THE AUB ANNUAL REPORT 2003

TO OUR SHAREHOLDERS,
OUR CUSTOMERS AND OUR FRIENDS

Snapshots of 2003

Every year is remarkable in its own way. 2003 was no exception. A few significant events like the US-Iraq War and the Asian SARS outbreak took place that affected global politics and economy. The Philippines, in particular, was not spared, having gone through its own share of challenges.

Notwithstanding the global and local disturbances, the Philippine economy once again exhibited its characteristic resiliency as the country's gross domestic product grew by 4.5%, slightly exceeding its 2002 growth of 4.4%. Countrywide exports grew by 3.4%. The construction sector showed signs of improvement but the major contributors in our economic growth proved to be the agriculture, manufacturing and service sectors.

The banking industry, in particular, riding on heightened activity in consumer spending, registered a higher growth of 6.7% in 2003, from 2.4% the previous year. Conservative to moderate gains were likewise posted in asset expansion, loans, deposits and capitalization.

Focus on AUB

It was certainly a trying year but with prudence and perspicacity, Asia United Bank turned in another profitable performance, posting a net income after tax of Php 480.2 million. This translates to a respectable Return on Average Equity (ROAE) of 14%. Management is proud to report that total resources of your Bank increased by 23.6%, from Php14.2 billion in 2002 to Php17.6 billion in 2003.

Given the renewed activity in the economy, particularly in consumer spending, your Bank's total loan portfolio grew to Php10.6 billion, reflecting a 21.2% increase over 2002. Consumer and Salary Loans increased almost three-fold as we continued to venture into this relatively new business endeavor for the Bank.

As in the past years, your Bank remained focused on its objective of providing trade-related business to its middle market corporate clients. Foreign trade transaction volume jumped 21.4% to a total of $349.1 million from $287.5 million in 2002, while domestic trade transactions grew by Php247 million to Php 4.1 billion.

On the other side of the balance sheet, our total deposit liabilities grew by 27.4% to Php9.2 billion, from Php 7.2 billion in 2002. This was mainly due to our efforts in strengthening and further building up our branch sales team as well as the addition of five new branches to our network. We have opened new branches in Makati, Angeles, Alabang, Iloilo and Cagayan de Oro, thus bringing our total branch network to 26 across Metro Manila and key provincial areas.

Your Bank has also expanded its foreign remittance tie-ups to include Kuwait, the United Arab Emirates, Bahrain and Spain. With this expansion, our remittance operations registered a robust US$38 million business.

Our Trust and Investments Group (TIG) ended 2003 with over Php3.1 billion in Total Assets held in Trust (AHIT). This reflected a dramatic increase of 55% over the previous year's level of almost Php2 billion. Traditional trust products were given more focus allowing us to generate a significant volume in these types of services; thus establishing our Trust and Investments Group's reputation as a true full service trust institution.

The View Ahead

2004 being election year, there is more than the usual uncertainty about the future. We expect business activities to be slow for a while as companies and individuals alike assume a wait-and-see stance. Whoever gets elected, especially to the top posts, will surely impact the economy. Aside from being geared to roll with the punches, your Bank is prepared to take both aggressive and conservative steps, whenever deemed necessary. We have laid the groundwork for an organization that can address the demands of both the corporate and consumer markets. We will design more bank products, open more branches and upgrade our IT capabilities to deliver unique and premium service to our clients.

We will continue to focus on and expand further our trade-related business with corporate clients. We foresee the growth in exports to be higher than the growth in imports. We will also tap government banking facilities like DBP, Landbank and SSS to secure longer fund terms for our clients.

We will always strive for a longer-term relationship with our clients, a relationship borne out of mutual respect and genuine caring for each other's business. We want them to stay with us, to grow with us and hence we will double our efforts in being of real help to them.

For a relatively young bank in a comparatively short span of time, AUB has made for itself a solid name and a fine reputation.

We wish to thank our Board of Directors whose invaluable wisdom, insights and confidence in the Bank see us through good times and bad.

We thank our clients whose business we appreciate and whose trust we treasure.

We thank our officers and staff – their hard work, dedication and passion for excellence make the job a thankful one.

Above all we thank God for all His generous blessings to the Bank day to day.

With all of these going for Asia United Bank, we know we can hurdle the coming days with confidence and optimism.

Jacinto L. Ng, Sr.
Chairman of the Board

Abraham T. Co
President

AUB At Work

Customer Service. It begins with an understanding of the distinctive characteristics of service— its invisibility and intangibility— and of the unique nature of the customers— their fear, their limited time, their sometimes illogical ways of making decisions and their most important drives and needs. Each unit of the Bank strengthened its focus on understanding what Service is all about and on the all-important Customer. The result— better, more innovative ways to grow the business, sterling performances and significant achievements.

Treasury

2003 was another remarkable year for the Treasury Group, as it delivered over Php380 million in trading revenues, representing an increase of nearly 20% from 2002.

Trading in Fixed Income Securities was the primary growth driver for the Group. Global interest rates remained highly accommodative, led by the US Federal Reserve's stance on Fed Funds Rate, kept at a 45-year low of 1% throughout the second half of 2003. This provided an ideal backdrop for issuers of higher yielding securities like ROPs, as global investors chased yield. The Group capitalized on the bond market rally early in the year as prices of ROP debt surged to all-time highs prior to the Oakwood Mutiny in July.

Consistent with the Bank's move to diversify risk and improve asset quality, the Treasury amended it Capital Markets Plan to include higher-rated securities in its investment portfolio. The plan now includes holding in US Treasuries, Triple B-rated US Corporate Debt and other Sovereign Debt Issues.

The Treasury Marketing Unit, which was established in 2001, continued its growth trajectory through its highly effective strategy of making available non-traditional investment products, like ROPs and Corporate paper. A major activity of the Group continues to be educating its sales and marketing officers on the most effective way of selling non-deposit and investment products. Emphasis is given on the major advantages of investing in longer-term instruments to capitalize on price and tax advantages on said products.

As in the previous years, Treasury will continue to be a major source of revenue for the Bank in 2004.

Asset Management

Total loan portfolio of the Bank grew to Php11.3 billion reflecting a 23.4% increase over 2002 in terms of absolute amounts. Foreign and domestic trade finance businesses increased by $61.6 million and Php247.4 million or 21.4% and 6.4%, respectively. In particular, import letters of credit increased by 13%, exceeding the 2003 target growth of 10%. This allowed the Bank to capture a bigger share of the import pie since the country's imports simply registered an increase of 10%.

For 2004, the Group will continue to increase foreign exchange revenues by targeting stable export clients. It will also aim to expand the utilization of the specialized wholesale lending packages from institutions like the Development Bank of the Philippines, Landbank and SSS to fund the long term funding requirements of corporate clients particularly those that are in an expansion mode.

With the impressive growth of its Salary Loans portfolio, the Group is poised to grow further its Consumer Loans business by going after the mortgage market. This is in line with Bank's strategy of focusing on products that give higher spreads and those that would be responsive to the needs of its clientele.

Private Banking

In 2003, the Private Banking Group continued to manage the financial portfolio of its high networth clientele while at the same time taking care of their other financial requirements. In addition to addressing their deposit and investment needs, the Group has likewise assisted in extending credit and trade-related services to these clients.

Because of the volatile economic conditions, the Group exercised caution in extending credit facilities. On the other hand, the effective and timely offering of relevant products and services helped greatly in soliciting new clients for the Group.

In 2004, the Group will concentrate on deposit generation and trade-related transactions. Continuous training of its officers and staff, to further hone their professional competencies and performance, will also be given priority.

Branch Banking

Consistent with the Bank's thrust to be where the customers are, the year 2003 saw the opening of five additional branches in different parts of the country - in

Angeles Pampanga, Alabang, Makati, Iloilo and Cagayan de Oro - and the establishment of additional offsite ATMs in Cebu, Davao and Ermita. To complement the operational requirements of the network, a satellite cash center was also opened at the Caloocan branch.

Due to the expansion of its branch network coupled with the strengthening of its branch sales team and intensified marketing activities, total deposits of the Bank grew by 26.9% to P9.3 billion from P7.3 billion in 2002.

To enhance its ability to generate low cost deposits, a Special Services Unit (SSU) was created with the task of promoting the Bank's special services such as Post Dated Check (PDC) Warehousing, Preferred Payroll Plus (PPP), Preferred Check Write (PCW) and SSS online payments via the Internet.

In the area of operations and control, new and enhanced automated systems in handling Term Deposits and Treasury Retail Products were deployed to the branches. These effectively provided online access to fast moving rates and inventories at the branch level. A web-based information system on policies and procedures was also installed in the Bank's internal website (intranet) to provide all branch personnel with a ready reference material for handling day-to-day transactions.

Remittance

Year 2003 was a good year for the Remittance Group. Volume growth was accelerated by establishing remittance tie-ups in Kuwait, the United Arab Emirates (UAE), Bahrain and Spain.

Competition in the remittance business has never been tougher since a lot of bigger Philippine banks have been operating in these countries for several years now. However, with the Group's prompt delivery of service, competitive pricing, strengthening of the Bank's foreign ties and customer loyalty programs, the Bank has managed to hold its own in the foreign countries where the Bank does business.

In 2004, the Group will continue its aggressive marketing efforts to increase customer base and foreign partners. Cross-selling of other products of the Bank will also be done. Expansion of remittance services to other countries like Oman, Qatar, Brunei, Hong Kong, Malaysia, Singapore and in selected countries in Europe, United Kingdom and Italy, where overseas Filipino workers are concentrated, will be pursued.

Trust and Investments

The Trust and Investments Group ended 2003 with over Php3.1 billion in Total Assets held in Trust (AHIT), representing a 55% increase over last year's level. The Group has likewise exceeded the revenue target it set out for the year.

Full service to the customer remains the passion of TIG so traditional products were given more focus while efforts were also exerted towards streamlining its existing product lines. Product and service innovation through the use of information technology were given priority to meet the demand of clients in monitoring the value of their trust investments. TIG likewise institutionalized the quarterly fund performance report for the AUB Gold Dollar Fund and the AUB Common Trust Fund.

Among the projects lined-up for 2004 include the launching of the e-trust website which will include an income tracker and an online system that allows customers to compute for their earnings anytime they wish.

Information Technology

To be competitive today especially in the financial industry, information technology is a key driver. So in 2003, the IT Group focused its efforts towards the delivery of fully functional, reliable and cost effective automated systems. Major initiatives were also taken to enhance and upgrade the Bank's computing capacity, data network infrastructure and Data Center offsite back-up facility to secure uninterrupted day-to-day automated service.

New web-based application systems were developed to allow clients to bank with AUB anywhere, anytime at their convenience. These were made possible with the development of the following: Internet Banking Facility Phase 1 - Current and Savings Account (CASA) balance and transaction inquiry - Preferred Check Warehousing Service, Trade Finance F/E System and the eLoans System. Automated support was also given to the Bank's new products and services: Preferred Payroll Plus, Preferred Check Write Facility, Utilities Payment Subsystem and Online Payroll Credit Facility.

Several applications were also modified to enhance operational and control capability, like the web-based SSA/TD System, which is now integrated with the CASA System. The consolidated database simplifies data management for the Data Center and most importantly, it facilitates bank-wide access to term accounts allowing inter-branch servicing and integration to the various MIS sub-systems.

To allow branches to effectively market treasury products, the Treasury Web Retail System was developed. Documents in Credit, Loans and Trade Finance are now readily accessible online and on real time via the Document Imaging

System. Major enhancements have been introduced to all the other systems to effectively improve the workflow of the different operating units to meet their processing needs.

On the technology infrastructure side, a second IBM RS6000 computer server and internet security peripherals have been installed to support additional functional and control requirements, the growing branch network and the increasing client base.

Finally, to ensure continuity of service even during times of crises, a Disaster Recovery Site has been set up in the Makati area where back-up computer systems were installed and the Bank's important production files are kept, ready to be used as an alternative Data Center if the need arises.

Human Resources

In 2003, core values and core competencies became HR's strong foundation to continually strengthen its consistency in the exercise of the Human Resource functions to satisfy the growing expectations of the business lines.

Yearend manpower count increased to 413 employees, representing a 16% growth over 2002 headcount.

To further develop organizational capability, the Group developed a portfolio of training programs. In-house training programs, conducted by the Bank officers or by experts in their selected fields, were held throughout the year. An Officer's Development Program (ODP) was conceptualized and finalized during the year, with the guidelines put in place and the participants chosen. This six-month intensive program, which will be implemented in January, 2004, was envisioned to develop a pool of personnel from within and outside the Bank who can become future leaders and officers to support the Bank's expansion and succession requirements..

On compensation and benefits, the Group came up with additional benefits for employees who do fieldwork and night shifts. The shift to a paperless work environment has also been initiated. A Public Folder has been created to allow employees to download office forms and those pertinent to recruitment, compensation and benefits.

To further inculcate the Bank's vision, mission and core values throughout the organization, HR adopted a number of programs such as integrating the core values in all training programs and incorporating these in the Performance Appraisal for both officers and staff.

In the coming year, the Group looks forward to aligning a Human Resources strategy seamlessly with the Bank's business strategy.

Risk Management

The Bank continued to focus on strengthening its risk management structure and system. With the risk management process embedded in the day to day operations, the Bank improved on the critical component of risk measurement in 2003.

The Bank institutionalized data integrity, believing that the reliability of the output of any risk measurement methodology lies in the quality and quantity of relevant and most useful input data. The Bank gathered, analyzed and sorted internal and external information appropriate to measure earnings and capital at risk given the bank's risk positions under normal or stress conditions. Historical market data that captured financial debacles in the global and local markets where the financial community and the Bank have stakes were inputted into the database. The quality of internal data was improved in the aspect of timeliness and accuracy and the capabilities of application systems for treasury, loans, CASA and the accounting systems were enhanced to strengthen the management information system aspect of the risk monitoring process.

Because of the data build-up and the improvements, the Bank now has more flexibility to meet changes, to diversify and/or expand its trading or investment portfolios. As back testing results showed, the improved risk measurement methodology implemented early last year was reliable in capturing earnings and capital at risk and isolating abnormal market movements. It also led to more timely and reliable risk management reports.

Operational policies and procedures in the management of market/price, foreign and liquidity risks were also enhanced not only to be responsive to new regulations but to complement the overall objective of using risk management not as a mere control tool but for value creation.

Year 2003 saw the effective implementation and benefits of using the VaR concept in value creation. Trading portfolios and market-risk related asset/liability (ALM) portfolios were subjected to VaR calculations using the enhanced risk measurement model. The treasury assets, which are considered dynamic and substantial by the Bank, have been imposed a working and value enhancing risk limit structure based on earning exposures rather than nominal position limits.

The Bank continues to maintain that effective risk management process and structure are key factors in responsible corporate governance of the Bank. The management knows that the preservation of the capital of stockholders relies heavily on the management appetite for risk, ability to establish opportunities and expertise to identify, control and quantify the attendant financial, operational, business and event risks in banking. It strongly believes that adequate return of capital can only be ensured when activities are undertaken in terms of risk/return trade off.

Historically, trading activities have contributed substantially to the Bank's profitability, largely because risk decisions are undertaken along the risk/reward trade off philosophy. The collective mindset of the risk policy decision makers, takers, managers and controllers that make up the corporate risk culture has been more pronounced in the year in review.

Last year's trading activities had an efficiency rate of 5.6 times in the use of the portfolio's VaR limit. The risk takers employed cautiously a relatively low earnings/capital at risk usage.

As to the Bank's fixed income trading activities, the record performance in churning these activities entailed an efficiency rate of 5.95 times in the use of VaR limits and moderate earnings/capital at risk usage.

The capital to risk asset ratio of the bank remained robust at 24.12% or more than twice the minimum statutory requirement of 10%.

The Bank sees dynamic changes in the profile of its risk positions come 2004. In the pipeline is the planned expansion in consumer credit. As with any local bank, the challenge is finding a sound basis for credit default estimate so as to optimize capital under the risk management framework. Again, this basis will begin with build-up of internal and external data relevant to the reliable measure of credit risk.

Report of the Chief Audit Executive

Asia United Bank Corporation was granted authority to operate as Commercial Bank under MB Resolution No. 1149 dated September 3, 1997 and commenced operations on October 31, 1997.

As of December 31, 2003, the bank has twenty five branches all over Metro Manila and in the key cities of Luzon, Visayas and Mindanao.

For the year 2003, the Internal Audit Department performed internal audit assessments of all organizational units, based on the Audit Plans and Strategies in accordance with the Generally Accepted Auditing Standards as approved by the Audit Committee. As in any normal business operations, the Audit Department noted some areas that needed improvement in the Bank's Internal Control Procedures. These were immediately raised to the Management and the necessary corrective actions were taken.

The current Internal Controls and Credit Policies of the Bank were consistently rated by the Bangko Sentral ng Pilipinas of a CAMEL rating of “4” (out of high of “5”) for the past five years. The Bank’s CAMEL rating of “4” indicates that AUB is a fundamentally sound financial institution. Moreover, the past due ratio of our loan portfolio is mere 10.36% way below the industry average of 16%.

The Internal Audit Department, together with the External Auditors, and the Audit Committee of AUB have ensured that good governance is practiced in the Bank as prescribed by Securities and Exchange Commission Circular No. 2 on the role of the Audit Committee and the External Auditors.

The Audit Committee will continue to assure depositors and stakeholders that Internal Control Procedure and Risk Management Practices will always be adequate and effective in guarding the assets of the Bank.

GEORGE T. CHUA
Audit Committee Chairman

Corporate Governance

Asia United Bank Corporation, under its Corporate Governance Manual submitted to Securities and Exchange Commission has fully complied with the requirements of Circular No. 296 dated 17 September 2001 as amended by Circular No. 370 dated 17 February 2003. All directors had completed its Corporate Governance Training required by Bangko Sentral ng Pilipinas.

Correspondingly, on January 27, 2004, Asia United Bank Corporation submitted to the Securities and Exchange Commission its Corporate Governance Manual Evaluation Sheet for year 2003 required under SEC Circular No. 2 dated 5 April 2002, where the Bank has substantially complied with the requirements.

GEORGE T. CHUA
Audit Committee Chairman

Board of Directors

Jacinto L. Ng, Sr.
Chairman of the Board

Abraham T. Co
Director and President

Lin Hong Dow
Director

Yi-Tien Lin
Director

Sonia Wu
Director

Jonathan C. Ng
Director

Luis U. Ang
Director

George T. Chua
Director

Atty. Lily K. Gruba
Director

Atty. William T. Chua
Corporate Secretary

AUB OFFICERS

President

Abraham T. Co

Executive Vice President

Manuel A. Gomez
Victor Y. Lim, Jr.

Senior Vice President

Antonio V. Agcaoili, Jr.
Francisco M. Caparros, Jr.
Sandy W. Tan

First Vice President

Emmanuel L. Benitez
Rodelio A. Cayetano
Christine T. Chan
Florante C. Del Mundo
Ronald Joseph D. Fernandez
Herminia C. Musico
Willy G. Ng

Vice President

Melissa G. Adalia
Andrew A. Chua
Lourdes D. Foronda
Joselito R. Jacob
Ferdinand G. La Chica
Zenaida S. Librea
Gilbert L. Lim
Luis Gregorio M. Maloles
Ven V. Martelino
Belinda C. Rodríguez
Gilda C. Tiongco

Assistant Vice President

Ma. Milissa T. Amistad
Jessica O. Bautista
Reynaldo T. Boringot
Mariano M. Borromeo
Lawrence T. Co
Ma. Teresa M. Copo
Pablito P. Flores
Rodolfo C. Mateo
Analina S. Palma
Alfredo P. Pineda
Leila S. Quijano
Wilfredo E. Rodriguez, Jr.
Farley O. Silva
Kenneth K. Uy

Senior Manager

Virginia A. Abrigo
Ma. Isabel V. Antonio
Orlindo T. Bartolome
Ronaldo B. Bugayong
Leah Y. Chua
Antonio Manuel E. Cruz, Jr.
Sandra S. Gaw
Jose F. Lapuz
Rolando L. Libunao
Zita M. Los Baños
Patricio B. Mercado
Rachelle D. Ng
John C. Salas
Stephen D. Tala
Liza Beth F. Togade

Manager

Rommel B. Blanco
Rosalia C. Ching
Heidi H. Dee
Robert Frederick P. Dy
Alfonso C. Go III
Christopher Gene C. Lapuz
Marie Antonette R. Miguel
Grace C. Ong
Ricardo B. Pantoja
Albert T. Reyes
Eduardo Arsenio C. Roldan
Amelia S. Sison
Howard Lincoln D. Son
Mimi Tan To-Santos
Yolanda S. Tienzo

P R O D U C T S & S E R V I C E S

DEPOSIT ACCOUNT PRODUCTS

Preferred Peso Savings
Preferred Peso Checking
Preferred Savings Plus
Preferred Peso Time Deposit
Preferred Money Max 5
Preferred Dollar Savings
Preferred Dollar Time Deposit

CREDIT AND LOAN FACILITIES

Short Term Working Capital Loan
  Denominated in both Peso & US Dollar
Trade Financing Facilities
- Domestic Letter of Credit with Trust Receipt Facility
- Import Letter of Credit with Trust Receipt Facility
- Packing Credit or Export Loans versus either LC's or PO's

Domestic Bills Purchase Line
Foreign Loan/Financing Packages
Salary Loan
BSP US$/Peso Rediscounted Loans
Specialized Long and Short Term Program Loans
  DBP Funded: *Industrial Guarantee Loan Fund (IGLF) • Japan Export-Import Bank Facility (JEXIM) • Industrial and Support Services Expansion Program (ISSEP II) • Environmental Infrastructure Support Credit Program (EISCP II)*
  SSS Funded: *SSS-GSIS Financing Program • Financing Program for Tourism• Hospital Financing Program • Financing Program for Educational Institution • Housing Loan Program • Developmental Program*
Syndicated Peso/US$ Medium and Long Term Loans
Documents Against Acceptance (DA)
Documents Against Payment (DP)
Open Account (TT)

TREASURY

Fixed Income Trading & Distribution
- Local Currency Treasury Bills
- Local Currency Treasury Notes/Bonds
- Fixed & Floating Rate Corporate Notes
- Short & Long-Term Commercial Papers
- US$-denominated Certificates of Deposit
- US$-denominated US Treasuries
- US$-denominated Eurobonds/Notes
- US$-denominated Credit-Linked Notes

Foreign Exchange Trading
- *Spot Trading US$/Peso*
- *Spot Trading Major Currencies*
- *Currency Swaps and Forwards (US$/Peso and Majors)*
- *Cash (Notes) Handling*

TRUST & INVESTMENT SERVICES

Employee Benefit Trust:
- Provident Fund
- Pension Fund

Fund Management
- Corporate/Individual Portfolio Management
- Pre-Need Fund Management
- Unit Trust Funds Management
    - AUB Common Trust Fund
    - AUB Gold Dollar Fund

Estate Planning
- Guardianship
- Living Trust - AUB Gold Chest Plan
- Testimonial Trust

Special Corporate Services
- Escrow Agency
- Custodianship Services
- Mortgage Trust Indentures

INTERNATIONAL BANKING SERVICES

Letter of Credit, Collection of Clean and Documentary Bill
Foreign and Domestic Remittance
Purchase and Sale of Foreign Exchange

AUXILIARY SERVICES

Preferred ATM
Preferred PhoneBanking
Preferred Payroll Plus
Preferred CheckWrite
Preferred CheckWarehousing
AUB SSS Net
Deposit Pick-Up Service
Safety Deposit Box
Manager’s Check/Gift Checks
Fund Transfer (TT/DD)

AUB BRANCHES

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Branch Mgr: Farley Silva

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Branch Mgr: Heidi Dee

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Branch Mgr: Jessica Bautista

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Branch Mgr: Sandra S. Gaw

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Unit 800-802,Co Cuanco & Sons Bldg.
Tabora cor. M.de Santos Sts., Divisoria, Manila
Tel. 244-2974 to 76
Branch Mgr: Grace C. Ong

ERMITA
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Branch Mgr: Ma. Isabel V. Antonio

GIL PUYAT
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Tel. 899-4288, 899-3483, 899-4286
Branch Mgr: Ana Lina Palma

KALOOKAN
222-226 Rizal Avenue Ext. near corner 5th Avenue
Grace Park, Caloocan City
Tel. 365-2931, 364-2070,364-2036, 364-2049
Branch Mgr: Reynaldo Boringot

NAIA
Arrival Area, International Operations,
NAIA Terminal II
NAIA Complex, Pasay City
Tel. 879-5625 to 26, 877-1109 loc. 2098, 877-2098
Service Mgr: Paul Fernandez

NOVALICHES
847 Quirino Highway, Brg. Gulod
Novaliches, Quezon City
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Branch Mgr: Yolanda Tienzo

PARC ROYALE
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Branch Mgr: Kelwin Salvador

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Tel. 840-2640, 840-2774, 830-2367
Branch Mgr: Robbie Dy

TIMOG
ESNA Bldg., 30 Timog Ave. cor. Scout Tobias
Diliman, Quezon City
Tel. 372-9705 to 06, 372-9757, 374-7285
Branch Mgr: Orlindo Bartolome

VALENZUELA
203 MacArthur Highway, Kaunlaran
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Branch Mgr: Amelia Sison

Provincial

ANGELES
1276 Miranda St., Angeles City
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Branch Mgr: Pablito Flores

BIÑAN
Pavillion Mall, KM. 35, San Antonio, Biñan, Laguna
Tel. (049) 411-7108 to 10, (049) 511-4309
Branch Mgr: Patricio Mercado

CAGAYAN DE ORO
9000 C.M. Recto Ave., Lapasan, Cagayan de Oro City
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ILOILO
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Tel. (033) 509-7008, (033) 335-1685 to 88
Branch Mgr: Alfonso Go III

IMUS
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(046) 471-8250
Branch Mgr: Jen Calabon

LUCENA
Magallanes cor. Enriquez Sts., Lucena City
Tel. (042) 373-5782 to 84
Branch Mgr: Elizabeth Tan

MANDAUE
AWPM Realty Dev. Corp. Bldg., MC Briones St.
National Highway, Mandaue City
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Branch Mgr: Julie Limquiaco

ASIA UNITED BANK CORPORATION
AND SUBSIDIARIES

Financial Statements
December 31, 2003 and 2002

and

Report of Independent Auditors

SGV & Co

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

Report of Independent Auditors

The Stockholders and the Board of Directors
Asia United Bank Corporation and Subsidiaries
Ground Floor, Parc Royale Condominium
Doña Julia Vargas Avenue, Pasig City

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

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

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

A. B. CABAL
Partner
CPA Certificate No. 15534
SEC Accreditation No. 0068-A
Tax Identification No. 105-342-543
PTR No. 7012954
January 5, 2004
Makati City

February 13, 2004

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF CONDITION

	Consolidated		Parent Company	
	December 31			
	2003	2002	**2003**	2002
RESOURCES				
Cash and Other Cash Items (Note 9)	**₱453,833,745**	₱164,577,525	**₱434,781,221**	₱164,351,900
Due from Bangko Sentral ng Pilipinas (Notes 9 and 13)	**279,454,313**	310,551,215	**279,454,313**	310,551,215
Due from Other Banks (Note 13)	**742,639,720**	546,744,469	**742,639,720**	546,744,469
Interbank Loans Receivable and Securities Purchased under Agreements to Resell (Note 13)	**1,207,225,749**	1,296,603,988	**1,207,225,749**	1,296,603,988
Trading and Investment Securities - net (Notes 3, 9 and 13)	**3,597,633,014**	2,589,704,120	**3,584,912,159**	2,589,704,120
Receivables from Customers - net (Notes 4, 10, 13 and 19)	**10,640,369,810**	8,778,699,679	**10,483,327,375**	8,689,711,985
Equity Investments (Note 5)	**12,087,746**	12,087,746	**71,579,977**	61,057,804
Bank Premises, Furniture, Fixtures and Equipment - net (Note 6)	**92,353,981**	87,652,032	**91,153,148**	85,534,700
Other Resources - net (Note 7)	**552,533,490**	430,700,163	**530,674,260**	418,924,494
	₱17,578,131,568	₱14,217,320,937	**₱17,425,747,922**	₱14,163,184,675
LIABILITIES AND CAPITAL FUNDS				
Deposit Liabilities (Notes 9, 13 and 19)				
Demand	**₱1,958,534,999**	₱1,445,713,330	**₱1,968,853,054**	₱1,451,265,401
Savings	**4,123,123,672**	3,434,275,208	**4,141,867,841**	3,447,982,019
Time	**3,144,457,314**	2,360,351,162	**3,144,457,314**	2,396,006,162
	9,226,115,985	7,240,339,700	**9,255,178,209**	7,295,253,582
Bills Payable (Notes 10 and 13)	**3,591,379,905**	3,026,341,202	**3,546,379,905**	3,011,341,202
Acceptances Payable (Note 13)	**212,298,096**	245,165,905	**212,298,096**	245,165,905
Manager's Checks	**70,195,256**	40,099,524	**70,195,256**	40,099,524
Accrued Taxes, Interest and Other Expenses (Notes 11 and 13)	**190,339,493**	143,705,191	**185,785,976**	142,453,785
Deferred Credits and Other Liabilities (Note 12)	**502,640,932**	281,614,200	**476,299,945**	273,358,305
	13,792,969,667	10,977,265,722	**13,746,137,387**	11,007,672,303
Minority Interest in Subsidiaries	**105,551,366**	84,542,843	**–**	–
Capital Funds (Note 14)	**3,679,610,535**	3,155,512,372	**3,679,610,535**	3,155,512,372
	₱17,578,131,568	₱14,217,320,937	**₱17,425,747,922**	₱14,163,184,675

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF INCOME

	Consolidated		Parent Company	
	Years Ended December 31			
	2003	2002	**2003**	2002
INTEREST INCOME ON				
Receivables from customers (Note 19)	**₱868,341,170**	₱732,624,142	**₱860,782,402**	₱730,176,297
Trading and investment securities (Note 14)	**263,106,818**	266,911,791	**259,423,166**	266,911,791
Interbank loans receivable and securities purchased under agreements to resell	**22,711,636**	62,835,092	**22,711,636**	62,835,092
Deposits with banks and others	**1,595,311**	17,770,422	**3,266,978**	17,383,119
	1,155,754,935	1,080,141,447	**1,146,184,182**	1,077,306,299
INTEREST EXPENSE ON				
Deposit liabilities (Note 19)	**333,941,666**	283,988,138	**335,653,572**	288,310,911
Bills payable and other borrowings	**134,234,645**	155,758,432	**133,170,096**	155,758,432
	468,176,311	439,746,570	**468,823,668**	444,069,343
NET INTEREST INCOME	**687,578,624**	640,394,877	**677,360,514**	633,236,956
PROVISION FOR PROBABLE LOSSES (Note 8)	**260,341,814**	121,350,753	**260,239,524**	121,296,239
NET INTEREST INCOME AFTER PROVISION FOR PROBABLE LOSSES	**427,236,810**	519,044,124	**417,120,990**	511,940,717
OTHER INCOME				
Trading and securities gain - net	**325,260,116**	286,628,569	**325,260,116**	286,598,445
Service charges, fees and commissions	**74,176,383**	52,704,720	**74,155,085**	52,640,148
Trust income	**34,960,642**	15,544,447	**34,960,642**	15,544,447
Equity in net income (Note 5)	**–**	–	**3,022,173**	3,493,153
Miscellaneous	**59,749,804**	31,588,705	**47,880,523**	21,917,835
	494,146,945	386,466,441	**485,278,539**	380,194,028
OTHER EXPENSES				
Compensation and fringe benefits (Note 16)	**166,316,373**	137,644,447	**164,407,276**	135,769,949
Depreciation and amortization (Note 6)	**43,949,831**	45,933,059	**43,017,151**	44,886,101
Rent (Note 15)	**37,760,919**	41,082,720	**37,568,211**	40,890,012
Insurance	**22,391,630**	17,830,876	**22,353,120**	17,781,527
Amortization of computer software costs and branch licenses	**14,270,348**	25,891,037	**14,095,537**	25,716,227
Advertising and publicity	**11,611,327**	7,857,674	**10,917,963**	6,909,056
Management and other professional fees	**11,368,773**	8,573,920	**11,341,450**	8,559,834
Postage, telephone, cables and telegrams	**6,674,023**	9,323,359	**6,554,735**	9,218,140
BSP supervision fees	**5,639,420**	4,806,321	**5,639,420**	4,806,321
Taxes and licenses (Note 17)	**2,095,860**	48,632,524	**1,912,955**	47,252,249
Miscellaneous (Note 17)	**110,574,109**	95,544,242	**108,698,624**	93,636,755
	432,652,613	443,120,179	**426,506,442**	435,426,171
INCOME BEFORE INCOME TAX	**488,731,142**	462,390,386	**475,893,087**	456,708,574
PROVISION FOR (BENEFIT FROM) INCOME TAX (Note 17)	**(38,807)**	14,670,818	**(4,342,233)**	13,516,917
INCOME BEFORE MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	**488,769,949**	447,719,568	**480,235,320**	443,191,657
MINORITY INTEREST IN NET INCOME OF SUBSIDIARIES	**8,534,629**	4,527,911	**–**	–
NET INCOME	**₱480,235,320**	₱443,191,657	**₱480,235,320**	₱443,191,657

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF CHANGES IN CAPITAL FUNDS

	Years Ended December 31	
	2003	2002
CAPITAL STOCK - ₱100 par value (Note 14)		
Authorized - 50,000,000 shares		
Issued - 24,000,000 shares	**₱2,400,000,000**	₱2,400,000,000
SURPLUS RESERVE (Note 18)		
Balance at beginning of year	**1,065,706**	244,137
Transfer from surplus	**5,113,938**	821,569
Balance at end of year	**6,179,644**	1,065,706
SURPLUS (Note 14)		
Balance at beginning of year	**788,143,270**	345,773,182
Net income	**480,235,320**	443,191,657
Transfer to surplus reserve (Note 18)	**(5,113,938)**	(821,569)
Balance at end of year	**1,263,264,652**	788,143,270
NET UNREALIZED GAIN (LOSS) ON AVAILABLE-FOR-SALE SECURITIES (Note 3)	**10,166,239**	(33,696,604)
	₱3,679,610,535	**₱3,155,512,372**

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

STATEMENTS OF CASH FLOWS

	Consolidated		Parent Company	
	Years Ended December 31			
	2003	2002	**2003**	2002
CASH FLOWS FROM OPERATING ACTIVITIES				
Income before income tax	**₱488,731,142**	₱462,390,386	**₱475,893,087**	₱456,708,574
Adjustments to reconcile income before income tax to net cash generated from (used in) operations				
Interest income	**(1,155,754,935)**	(1,080,141,447)	**(1,146,184,182)**	(1,077,306,299)
Interest expense	**468,176,311**	439,746,570	**468,823,668**	444,069,343
Provision for probable losses	**260,341,814**	121,350,753	**260,239,524**	121,296,239
Depreciation and amortization	**43,949,831**	45,933,059	**43,017,151**	44,886,101
Amortization of computer software costs and branch licenses	**14,270,348**	25,891,037	**14,095,537**	25,716,227
Equity in net income of associates	**–**	–	**(3,022,173)**	(3,493,153)
Unrealized gain on trading account securities (TAS)	**(3,240,855)**	(74,273)	**(3,240,855)**	(74,273)
Gain on sale of bank premises, furniture, fixtures and equipment	**(1,109,090)**	–	**(1,109,090)**	–
Changes in operating resources and liabilities:				
Decrease (increase) in:				
Receivables from customers	**(2,091,588,717)**	(976,734,486)	**(2,023,431,685)**	(970,067,180)
TAS	**(331,553,825)**	6,372,786	**(331,553,825)**	6,372,786
Other resources	**(58,808,422)**	10,252,742	**(51,205,961)**	13,864,486
Increase in:				
Deposit liabilities	**1,985,776,285**	836,692,263	**1,959,924,627**	831,305,864
Manager's checks	**30,095,732**	27,465,995	**30,095,732**	27,465,995
Accrued taxes, interest and other expenses	**9,671,392**	18,074,705	**8,951,671**	11,011,989
Deferred credits and other liabilities	**188,158,924**	220,187,052	**170,073,832**	233,981,825
Net cash generated from (used in) operations	**(152,884,065)**	157,407,142	**(128,632,942)**	172,862,185
Interest received	**1,088,621,870**	1,090,460,555	**1,079,374,591**	1,087,339,259
Interest paid	**(435,460,803)**	(437,154,286)	**(436,917,269)**	(441,645,072)
Income taxes paid	**(33,999,505)**	(84,502,532)	**(31,436,627)**	(82,319,555)
Net cash provided by operating activities	**466,277,497**	726,210,879	**482,387,753**	736,236,817
CASH FLOWS FROM INVESTING ACTIVITIES				
Decrease (increase) in:				
Available-for-sale securities	**836,177,267**	(1,203,318,003)	**836,177,267**	(1,203,318,003)
Investments in bonds and other debt instruments	**(1,465,448,640)**	437,081,151	**(1,452,727,783)**	437,081,151
Additional equity investments	**–**	(500,000)	**(7,500,000)**	(12,500,000)
Proceeds from sale of bank premises, furniture, fixtures and equipment	**5,750,537**	–	**5,750,537**	5,231,381
Additions to bank premises, furniture, fixtures and equipment	**(53,277,046)**	(46,393,405)	**(53,277,046)**	(51,110,553)
Net cash used in investing activities	**(676,797,882)**	(813,130,257)	**(671,577,025)**	(824,616,024)

(Forward)

	Consolidated		Parent Company	
	Years Ended December 31			
	2003	2002	**2003**	2002
CASH FLOWS FROM FINANCING ACTIVITIES				
Increase in:				
Bills payable	**₱565,038,703**	₱408,664,449	**535,038,703**	₱439,170,099
Minority interest in subsidiaries	**10,158,012**	28,700,928	**–**	–
Cash provided by financing activities	**575,196,715**	437,365,377	**437,365,377**	439,170,099
NET INCREASE IN CASH AND CASH EQUIVALENTS	**364,676,330**	350,445,999	**345,849,431**	350,790,892
CASH AND CASH EQUIVALENTS AT BEGINNING OF YEAR				
Cash and other cash items	**164,577,525**	95,783,957	**164,351,900**	95,213,439
Due from Bangko Sentral ng Pilipinas	**310,551,215**	293,476,490	**310,551,215**	293,476,490
Due from other banks	**546,744,469**	840,320,751	**546,744,469**	840,320,751
Interbank loans receivable and securities purchased under agreements to resell	**1,296,603,988**	738,450,000	**1,296,603,988**	738,450,000
	2,318,477,197	1,968,031,198	**2,318,251,572**	1,967,460,680
CASH AND CASH EQUIVALENTS AT END OF YEAR				
Cash and other cash items	**453,833,745**	164,577,525	**434,781,221**	164,351,900
Due from Bangko Sentral ng Pilipinas	**279,454,313**	310,551,215	**279,454,313**	310,551,215
Due from other banks	**742,639,720**	546,744,469	**742,639,720**	546,744,469
Interbank loans receivable and securities purchased under agreements to resell	**1,207,225,749**	1,296,603,988	**1,207,225,749**	1,296,603,988
	₱2,683,153,527	₱2,318,477,197	**₱2,664,101,003**	₱2,318,251,572

See accompanying Notes to Financial Statements.

ASIA UNITED BANK CORPORATION AND SUBSIDIARIES

NOTES TO FINANCIAL STATEMENTS

1. General Information

Asia United Bank (the Parent Company) is a domestic corporation registered with the Securities and Exchange Commission (SEC) on October 3, 1997 and was granted authority as a commercial bank under Monetary Board (MB) Resolution No. 1149 dated September 3, 1997. It commenced operations on October 31, 1997.

The Parent Company's principal place of business is located at the Ground Floor, Parc Royale Condominium, Doña Julia Vargas Avenue, Pasig City. As of December 31, 2003 and 2002, the Parent Company had 26 and 21 operational branches, respectively, within the Philippines.

The Parent Company provides commercial banking services such as deposit products, loans and trade finance, domestic and foreign fund transfers, treasury, foreign exchange and trust services. In addition, the Parent Company is licensed to enter into regular financial derivatives as a means of reducing and managing the Parent Company's and its customers' foreign exchange exposure.

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

	2003	2002
Parent Company	**409**	334
Subsidiaries	**4**	4

As authorized by the Bank's board of directors (BOD) through a resolution approved by the BOD on its meeting held on January 16, 2004, the accompanying financial statements of the Bank were approved and authorized for issue by the Bank's management on February 13, 2004.

2. Summary of Significant Accounting Policies

Basis of Financial Statements Preparation

The Group's financial statements have been prepared in accordance with the accounting principles generally accepted in the Philippines (Philippine GAAP) for the banking industry. These financial statements are prepared under the historical cost convention, as modified for the measurement of fair value of certain investment securities.

Use of Estimates in the Preparation of Financial Statements

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

Adoption of New Accounting Standards

The Bank adopted Statement of Financial Accounting Standards (SFAS) 10/International Accounting Standard (IAS) 10, *Events After the Balance Sheet Date*, SFAS 37/IAS 37, *Provisions, Contingent Liabilities and Contingent Assets*, and SFAS 38/IAS 38, *Intangible Assets*, effective January 1, 2003.

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

New Accounting Standards Effective in 2004

The following applicable SFAS/IAS approved by the Accounting Standards Council will be effective starting January 1, 2004:

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

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

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

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

The Group is a party to numerous leases for which an assessment must be made to determine whether these would qualify as finance leases. The Group has not yet determined the financial statement impact of the adoption of this standard.

Basis of Consolidation

The Group's financial statements include the accounts of the Parent Company and the following subsidiaries which financial policies and operations are controlled and influenced by the Parent Company in combination with the common major shareholders of the Parent Company and subsidiaries:

Subsidiary	Business	Country of Incorporation	Effective Percentage of Ownership	
			2003	2002
Asia United Leasing and Finance Corporation (AULFC)	Leasing and financing business	Philippines	**39%**	40%
Asia United Forex Corporation (AUFC)	Foreign exchange services	- do-	**32%**	32%

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

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

Securities Purchased Under Agreements to Resell (SPURA)

The Parent Company entered into short-term purchases of securities under resale agreements with the Bangko Sentral ng Pilipinas (BSP). Resale agreements are contracts under which a party purchases securities and resells such securities to the same selling party at a specified future date at a fixed price. The amounts advanced under resale agreements are carried as SPURA on the statements of condition at the principal amount advanced.

Trading and Investment Securities (TAS)

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

Securities are classified as Available-for-Sale Securities (ASS) when purchased and held indefinitely but which the Parent Company 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. Realized gains and losses on these securities are recognized in Trading and Securities Gains - net in the statements of income.

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

<u>Receivables from Customers</u>
Receivables from customers are stated at outstanding balances reduced by unearned discounts and allowance for probable losses.

Unearned discount is recognized as income over the life of the receivables. Interest income on nondiscounted receivables is accrued as earned, except in the case of nonaccruing receivables as required by existing BSP regulations.

Receivables are classified as nonaccruing in accordance with BSP regulations, or when, in the opinion of management, collection of interest or principal is doubtful. Interest income on these receivables are recognized only to the extent of cash collections received. Receivables are not reclassified as accruing until interest and principal payments are brought current or the loans are restructured in accordance with existing BSP regulations, and future payments appear assured.

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

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

<u>Revenue Recognition</u>
Revenue 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 loans and other interest-bearing placements and securities are recognized based on the accrual method of accounting, except in the case of nonaccruing loans where interest income is recognized only to the extent of cash collections received.

Interest and finance fees on loans and receivables financed with long-term maturities, and the excess of the aggregate rentals and residual value of the leased equipment over its cost are initially credited to unearned income and other deferred credits and amortized over the term of the note or lease.

Unearned income cease to be amortized when receivables become past due for more than 90 days.

Fees and Commission
Generally, fees and commissions are recognized on the accrual basis. Commitment fees are recognized as a percentage of unavailed credit lines, as appropriate.

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

Equity Investments
The Parent Company, in combination with the common major shareholders of the Parent Company and investee companies effectively exercise control over the financial and operating policies of the investee companies. In the parent company financial statements, the Bank follows the equity method of accounting for its investments in subsidiaries where the Bank exercises control. Under this method, the cost of investment is increased or decreased by the Bank's equity in net earnings or losses and reduced by cash dividends received from the subsidiaries since date of acquisitions. Other equity investments where the Bank has no significant influence or control are carried at cost less allowance for probable losses, if any.

Bank Premises, Furniture, Fixtures and Equipment
Bank premises, including leasehold improvements, furniture, fixtures and equipment are stated at cost less accumulated depreciation and amortization and impairment in value, if any. Depreciation is provided using the straight-line method based on the estimated useful lives of the respective assets. Costs of leasehold improvements are amortized over the shorter of the estimated useful lives of the improvements or the terms of the related leases. Estimated useful lives of bank premises, furniture, fixtures and equipment are as follows:

Leasehold rights and improvements	5 years or of the term of the lease, whichever is shorter
Furniture, fixtures and equipment	3 years
Transportation equipment	5 years

The initial cost of bank premises, furniture 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 fixed assets have been put into operation, such as repairs and maintenance are normally charged to operations in the period 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 bank premises, furniture and equipment beyond its originally assessed standard of, performance, the expenditures are capitalized as an additional cost of bank premises, furniture and equipment. When assets are retired or otherwise disposed of, the cost and the related accumulated depreciation and amortization are removed from the accounts, any resulting gain or loss is reflected as income or loss in the statements of income and expenses.

Real and Other Properties Owned or Acquired (ROPOA)
These properties, which were acquired in settlement of loans, are stated at the total outstanding exposure at the time of acquisition or bid price/appraised value, whichever is lower, less allowance for probable losses and impairment in value, if any. Nonrefundable capital gains tax 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 against operations as incurred. Allowance for probable losses is set up for any anticipated losses based on BSP provisioning requirements, appraisal reports and/or current negotiations and programs to dispose of these properties including estimated selling cost.

Intangible Assets
Intangible assets include computer software costs and branch licenses (included in Miscellaneous Assets) that are amortized over five years and two years, respectively, on a straight-line basis.

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

Foreign Exchange Transactions
Resources and liabilities denominated in foreign currencies are translated to Philippine pesos at prevailing PDSWAR at the end of each year. Income and expense items are translated at PDSWAR prevailing on transaction dates. Foreign exchange differentials arising from foreign currency transactions and restatements of foreign currency denominated resources and liabilities are credited or charged to operations in the year when the rates change.

Forward Contracts
The Parent Company is a party to forward contracts entered into as a service to customers and as a means of reducing and managing the Parent Company's foreign exchange exposures. For forward contracts designated and qualified as a hedge, the discount or premium is amortized over the term of the contract and the revaluation gain and losses are deferred or recognized as income or expense to match the treatment for the hedged exposures. Forward contracts which are not designated or do not qualify as hedges are marked to market with revaluation gains and losses credited or charged to operations.

Impairment of Assets
An assessment is made at each statement of condition date if there is any indication of impairment of any asset, or if there is any indication that an impairment loss previously recognized for an asset in prior years may no longer exist or may have decreased. If any of 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 statements of income in the period in which it arises.

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

Pension Cost

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

The Bank is in the process of setting up a pension fund. In compliance with the provisions of Republic Act (RA) No. 7641, the Bank commissioned an actuarial study for the proposed pension fund which incorporates the requirements of RA No. 7641.

Operating Leases

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

Provisions

Provisions are recognized when the Bank has a present obligation (legal or constructive) where, 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.

Contingencies

Contingent liabilities are not recognized in the financial statements but 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.

Subsequent Events

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

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 and securities purchased under agreements to resell with maturities of three months or less from original dates of placements that have insignificant risk of change in value.

3. Trading and Investment Securities

This account consists of:

	2003	2002
TAS (after unrealized gain of ₱3,420,855 in 2003 and ₱74,273 in 2002)	**₱336,253,707**	₱1,459,027
ASS (after unrealized gain of ₱10,166,239 in 2003 and unrealized loss of ₱33,696,604 in 2002)	**828,316,808**	1,620,631,232
IBODI (after accumulated bond premium of ₱4,961,106 in 2003 and ₱2,367,309 in 2002) (Notes 9 and 18)	**2,433,062,499**	967,613,861
	₱3,597,633,014	₱2,589,704,120

IBODI consists of:

	2003	2002
Private bonds	**₱921,998,492**	₱–
Government bonds	**859,453,284**	394,488,408
Treasury notes	**333,063,895**	329,121,914
BSP Treasury bills	**227,837,977**	149,013,734
Others	**90,708,851**	94,989,805
	₱2,433,062,499	₱967,613,861

The market value of IBODI amounted to ₱2,458.9 million and ₱880.7 million as of December 31, 2003 and 2002, respectively.

As of December 31, 2003 and 2002, IBODI bears nominal annual interest rates ranging from 4.7% to 7.9% for peso-denominated bonds and 7.2% to 11.4% for US dollar-denominated bonds.

IBODI includes US dollar denominated bonds amounting to $33.1 million or ₱1,839.8 million as of December 31, 2003 and $8.5 million or ₱450.4 million as of December 31, 2002.

As of December 31, 2003, IBODI amounting to ₱160.0 million was pledged to a foreign bank as a requirement for maintaining a credit line. No availment was made yet from such credit line as of the said date.

4. Receivables from Customers

This account consists of:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Loans and discounts	**₱8,742,835,478**	₱7,291,839,892	**₱8,742,835,508**	₱7,291,839,894
Customers' liabilities under acceptances and letters of credit/trust receipts	**1,962,286,005**	1,544,579,924	**1,962,286,005**	1,544,579,924
Bills purchased (Note 12)	**396,148,369**	206,631,802	**396,148,369**	206,631,802
Lease contract receivables	**195,759,647**	110,569,214	**–**	–
	11,297,029,529	9,153,620,832	**11,101,269,882**	9,043,051,620
Less: Allowance for probable losses (Note 8)	**544,569,966**	322,178,905	**542,233,414**	319,944,644
Unearned discount and other deferred income	**112,089,753**	52,742,248	**75,709,093**	33,394,991
	₱10,640,369,810	₱8,778,699,679	**₱10,483,327,375**	₱8,689,711,985

On September 19, 2002, the BSP issued Circular No. 351 which allows banks with no unbooked valuation reserves and capital adjustments to exclude from nonperforming classification, 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 and that such loans shall be deducted from total loan portfolio for purposes of computation. The Parent Company's nonperforming loans (NPLs) not fully covered by allowance for probable losses follow:

	2003	2002
Total NPLs	**₱1,236,117,736**	₱784,927,373
Less NPLs fully covered by allowance for probable losses	**36,832,388**	18,707,496
	₱1,199,285,348	₱766,219,877

Restructured loans as of December 31, 2003 and 2002 amounted to ₱52.2 million and ₱90.4 million, respectively.

The Parent Company's loan portfolio includes non-risk loans totaling ₱480.4 million and ₱136.6 million as of December 31, 2003 and 2002, respectively. Under existing BSP regulations, non-risk loans are excluded in determining the Parent Company's general loan loss provision.

Lease contract receivables of a subsidiary consists of financing fees and the cost of the leased equipment, net of its estimated residual value. Upon delivery of the leased equipment, the lessee is generally required to make a deposit to serve as a guarantee for the performance of the obligations under the lease contract. The deposit is refundable to the lessee upon the expiration of the lease without any interest, net of amount which may be due to the subsidiary under the terms of lease contract.

A portion of receivables from customers amounting to ₱1,035.5 million and ₱970.9 million as of December 31, 2003 and 2002, respectively, has been rediscounted under the Land Bank of the Philippines, Development Bank of the Philippines and Social Security System rediscounting facilities (see Note 10).

As of December 31, 2003 and 2002, 77.57% and 85.27% of the total loans are subject to periodic interest repricing, respectively. Remaining loans earn annual fixed interest rates ranging from 2.5% to 19.7% for peso-denominated loans and 7.0% to 9.0% for foreign currency-denominated loans in 2003 and from 2.5% to 20% for peso-denominated loans and 3.4% to 9.0% for foreign currency-denominated loans in 2002.

The following table shows the breakdown of receivables from customers by collateral (amounts in thousands):

	Consolidated			
	2003		2002	
	Amount	**%**	Amount	%
Secured				
Real estate	**₱2,291,470**	**20**	₱2,283,450	25
Chattel	**201,037**	**2**	202,484	2
Deposit hold-out and others	**1,578,630**	**14**	1,049,363	12
	4,071,137	**36**	3,535,297	39
Unsecured	**7,225,893**	**64**	5,618,324	61
	₱11,297,030	**100**	₱9,153,621	100

	Parent Company			
	2003		2002	
	Amount	**%**	Amount	%
Secured				
Real estate	**₱2,282,078**	**21**	₱2,283,450	25
Chattel	**128,581**	**1**	160,277	2
Deposit hold-out and others	**1,466,931**	**13**	984,033	11
	3,877,590	**35**	3,427,760	38
Unsecured	**7,223,680**	**65**	5,615,292	62
	₱11,101,270	**100**	₱9,043,052	100

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

	Consolidated			
	2003		2002	
	Amount	**%**	Amount	%
Manufacturing (various industries)	**₱3,169,323**	**28**	₱2,775,876	31
Wholesale and retail trade	**2,403,856**	**21**	1,956,588	21
Real estate, renting and business services	**1,763,218**	**16**	1,372,998	15
Public utilities	**1,197,565**	**11**	1,142,326	12
Financial intermediaries	**634,481**	**6**	242,335	3
Agriculture, fisheries and forestry	**374,070**	**3**	556,453	6
Others	**1,754,517**	**15**	1,107,045	12
	₱11,297,030	**100**	₱9,153,621	100

	Parent Company			
	2003		2002	
	Amount	**%**	Amount	%
Manufacturing (various industries)	**₱3,125,159**	**28**	₱2,775,876	31
Wholesale and retail trade	**2,378,521**	**21**	1,956,588	21
Real estate, renting and business services	**1,699,754**	**15**	1,372,998	15
Public utilities	**1,197,565**	**11**	1,142,326	13
Financial intermediaries	**618,143**	**6**	242,335	3
Agriculture, fisheries and forestry	**362,274**	**3**	556,453	6
Others	**1,719,854**	**16**	996,476	11
	₱11,101,270	**100**	₱9,043,052	100

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

5. Equity Investments

The details of equity investments are as follows:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
At equity:				
Acquisition cost				
AULFC (39% owned in 2003 and 40% owned in 2002)	**₱–**	₱–	**₱35,100,000**	₱27,600,000
AUFC (32% owned)	**–**	–	**16,000,000**	16,000,000
	–	–	**51,100,000**	43,600,000
Accumulated equity in net income:				
Balance at beginning of year	**–**	–	**5,370,058**	1,876,905
Equity in net income	**–**	–	**3,022,173**	3,493,153
Balance at end of year	**–**	–	**8,392,231**	5,370,058
	–	–	**59,492,231**	48,970,058
At cost:				
Bancnet, Inc.	**₱6,587,646**	₱6,587,646	**6,587,646**	6,587,646
Philippine Clearing House Corporation	**5,000,100**	5,000,100	**5,000,100**	5,000,100
Others	**500,000**	500,000	**500,000**	500,000
	12,087,746	12,087,746	**12,087,746**	12,087,746
	₱12,087,746	₱12,087,746	**₱71,579,977**	₱61,057,804

AULFC and AUFC were consolidated with the Parent Company since the Parent Company effectively exercises control over the financial and operating policies of the investee companies through common major shareholders of the Parent Company and investee companies.

6. Bank Premises, Furniture, Fixtures and Equipment

This account consists of:

	Consolidated			
	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost				
Balance at beginning of year	₱95,309,177	₱56,940,872	₱59,850,402	₱212,100,451
Additions	29,509,544	13,487,268	10,280,234	53,277,046
Disposals	(139,163)	(7,460,044)	–	(7,599,207)
Balance at end of year	124,679,558	62,968,096	70,130,636	257,778,290
Accumulated Depreciation and Amortization				
Balance at beginning of year	61,330,661	25,246,735	37,871,023	124,448,419
Depreciation and amortization	23,242,016	10,471,044	10,236,771	43,949,831
Disposals and others	(16,181)	(2,957,760)	–	(2,973,941)
Balance at end of year	84,556,496	32,760,019	48,107,794	165,424,309
Net Book Value, December 31, 2003	**₱40,123,062**	**₱30,208,077**	**₱22,022,842**	**₱92,353,981**
Net Book Value, December 31, 2002	₱33,978,516	₱31,694,137	₱21,979,379	₱87,652,032

	Parent Company			
	Furniture, Fixtures and Equipment	Transportation Equipment	Leasehold Improvements	Total
Cost				
Balance at beginning of year	₱94,633,137	₱53,446,872	₱59,283,642	₱207,363,651
Additions	29,509,544	13,487,268	10,280,234	53,277,046
Disposals	(139,163)	(7,460,044)	–	(7,599,207)
Balance at end of year	124,003,518	59,474,096	69,563,876	253,041,490
Accumulated Depreciation and Amortization				
Balance at beginning of year	60,754,487	23,554,468	37,519,996	121,828,951
Depreciation and amortization	23,144,097	9,772,244	10,100,810	43,017,151
Disposals	–	(2,957,760)	–	(2,957,760)
Balance at end of year	83,898,584	30,368,952	47,620,806	161,888,342
Net Book Value, December 31, 2003	**₱40,104,934**	**₱29,105,144**	**₱21,943,070**	**₱91,153,148**
Net Book Value, December 31, 2002	₱33,878,650	₱29,892,404	₱21,763,646	₱85,534,700

7. Other Resources

This account consists of:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Deferred tax asset - net (Note 17)	**₱209,487,978**	₱171,202,264	**₱207,139,362**	₱168,886,382
Accrued interest receivable	**147,658,308**	80,525,243	**147,269,414**	80,459,823
Accounts receivable	**79,740,497**	239,680,749	**79,946,669**	239,736,147
Foreign currency notes and checks	**37,470,885**	30,005,885	**37,470,885**	30,005,885
Computer software - net	**17,345,542**	23,011,461	**17,034,317**	23,011,461
Returned checks and other cash items	**15,337,728**	35,713,804	**15,337,728**	35,713,804
Real and other properties owned or acquired	**13,161,219**	10,155,219	**13,161,219**	10,155,219
Miscellaneous	**72,673,280**	45,231,858	**53,656,613**	35,782,093
	592,875,437	635,526,483	**571,016,207**	623,750,814
Less allowance for probable losses (Note 8)	**40,341,947**	204,828,322	**40,341,947**	204,828,322
	₱552,533,490	₱430,698,161	**₱530,674,260**	₱418,922,492

Changes in the computer software costs and branch licenses are as follows:

	Consolidated		
	Computer Software Costs	Branch Licenses	Total
Balance at beginning of year	₱23,011,461	₱5,006,250	**₱28,017,711**
Additions	5,979,429	2,733,139	**8,712,568**
Amortization	(11,645,348)	(2,625,000)	**(14,270,348)**
Balance at end of year	₱17,345,542	₱5,114,389	**₱22,459,931**

	Parent Company		
	Computer Software Costs	Branch Licenses	Total
Balance at beginning of year	₱23,011,461	₱5,006,250	**₱28,017,711**
Additions	5,493,393	2,733,139	**8,226,532**
Amortization	(11,470,537)	(2,625,000)	**(14,095,537)**
Balance at end of year	₱17,034,317	₱5,114,389	**₱22,148,706**

8. Allowance for Probable Losses

Changes in the allowance for probable losses are as follows:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Balance at beginning of year				
Receivables from customers	**₱322,178,905**	₱208,700,841	**₱319,944,644**	₱206,521,094
Other resources	**204,828,322**	201,725,583	**204,828,322**	201,725,583
	527,007,227	410,426,424	**524,772,966**	408,246,677
Provisions for probable losses	**260,341,814**	121,350,753	**260,239,524**	121,296,239
Write-off and others	**(202,437,128)**	(4,769,950)	**(202,437,128)**	(4,769,950)
	57,904,686	116,580,803	**57,802,396**	116,526,289
Balance at end of year				
Receivables from customers	**544,569,966**	322,178,905	**542,233,414**	319,944,644
Other resources	**40,341,947**	204,828,322	**40,341,947**	204,828,322
	₱584,911,913	₱527,007,227	**₱582,575,361**	₱524,772,966

9. Deposit Liabilities

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

The total liquidity and statutory reserves applicable as of December 31, 2003 and 2002 are as follows:

	2003	2002
Cash	**₱323,330,816**	₱171,858,177
Due from BSP	**273,838,743**	304,623,378
IBODI	**369,958,170**	305,171,725
	₱967,127,729	₱781,653,280

10. Bills Payable

This account consists of:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Interbank borrowings	**₱2,506,585,172**	₱2,055,461,691	**₱2,461,585,172**	₱2,040,461,691
Rediscounting availments (Note 4)	**1,084,794,733**	970,879,511	**1,084,794,733**	970,879,511
	₱3,591,379,905	₱3,026,341,202	**₱3,546,379,905**	₱3,011,341,202

Interbank borrowings which are all foreign currency-denominated borrowings are subject to interest rates ranging from 0.85% to 4.17% and rediscounting availments which are all peso-denominated borrowings are subject to interest rates ranging from 5.25% to 11.00% in 2003 and 2002.

As of December 31, 2003 and 2002, bills payable - rediscounting availments amounting to ₱1,084.8 million and ₱970.9 million, respectively, are secured by receivables from customers amounting to ₱1,035.5 million and ₱970.9 million, respectively.

11. Accrued Taxes, Interest and Other Expenses

This account consists of:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Accrued interest payable	**₱102,819,034**	₱70,103,526	**₱101,669,469**	₱69,763,069
Accrued other expenses	**72,723,630**	63,052,238	**71,376,698**	62,425,028
Accrued income tax payable	**14,796,829**	10,549,427	**12,739,809**	10,265,688
	₱190,339,493	₱143,705,191	**₱185,785,976**	₱142,453,785

12. Deferred Credits and Other Liabilities

This account consists of:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Bills purchased - contra (Note 4)	**₱320,043,200**	₱184,326,626	**₱320,043,200**	₱184,326,626
Accounts payable	**83,531,437**	34,699,255	**83,528,592**	34,561,759
Payment orders payable	**19,067,031**	16,161,499	**19,067,031**	16,161,499
Withholding taxes payable	**6,029,795**	7,926,367	**6,028,364**	7,921,204
Miscellaneous	**73,969,469**	38,500,453	**47,632,758**	30,387,217
	₱502,640,932	₱281,614,200	**₱476,299,945**	₱273,358,305

13. Financial Resources and Financial Liabilities

The following tables present the financial resources and financial liabilities by contractual maturity and settlement dates as of December 31, 2003 and 2002 (amounts in thousands):

	Consolidated					
	2003			2002		
Financial Resources	**Due Within One Year**	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Due from BSP	**₱279,454**	**₱–**	**₱279,454**	₱310,551	₱–	₱310,551
Due from other banks	**742,640**	**–**	**742,640**	546,744	–	546,744
Interbank loans receivable and securities purchased under agreements to resell	**1,207,226**	**–**	**1,207,226**	1,296,604	–	1,296,604
Trading and investment securities (Note 3)	**230,840**	**3,366,793**	**3,597,633**	1,622,090	967,614	2,589,704
Receivables from customers - gross (Note 4)	**8,774,989**	**2,522,041**	**11,297,030**	7,409,575	1,744,046	9,153,621
Other resources (Note 7):						
Accrued interest receivable	**147,658**	**–**	**147,658**	80,525	–	80,525
Accounts receivable	**79,740**	**–**	**79,740**	239,681	–	239,681
Miscellaneous	**72,673**	**–**	**72,673**	45,232	–	45,232
	₱11,535,220	**₱5,888,834**	**₱17,424,054**	₱11,551,002	₱2,711,660	₱14,262,662
Financial Liabilities						
Deposit liabilities	**₱8,273,586**	**₱952,530**	**₱9,226,116**	₱6,498,158	₱742,182	₱7,240,340
Bills payable (Note 10)	**2,461,585**	**1,129,795**	**3,591,380**	2,096,931	929,410	3,026,341
Acceptances payable	**212,298**	**–**	**212,298**	245,166	–	245,166
Accrued taxes, interest and other expenses payable (Note 11)	**190,339**	**–**	**190,339**	143,705	–	143,705
Deferred credits and other liabilities (Note 12):						
Bills purchased - contra	**320,043**	**–**	**320,043**	184,327	–	184,327
Accounts payable	**83,531**	**–**	**83,531**	34,699	–	34,699
Payment orders payable	**19,067**	**–**	**19,067**	16,161	–	16,161
Withholding taxes payable	**6,030**	**–**	**6,030**	7,926	–	7,926
Miscellaneous	**73,969**	**–**	**73,969**	38,500	–	38,500
	₱11,640,448	**₱2,082,325**	**₱13,722,773**	₱8,595,089	₱1,671,592	₱10,266,681

	Parent Company					
	2003			2002		
Financial Resources	**Due Within One Year**	**Due Beyond One Year**	**Total**	Due Within One Year	Due Beyond One Year	Total
Due from BSP	**₱279,454**	**₱–**	**₱279,454**	₱310,551	₱–	₱310,551
Due from other banks	**742,640**	**–**	**742,640**	546,744	–	546,744
Interbank loans receivable and securities purchased under agreements to resell	**1,207,226**	**–**	**1,207,226**	1,296,604	–	1,296,604
Trading and investment securities (Note 3)	**230,840**	**3,354,072**	**3,584,912**	1,622,090	967,614	2,589,704
Receivables from customers (Note 4)	**8,762,697**	**2,338,573**	**11,101,270**	7,399,991	1,643,061	9,043,052
Other resources (Note 7):						
Accrued interest receivable	**147,269**	**–**	**147,269**	80,460	–	80,460
Accounts receivable	**79,947**	**–**	**79,947**	239,736	–	239,736
Miscellaneous	**53,657**	**–**	**53,657**	34,404	–	34,404
	₱11,503,730	**₱5,692,645**	**₱17,196,375**	₱11,530,580	₱2,610,675	₱14,141,255

Financial Liabilities	Parent Company 2003 Due Within One Year	Due Beyond One Year	Total	2002 Due Within One Year	Due Beyond One Year	Total
Deposit liabilities	**₱8,302,648**	**₱952,530**	**₱9,255,178**	₱6,553,072	₱742,182	₱7,295,254
Bills payable (Note 10)	**2,461,585**	**1,084,795**	**3,546,380**	2,081,931	929,410	3,011,341
Accrued taxes, interest and other expenses payable (Note 11)	**185,786**	**–**	**185,786**	142,454	–	142,454
Acceptances payable	**212,298**	**–**	**212,298**	245,166	–	245,166
Deferred credits and other liabilities (Note 12):						
Bills purchased - contra	**320,043**	**–**	**320,043**	184,327	–	184,327
Accounts payable	**83,529**	**–**	**83,529**	34,562	–	34,562
Payment orders payable	**19,067**	**–**	**19,067**	16,161	–	16,161
Withholding taxes payable	**6,028**	**–**	**6,028**	7,921	–	7,921
Miscellaneous	**47,633**	**–**	**47,633**	30,387	–	30,387
	₱11,638,617	**₱2,037,325**	**₱13,675,942**	₱9,295,981	₱1,671,592	₱10,967,573

14. Capital Funds

Under existing BSP regulations, the determination of the Group's and Parent Company's compliance with regulatory requirements and ratios is based on the amount of their respective "unimpaired capital" (regulatory net worth) reported to the BSP, determined on the basis of regulatory accounting policies, which differ from Philippine GAAP in some aspects.

A portion of the Bank's surplus corresponding to the accumulated equity in net income of subsidiaries amounting to ₱8.4 million and ₱5.4 million as of December 31, 2003 and 2002, respectively, are not available for distribution of dividends.

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

As of December 31, 2003 and 2002, the Parent Company is in compliance with the minimum CAR. The CAR of the Group as of December 31, 2003 and 2002 is 23.03% and 28.61%, respectively, while CAR of the Parent Company is 22.93% and 27.63% respectively, as of the same date.

15. Leases

The Group leases the premises occupied by the Parent Company's head office, branches and subsidiaries. Rental expense amounted to ₱37.8 million in 2003 and ₱41.1 million in 2002 is shown under Rent Expenses in the statements of income. The lease periods range from 3 to 15 years, renewable upon mutual agreement of the parties.

The future minimum rentals (in millions) are as follows:

	Consolidated	Parent Company
2004	₱49.7	₱43.6
2005	54.7	48.0
2006	60.2	52.8
2007	66.2	58.0
2008	72.9	63.8

16. Pension Cost

The Group is in the process of setting up a pension fund. Accrued pension benefits amounted to ₱24.2 million and ₱16.6 million as of December 31, 2003 and 2002, respectively. Pension expense of the Group amounted to ₱7.6 million and ₱7.2 million in 2003 and 2002, respectively, consisting of normal cost and interest on accrued retirement liability as determined by an independent actuary in March 2002. Actual assumptions used are investment yield of 10% per annum and a yearly salary increase of 7%.

Management believes that the level of accrued pension benefits of the Group as of December 31, 2003 is adequate to cover the Group's liability for the pension benefits of officers and employees entitled to such benefits.

17. Income Taxes

Provision for (benefit from) income tax consists of:

	Consolidated		**Parent Company**	
	2003	2002	**2003**	2002
Current				
Final tax	**₱25,072,781**	₱30,143,429	**₱25,072,781**	₱41,274,240
Regular	**4,336,160**	23,077,155	**–**	10,207,323
MCIT	**8,837,966**	–	**8,837,966**	–
Deferred	**(38,285,714)**	(38,549,766)	**(38,252,980)**	(37,964,646)
	(₱38,807)	₱14,670,818	**(₱4,342,233)**	₱13,516,917

Generally, provision for income tax - current includes the regular corporate income tax, MCIT, income taxes of the Parent Company's FCDU and final taxes paid on interest and other income. In addition, the Group is subject to percentage and other taxes (presented as Taxes and Licenses in the statements of income). Percentage and other taxes paid consist principally of gross receipts tax (GRT), which was effective until 2002 and documentary stamp tax. However, the Group was subjected to the value added tax (VAT) in lieu of the GRT in 2003. Effective January 1, 2004, as presented under RA 9238, the Group will again be subjected to the GRT instead of VAT. The Group's liability for GRT will be based on the new regulations to be issued by the tax authorities.

The components of the Group's deferred tax asset - net (included under Other Resources in the statements of condition) are as follows:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Deferred tax asset on:				
Allowance for probable losses	**₱184,058,161**	₱165,704,482	**₱183,973,565**	₱165,652,621
MCIT	**8,837,966**	–	**8,837,966**	–
NOLCO	**10,100,892**	–	**7,836,872**	–
Accrued pension benefits	**7,752,595**	5,303,662	**7,752,595**	5,303,662
Others	**–**	2,264,021	**–**	–
	210,749,614	173,272,165	**208,400,998**	170,956,283
Deferred tax liability on unrealized foreign exchange gain	**(1,261,636)**	(2,069,901)	**(1,261,636)**	(2,069,901)
	₱209,487,978	₱171,202,264	**₱207,139,362**	₱168,886,382

The Group's NOLCO and MCIT of ₱31,565,288 and ₱8,837,966, respectively, were incurred in 2003 and will expire in 2006.

The Parent Company's NOLCO and MCIT of ₱24,490,225 and ₱8,837,966 were incurred in 2003 and will expire in 2006.

A reconciliation of income before income tax computed at the statutory tax rate to provision for income tax follows:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Statutory income tax	**₱156,393,965**	₱147,964,924	**₱152,285,788**	₱146,146,743
Additions (reductions) in income tax resulting from:				
Tax-paid and tax-exempt interest and other income	**(28,683,188)**	(80,222,540)	**(27,161,896)**	(78,715,932)
FCDU income	**(135,483,759)**	(68,349,291)	**(135,483,759)**	(68,349,291)
Nondeductible interest expense	**8,568,714**	17,079,590	**6,936,075**	17,079,590
Others - net	**(834,539)**	(1,801,865)	**(918,441)**	(2,644,193)
Provision for income tax	**(₱38,807)**	₱14,670,818	**(₱4,342,233)**	₱13,516,917

Under current tax regulations, the corporate income tax rate is 32%. Interest allowed as deductible expense is reduced by an amount equivalent to 38% of interest income subjected to final tax. The regulations also provide for MCIT of 2% of modified gross income and a NOLCO, which may be applied by the Group against its tax liability or taxable income over a three-year period from the year of incurrence.

The Parent Company's gross income includes income from FCDU which is subject to different tax rates, as well as interest on government securities, commercial papers and other income which are either tax-paid (subjected to 20% final withholding tax) or tax-exempt. Accordingly, these are not included in the computation of the Parent Company's liability for the regular corporate income tax.

Under the regulations, FCDU offshore income (income from nonresidents) continues to be 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 subjected to 7.5% final tax.

Effective September 1, 2002, Revenue Regulation No. 10-2002 provides for the ceiling on the amount of entertainment, amusement and recreation (EAR) expenses that can be claimed as a deduction against taxable income. Under the regulation, EAR expense allowed as a deductible expense is limited to the actual EAR paid or incurred but not to exceed 1% of net revenue. EAR expenses of the Bank amounted to ₱4.01 million in 2003 included under Miscellaneous Expenses in the parent company statements of income. EAR expenses for the periods January to August and September to December 2002 amounted to ₱2.4 million and ₱ 1.2 million, respectively.

18. Trust Operations

Securities and other properties held by the Parent Company in fiduciary or agency capacity for its customers are not included in the accompanying statements of condition since these are not resources of the Parent Company. In connection with the trust functions of the Parent Company, government securities owned by the Parent Company with face value amounting to ₱73.0 million and ₱20.0 million as of December 31, 2003 and 2002 are deposited with the BSP.

In compliance with existing banking regulations, the Parent Company transferred from surplus free to surplus reserve ₱5.1 million in 2003 and ₱0.8 million in 2002, corresponding to 10% of the net profits realized from its trust operations. The total amount of surplus appropriated for trust operations shall not exceed 20% of the Parent Company's authorized capital stock and cannot be paid out as dividends.

19. Related Party Transactions

In the ordinary course of business, the Parent Company has various transactions with its subsidiaries and with certain directors, officers, stockholders and related interests (DOSRI). These transactions usually arise from normal banking activities such as lending, borrowing, deposit arrangements and trading of securities, among others. Under existing policies of the Parent Company, these transactions are made substantially on the same terms as with other individuals and businesses of comparable risks. Under current banking regulations, the aggregate amount of loans to DOSRI should not exceed the total capital funds or 15% of the total loan portfolio of the Parent Company, whichever is lower. In addition, the amount of direct credit accommodations to DOSRI, 70% of which must be secured, should not exceed the amount of their respective regular and/or quasi-deposits and book value of their respective investments in the Parent Company.

The following table shows information relating to DOSRI loans:

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Total outstanding DOSRI loans	**₱416,446,143**	₱360,902,099	**₱416,446,143**	₱360,902,099
Percent of DOSRI loans to total loans	**3.69%**	3.94%	**3.75%**	3.99%
Percent of unsecured DOSRI loans to total DOSRI loans	**14.89%**	15.05%	**14.89%**	15.05%
Percent of past due DOSRI loans to total DOSRI loans	**–**	–	**–**	–
Percent of nonperforming DOSRI loans to total DOSRI loans	**–**	–	**–**	–

The year end balances of loans and interest income in respect of related parties included in the financial statements are as follows:

	Loans		Interest Income	
	2003	2002	**2003**	2002
Manila Bay Development Corp.	**₱229,600,000**	₱173,350,000	**₱20,805,930**	₱8,170,232
Omnipack Industrial Corp. (OIC)	**118,329,719**	10,070,000	**2,805,452**	197,381
Asia Pacific Timber & Plywood Corp. (APTPC)	**43,963,339**	50,689,877	**5,216,167**	5,987,500
AUB Loan Program	**14,018,195**	12,856,962	**1,322,308**	1,022,696
J. Victory Dy Sun	**5,239,790**	1,500,000	**298,632**	364,002
Superior Steel Manufacturing Co.	**3,750,000**	3,655,191	**434,731**	359,962
Republic Biscuit Corp. (RBC)	**1,545,100**	13,729,109	–	–
Pinnacle Foods, Inc.	–	88,000,000	**4,617,196**	10,012,468
Suncrest Foods, Inc.	–	7,050,960	–	–
Asia United Leasing & Finance Corp.	–	–	–	4,232,871
Manuel Gomez	–	–	–	57,370
	₱416,446,143	₱360,902,099	**₱35,500,416**	₱30,404,482

AUB Loan Program represents loans to the Bank's employees.

The year-end balances of deposits and interest expense in respect of related parties included in the financial statements are as follows:

	2003	2002
Deposit liabilities	**₱3,051,365,734**	₱485,347,536
Interest expense	**25,184,770**	7,512,643

The year-end balances of commitments in respect of related parties included in the financial statements are as follows:

		2003	2002
OIC			
	Sight letters of credit	**₱3,906,584**	₱2,890,304
	Outstanding bank guaranty	**119,442**	8,876,783
APTPC			
	Sight letters of credit	**1,137,901**	–
	Outstanding bank guaranty	**–**	1,139,005
RBC			
	Outstanding bills for collection	**–**	214,300
		₱5,163,927	₱13,120,392

The effects of the foregoing transactions are shown under the appropriate accounts in the financial statements and notes to the financial statements.

20. Commitments and Contingent Liabilities

In the normal course of the Group's operations, there are various outstanding contingent liabilities and bank guarantees which are not reflected in the accompanying parent company financial statements. The Parent Company does not anticipate material unreserved losses as a result of these transactions.

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

	2003	2002
Trust department accounts (see Note 16)	**₱3,139,805,884**	₱1,871,444,400
Outstanding guarantees issued	**923,232,458**	268,800,563
Unused commercial letters of credit	**848,924,990**	900,079,614
Forward exchange sold	**465,055,074**	210,149,198
Forward exchange bought	**410,847,799**	71,818,397
Spot exchange bought	**392,072,660**	519,630,115
Spot exchange sold	**390,864,460**	173,223,423
Standby letters of credit	**207,891,563**	121,723,062
Inward bills for collection	**171,255,767**	98,263,919
Outward bills for collection	**39,559,062**	63,112,093
Late deposits/payments received	**4,069,793**	2,399,362
Others	**46,069**	3,008,154

The Parent Company has several loan related that suits and claims remain unsettled. It is not practical to estimate the potential financial impact of these contingencies. However, in the opinion of management, the suits and claims, if decided adversely, will not involve sums having a material effect on the financial statements.

21. **Financial Performance**

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

	Consolidated		Parent Company	
	2003	2002	**2003**	2002
Return on average equity	**14.05%**	14.56%	**14.04%**	14.56%
Return on average assets	**3.02**	33.34	**3.06**	3.51
Net interest margin on average earning assets	**3.10**	5.73	**4.82**	5.70