value of financial instruments in both on- and off-balance sheet items. The Bank employs Value-at-Risk (VaR) using a 99% one-tailed confidence level to measure market risk while a regular back testing program is conducted to ensure an accurate and robust VaR model. Stress Testing is also employed to determine the earnings impact of extreme market movements not captured by VaR calculators. Finally a system of risk limits that reflect the Bank's level of capital, expected returns and the overall risk appetite is used to manage market risk.

- Credit risk is the risk to earnings that a counterparty is unable to pay obligations on time and in full as previously contracted. The Bank has established an internal risk rating system to determine the soundness of a financial institution before credit lines are granted. Once the credit facilities are granted, a system of monitoring credit limits are employed to manage credit exposures.

- Liquidity risk refers to the possibility that the Bank will be unable to meet its financial obligations in any currency. The Bank employs liquidity ratios, a liquidity gapping report and Maximum Cumulative Outflow (MCO) limit to manage liquidity risk.

Credit Risk Management

The credit risk management function involves the identification of inherent risks related to transactions or processes executed with respect to all lending-related activities. In line with this function, the Risk Management Group has developed a Key Risk Indicators Report (KRIR) to serve as a tool to monitor the risk profile of the Bank's business units (e.g. lending and support groups) and to establish internal loss and key risk indicator databases.

The Bank employs a risk rating system to assess and measure the diverse risk factors of a borrower. The system is designed to reveal the overall risk of lending and serves as a tool for making credit decisions, evaluating the credit risk of potential and existing borrowers, and for pricing purposes.

The management of the credit portfolio is subject to prudential limits monitored by the Bangko Sentral ng Pilipinas (BSP). These limits serve to control the magnitude of credit risk and preserve the quality of the portfolio. The Bank also monitors large exposures and credit risk concentration in accordance with BSP Circular 414.

Operational Risk Management

Operational risk arises from inadequate or failed internal processes, people, systems and technology or from external events. The primary tool in controlling operational risk is an effective system of internal controls effected by the BOD and participated by each and every employee of the Bank.

A proactive stance towards promoting risk awareness and operational risk control is advocated by the Bank. Several initiatives were undertaken by the Bank through its Risk Management Group. These included conducting seminars and workshops on Operational Risk Management attended by different units of the Bank, devising and implementing tools (i.e. Operational Losses and Key Risk Indicators Report-OLKRIR, Control Self Assessment Questionnaire) to identify, monitor and control operational risks across all functional areas of the Bank, process mapping, continuous development and implementation of risk management policies, and holding of interactive meetings with operating units to address risk issues and process enhancements.

Trust Risk Management

Trust risks pertain to losses that can occur for failure of the Trust Group to fulfill its fiduciary responsibilities to the trustors/principals. Having account management, trading, investment and operations functions, Trust is also exposed to the major risk areas of Market, Credit and Operations.

Risks arising in the performance of trust duties and obligations are addressed through the Trust Committee and Risk Management Group. The Trust Committee performs oversight function on trust services. The Risk Management Group spearheads the effective implementation of the risk management process through:

- Risk Assessment Survey, Risk Map, Risk Matrix, Internal Control Questionnaire and transaction walkthrough to continually assess the risk profile of Trust Group;
- Operational Loss and Key Risk Indicators Report to analyze and manage disclosed risk indicators;
- BOD approved Trust Risk Management Policies to guide Trust in managing risk associated with organization, account management, trading, investment and operations functions; and
- Seminars and interactive meetings with concerned risk takers to effectively promote risk awareness.

Statement of Management's Responsibilty for Financial Statements

Securities and Exchange Commission
SEC Building, EDSA, Greenhills
Mandaluyong, Metro Manila

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

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

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

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

Jose R. Chanyungco Senior Vice President and Controller	Isidro C. Alcantara, Jr. President and Chief Executive Officer	Chung Tiong Tay Chairman of the Board

Report Of Independent Auditors

SGV & Co

The Stockholders and the Board of Directors
Philippine Bank of Communications

We have audited the accompanying statements of condition of Philippine Bank of Communications as of December 31, 2003 and 2002, and the related statements of income, changes in capital funds and cash flows for each of the three years in the period ended December 31, 2003. These financial statements are the responsibility of the 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 Philippine Bank of Communications as of December 31, 2003 and 2002, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2003 in conformity with accounting principles generally accepted in the Philippines.

Without qualifying our opinion, we draw attention to Note 1 to the financial statements. The Bank is in the process of arranging the sale of a pool of nonperforming assets to a special purpose vehicle that will result in a loss, a portion of which will be recovered through the financial assistance to be given by the Philippine Deposit Insurance Corporation (PDIC). However, the amount of loss from such sale cannot be determined by the Bank until the sale is consummated. The additional allowance for probable losses that would need to be booked in the accounts of the Bank as of December 31, 2003 would depend on the determination of the loss from such sale and the income support under the financial assistance agreement.

SyCip Gorres Velayo + Co.

Makati City

April 15, 2004

STATEMENTS OF CONDITION

	December 31	
	2003	**2002**
RESOURCES		
Cash and Other Cash Items (Note 10)	₱388,994,429	₱309,028,568
Due from Bangko Sentral ng Pilipinas (Note 10)	997,163,018	2,007,548,945
Due from Other Banks	732,604,608	805,414,952
Interbank Loans Receivable	555,860,000	4,220,677,000
Trading Account Securities - at market (Note 4)	4,473,458,720	224,330,768
Investments in Bonds and Other Debt Instruments		
- at amortized cost (Notes 4, 10 and 21)	8,112,334,479	8,511,454,660
Loans - net (Notes 5 and 20)	12,304,165,091	17,566,734,508
Equity and Other Investments - net (Note 6)	2,013,764,051	1,969,146,187
Property and Equipment (Note 7)		
At cost - net	1,445,144,027	1,524,858,895
At appraised value	424,416,350	429,571,017
Real and Other Properties Owned or Acquired		
- net of allowance for probable losses of ₱193,519,810 (Note 9)	6,200,208,077	6,333,135,923
Deferred Tax Assets - net (Note 17)	1,391,567,005	1,199,825,884
Other Resources - net (Note 8)	7,031,813,153	1,646,084,977
	₱46,071,493,008	₱46,747,812,284
LIABILITIES AND CAPITAL FUNDS		
Liabilities		
Deposit Liabilities (Note 10)		
Demand	₱2,280,302,663	₱2,073,618,169
Savings	11,079,158,817	18,798,778,690
Time	12,853,081,003	12,878,941,687
	26,212,542,483	33,751,338,546
Bills Payable (Note 11)	12,268,552,439	5,097,568,550
Outstanding Acceptances (Note 12)	164,606,883	490,533,050
Marginal Deposits	11,001,414	1,755,991
Manager's Checks	61,675,817	80,220,880
Accrued Interest, Taxes and Other Expenses (Note 13)	180,897,563	184,365,311
Other Liabilities (Note 14)	405,649,238	584,955,251
	39,304,925,837	40,190,737,579
Capital Funds		
Capital stock (Note 16)	5,258,916,300	5,258,916,300
Additional paid-in capital	476,011,662	476,011,662
Surplus reserves (Note 16)	73,249,633	68,358,940
Surplus (Note 16)	700,250,285	491,160,512
Revaluation increment on land (Note 7)	258,149,091	262,637,091
Treasury stock	(9,800)	(9,800)
	6,766,567,171	6,557,074,705
	₱46,071,493,008	₱46,747,812,284

See accompanying Notes to Financial Statements.

STATEMENTS OF INCOME

	Years Ended December 31		
	2003	**2002**	**2001**
INTEREST INCOME ON			
Loans (Note 5)	₱1,379,573,813	₱1,415,537,535	₱2,836,826,201
Trading and investment securities (Note 4)	911,566,952	675,297,781	630,175,130
Interbank loans receivable	46,315,241	51,131,286	162,397,833
Deposits with banks	42,109,005	39,439,768	55,816,971
	2,379,565,011	2,181,406,370	3,685,216,135
INTEREST EXPENSE ON			
Deposit liabilities (Note 10)	1,820,937,162	1,661,675,446	2,224,671,700
Borrowed funds (Note 11)	265,783,320	127,036,255	445,011,674
	2,086,720,482	1,788,711,701	2,669,683,374
NET INTEREST INCOME	292,844,529	392,694,669	1,015,532,761
PROVISION FOR PROBABLE LOSSES (Note 9)	–	326,328,735	33,625,960
NET INTEREST INCOME AFTER			
PROVISION FOR PROBABLE LOSSES	292,844,529	66,365,934	981,906,801
OTHER INCOME (CHARGES)			
Trading and securities gain - net	1,009,701,601	1,227,687,372	314,474,346
Service charges, fees and commissions	236,987,782	127,488,011	142,683,132
Foreign exchange gain (loss) - net	(32,721,638)	(19,491,743)	(6,423,616)
Miscellaneous (Note 6)	104,554,170	191,561,307	178,207,360
	1,318,521,915	1,527,244,947	628,941,222
OTHER EXPENSES			
Compensation and fringe benefits (Note 18)	585,153,855	570,739,618	564,890,349
Depreciation and amortization (Notes 6 and 7)	165,380,099	114,903,639	94,117,841
Occupancy and other equipment-related costs (Note 19)	105,349,393	110,056,741	113,260,542
Taxes and licenses (Note 17)	100,667,662	139,752,760	186,274,926
Amortization of software cost	29,502,400	5,872,797	4,774,805
Miscellaneous (Note 15)	529,899,206	560,188,960	393,045,444
	1,515,952,615	1,501,514,515	1,356,363,907
INCOME BEFORE INCOME TAX	95,413,829	92,096,366	254,484,116
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)	(118,566,637)	(154,738,684)	16,359,745
NET INCOME	₱213,980,466	₱246,835,050	₱238,124,371
Earnings Per Share (Note 23)	₱4.07	₱4.69	₱5.22

See accompanying Notes to Financial Statements.

STATEMENTS OF CHANGES IN CAPITAL FUNDS

	Years Ended December 31		
	2003	**2002**	**2001**
CAPITAL STOCK (Note 16)			
Balance at beginning of year	₱5,258,916,300	₱5,258,906,600	₱2,629,458,200
Subscriptions during the year	–	9,700	2,629,448,400
Balance at end of year	5,258,916,300	5,258,916,300	5,258,906,600
ADDITIONAL PAID-IN CAPITAL			
Balance at beginning of year	476,011,662	476,009,722	515,571,072
Additions	–	1,940	–
Stock issuance expenses	–	–	(39,561,350)
Balance at end of year	476,011,662	476,011,662	476,009,722
SURPLUS RESERVES (Note 16)			
Balance at beginning of year	68,358,940	65,465,142	64,108,874
Transfer from surplus	4,890,693	2,893,798	1,356,268
Balance at end of year	73,249,633	68,358,940	65,465,142
SURPLUS (Note 16)			
Balance at beginning of year	491,160,512	247,219,260	10,451,157
Net income	213,980,466	246,835,050	238,124,371
Transfer to surplus reserves	(4,890,693)	(2,893,798)	(1,356,268)
Balance at end of year	700,250,285	491,160,512	247,219,260
UNREALIZED GAIN ON AVAILABLE-FOR-SALE SECURITIES	–	–	5,588,311
REVALUATION INCREMENT ON LAND			
Balance at beginning of year	262,637,091	262,637,091	262,637,091
Reduction (Note 7)	(4,488,000)	–	–
Balance at the end of the year	258,149,091	262,637,091	262,637,091
TREASURY STOCK - AT COST (Note 16)	(9,800)	(9,800)	(9,800)
	₱6,766,567,171	₱6,557,074,705	₱6,315,816,326

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS

STATEMENTS OF CASH FLOWS

	Years Ended December 31		
	2003	**2002**	**2001**
CASH FLOWS FROM OPERATING ACTIVITIES			
Income before income tax	₱95,413,829	₱92,096,366	₱254,484,116
Adjustments to reconcile income before income tax to net cash generated from (used in) operations:			
Interest income	(2,379,565,011)	(2,181,406,370)	(3,685,216,135)
Interest expense	2,086,720,482	1,788,711,701	2,669,683,374
Depreciation and amortization	165,380,099	114,903,639	94,117,841
Amortization of goodwill	14,585,736	14,585,736	14,585,736
Amortization of software cost	29,502,400	5,872,797	4,774,805
Equity in net earnings of affiliates	(345,280)	(322,381)	(384,962)
Provision for probable losses	–	326,328,735	33,625,960
Unrealized trading loss (gain)	(112,402)	(777,897)	1,210,369
Loss (gain) on sale of property and equipment	11,139,242	(43,587,193)	(3,523,573)
Changes in operating resources and liabilities:			
Decrease (increase) in:			
Trading account securities	(4,249,015,550)	82,110,345	1,169,834,731
Available-for-sale securities	–	131,987,610	(110,782,610)
Loans	(145,537,584)	(1,720,403,694)	(159,351,373)
Other resources	232,842,015	(117,393,719)	(84,053,902)
Increase (decrease) in:			
Deposit liabilities	(7,538,796,063)	3,428,142,394	7,683,242,859
Manager's checks	(18,545,063)	7,169,357	33,343,564
Accrued taxes and other expenses	(16,838,076)	(4,780,454)	(23,714,085)
Other liabilities	(204,482,776)	90,415,884	50,296,466
Net cash generated from (used in) operations	(11,917,654,002)	2,013,652,856	7,942,173,181
Interest received	2,283,118,294	2,149,099,367	3,480,251,917
Interest paid	(2,073,350,154)	(1,811,615,039)	(2,788,330,317)
Income taxes paid	(73,174,484)	(108,644,285)	(114,180,695)
Net cash provided by (used in) operating activities	(11,781,060,346)	2,242,492,899	8,519,914,086
CASH FLOWS FROM INVESTING ACTIVITIES			
Decrease (increase) in:			
Investments in bonds and other debt instruments	399,120,181	(4,014,401,044)	(2,919,934,306)
Equity and other investments	(60,041,333)	(101,663,218)	(10,000,000)
Additions to property and equipment	(210,926,216)	(282,111,076)	(457,681,828)
Proceeds from sale of property and equipment	130,557,159	177,319,274	3,523,573
Net cash provided by (used in) investing activities	258,709,791	(4,220,856,064)	(3,384,092,561)
CASH FLOWS FROM FINANCING ACTIVITIES			
Proceeds from issuance of capital stock	–	11,640	1,314,724,200
Payment of stock issuance expenses	–	–	(39,561,350)
Increase (decrease) in:			
Bills payable	7,170,983,889	2,348,836,492	(7,555,304,480)
Outstanding acceptances	(325,926,167)	339,257,921	(45,510,790)
Marginal deposits	9,245,423	(4,296,053)	(17,038,534)
Net cash provided by (used in) financing activities	6,854,303,145	2,683,810,000	(6,342,690,954)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(4,668,047,410)	705,446,835	(1,206,869,429)
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR			
Cash and other cash items	309,028,568	389,004,500	380,529,438
Due from Bangko Sentral ng Pilipinas	2,007,548,945	1,900,465,395	3,168,410,918
Due from other banks	805,414,952	892,873,735	723,477,003
Interbank loans receivable	4,220,677,000	3,454,879,000	3,571,674,700
	7,342,669,465	6,637,222,630	7,844,092,059
CASH AND CASH EQUIVALENTS AT END OF YEAR			
Cash and other cash items	388,994,429	309,028,568	389,004,500
Due from Bangko Sentral ng Pilipinas	997,163,018	2,007,548,945	1,900,465,395
Due from other banks	732,604,608	805,414,952	892,873,735
Interbank loans receivable	555,860,000	4,220,677,000	3,454,879,000
	₱2,674,622,055	₱7,342,669,465	₱6,637,222,630

See accompanying Notes to Financial Statements.

PHILIPPINE BANK OF COMMUNICATIONS

Notes to Financial Statements

1. General Information

Philippine Bank of Communications (the Bank) is a publicly listed domestic commercial bank organized in the Philippines to provide banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services through a network of 64 local branches. The Bank's principal place of business is at PBCom Tower, 6795 Ayala Avenue corner V. A. Rufino Street, Makati City. As of December 31, 2003 and 2002, the Bank had 988 and 1,043 employees, respectively.

Rehabilitation Plan
On March 15, 2004, the Bank and its majority stockholders entered into a Financial Assistance Agreement (FAA) with the Philippine Deposit Insurance Corporation (PDIC) under the following salient provisions:

1. Fresh capital infusion from the existing major stockholders amounting to ₱3.0 billion;
2. Compliance at all times with the risk-based capital adequacy ratio of at least 12.5%, any shortfall shall be covered by additional capital infusion from the major stockholders;
3. Prohibition against sale of, or lien or encumbrances on the controlling interest;
4. Sale of certain nonperforming assets (NPAs) to a Special Purpose Vehicle (SPV) and amortization of losses from such sale based on SPV guidelines, with the necessary modifications;
5. Maximum direct loan from PDIC amounting to ₱7.64 billion payable at the end of 10 years with semi-annual interest rate of 1% per annum;
6. Unless the loan is prepaid in accordance with the agreement, the major stockholders agree to absolutely divest, sell or transfer their controlling interest to a strategic third party investor; and
7. Prior approval from PDIC on the declaration, distribution, or payment of cash or stock dividends; effecting any profit sharing or distribution of bonuses to directors and officers of the Bank; transactions or activities not in accordance with the rehabilitation plan; and any single major capital expenditure.

Proceeds from the PDIC loan shall be used by the Bank to purchase government securities, which shall be pledged to PDIC to secure such obligation. The interest income on these securities, net of all taxes and the corresponding 1% interest expense on the loan from PDIC, represents the income support of PDIC to the Bank. Any interest income in excess of 85% of the actual losses from the sale of NPAs to an SPV shall inure to the benefit of PDIC. The actual loss on the sale of the NPAs is the difference between the net book value of the NPAs and the cash proceeds from such sale.

The Bank is currently in the process of arranging the sale of its NPAs to an SPV. The loss from the sale of the NPAs to the SPV and the amount of the direct loan to be granted by PDIC to the Bank under the FAA cannot yet be determined until the sale is consummated. As such, the Bank's management has no reasonable estimate of the loss from the sale of the NPAs and the present value of the PDIC income support discounted at the Bank's normal interest margin ratio.

Nonperforming loans (NPLs) amounting to ₱6.97 billion which were initially identified by the Bank based on the FAA, were reclassified to Loans for Sale as of December 31, 2003 (see Note 8).

On March 25, 2004, the Bangko Sentral ng Pilipinas (BSP) through its Monetary Board approved the revised Financial Recovery and Rehabilitation Program of the Bank subject to the following conditions, among others: (a) infusion of the ₱3.0 billion fresh capital (as required under the FAA discussed above) within 30 days from the approval of the rehabilitation plan; and (b) existing appraisal increment reserve shall be allowed as part of unimpaired capital for purposes of computing the regulatory ratios.

On March 26, 2004, the major stockholders infused the ₱3.0 billion fresh capital to the Bank as advances for future stock subscriptions, awaiting approval of the Securities and Exchange Commission (SEC) on the amendment of the Bank's Articles of Incorporation covering the increase in the authorized capital stock of the Bank by the creation of new preferred shares as discussed in Note 26.

The accompanying comparative financial statements were authorized for issue by the Board of Directors (BOD) of the Bank on April 15, 2004.

2. Summary of Significant Accounting Policies

Basis of Financial Statements Preparation
The Bank follows the accounting principles generally accepted in the Philippines (Philippine GAAP) for the banking industry, which generally follow historical cost convention, except for the measurement at fair value of trading account securities (TAS), available-for-sale securities (ASS), and certain derivative instruments and at appraised values for land used in operations (as discussed in the policies below). The accompanying financial statements of the Bank 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 average PDSWAR for the year (for income and expenses).

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

Adoption of New Accounting Standards
On January 1, 2003, the following new accounting standards became effective:

Statement of Financial Accounting Standards *(SFAS) 8A, Deferred Foreign Exchange Differences,* which eliminates the deferral of foreign exchange differences.

*SFAS 10/*International Accounting Standard *(IAS) 10, Events After the Balance Sheet Date*, prescribes the accounting policies and disclosures related to adjusting and non-adjusting subsequent events.

SFAS 20/IAS 20, Government Grants, prescribes the accounting for and disclosure of government grants and the disclosure of other forms of government assistance.

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

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

SFAS 38/IAS 38, Intangible Assets, establishes criteria for the recognition and measurement of intangible assets. Intangible assets that are recognized should be amortized generally over 20 years. It also requires that expenditures on research, start-up, training, advertising and relocation be expensed as incurred.

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

New Accounting Standards Effective in 2004
The Accounting Standards Council (ASC) has approved the following accounting standards, which are effective in 2004:

***SFAS 12/IAS 12,** Income Taxes*, prescribes the accounting for current and deferred income taxes. The standard requires the use of 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.

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

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

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

Cash and Cash Equivalents
For purposes of reporting cash flows, cash and cash equivalents include cash and other cash items, amounts due from BSP and other banks, and interbank loans receivable which represent cash placements with original maturities of three months or less from dates of placements and are subject to insignificant risk of change in value. Where actual cash flows are not determinable, the reported cash flows are determined based on samples and other estimating procedures.

Trading and Investment Securities
TAS consist of government and private debt securities and equity securities 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 as Trading and Securities Gain in the statements of income. Interest earned on debt instruments is reported as Interest Income. Quoted market prices, when available, are used to determine the fair value of trading instruments. If quoted market prices are not available, then fair values are estimated using pricing models, quoted prices of instruments with similar characteristics.

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 in response to liquidity requirements or in anticipation of changes in interest rates or other factors. ASS are carried at fair market value; unrealized gains and losses are excluded from reported income and are reported as a separate component of capital funds.

Investments in bonds and other debt instruments (IBODI) are government and private 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 in the statements of income. An allowance for probable losses, if any, is established by a charge to income to reflect other-than-temporary impairment in value. Under current BSP 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. For other transfers of investment securities, the unrealized gain or loss at the date of transfer is considered realized and, accordingly, is credited or charged to current operations.

Loans
Loans are stated at the outstanding principal balance, reduced by unearned discounts and allowance for probable loan losses.

Interest income on loans are recognized based on the accrual method of accounting, except in the case of nonaccruing or nonperforming accounts as required by existing regulations of the BSP. Interest income on nonaccruing loans is recognized only to the extent of cash collections received. Unearned discount is amortized to income over the terms of the loans, with the amortization discontinued when the loan becomes nonperforming.

Loans are classified as nonaccruing or nonperforming in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Loans are not reclassified as performing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

Allowance for Probable Loan Losses
The allowance for probable loan losses, which consists of specific and general loan loss reserves, represents management's estimate of probable losses inherent in the loan portfolio, after consideration of prevailing and anticipated economic conditions, prior loss experience, estimated recoverable values based on fair values of underlying collaterals, prospects of support from guarantors, subsequent collections, and evaluations made by the BSP. The BSP observes certain criteria and guidelines based largely on the classification of loans in establishing specific loan loss reserves. To supplement the specific loan loss reserves, a general reserve on unclassified loans is set aside.

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

Investments in Associates
Equity investments in associates (PBCom Finance Corporation and PBCom Forex Corporation) and a wholly owned subsidiary (PBCom Realty) are accounted for under the equity method. An associate is an enterprise in which the Bank holds 20% to 50% of the voting power or which the Bank exercises significant influence and which is neither a subsidiary nor a joint venture. Under the equity method, the investment is carried in the statements of condition at cost plus post acquisition changes in the Bank's share in the net assets of the investee, less any impairment in value.

Post acquisition changes include the share in the investees' net earnings or losses (included in Miscellaneous Income). Dividends received, if any, are treated as a reduction in the carrying values of the investment.

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

Other equity investments where the Bank has no significant influence (other than trading and investment securities, as discussed below) are carried at cost less allowance for market decline, if any. The allowance for market decline is set up by a charge to current operations.

Investment in Real Estate
Investment in real estate are real properties which are held for sale or for lease to others. These are carried at cost less accumulated depreciation and any impairment in value.

Property and Equipment
Parcels of land acquired by the Bank are stated at appraised values less any impairment in value. The appraisal increment resulting from revaluation is credited to Revaluation Increment on Land under capital funds.

The Bank's depreciable properties including leasehold improvements, furniture, fixtures and equipment are stated at cost less accumulated depreciation and impairment loss, if any. The Bank follows the straight-line method of computing depreciation over 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 term of the applicable leases, whichever is shorter.

The useful lives of the depreciable properties are as follows:

Condominium property, buildings and improvements	50 years
Furniture, fixtures and equipment	2 - 5 years
Leasehold improvements	20 years

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

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

The carrying values of the property and equipment are reviewed for impairment when events or changes in circumstances indicate the carrying value may not be recoverable. If any such indication exists and where the carrying values exceed the estimated recoverable amount, the assets or cash-generating units are written down to their recoverable amounts (see accounting policy on Impairment of Assets).

Real and Other Properties Owned or Acquired
Resources acquired in settlement of loans are stated at the total outstanding exposure of the loans at the time of foreclosure or at bid price, whichever is lower. Nonrefundable capital gains and documentary stamp tax incurred in connection with foreclosures are capitalized as part of the carrying values of the foreclosed properties, provided that such carrying values do not exceed appraised values. Holding costs subsequent to the foreclosure or acquisition of the properties are charged to current operations as incurred. Management performs periodic appraisals of the estimated realizable values of these properties and provides allowance, accordingly, based on existing BSP provisioning requirements and for any significant shortfalls from the net recorded values and the estimated realizable values by a charge against current operations.

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

Interest Income
Interest on interest-bearing placements and securities are recognized as the interest accrues, taking into account the effective yield on the resources.

Loan Fees and Service Charges
Loan commitment fees are recognized as earned over the terms of the credit lines granted to borrowers.

Loan syndication fees are recognized upon completion of all syndication activities and where the Bank does not have further obligations to perform under the syndication agreement.

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

Rental Income
Rental income from investment in real estate is recognized as income when earned.

Operating Lease Payments
Operating lease payments are recognized as expense in the statements of income over the lease term.

Loans for Sale (LFS)
LFS account (shown under Other Resources) consists of nonaccruing loans and related accrued interest receivable for sale to an SPV. Generally, nonmonetary assets received as consideration for LFS are stated at the fair market value of the nonmonetary assets received or the fair market value of the nonperforming loans sold, whichever is more clearly determinable (see Note 1).

Goodwill
Goodwill pertaining to the difference between the Bank's acquisition cost of Consumer Savings Bank, Inc. (CSBI) and the latter's net asset value is amortized over 10 years starting in 2001.

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

Foreign Exchange Translation and Transactions
Resources and liabilities denominated in foreign currencies are translated into their equivalents in Philippine pesos based on the PDSWAR prevailing at the end of the year while foreign currency income and expenses are translated at the rates on transaction dates. Gains or losses arising from foreign currency transactions and revaluation adjustments of foreign currency denominated resources and liabilities are credited or charged to current operations.

Derivative Instruments
The Bank is a party to foreign exchange forward 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 a forward contract designated as a hedge, the exchange difference between the contracted forward rate and the spot rate at contract date is deferred and recognized as income or expense over the term of the hedged instrument, while gain or loss in the revaluation of the forward contract is recognized currently in the statements of income. For a forward contract not designated as a hedge, the difference between the contracted forward rate and the market forward rate for the remaining maturity of the contract is recognized currently in the statements of income.

Retirement and Staff Provident Plans
The Bank's retirement expense is determined using the entry age normal method. This method reflects the retirement benefits based on services both rendered and to be rendered by employees as of the date of the actuarial valuation. Under this method, the costs of employees' retirement benefits are evenly allocated over the full period of employment. Retirement cost includes normal cost plus amortization of past service cost, experience adjustments and changes in actuarial assumptions over the expected remaining working lives of the employees.

The Bank also contributes to its contributory, defined-contribution type staff provident plan based on a fixed percentage of the employees' salaries as defined in the plan.

Software Cost
Software (included in Other Resources) is stated at cost and is amortized over its estimated useful life of five years.

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

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

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

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

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

Contingent assets are not recognized in the financial statements but disclosed when an inflow of economic benefits is probable.

Earnings Per Share
Basic earnings per share is determined by dividing net income for the year by the weighted average number of common shares outstanding during the year (after retroactive adjustment for any stock dividends declared in the current year).

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 located in the Philippines (i.e., one geographical location). Therefore, geographical segment information is no longer presented.

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 organized and managed separately according to the nature of services provided and the different markets served with segment representing a strategic business unit. The Bank's business segments are as follows:

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

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

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

Gross income consists of interest income and other income.

Segment information for the year December 31, 2003 and 2002 are as follows (in thousands):

	2003				
	Consumer Banking	Corporate Banking	Treasury	Other	Total
Gross income	₱862,513	₱753,083	₱1,595,111	₱487,380	₱ 3,698,087
Segment result	₱412,464	₱94,962	₱929,859	(₱600,247)	₱ 837,038
Unallocated costs					741,970
Income from operations					95,068
Income from associates					345
Income before tax					95,413
Benefit from income tax					(118,567)
Net income					₱213,980
Other Information					
Segment resources	₱9,403,394	₱6,899,593	₱9,973,302	₱8,372,612	₱34,648,901
Investment in associate					4,312,675
Unallocated resources					7,109,917
Total resources					₱46,071,493
Segment liabilities	₱24,983,687	₱722,455	₱10,010,87	₱488,101	₱36,205,114
Transfer pool funding	(15,580,293)	6,177,138	(37,569)	9,440,724	–
Adjusted segment liabilities	₱9,403,394	₱6,899,593	₱9,973,302	₱9,928,825	₱36,205,114
Unallocated liabilities					3,099,812
Total liabilities					₱ 39,304,926
Other Segment Information					
Depreciation and amortization	₱65,856	₱4,257	₱1,539	₱137,816	₱209,468

	2002				
	Consumer Banking	Corporate Banking	Treasury	Other	Total
Gross income	₱992,538	₱432,670	₱1,268,618	₱1,014,825	₱3,708,651
Segment result	₱239,458	₱42,042	₱785,832	(₱99,062)	₱968,270
Unallocated costs					876,496
Income from operations					91,774
Income from associates					322
Income before tax					92,096
Benefit from income tax					(154,739)
Net income					₱246,835
Other Information					
Segment resources	₱10,936,822	₱6,027,368	₱12,248,349	₱11,652,569	₱40,865,108
Investment in associate					11,518
Unallocated resources					5,871,186
Total resources					₱46,747,812
Segment liabilities	₱31,720,943	₱477,740	₱ 7,609,169	₱ –	₱39,807,852
Transfer pool funding	(20,784,121)	5,549,628	4,639,180	10,595,313	–
Adjusted segment liabilities	₱10,936,822	₱6,027,368	₱12,248,349	₱10,595,313	39,807,852
Unallocated liabilities					382,886
Total liabilities					₱ 40,190,738
Other Segment Information					
Depreciation and amortization	₱57,189	₱4,113	₱1,810	₱72,251	₱135,363

4. Trading and Investment Securities

IBODI consists of:

	2003	2002
Government bonds	**₱5,044,014,730**	₱5,723,033,814
Treasury notes	**2,871,907,737**	1,708,822,445
BSP treasury bills	**196,412,012**	688,624,942
Private bonds	**–**	390,973,459
	₱8,112,334,479	₱8,511,454,600

The market value of the IBODI amounted to ₱7.58 billion and ₱8.53 billion as of December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, IBODI bears nominal annual interest rates ranging from 5.00% to 19.00% and 4.70% to 19.00% for peso IBODI and 1.94% to 9.88% and 2.88% to 9.88% for dollar denominated IBODI.

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

	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
TAS	**₱27,605**	**₱4,473,431,115**	**₱4,473,458,720**	₱ 13,433,018	₱210,897,750	₱ 224,330,768
IBODI	**282,302,485**	**7,830,031,994**	**8,112,334,479**	751,060,767	7,760,393,893	8,511,454,660
	₱282,330,090	**₱12,303,463,109**	**₱12,585,793,199**	₱ 764,493,785	₱7,971,291,643	₱8,735,785,428

5. Loans

This account consists of:

	2003	**2002**
Loans and discounts (see Note 1)	**₱ 10,599,032,653**	₱16,778,143,815
Customers' liabilities under acceptances,		
import bills and trust receipts (see Note 1)	**2,372,309,704**	2,998,472,779
Bills purchased	**117,265,656**	355,550,933
	13,088,608,013	20,132,167,527
Allowance for probable loan losses		
(see Note 9)	**(762,857,024)**	(2,531,335,914)
Unearned discounts	**(21,585,898)**	(34,097,105)
	₱12,304,165,091	₱17,566,734,508

Restructured loans as of December 31, 2003 and 2002 amounted to ₱606.5 million and ₱731.4 million, respectively.

As of December 31, 2003 and 2002, 56.97% and 56.79% of the total loans are subject to periodic interest repricing, respectively. Remaining loans earn annual fixed interest rates ranging from 9.25% to 30% annually.

The following table presents the loans by contractual maturity dates:

	2003			2002		
	Due Within One Year	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Loans and discounts	**₱3,542,800,931**	**₱7,056,231,722**	**₱ 10,599,032,653**	₱9,063,094,655	₱7,715,049,161	₱16,778,143,816
Customers' liabilities under acceptances import bills and trust receipts	**2,280,011,319**	**92,298,385**	**2,372,309,704**	2,847,734,083	150,738,695	2,998,472,778
Bills purchased	**22,168,630**	**95,097,026**	**117,265,656**	264,781,458	90,769,475	355,550,933
	₱5,844,980,880	**₱7,243,627,133**	**₱13,088,608,013**	₱12,175,610,196	₱7,956,557,331	₱20,132,167,527

Loans amounting to ₱275.76 million and ₱76.92 million as of December 31, 2003 and 2002, respectively, are pledged as collateral to the BSP to secure loans under rediscounting privileges by the same amount (see Note 11).

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

	2003		2002	
	Amount	%	Amount	%
Loans secured by:				
Real estate	₱7,618,024	53.20	₱10,644,252	52.87
Chattel	1,561,242	11.93	1,038,731	5.16
Deposit hold–out	256,474	1.96	318,461	1.58
Securities and others	221,013	1.69	446,850	2.22
	9,656,753	73.78	12,448,294	61.83
Unsecured loans	3,431,855	26.22	7,683,874	38.17
	₱13,088,608	100.00	₱20,132,168	100.00

Starting September 19, 2002, the BSP under Circular No. 351 allows banks with no unbooked valuation reserves and capital adjustments required by BSP to exclude from nonperforming classification those loans classified as Loss in the latest examination of the BSP, which are fully covered by allowance for probable losses, provided that interest on said loans shall not be accrued. As of December 31, 2003 and 2002, the NPLs of the Bank are as follows:

	2003	2002
Total NPLs (see Note 1)	₱1,623,163,101	₱6,830,973,708
Less NPLs fully covered by allowance for probable loan losses	–	1,065,045,000
	₱1,623,163,101	₱5,765,928,708

As of December 31, 2003 and 2002, information on the concentration of credit as to industry follows (amounts in thousands):

	2003		2002	
	Amount	%	Amount	%
Manufacturing (various industries)	₱4,112,391	31.42	₱5,886,518	29.24
Wholesale and retail trade	3,535,577	27.01	5,564,705	27.64
Real estate, renting and business services	2,256,339	17.24	3,228,900	16.04
Financial intermediaries	937,783	7.17	1,713,145	8.51
Agriculture	538,069	4.11	613,687	3.05
Other community, social and personal activities	381,269	2.91	677,147	3.36
Mining and quarrying	259,670	1.99	477,812	2.37
Construction	149,683	1.14	288,855	1.44
Others	917,827	7.01	1,681,399	8.35
	₱13,088,608	100.00	₱20,132,168	100.00

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

6. Equity and Other Investments

This account consists of:

	Percentage of Ownership	2003	2002
Investments in shares of stock - at equity:			
Acquisition cost:			
PBCom Finance Corporation	40	₱2,000,000	₱2,000,000
PBCom Forex Corporation (PBCom Forex)	40	1,999,800	1,999,800
PBCom Realty	100	312,875	312,875
		4,312,675	4,312,675
Accumulated equity in net earnings (see Note 16):			
Balance at beginning of year		7,205,646	6,883,265
Equity in net earnings		345,280	322,381
Balance at end of year		7,550,296	7,205,646
		11,863,601	11,518,321
Other investments:			
Real estate - net of accumulated depreciation of ₱15,768,749 in 2003		1,989,404,597	1,945,132,013
Shares of stocks - at cost		12,495,853	12,495,853
		2,001,900,450	1,957,627,866
		₱2,013,764,051	₱1,969,146,187

Investment in real estate represents the contributed cost of developing the Bank's Ayala Avenue property, originally consisting of land and fully depreciated building, into a 52-storey building named PBCOM Tower under a joint development agreement with Filinvest Asia. The agreement provided for equal sharing of the cost of the project and, correspondingly, of the net usable area of the building, which was converted into a condominium property. Under the agreement, the Bank's share in such cost included its land on Ayala Avenue, which was given an appraised value of ₱900.00 million in 1995. The appraisal increment was recorded and shown as part of Capital Funds in the statements of condition. Upon completion of the project in December 2000, such appraisal increment was closed to Surplus, net of applicable deferred income tax. The title to the land will be transferred to a condominium corporation to be organized in due course in compliance with the law governing condominium buildings.

About 77% of the usable area that the Bank acquired under such project is held for sale or lease, with the balance used for the Bank's operations. Accordingly, the cost allocable to the area held for sale or lease is carried as Investment in Real Estate, while the remaining balance is carried as condominium property and included in Property and Equipment at cost account (see Note 7).

On October 24, 2001, the BOD of PBCom Forex approved to discontinue and terminate its operations on October 31, 2001.

On December 11, 2002, the BOD of PBCom Realty approved the shortening of its corporate existence up to December 31, 2002. On March 17, 2004, PBCom Realty received a tax clearance from the Bureau of Internal Revenue.

The results of the final liquidation of PBCom Forex and PBCom Realty will not result in any material impact on the Bank's financial statements.

7. Property and Equipment

The details of property and equipment - at cost are as follows:

	2003					2002
	Condominium Property	Buildings and Improvements	Furniture, Fixtures and Equipment	Leaseholds Improvements - net	Total	Total
Cost						
Balance at beginning of year	₱924,062,183	₱300,383,146	₱678,450,262	₱123,912,445	₱2,026,808,036	₱1,919,461,633
Additions	20,972,648	22,676,648	147,802,744	19,474,176	210,926,216	280,949,409
Disposals	(16,752,518)	(24,877,542)	(157,926,077)	–	(199,556,137)	(153,174,573)
Amortization	–	–	–	(24,627,182)	(24,627,182)	(20,428,433)
Balance at end of year	928,282,313	298,182,252	668,326,929	118,759,439	2,013,550,933	2,026,808,036
Accumulated Depreciation						
Balance at beginning of year	28,797,145	102,784,957	370,367,039	–	501,949,141	426,916,427
Depreciation	16,888,334	17,706,754	90,389,080	–	124,984,168	94,475,206
Disposals	–	(5,717,967)	(52,808,436)	–	(58,526,403)	(19,442,492)
Balance at end of year	45,685,479	114,773,744	407,947,683	–	568,406,906	501,949,141
Net Book Value at End of Year	₱882,596,834	₱183,408,508	₱260,379,246	₱118,759,439	₱1,445,144,027	₱1,524,858,895
Net Book Value at Beginning of Year	₱895,265,038	₱197,598,189	₱308,083,223	₱123,912,445	₱1,524,858,895	₱1,492,545,206

As of December 31, 2003 and 2002, the details of land at appraised value are as follows:

	2003	2002
Cost		
Balance at beginning of year	₱166,933,926	₱165,772,259
Additions (reduction)	(666,667)	1,161,667
Balance at end of year	166,267,259	166,933,926
Appraisal Increment	258,149,091	262,637,091
	₱424,416,350	₱429,571,017

8. Other Resources

This account consists of:

	2003	2002
Loans for sale (see Note 1)	₱6,974,116,492	₱ –
Accrued interest receivable (see Note 1)	672,788,665	922,488,168
Accounts receivable	218,250,860	136,194,243
Sales contract receivable	217,322,976	166,070,360
Prepaid expenses	179,137,156	185,144,438
Interoffice float items - net	131,062,852	67,318,692
Software cost - net	108,992,293	111,121,332
Goodwill on acquisition of CSBI - net (see Note 24)	102,100,153	116,685,889
Returned checks and other cash items	58,393,216	58,229,288
Foreign currency notes and coins on hand	49,818,738	59,369,438
Deferred charges - net	39,088,950	60,038,283
Miscellaneous	259,959,900	276,593,680
	9,011,032,251	2,159,253,811
Allowance for probable losses (see Note 9)	(1,954,221,445)	(487,992,071)
Unrealized profit on assets sold	(24,997,653)	(25,176,763)
	₱7,031,813,153	₱1,646,084,977

Loans for sale account includes the related accrued interest receivable amounting to ₱346.15 million as of December 31, 2003.

The following table presents the breakdown of other financial resources by contractual maturity dates:

	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Loans for sale	₱6,974,116,492	₱ –	₱6,974,116,492	₱ –	₱ –	₱ –
Accrued interest receivable	235,900,026	436,888,639	672,788,665	922,488,168	–	922,488,168
Accounts receivable	127,482,704	90,768,156	218,250,860	136,194,243	–	136,194,243
Sales contract receivable	42,507,718	174,815,258	217,322,976	40,035,167	126,035,193	166,070,360
Returned checks and other cash items	58,393,216	–	58,393,216	58,229,288	–	58,229,288

The movements in selected intangible assets account as of December 31, 2003 are as follows:

	Goodwill	Software Cost	Total
Balance at beginning of year	₱116,685,889	₱111,121,332	₱227,807,221
Additions	–	27,373,361	27,373,361
Amortization	(14,585,736)	(29,502,400)	(44,088,136)
Balance at end of year	₱102,100,153	₱108,992,293	₱211,092,446

9. Allowance for Probable Losses

Changes in the allowance for probable losses are as follows:

	2003	2002
Balance at beginning of year		
Loans	₱2,531,335,914	₱2,928,981,693
ROPOA	193,519,810	19,158,971
Other resources	487,992,071	466,779,747
	3,212,847,795	3,414,920,411
Provisions charged to operations	–	326,328,735
Accounts written off	(302,249,516)	(528,401,351)
	(302,249,516)	(202,072,616)
Balance at end of year		
Loans	762,857,024	2,531,335,914
ROPOA	193,519,810	193,519,810
Other resources	1,954,221,445	487,992,071
Balance at end of year	₱2,910,598,279	₱3,212,847,795

As discussed in Note 2, the Bank's allowance for probable losses has been determined with due consideration of the BSP's guidelines on loan loss provisioning. Also, as discussed in Note 1, the Bank is in the process of arranging the sale of its NPAs to an SPV. Pending the finalization of the sale of these NPAs, the Bank's management cannot ascertain the adequacy of the allowance for probable losses as of December 31, 2003.

10. Deposit Liabilities

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

	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Demand	₱2,280,302,663	₱ –	₱2,280,302,663	₱2,073,618,169	₱ –	₱2,073,618,169
Savings	11,079,158,817	–	11,079,158,817	18,798,778,690	–	18,798,778,690
Time	5,332,087,213	7,520,993,790	12,853,081,003	6,859,025,978	6,019,915,709	12,878,941,687
	₱18,691,548,693	₱7,520,993,790	₱26,212,542,483	₱27,731,422,837	₱6,019,915,709	₱33,751,338,546

Under existing BSP regulations, non-FCDU deposit liabilities are subject to liquidity reserve equivalent to 8% and 7% as of December 31, 2003 and 2002, respectively, and statutory reserve of 9% as of December 31, 2003 and 2002.

As of December 31, 2003 and 2002, the total liquidity and statutory reserves, as reported by the Bank, are as follows:

	2003	2002
Cash	₱424,208,150	₱402,217,583
Due from BSP	861,547,398	1,842,076,910
IBODI	120,959,352	120,769,791
	₱1,406,714,900	₱2,365,064,284

11. Bills Payable

This account consists of borrowings from:

	2003			2002		
	Due Within One Year	Due Beyond One Year	Total	Due Within One Year	Due Beyond One Year	Total
Banks and other financial Institutions	₱11,373,766,351	₱457,657,151	₱11,831,423,502	₱4,359,552,384	₱657,685,585	₱5,017,237,969
Private firms and individuals	364,698,777	–	364,698,777	3,410,503	–	3,410,503
BSP - rediscounting	72,430,160	–	72,430,160	76,920,078	–	76,920,078
	₱11,810,895,288	₱457,657,151	₱12,268,552,439	₱4,439,882,965	₱657,685,585	₱5,097,568,550

Interbank borrowings are subject to interest rates ranging from 1.34% to 10.50% and rediscounting availments are subject to interest rates ranging from 1.29% to 7.88% in 2003 and 2002, respectively.

Borrowings from BSP-rediscounting are fully secured by loans (see Note 5).

Bill payable on banks and other financial institutions includes a special liquidity loan facility amounting to ₱3.12 billion as of December 31, 2003. The outstanding balance of such loan as of March 31, 2004 amounted to ₱1.26 billion.

12. Outstanding Acceptances

As of December 31, 2003 and 2002, outstanding acceptances are all due within one year.

13. Accrued Interest, Taxes and Other Expenses

This account consists of accruals which are due within one year:

	2003	2002
Accrued interest payable	₱103,088,763	₱89,718,435
Accrued other expenses	77,808,800	94,646,876
	₱180,897,563	₱184,365,311

14. Other Liabilities

This account consists of:

	2003	2002
Unearned income and other deferred credits	₱141,728,667	₱128,100,429
Accounts payable	102,871,090	81,275,721
Due to BSP	18,630,680	21,394,878
Miscellaneous	142,418,801	354,184,223
	₱405,649,238	₱584,955,251

As of December 31, 2002, miscellaneous liabilities include holdover credits amounting to ₱251.61 million relating to bills purchased from the Bank's customers. Such holdover credits are reversed when the bills purchased are cleared or paid.

15. Miscellaneous Expenses

This account consists of expenses on:

	2003	2002	2001
Litigation and assets acquired	₱146,156,709	₱216,167,691	₱84,129,688
Insurance	90,493,179	76,878,550	52,333,399
Information technology	30,409,790	24,165,864	17,724,881
Communication	41,404,391	35,490,731	31,206,689
Messengerial services	33,984,011	47,328,183	39,419,392
Entertainment, amusement and recreation (see Note 17)	31,917,253	31,587,365	28,406,529
Management and professional fees	25,836,873	18,167,624	17,981,397
Transaction dues	21,660,343	17,189,064	14,746,539
Stationery and supplies	20,021,150	18,133,355	14,954,627
Advertising	17,586,808	20,510,884	9,842,450
Others	70,428,699	54,569,649	82,299,853
	₱529,899,206	₱560,188,960	₱393,045,444

16. Capital Funds

Capital stock consists of:

	2003	2002	2001
Authorized - ₱145 million shares with ₱100 par value			
Issued - 52,589,163 shares in 2003 and 2002 and 52,589,066 shares in 2001	₱5,258,916,300	₱5,258,916,300	₱5,258,906,600

Treasury stock represents 98 shares.

Surplus reserves consist of:

	2003	2002	2001
Reserve for trust business	₱57,435,085	₱52,544,392	₱49,650,594
Contingencies	10,414,548	10,414,548	10,414,548
Self-insurance	5,400,000	5,400,000	5,400,000
	₱73,249,633	₱68,358,940	₱65,465,142

In compliance with BSP regulations, 10% of the Bank's profit from trust business is appropriated to surplus reserve. This annual appropriation is required until the surplus reserves for trust business equals 20% of the Bank's authorized capital stock.

Surplus reserve for self insurance represents the amount set aside to cover for losses due to fire, defalcation by and other unlawful acts of the Bank's personnel or third parties.

On July 11, 2000, the Bank's BOD approved the issuance of 26,294,484 common shares in connection with the stock rights offering to stockholders of record as of December 27, 2000 at an offer price of 100 per share. The BOD also approved the issuance of 78,883,452 subscription warrants to be issued at a ratio of 3 warrants for every share subscribed without cost to subscribers of the rights offering. The warrants may be exercised from May 10, 2001 to May 10, 2004.

The Bank received ₱2.63 billion additional capital infusion from its stockholders relative to the stock rights offering as discussed above. Half of the amount was received in June 2000 and the remaining half in March 2001. On April 27, 2001, the Bank issued 26,294,484 common shares and 78,883,452 subscription warrants.

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.

A portion of the surplus amounting to ₱7.55 million and ₱7.21 million as of December 31, 2003 and 2002, respectively, corresponding to the undistributed equity of the Bank in net earnings of associates, is not available for dividend distribution (see Note 6).

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 (see Note 1). Risk assets consist of total assets 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.

The capital-to-risk assets ratio of the Bank as of December 31, 2003 and 2002 was 15.57% and 15.16%, respectively, which was in compliance with the minimum requirement.

17. Income and Other Taxes

Provision for (benefit from) Income tax consists of:

	2003	2002	2001
Current:			
Final	₱73,174,484	₱92,922,207	₱129,620,003
MCIT	–	–	282,770
	73,174,484	92,922,207	129,902,773
Deferred	(191,741,121)	(247,660,891)	(113,543,028)
	(₱118,566,637)	₱154,738,684	₱16,359,745

Under Philippine tax laws, 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 (GRT), which was in effect until 2002 and documentary stamp taxes. Effective January 1, 2003, the Bank was subjected to the value added tax (VAT) instead of GRT. However, Republic Act No. 9238 reimposes GRT on banks and financial intermediaries effective January 1, 2004. The Bank's liability for GRT will be subject to the implementing regulations that may be issued by the tax authorities.

Income taxes include corporate income tax, as discussed below, and final taxes paid at the rate of 20% 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.

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

Components of the Bank's net deferred tax assets are as follows:

	2003	2002
Deferred tax asset on:		
NOLCO	₱1,022,574,536	₱602,451,913
Allowance for probable losses	928,164,630	1,024,884,476
Unrealized loss on asset conversion	265,808,278	169,088,433
Unamortized past service cost	10,597,720	16,518,055
MCIT	282,770	4,431,339
	2,227,427,934	1,817,374,216
Deferred tax liability on:		
Reversal of revaluation increment		
to surplus free (see Note 6)	(257,443,759)	(257,443,759)
	1,969,984,175	1,559,930,457
Less valuation allowance	578,417,170	360,104,573
	₱1,391,567,005	₱1,199,825,884

Management believes that the Bank may not be able to realize a portion of the deferred tax assets in the future. Accordingly, a partial valuation allowance on said deferred tax assets has been provided.

The Bank's NOLCO is broken down as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2000	₱75,992,230	₱75,992,230	₱ –	2003
2001	620,234,043	–	620,234,043	2004
2002	1,186,435,955	–	1,186,435,955	2005
2003	1,388,875,427	–	1,388,875,427	2006
	₱3,271,537,655	₱75,992,230	₱3,195,545,425	

Details of the Bank's MCIT are as follows:

Year Incurred	Amount	Expired	Balance	Expiry Year
2000	₱4,148,569	₱4,148,569	₱ –	2003
2001	282,770	–	282,770	2004
	₱4,431,339	₱4,148,569	₱282,770	

Under Revenue Regulation 10-2002, which became effective on September 1, 2002, the maximum amount of entertainment, amusement and recreation (EAR) expenses allowable as deduction from gross income for purposes of income tax computation shall not exceed 1% of the Bank's net revenue.

EAR expenses in 2003 and for the period September 1 to December 31, 2002 of the Bank amounting to ₱31.9 and ₱9.8 million, respectively, are included under Miscellaneous Expenses in the statements of income (see Note 15).

A reconciliation between the statutory income tax and the effective income tax follows:

	2003	2002	2001
Statutory income tax	₱30,532,425	₱29,470,837	₱81,434,917
Tax effect of:			
FCDU income	(269,024,994)	(281,582,288)	(139,647,197)
Valuation allowance on			
deferred tax assets	218,312,597	161,483,597	99,520,217
Nontaxable income	(104,693,738)	(142,003,983)	(40,092,637)
Interest income subjected			
to final tax - net of			
nondeductible interest			
expense	723,106	656,750	609,462
Others	5,583,967	77,236,403	14,534,983
Effective income tax	(₱118,566,637)	(₱154,738,684)	₱16,359,745

18. Retirement Plan

The Bank has a noncontributory and funded retirement plan covering all its officers and regular employees. The retirement fund is administered by the Bank's Trust Department which acts as the trustee under the plan. Retirement cost charged to current operations consisting of normal cost and amortization of past service liability and experience adjustments amounted to ₱24.27 million in 2003 and 2002.

Based on the latest actuarial valuation as of July 11, 2002, the actuarial accrued liability amounted to ₱292.71 million. The fair value of the plan assets amounted to ₱247.70 million. The principal actuarial assumption used to determine retirement benefits consist of: (a) retirement age of 60 years and average remaining working life of officers and employees of 15 years; and (b) investment yield and projected salary increases of 9% and 7% per annum, respectively. Actuarial valuations are made at least every two years. As of December 31, 2003, the total resources of the fund amounted to ₱298.95 million.

19. Long-term Leases

The Bank leases certain premises occupied by most of its branches. The terms of the lease contracts range from 1 to 20 years, at an aggregate annual rental of ₱57.64 million in 2003, ₱52.09 million in 2002, and ₱53.70 million in 2001, subject to future increases.

The lease rental commitments of the Bank for the next five years follow:

Year	Amount
2004	₱54,899,437
2005	59,059,919
2006	63,600,345
2007	69,027,358
2008	75,174,601

20. Related Party Transactions

In the ordinary course of business, the Bank has loan transactions with its associates and affiliates, and with certain directors, officers, stockholders and related interests (DOSRI). Under the Bank's existing policy, these loans are made substantially on the same terms as loans to other individuals and businesses of comparable risks. The amount of individual loans to DOSRI, of which 70% must be secured, should not exceed the amount of their respective 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. These limits do not apply to loans secured by assets considered as non-risk as defined in the regulations. As of December 31, 2003 and 2002, the Bank is in compliance with such regulations.

The following table shows information relating to DOSRI loans:

	2003	2002
Total outstanding DOSRI loans	₱589,363,108	₱694,043,074
Percent of DOSRI loans to total loans	4.79%	3.45%
Percent of unsecured DOSRI loans to total DOSRI loans	13.37%	13.65%
Percent of past due DOSRI loans to total DOSRI loans	–	–
Percent of nonperforming DOSRI loans to total DOSRI loans	–	–

21. Trust Operations

Securities and other properties (other than deposits) held by the Bank in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not resources of the Bank. Total resources held by the Bank's trust department amounted to ₱5.05 billion and ₱6.63 billion as of December 31, 2003 and 2002, respectively (see Note 22).

In connection with the trust business of the Bank, government securities with a total face value of ₱108.60 million and ₱57.00 million as of December 31, 2003 and 2002, respectively, are deposited with the BSP in compliance with existing regulations.

22. Commitments and Contingent Liabilities

In the normal course of operations, the Bank has various outstanding commitments and contingent liabilities such as guarantees, forward exchange contracts, commitment to extend credit, etc., which are not presented in the accompanying financial statements. The Bank does not anticipate any material 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:

	2003	2002
Trust department accounts	₱5,047,497,729	₱6,631,293,112
Forward exchange sold	2,807,177,647	–
Unused commercial letters of credit	537,303,810	794,255,199
Outstanding shipping guarantees	432,051,597	264,530,703
Spot exchange bought	138,980,000	–
Inward bills for collection	130,085,981	58,621,201
Outward bills for collection	46,531,722	240,931,107
Late deposits/payment received	2,973,806	39,767,205
Traveler's checks unsold	2,779,300	2,662,700
Items held for safekeeping	89,338	6,984,271
Others	8,300,004	245,513,846

The Bank is a defendant in legal actions arising from its normal business activities.

Management believes that these actions are without merit or that the ultimate liability, if any, resulting from them will not materially affect the Bank's financial position.

23. Financial Performance

Earnings per share (EPS) amounts were computed as follows:

	2003	2002	2001
a. Net income	₱213,980,466	₱246,835,050	₱238,124,371
b. Weighted average number of common shares	52,589,065	52,589,008	45,577,106
c. EPS (a/b)	₱4.07	₱ 4.69	₱ 5.22

Potential common shares consisting of warrants of the Bank as discussed in Note 16 were determined to be anti-dilutive and therefore not considered in the earning per share computation.

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

	2003	2002	2001
Return on average equity	3.21%	3.63%	3.86%
Return on average assets	0.68%	0.80%	0.60%
Net interest margin	0.90%	1.29%	4.26%

24. Acquisition of and Merger with CSBI

In December 2000, the Bank acquired full ownership of CSBI under the terms of agreements with the stockholders of CSBI entered into on December 4 and 29, 2000. CSBI was merged with the Bank on August 8, 2001 upon the approval of the SEC.

The acquisition of CSBI has been accounted for under the purchase method. The excess of the total acquisition cost over the fair value of the net assets acquired amounting to ₱145.86 million is treated as goodwill and is being amortized on a straight-line basis over 10 years until 2010.

25. Notes to Cash Flow Statements

The following is a summary of noncash activities:

	2003	2002	2001
Noncash operating activities:			
Unrealized gain on available-for-sale securities	₱ –	₱ –	₱5,588,311
Loans for sale (see Note 1)	6,974,116,492	–	–
Noncash investing activity:			
Additions to ROPOA in settlement of loans - net	388,440,649	1,620,969,929	2,267,262,103

26. Events After Statement of Condition Date

On March 22, 2004, the BOD approved the increase in the authorized capital stock of the Bank by ₱3.00 billion from ₱14.50 billion (consisting of 145 million common shares with par value of ₱100 a share) to ₱17.50 billion (consisting of the same amount and number of common shares and 120 million nonredeemable and nonconvertible preferred shares with par value of ₱25 a share). These preferred shares have the same voting rights, dividend amount, and other rights as the holders of the common shares.

HEAD OFFICE
PBCOM Tower, 6795 Ayala Avenue
corner V.A. Rufino Street, 1226 Makati City
Tel. No.: 830-7000

METRO MANILA

Annapolis
Unit 101 Victoria Plaza Condominium
41 Annapolis St.
Greenhills, San Juan
Tel. Nos.: 723-4856; 723-3049

Ayala Alabang
Unit 101 ALPAP II Building
Trade corner Investment Drive
Madrigal Business Park
Alabang, Muntinlupa City
Tel. Nos.: 809-4538; 809-4341

Binondo Banking Center
214-216 Juan Luna Street
Binondo, Manila
Tel. Nos.: 242-8709 to 12; 242-1851

BMA
Web-jet Building, BMA Street corner
Quezon Avenue, Quezon City
Tel. Nos.: 712-3490; 712-8414

Congressional
Ground Floor, Cherry Foodarama Complex
Congressional Avenue, Quezon City
Tel. Nos.: 925-9847 to 50

Corinthian Gardens
Sanso Street, Corinthian Gardens
Quezon City
Tel. Nos.: 687-7088; 687-4397

Cubao
RC-27D Rustan's Superstore Building
Gen. Romulo Avenue, Araneta Center
Cubao, Quezon City
Tel. Nos.: 913-4912; 912-2943

Echague
88-90 Carlos Palanca corner Isla del Romero Street
Quiapo, Manila
Tel. Nos.: 736-0123; 736-0125

Elcano
SHC Tower, 613 Elcano Street
San Nicolas, Manila
Tel. Nos.: 242-3573; 242-3575

Greenhills
Quadstar Building, Ortigas Avenue
Greenhills, San Juan
Tel. Nos.: 721-2601; 721-2603

Kalookan
Corner 7th Street and Rizal Avenue Extension
Kalookan City
Tel. Nos.: 361-1253; 361-1302

Legaspi Village
Ground Floor, Vernida I Condominium
120 Amorsolo Street, Legaspi Village
Makati City
Tel. Nos.: 812-9582; 813-2506

Makati Banking Center
Ground Floor, PBCOM Tower
6795 Ayala Avenue corner V. A. Rufino Street
Makati City
Tel. Nos.: 810-2325; 810-2332

Malabon
123 Gov. Pascual Avenue
Acacia, Malabon
Tel. Nos.: 446-0381; 446-0429

Marikina
34 J. P. Rizal Street, Calumpang
Marikina City
Tel. Nos.: 645-2637; 645-8024

Masangkay
1004-1006 G. Masangkay Street
Binondo, Manila
Tel. Nos.: 244-8751; 244-8761

Meralco Avenue
C-1 Horizon Condominium, Meralco Avenue
Pasig City
Tel. Nos.: 632-0418; 637-2858

Novaliches
860 Quirino Highway, Brgy. Gulod
Novaliches, Quezon City
Tel. Nos.: 938-1701; 938-1714

Ongpin
Ongpin corner S. Padilla Street
Sta. Cruz, Manila
Tel. Nos.: 733-1166; 733-1188

Padre Rada
S & U Building, 953 Juan Luna St. corner
Padre Rada Street, Tondo, Manila
Tel. Nos.: 245-2265; 245-2354

Parañaque
Stall Nos. 3 & 4, Kingsland Building
Dr. A. Santos Avenue, Sucat, Parañaque City
Tel. Nos.: 820-0902; 820-0901

Pasay
2492 Taft Avenue Extension, Pasay City
Tel. Nos.: 831-0329; 831-0395

Pioneer
RFM Corp. Center
Pioneer corner Sheridan Streets, Mandaluyong City
Tel. Nos.: 631-8101; 637-8927

Quezon Avenue
APC Building, 1186 Quezon Avenue
Quezon City
Tel. Nos.: 371-2941; 371-1776

San Miguel Avenue
G101 One Magnificent Mile (OMM) Citra Building
San Miguel Avenue, Pasig City
Tel. Nos.: 637-1717 to 637-1721

Sen. Gil Puyat Avenue
Unit 104, Ground Floor, Pacific Star Building
Sen. Gil Puyat Ave. corner Makati Ave.
Makati City
Tel. Nos.: 893-1721; 843-9287

Shaw Boulevard
146 Shaw Boulevard corner San Roque Street
Pasig City
Tel. Nos.: 634-1430; 636-5759/58

Sta. Mesa
440-A G. Araneta Avenue corner Bayani Street
Sta. Mesa, Quezon City
Tel. Nos.: 781-5803; 749-0265

Sto. Cristo
705 Sto. Cristo Street, Binondo, Manila
Tel. Nos.: 242-3194; 242-3197

Taft Avenue-Nakpil
Goldilocks Commercial Building
J. Nakpil corner Taft Avenue
Malate, Manila
Tel. Nos: 525-2440; 525-7154

T. Alonzo
Ground Floor, Tan Kiang Building
665 T. Alonzo Street, Sta. Cruz, Manila
Tel. Nos.: 733-3645; 733-1623

Tutuban
Unit Nos. PL-LS07 & PL-LS08
Tutuban Center Prime Block
C. M. Recto Avenue, Tondo, Manila
Tel. Nos.: 252-4938; 252-5069

U. N. Avenue
Ground Floor, Units 101 & 102,
Don Alfonso Sycip Condominium
U. N. Avenue corner M. H. Del Pilar
Guerrero Streets, Ermita, Manila
Tel. Nos.: 524-8387; 524-8291

Valenzuela
246 MacArthur Highway, Karuhatan
Valenzuela, Metro Manila
Tel. No.: 291-5196; 291-5253

Ylaya
790 Ylaya Street, San Nicolas
Manila
Tel. Nos.: 244-9067; 244-9328

LUZON

Angeles
878 Henson Street, Brgy. Northwest
Angeles City, Pampanga
Tel. Nos.: (045) 625-8712; 887-8534

Batangas
Diego Silang Street
Batangas City, Batangas
Tel. Nos.: (043) 723-7801; 723-4208

Biñan
Ground Floor, ATDRMAM Laguna Corp. Building
Gen. Capinpin Street, Biñan, Laguna
Tel. Nos.: (049) 411-0399; 511-6533

Cabanatuan
Ground Floor, Santarina Building
Maharlika Highway, Cabanatuan City, Nueva Ecija
Tel. Nos.: (044) 464-1730 to 32

Dagupan
FIB Building, M. H. Del Pilar
Dagupan City, Pangasinan
Tel. Nos.: (075) 515-2097; 523-6862

Dasmariñas
Barangay San Agustin, Aguinaldo Highway
Dasmariñas, Cavite
Tel. Nos.: (046) 416-5267; 416-5032

Imus
P. Nueño Avenue corner Gaerlan Street
Imus, Cavite
Tel. Nos.: (046) 471-4349; 471-5245

La Union
Quezon Avenue, San Fernando La Union
Tel. Nos.: (072) 888-2741; 888-2044

Lipa
Ground Floor, ATDRMAM Laguna Corp. Building
Ayala Highway, Mataas na Lupa
Lipa City, Batangas
Tel. Nos. (043) 757-3258 to 61

Lucena
Merchan Street, Lucena City
Quezon Province
Tel. Nos.: (042) 373-6462; 373-6464

Marilao
Cecilia Commercial, MacArthur Highway
Abangan Norte, Marilao, Bulacan
Tel. Nos.: (044) 711-3408

San Fernando, Pampanga
MacArthur Highway, Dolores
San Fernando, Pampanga
Tel. Nos.: (045) 963-6784; 963-6785

San Pedro
Ground Floor, Mega Building
National Highway, Landayan
San Pedro, Laguna
Tel. Nos.: 868-7364; 868-7365

VISAYAS

Bacolod
6th corner Hilado Street, Capitol Shopping Center
Bacolod City, Negros Occidental
Tel. Nos.: (034) 433-0404; 435-0690

Cebu
Magallanes near corner Manalili Street
Cebu City
Tel. Nos.: (032) 253-2740; 253-2761

Mango
General Maxillom (Mango) Avenue
Cebu City
Tel. Nos.: (032) 253-1419; 254-3157

Iloilo
Ledesma corner Valeria Street
Iloilo City
Tel. Nos.: (033) 337-3668; 336-8989

Mandaue
National Highway, Mandaue City
Metro Cebu
Tel. Nos.: (032) 346-5110; 346-1076 to 78

Mandaue Basak
Co Tiao King Building
Cebu North Road, Basak, Mandaue City
Tel. Nos.: (032) 346-2709; 346-2708

MINDANAO

Cagayan de Oro
Tiano Bros. corner Hayes Street
Cagayan de Oro City
Tel. Nos.: (08822) 72-41-90; 72-65-19

Davao Matina
Peacenest Building, No. 36 R. Quimpo Boulevard
Ecoland Subdivision, Matina, Davao City
Tel. Nos.: (082) 296-1297; 296-1302

Davao
42 Monteverde Avenue
Davao City
Tel. Nos.: (082) 221-2140; 221-2141

Davao Quirino
111 E. Quirino Avenue
Davao City
Tel. Nos.: (082) 221-4160; 221-4162

General Santos
Santiago Boulevard
General Santos City
Tel. Nos.: (083) 552-8166; 552-8167

Iligan
M. H. Del Pilar corner J. Luna Streets
Iligan City
Tel. Nos.: (063) 223-2702 to 03

Kidapawan
Quezon Boulevard, Kidapawan City
North Cotabato
Tel. Nos.: (064) 288-5296; 288-5297

Koronadal
General Santos Drive Koronadal,
South Cotabato
Tel. Nos.: (083) 228-3917 to 19

Tagum
Pioneer Avenue, Tagum
Davao del Norte
Tel. Nos.: (084) 217-3900 to 02

Zamboanga
Ground Floor, Interco Building
N. S. Valderrosa Street
Zamboanga City
Tel. Nos.: (062) 992-6437; 992-6435

banking services

DEPOSIT
Regular Peso Savings Account
Quick Cash ATM Account
U.S. Dollar Savings Account
Euro Savings Account
Automatic Fund Transfer Account
Regular Checking Account
Value Check Account
IntegrALL Account
Peso Time Deposit
U.S Dollar Time Deposit
Euro Time Deposit
Passbook Time Deposit
Premium One Time Deposit
Premium Two Time Deposit
TD Prime
Premium Five Time Deposit
Premium Certificate of Deposit

CASH MANAGEMENT SERVICES
Deposit Pick-Up
Simple Payroll Crediting
PayMaster (Full Payroll Service)
Electronic Payment Settlement
Automatic Debit Arrangement
PDC Warehousing
Checkwriting Facility
Point-of-Sale Facility via Bancnet
Sweep Facility

REMITTANCES
Foreign and Domestic Remittances via:
- Society of Worldwide Interbank Financial Telecommunications (SWIFT)
- Western Union Money Transfer
- Tested Cable
- Philippine Domestic Dollar Transfer System (PDDTS) via:
  - Gross Settlement Real Time (GSRT)- in US Dollar Amount
  - End-of-Day Netting Transmission (EOD)- in US Dollar Amount
- Electronic Peso Clearing Settlement (EPCS) System- in Peso Amount
- Real Time Gross Settlement (RTGS)- in Peso Amount

PAYMENT AND COLLECTION SERVICES
BIR Payments
SSS Payments
SSS Pension Accounts
SSS Remittance thru BancNet's EDI System
SSS SMEC Payments
Clearing of Foreign Bank Checks via:
- Cash Letters (CL)
- Bills Sent for Collections (BSC)
- Outward Bills for Collection (OBC)
- Foreign Bills Purchased (FBP)

Clearing of Out-of-Town Checks via:
- Domestic Bills Purchased (DBP)

Demand Drafts (US$ Currency)

ANCILLIARY
Safe Deposit Boxes
Managers' Checks
Gift Certificates
PBCom-SCB Credit Card
PBCom online Banking via BancNet

TRADE-RELATED SERVICES
Import and Domestic Letters of Credit
Foreign & Domestic Stand-by Letters of Credit
Bank Guaranty/Shipside Bond
Trust Receipts
Export Bills Purchase
Clean and Documentary Collections
Import Bills/Customer's Liabilities under Acceptances

TREASURY
Government Securities
- Fixed Rate Treasury Notes
- Treasury Bills
- Retail Treasury Bonds

Foreign Securities Trading
Money Market Placements
Commercial Paper
Purchase & Sale of Foreign Exchange

TRUST AND INVESTMENT SERVICES
Employee Benefit Trust
Corporate Trust
Personal Trust
Pre-need Trust
PBCom Dollar Fund
Group Investment Plan
Investment Management Account
Escrow Agency
Estate Planning
Custodianship
PBCom Master Trust
PBCom Dragon Fund*
PBCom Power Fund*

CREDIT AND LOAN FACILITIES
Commercial Loans
Industrial Loans
Foreign Currency Loans
Rediscounting
Export Packing Credit Loans
Trust Receipt Financing
Consumer Lending
- Real Estate Development Loan
- Real Estate Receivables Financing
- Trade Receivables Financing
- Multi-Purpose Loans

Specialized Lending Programs
- Small Business Guarantee & Finance Corporation (SBGFC)
  - SME Funding Access for Short Term Loans (SME-FAST)
  - SME Financing Reach for Exporters through Network Development (SME-FRIEND)
  - SME Funding for Investments in Regional Markets (SME-FIRM)
- Social Security Systems (SSS)
  - Hospital Financing Program
  - Joint Housing Loan Program on Pari-passu Arrangement
  - Housing Development Loan Program
  - Housing Loan for Repair and/or Improvement
  - Individual Housing Loan Program
  - Financing Program for Educational Institutions
  - Financing Program for Vocational and Technical School
  - Financing Program for Tourism Projects (KASAPI IV)
  - Dormitory/Apartment Loan Program
  - SSS-GSIS Joint Financing Program
  - Industry Loan Program
- Land Bank of the Philippines
  - Rediscounting Facility
  - Agricultural Loan Fund (ALF)
  - Countryside Loan Fund (CLF 1, 2 & 3)
- Bangko Sentral ng Pilipinas Rediscounting Facility

Guarantee Programs
- Home Guaranty Corp. (HGC)
  - Retail Guaranty Program
  - Developmental Guaranty Program
- Small Business Guaranteee and Finance Corporation (SBGFC)
  - Guarantee Lines for Anchor Industries (GLAD)
  - Guarantee Resources for Agribusiness Investments (GRAINS)
  - Guarantee for Enterprises in Manufacturing and Services (GEMS)
- Trade and Investment Development Corp. (TIDCORP OR PHILEXIM)
  - PreShipment Export Finance Guarantee (PEFG)
  - PostShipment Export Risk Guarantee (PERG)
  - Term Loan Guarantee Program (TLGP)
  - General Facility Program (GFP)

*Soon to be offered

Design and layout by The New Thinkers Company

PBCOM

Philippine Bank of Communications

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