

# COVER SHEET

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SEC Registration Number

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(Company's Full Name)

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(Business Address: No. Street City/Town/Province)

**Teresita Q. De Ocampo**  
(Contact Person)

**878-9100**  
(Company Telephone Number)

**1 2**   **3 1**  
Month   Day  
(Fiscal Year)

**2 0 - I S**  
(Form Type)

          
Month   Day  
(Annual Meeting)

(Secondary License Type, If Applicable)

Dept. Requiring this Doc.

Amended Articles Number/Section

Total No. of Stockholders

    
Total Amount of Borrowings  
Domestic   Foreign

To be accomplished by SEC Personnel concerned

                         
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## C E R T I F I C A T I O N

I, **KRISTIN V. STO. DOMINGO**, of legal age, Filipino, with office address at 37<sup>th</sup> Floor, ExportBank Plaza, ExportBank Drive corner Don Chino Roces Ave., Makati City, hereby certify that:

1. I am the incumbent Assistant Corporate Secretary of **EXPORT AND INDUSTRY BANK, INC.**, a corporation duly organized and existing under and by virtue of Philippine laws (the Corporation);
2. In compliance with Securities Regulation Code, we are submitting the **Corporation's Definitive Information Statement, using SEC Form 20-IS**, in hard copies and in diskette form;
3. To the best of my knowledge, the submitted hard copies and diskette of SEC Form 20-IS contain the exact same data.
4. I am executing this certification to attest to the truth of the foregoing and to comply with the Regulations of the Securities and Exchange Commission and the Philippine Stock Exchange.

IN WITNESS WHEREOF, I have hereunto set my hand this 28<sup>th</sup> of December 2005 at Makati City.

**DOMINGO**

**KRISTIN V. STO.**

Asst. Corporate Secretary

SUBSCRIBED AND SWORN to before me this 28<sup>th</sup> of December 2005 at Makati City, affiant exhibiting to me her Community Tax Certificate No. 06177755 issued on January 20, 2005 at Manila City.

Doc. No. 170

Page No. 34

Book No. V

Series of 2005

**SECURITIES AND EXCHANGE COMMISSION**

**SEC FORM 20-IS**

**INFORMATION STATEMENT PURSUANT TO SECTION 20  
OF THE SECURITIES REGULATION CODE**

1. Check the appropriate box:  
☐ Preliminary Information Statement  
☒ Definitive Information Statement
2. Name of Registrant as specified in its charter **EXPORT AND INDUSTRY BANK, INC.**
3. **Makati City, Metro Manila**  
Province, country or other jurisdiction of incorporation or organization
4. SEC Identification Number **93830**
5. BIR Tax Identification Code **000-509-006-000**
6. **Exportbank Plaza, Don Chino Roces Avenue cor. Sen. Gil J. Puyat Avenue, Makati City** **1200**  
Address of principal office Postal  
Code
7. Registrant's telephone number, including area code **(632) 878-9100; 878-0531**
8. **January 25, 2006 (Wednesday), 8:00 a.m., Lower Lobby, ExportBank Plaza, Don Chino Roces Avenue**  
**corner Sen. Gil J. Puyat Avenue, Makati City**  
Date, time and place of the meeting of security holders
9. Approximate date on which the Information Statement is first to be sent or given to security holders:  
**January 3, 2006**
10. In case of Proxy Solicitations: **The Corporation is NOT soliciting proxies.**  
**Name of Person Filing the Statement/Solicitor:** \_\_\_\_\_  
**Address and Telephone**  
**No.:** \_\_\_\_\_
11. Securities registered pursuant to Sections 8 and 12 of the Code or Sections 4 and 8 of the RSA (information on number of shares and amount of debt is applicable only to corporate registrants):  

| Title of Each Class | Number of Shares of Common Stock<br>Outstanding or Amount of Debt Outstanding |
|---------------------|---|
|---------------------|---|

**Common Shares**

**2,753,248,756 (Php 1.00 par value)**

12. Are any or all of registrant's securities listed in a Stock Exchange?

Yes [ ☒ ] No ☐ \_\_\_\_\_

If yes, disclose the name of such Stock Exchange and the class of securities listed therein:

**Philippine Stock Exchange**

**Common Shares**

**A. GENERAL INFORMATION**

**ITEM 1. DATE, TIME AND PLACE OF MEETING OF SECURITY HOLDERS.**

- (a) **Date:** **January 25, 2006 (Wednesday)**  
**Time:** 8:00 AM  
**Place:** Lower Lobby of Exportbank Plaza

**Principal Address of Issuer:**

ExportBank Plaza  
Chino Roces Ave. corner Gil Puyat Ave.  
Makati City

- (b) **Approximate Time when copies of IS will be sent to shareholders:** **January 3, 2006**

**ITEM 2. DISSENTERS' RIGHT OF APPRAISAL**

The stockholders' right of appraisal is given under the instances provided by Section 81 of the Corporation Code. In the forthcoming meeting, approval from the stockholders will be sought for the amendment of the Corporation's amended articles of incorporation which will entail (1) the reduction in the par value of the Corporation's shares with a corresponding decrease in the Corporation's authorized capital stock; (2) an increase in authorized capital stock, and (3) the reclassification of common shares into A and B. Under the Corporation Code, this matter will entitle dissenting stockholders to exercise their appraisal right.

For the valid exercise of the appraisal right, the Corporation adopts the procedure laid down in the Corporation Code, as follows:

1. The dissenting stockholder must have voted against the proposed corporate action. In this case, the proposed amendment to the Corporation's articles of incorporation is to increase its authorized capital stock.
2. The dissenting stockholder must make a written demand within thirty (30) days from the date the vote was taken. Failure to make the demand within the prescribed period shall be deemed a waiver of the appraisal right.

From the time of demand, all rights accruing to the shares, including voting and dividend rights shall be suspended in accordance with the provisions of the Corporation Code, except the right of the stockholder to receive payment of the fair value of the shares. The dividend, voting and rights of the dissenting stockholder shall be restored if the Corporation fails to pay the fair value within thirty (30) days after the award.

3. The price of the shares will be determined based on the fair value of the shares as of the day prior to the date on which the vote was taken, excluding any appreciation or depreciation in anticipation of such corporate action.
4. The withdrawing stockholder must submit his shares to the Corporation for notation of being a dissenting stockholder within ten (10) days from written demand. Failure to do so shall, at the Corporation's option, terminate the stockholder's appraisal right.
5. The Corporation shall pay the withdrawing stockholders for his shares, provided the Corporation has unrestricted retained earnings in its books to cover such payment, and that the payment shall not contravene any restrictions imposed by the Bangko Sentral ng Pilipinas and the Philippine Deposit Insurance Corporation.

The right of payment shall cease under the following instances:

- a. If the dissenting stockholder withdraws his demand for payment with the Corporation's consent;
  - b. If the proposed action is abandoned by the Corporation;
  - c. If the proposed action is disapproved by the SEC or BSP, and;
  - d. Where the SEC determines that such stockholder is not entitled to the appraisal right.
6. Upon payment by the Corporation, the stockholder must transfer his shares to the Corporation.

### **ITEM 3. INTEREST OF CERTAIN PERSONS IN OR OPPOSITION TO MATTERS TO BE ACTED UPON**

While certain persons may have interest in the matters to be acted upon in the meeting, the Corporation has not received any written information from any director, nominee or stockholder on any intention to oppose any action to be taken up at the meeting.

## **B. CONTROL AND COMPENSATION INFORMATION**

### **ITEM 4. VOTING SECURITIES AND PRINCIPAL HOLDERS THEREOF**

#### **a. Class entitled to vote.**

| <b>Class of Shares</b> | <b>No. of Shares<br/>(As of Nov.30, 2005)</b> | <b>Voting Rights</b>                                   |
|------------------------|---|--|
| Common                 | 2,753,248,756                                 | With voting rights                                     |
| Preferred              | 1,046,140,351                                 | No voting rights, except in instances provided by law. |

#### **b. Record Date:**

January 3, 2006 (Tuesday)

#### **c. Cumulative Voting Rights**

Stockholders of the Corporation are entitled to cumulative voting rights only during the election of directors. For other stockholders resolutions, Sec.4, Article II of the Corporation's By-laws provides that at "all stockholders' meetings, every stockholder shall be entitled to one (1) vote for each share of voting stock standing in his name on the proper books of the Corporation at the time of closing thereof for the purpose of the meeting".

**d. Security Ownership of Certain Record and Beneficial Owners and Management<sup>1</sup>**

**(i) Security Ownership of Certain Record and Beneficial Owners of more than 5% of the Voting Shares**

| Title of class | Name, address of record owner and relationship w/ issuer  | Name of Beneficial Owner           | Citizenship                     | No. of Shares Held | Percentage of Ownership |
|----------------|---|------------------------------------|---------------------------------|--------------------|-------------------------|
| Common         | <b>Medco Holdings, Inc.</b><br>31/F Rufino Tower<br>6784 Ayala Ave.,<br>Makati City<br><i>Stockholder</i> | Record Owner and Beneficial Owner. | Domestic Corp.<br>Non- Filipino | 463,292,500        | 16.83%                  |
| Common         | <b>Alfredo M. Yao</b><br>84 Dapitan St., Sta.<br>Mesa Heights, Quezon City/ <i>Director</i>               | Record Owner and Beneficial Owner  | Filipino                        | 225,500,002        | 8.19%                   |

\*Medco Holdings, Inc. has advised the Corporation that any of the following individuals will be designated to vote its shares in the meeting: Mr. Bobby Sai Chong Cheng, Ms. Pauline C. Tan, and Mr. Dionisio E. Carpio, Jr.

**(ii) Security Ownership of Management**

| Title of class | Name of Beneficial Owner   | Amount and nature of beneficial ownership<br>(As of Nov. 30, 2005) | Citizenship | % of Ownership |
|----------------|----------------------------|--|-------------|----------------|
| Common         | Sergio R. Ortiz- Luis, Jr. | 26,100,001<br>Record and Beneficial Owner                          | Filipino    | 0.95%          |
| Common         | Donald G. Dee              | 1,000,001<br>Record and Beneficial Owner                           | Filipino    | 0.04%          |
| Common         | Paterno H. Dizon           | 1,600,001<br>Record and Beneficial Owner                           | Filipino    | 0.06%          |
| Common         | Alfredo M. Yao             | 225,500,002<br>Record and Beneficial Owner                         | Filipino    | 8.19%          |
| Common         | Jeffrey S. Yao             | 1,000,000<br>Record and Beneficial Owner                           | Filipino    | 0.04%          |

<sup>1</sup> Figures are based on the total common voting shares of the Corporation as of November 30, 2005. Preferred shares, which are non-voting, are not included and are not factored in in the computation of percentages.

|        |                         |   |          |               |
|--------|-------------------------|---|----------|---------------|
| Common | Victor N. Te            | 17,828,501<br>Record and Beneficial Owner | Filipino | 0.65%         |
| Common | Oscar C. De Venecia     | 1,000,000<br>Record and Beneficial Owner  | Filipino | 0.04%         |
| Common | Benjamin P. Castillo    | 38,629,501<br>Record and Beneficial Owner | Filipino | 1.40%         |
| Common | Edna D. Reyes           | 1,000,001<br>Record and Beneficial Owner  | Filipino | 0.04%         |
| Common | Sai Chong Cheng         | 1,000,001<br>Record and Beneficial Owner  | Chinese  | 0.04%         |
| Common | Dionisio E. Carpio, Jr. | 1,000,001<br>Record and Beneficial Owner  | Filipino | 0.04%         |
| Common | Pauline C. Tan          | 1,000,001<br>Record and Beneficial Owner  | Filipino | 0.04%         |
| Common | Wong Sai Hing           | 1,000,000<br>Record and Beneficial Owner  | British  | 0.04%         |
| Common | Josue A. Camba, Jr.     | 1,000,000<br>Record and Beneficial Owner  | American | 0.04%         |
| Common | Jose E. B. Antonio      | 1,000,000<br>Record and Beneficial Owner  | Filipino | 0.04%         |
| Common | Francis T. Lee          | 1,000,000<br>Record and Beneficial Owner  | Filipino | 0.04%         |
| Common | Andres F. Ibarra        | 62,000<br>Record and Beneficial Owner     | Filipino | 0.00%         |
| Common | Pedro M. Cadavida, Jr.  | 1<br>Record and Beneficial Owner          | Filipino | 0.00%         |
|        | <b>Total</b>            | <b>324,522,013</b>                        |          | <b>11.79%</b> |

(iii) ***Voting Trust Holders of 5% or More***

a. ***5% or More***

| Title of class | Names and Addresses of the Voting Trustee   | No. of Shares Under Voting Trust | Percentage |
|----------------|---|----------------------------------|------------|
| Common         | <b>Sergio R. Ortiz-Luis, Jr.</b><br>151 10 <sup>th</sup> Ave., Riverside Village,<br>Pasig City   | 627,467,002                      | 22.79%     |
| Common         | <b>Philippine Exporters Confederation, Inc.</b><br>Int'l. Trade Center Roxas Blvd.,<br>Pasay City | 353,083,502*                     | 12.82%     |

\* The shares will be voted by Mr. Sergio-Ortiz-Luis, Jr., with business address at Export and Industry Bank, Inc., Exportbank Plaza, Don Chino Roces corner Sen. Gil J. Puyat Avenues, Makati City, or by his designated proxy or attorney-in-fact.

***b. Lower than 5%***

| <b>Title of class</b> | <b>Name and Addressess of the Voting Trustee</b>  | <b>No. of Shares Under Voting Trust</b> | <b>Percentage</b> |
|-----------------------|---|---|-------------------|
| Common                | <b>Donald G. Dee</b><br>Unit A-132 Alexandra ondominium<br>#29 Meralco Avenue, Pasig City | 86,300,000                              | 3.13%             |
| Common                | <b>Paterno H. Dizon</b><br>66 Boston St., Cubao, Quezon City                              | 63,495,000                              | 2.31%             |
| Common                | <b>Benjamin P. Castillo</b><br>38 Winchester St.Hillsborough<br>Village Muntinlupa City   | 10,174,668                              | 0.37%             |

***(iv) Duration of the Voting Trust Agreement and Voting Rights and Other Powers of the Voting Trustee.***

There are three (3) kinds of voting trust agreements covering certain shares of the Corporation. These are:

The Voting Trust Agreement executed between the Corporation and the Urban Bank, Inc. (UBI)/Urbancorp Investments, Inc. (UII) Major Shareholders are in force and effect for a period of five (5) years from the date of the merger among the old Export And Industry Bank, Inc., UBI and UII (i.e., January 31, 2002), renewable for another period of one (1) year. Pursuant to said Agreement, the Trustee shall possess and be entitled to exercise all rights and powers of every nature of absolute owners of shares of stock, including the right to vote at any meetings of the shareholders of the Corporation, to vote for the election of directors and principal officers of the Corporation, and to execute approvals or consents for every purpose as the Trustee shall determine to be for the best interests of the Corporation and in line with the objectives of its Rehabilitation Plan.

The Voting Trust Agreement executed by the members of the National Association of Urban Bank, Inc. and Urbancorp Investments, Inc. Depositors and Creditors, Inc. are in force and effect until the sale, transfer or assignment of the shares by the Trustor or until the lapse of five (5) years from and after the issuance of the shares (i.e., January 31, 2002), whichever comes earlier. Pursuant to said Agreement, the Trustee shall have the authority to represent the Trustor and vote upon the common shares of stock of the Corporation issued in the name of the Trustor on any and all matters which may be brought before any meeting of the stockholders of the Corporation during the term of the Voting Trust Agreement, as in the judgment of the Trustee shall be for the best interest of the Corporation and the Trustor.

The Voting Trust Agreement executed by the shareholders of the pre-merger Export and Industry Bank, Inc. in favor of the Philippine Exporters Confederation, Inc., which is an extension of an Agreement previously executed, are in force and effect for another five (5) years from the date of expiration of the previous Agreement (i.e., June 19, 2002), provided, that the extension may be shortened by written agreement of both parties. Pursuant to said Agreement, the Trustee shall be



exclusively entitled to vote all the Trust Shares in a manner deemed to be in the best interest of the Trustor for the duration of the Agreement. The sale, assignment or transfer by the Trustor of the Trust Shares shall not affect the Voting Trust.

**e. Change in Control**

The reduction in the par value of common shares and the consequent decrease of the authorized capital stock will give way to the proposed additional capital infusion into the Corporation of at least P3 Billion, which will effectively dilute the stockholders existing as of date of the special stockholders' meeting. With the said proposed additional capital infusion, about 78% of the outstanding capital stock after the said additional capital infusion shall be held by and in the control of certain existing major shareholders of the Corporation and other investors infusing said additional capital.

The Corporation has no knowledge or information whether or not there is or will be a loan or pledge to be obtained by stockholders for the purpose of acquiring control of the Corporation.

It is expected that as soon as the additional capital is infused into the Corporation, the stockholders shall cause the reorganization of the Board of Directors that will include the election of their nominees to the Board and the various Board Committees.

**ITEM 5. DIRECTORS AND EXECUTIVE OFFICERS &  
ITEM 6. COMPENSATION OF DIRECTORS AND EXECUTIVE OFFICERS**

The election of the members of the Board of Directors and the appointment of the external auditor will **not** be taken up in the special stockholders' meeting, in recognition of and in deference to the right of stockholders to elect their nominees to the Board of Directors and the external auditor of their choice, in an annual stockholders' meeting that will be called for the purpose, after the proposed increase in authorized capital stock of the Corporation shall have been approved by the Bangko Sentral ng Pilipinas and the Securities and Exchange Commission.

The existing members of the Board of Directors shall continue to hold their positions as such until their successors are duly elected either by the existing members of the Board of Directors constituting a quorum, in case of vacancies in the Board, or in an annual stockholders meeting that will be called for the purpose.

**ITEM 7. INDEPENDENT PUBLIC ACCOUNTANTS**

Sycip Gorres Velayo & Co. (SGV) has been the external auditor of the Corporation for the past several years. There has been no disagreement with said auditor during said period. The Corporation is in compliance with SEC Memorandum Circular 8 Series of 2003 requiring the rotation of external auditors or engagement partners after their engagement for a consecutive period of five (5) years. The Corporation's stockholders in the 2004 annual meeting approved the appointment of SGV as its external auditor for the fiscal year 2005.

SGV will be requested to send its representatives at the special stockholders' meeting for purposes of addressing accounting concerns and related questions which may be raised by the stockholders in the said meeting.

**ITEM 8. COMPENSATION PLANS**

There will be no cash or non-cash compensation plans, or adjustments or amendments in stock warrants or options that will be taken up in the stockholders meeting.

**C. ISSUANCE AND EXCHANGE OF SECURITIES**

## **ITEM 9. AUTHORIZATION OR ISSUANCE OF SECURITIES OTHER THAN FOR EXCHANGE**

### *(a) Title and amount of securities to be authorized or issued*

The shares to be authorized or issued out of the proposed increase in the authorized capital stock shall consist of at least 12,000,000,000 Common B shares, amounting to P3,000,000,000.

The terms of the existing preferred shares shall be amended to specify the conversion features thereof and thus align the same with the proposed re-capitalization of the Corporation, and as a consequence, new preferred shares shall be issued, in replacement of the existing preferred shares, to reflect the new conversion features of the existing preferred stock.

### *(b)*

#### *1. Amount of capital stock of each class issued*

The outstanding capital stock to date consists of:

|                  |                      |
|------------------|----------------------|
| Common shares    | 2,753,248,756 shares |
| Preferred shares | 1,046,140,351 shares |

As of date of approval by the Securities and Exchange Commission of the proposed decrease and increase in authorized capital stock, the authorized capital stock shall be as follows:

|                  | Authorized            | Issued               |
|------------------|-----------------------|----------------------|
| Common A shares  | 2,753,248,756 shares  | 2,753,248,756 shares |
| Common B shares  | 21,246,751,244 shares | 2,400,000,000 shares |
| Preferred shares | 1,500,000,000 shares  | 1,046,149,351 shares |

#### *2. Dividend, voting and pre-emption rights of the shares to be issued*

The Common B shares are voting shares and shall have dividend rights as may be allowed under existing regulations and directives of the Bangko Sentral ng Pilipinas and the Philippine Deposit Insurance Corporation.

The Common B shareholders, like the Common A shares, have no pre-emptive rights on the un-issued portion of the authorized capital stock.

The terms of the existing preferred shares shall be amended to specify the conversion features thereof and thus align the same with the proposed re-capitalization of the Corporation, and as a consequence, new preferred shares shall be issued, in replacement of the existing preferred shares, to reflect the new conversion features of the existing preferred stock.

There are no other material rights accruing to the Common B shares.

#### *3. Provision in the By-laws which will delay or prevent a change in control*

There are no provisions in the Corporation's By-laws that will delay or prevent a change in the control of the Corporation.

### *(c) Describe briefly the transaction in which the securities are to be issued*

The proposed increased authorized capital stock shall amount to P7.5 Billion (after the proposed decrease in the authorized capital stock to P1.982 Billion) broken down into P6 Billion of common shares and P1.5 Billion of preferred shares. The proposed increase in common stock consists of about 21,246,751,244 Common B shares, of which at least 12,000,000,000 shares shall be subscribed by investors.

The Common B shares shall be issued at the new par value of P0.25 per share.

The new capital infusion that will be received by the Corporation from the said issuance of Common B shares amounting to at least P3 Billion shall be used by the Corporation as part of its capital for its lending and investments activities.

The issuance of the Common B shares after the approval by the stockholders in the special stockholders' meeting of the proposed increase in the authorized capital stock and after approval by the Bangko Sentral ng Pilipinas, and the Securities and Exchange Commission shall be subject only to the approval of the Board of Directors and do not require the approval of stockholders.

*(d) Reasons for the proposed authorization or issuance and the general effect thereof upon the rights of existing security holders.*

The additional capital infusion from the issuance of Common B shares out of the proposed increase in the authorized capital stock of the Corporation is necessary to enable the Corporation to comply with BSP regulations on the required capital of commercial banks, in anticipation of the effects on the Corporation's capital of the implementation of the new international accounting standards effective 2005, and the forthcoming Basel 2 requirements. The additional capital infusion shall dilute existing stockholders.

*(e) Information required by Item II(a) of this Form.*

The information required by Item II(a) of this Form need not be furnished as the authorization or issuance of common stock, is other than in an exchange, merger, consolidation, acquisition or similar transaction, and the authorization does not involve preferred stock issuance for cash in an amount constituting fair value.

*(f) Price of Securities as of the latest practicable trading date*

Only the Corporation's common shares are being traded at the Philippine Stock Exchange. As of December 20, 2005, the closing price of the Corporation's shares is Php0.61.

**ITEM 10. MODIFICATION OR EXCHANGE OF SECURITIES**

*(a) Class and amount of the securities to be modified*

The existing common shares amounting to 2,753,248,756 shares shall be reclassified as Common A shares. Common B shares shall consist of the new common shares to be issued after the approval of the proposed increase in authorized capital stock by the Bangko Sentral ng Pilipinas, the Philippine Deposit Insurance Corporation and the Securities and Exchange Commission. The proposed authorized number of Common B shares is 21,246,751,244 .

*(b) Material difference between the outstanding securities and the modified or new securities*

The outstanding common shares shall be modified by way of the reduction of its par value from P1.00 to P0.25 per share. In addition, dividends to be declared and accruing in the future to the existing common shares (Common A shares) shall be applied first to offset any valuation adjustments on the MRT III bonds held to maturity by the Corporation amounting to USD 50 Million with maturity date of February, 2025 using IAS 39 standards and to losses and other adjustments resulting from the sale of non-performing assets of the Corporation. For this purpose, the existing common shares shall be denominated and reclassified as Common A shares.

*(c) Reason for the proposed modification and the general effect thereof upon the rights of existing security holders.*

The proposed modifications consisting of the reduction of the par value of the common shares of the Corporation from P1.00 to P0.25 per share and the reclassification of common shares into Common A and Common B shares are intended to reflect the true value of the common shares prior to the additional capital infusion of at least P3

Billion, which shall be issued out of the Common B shares. The additional capital infusion shall dilute the existing common stockholders.

***(d) Other material features of the proposed modification.***

There are no other material features of the proposed modification of the Corporation's common shares. The plan for the proposed modification is not covered by a written document, other than the Certificate of Amendment of the Amended Articles of Incorporation evidencing the approval by the stockholders of such modification in the special stockholders meeting, which shall be executed after such meeting.

***(e) Application for listing***

The existing common shares of the Corporation are listed with the Philippine Stock Exchange. The Corporation intends to apply for listing and registration of the new Common B shares with the same exchange.

**ITEM 11. FINANCIAL AND OTHER INFORMATION**

**MANAGEMENT DISCUSSION AND ANALYSIS OR PLAN OF OPERATION**

**Key Performance Indicators**

|                                  | <b>September 2005</b> | <b>December 2004</b> |
|----------------------------------|-----------------------|----------------------|
| <b><u>Asset Quality</u></b>      |                       |                      |
| Non-Performing Loan (NPL) Ratio  | 22.32%                | 21.20%               |
| Non-Performing Asset (NPA) Ratio | 26.95%                | 23.24%               |
| <b><u>Liquidity</u></b>          |                       |                      |
| Liquid to Total Assets Ratio     | 13.18%                | 16.62%               |
| Quick Asset to Total Deposits    | 31.21%                | 33.70%               |

**Financial Condition and Results of Operation**

**(a) Full Fiscal Years**

**2004-** The Corporation's aggregate resources registered a growth of 13.22% to Php30.15 Billion as of December 31, 2004 from 2003 level of Php26.63 Billion, mainly due to the increase in deposits and liquid assets. The liquidity generated by the aggressive solicitation of deposits by the Corporation's branches as well as deposit campaign launched by the Corporation in the last quarter of 2004 entitled, "Deposito Mo, 1 Milyon ang Panalo", resulted to the huge increase in deposit levels by P5.2 Billion from 2003 level of P9.7 Billion to 2004 level of P14.9 Billion. Such increase in deposits likewise resulted to the increase in liquid assets by as much as 184% to Php4.2 Billion in 2004 compared to 2003 level of Php1.5 Billion. The Corporation needed to increase its deposit with BSP in order to comply with the additional reserve requirements brought about by the deposit generation. Excess liquidity generated was initially placed in the bank's deposit accounts with other banks pending disposition in better yielding investments, and partly to fund liquidity requirements. Trading and investment securities likewise went up by 17.26% or by P792 Million. Interbank and receivables from customers however declined by 9.8% from Php8.1 billion in 2003 to Php7.3 billion in 2004. The Corporation needed to generate liquidity in order to service the Liability Servicing Plan for the repayment of the Urban Bank depositors and creditors as discussed in more detail below. The Corporation however continues to focus on the development and innovation of its SME banking, and on the reduction of its non-performing loans. Other resources increased by Php715 million from P5.6 billion to Php6.3 billion in December 2004

due to the acquisition of real properties in payment of loans which the Corporation intends to sell in the near future. On the other hand, the Corporation's total liabilities increased by P3.5 Billion from 2003 level of P22.2 Billion to P25.7 Billion in 2004, mainly due to the deposits generated which caused the deposit levels to increase by Php5 billion to Php14.9 billion in 2004. Such additional funding was made possible through the expansion of the bank's branch network from 33 in 2003 to 50 branches in 2004.

September, 2004 is a significant milestone in the history of the Corporation, as it marked the conclusion of the three- year Liability Servicing Program (LSP) of former UBI/ UII ordinary/public depositors and owners of similar liabilities originally amounting to P15 Billion. Of this, P4.12 Billion has been paid out in 2004 which explains the related decrease in the Bills Payable account by P2.4 Billion from 2003 level of P11.5 Billion to P9.1 Billion in 2004. On the other hand, accrued taxes payable increased by P556 million which represents tax assessments related to Urban Bank covering the years 1994 up to 1997. Total equity, however, remained at P4.3 billion level in 2004. The increase in Other Liabilities can be attributed to some domestic bills purchased by the Corporation in December 2004.

In 2004, the Corporation successfully concluded the three year Liability Servicing Program (LSP) for the repayment of Urban Bank ordinary/public depositors, dedicating all of its available resources to the full settlement of the said LSP, thereby utilizing its available liquid assets base which should have been built up instead and converted into earning and performing assets. As anticipated and as expressed in earlier announcements, the Corporation posted a net profit after tax of Php15.3 Million, a decline from the P199.9 Million net profits reported in 2003. As expected, the Corporation's lending activities were reined down as a result of the slow economic recovery prevailing in the country, and as

a consequence, interest income went down by 30.8% or by P389 Million. Interest expense on the other hand went up, due to the increase in deposit levels by as much as 95.99% or P559 Million. With these, net interest margins dipped by 139.2% or Php948 Million from 2003 level of Php681 Million to net interest expense of Php267 Million in 2004. Lastly, overhead likewise went up by 22.25% or P160.7 Million due to the opening of 17 new branches in 2004 which brought its total network to 50 branches nationwide. As a result, the Corporation's cost to income ratio increased from 77% to 97%. Notwithstanding the Corporation's lower profitability ratio, the Corporation's Basel 1 Capital Adequacy Ratio (CAR) stood at 12.3%, same as in 2003, which is way above the 10% and 8% minimum requirements of the Bangko Sentral ng Pilipinas and under the Corporation for International Settlement (BIS).

**2003** – The Corporation posted a net profit of Php130.1 Million, slipping significantly from the previous years Php380.8 Million bottom line. This was brought about by a substantial drop in non-interest income and non-recurring miscellaneous income from discounting of repayment notes issued under the LSP and lower combined revenues from FX and securities trading activities. The total resources of the Corporation meanwhile marginally went down by 1.1% versus the end 2002 level reflecting the sluggish business environment, aggressive past due collection and intensified asset recovery efforts. The Corporation's NPL ratio slightly increased to 18.5% in 2003 from 17.35% in 2002. However, total provisions declined to Php2.51 Billion in 2003 from Php2.76 Billion the previous year in view of the adequacy of reserves relative to regulatory requirements and favorable development in the Corporation's risk asset quality, as affirmed by BSP in the September 2003 Report of Examination on the Corporation. However, with the implementation of the IAS 12 on Income taxes and IAS 17 on Leases in 2004, the write-off of the deferred income tax as well as adjustments on the lease income and expenses amounting to Php182.5 Million have been effected through a charge against the surplus account dating back to 2002 onwards. With this, the balance sheet, particularly the equity portion have been restated to reflect a net income of Php199.9 Million in 2003, originally shown at Php130.1 Million. Likewise, the surplus account has been restated as well to Php511.6 Million from a surplus of Php624.3 Million.

**2002** – The Corporation posted a net profit of Php380.8 Million in its first year of operation as a merged bank. This surpassed the targets set under the 5-year rehabilitation program approved by the BSP, SEC and PDIC in 2001. Total net revenues, before overhead and provisions for loan losses, stood at Php1.8 Billion mostly coming from interest on loans, fee-based income and trading gains. The total resource base of the Corporation reached Php27.06 Billion, as a result of the merger. Its total deposit liabilities (including restructured deposits) increased to Php7.97 Billion from the pre-merger level of Php4.1 Billion. Capital funds also increased to Php4.32 Billion or by 57.1%. The Corporation also increased its provisions for loan losses to Php301 Million effectively improving the coverage ratio of NPL to 111.29% by year end. However, with the implementation of the IAS 12 on Income taxes and IAS 17 on Leases in 2004, the write-off of the deferred income tax as well as adjustments on the lease income and expenses amounting to Php158 Million have been effected through a charge against the surplus account dating back to 2002 onwards. With this, the balance sheet, particularly the equity portion have been restated to reflect a net income of Php356.8 Million in 2002, originally shown at Php380.8 Million. Likewise, the surplus account has been restated as well to Php317.5 Million from a surplus of Php500.1 Million.

#### **Comparable Discussion of Interim Period as of September 30, 2005**

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The Corporation's total assets stood at Php29.053 Billion, while total liabilities and equity amounted to Php25.776 Billion and Php3.277 Billion, respectively, as of September 30, 2005. On a period to period basis, total resources went down by Php103.846 Million compared to the 3<sup>rd</sup> quarter of 2004 amounting to Php29.157 Billion. Said decrease was primarily due to the collection of Interbank Loans Receivable amounting to Php3.095 Billion, proceeds of which were placed in deposit accounts with the BSP and with other banks to fund the liquidity and the reserve requirements of the bank accounting for the increase in the **Due from other Banks totaling** to Php1.375 Billion. On the other hand, Held to Maturity Investments and Financial Assets Held for Trading increased by Php1.001 Billion and Php49.529 Million, respectively, to boost the profitability of the Corporation. Loans increased minimally by P165 Million from Php6.2 Billion in September 2004 to Php6.4 Billion in September 2005. The decrease in Bank Premises and Other Equipment account of P115 Million is attributable to the depreciation booked within the year. Other Assets increased by P638 Million from Php66.6 Million in 2004 to Php705 Million in 2005 due to the take up of tax assessments in December 2004 related to Urban Bank covering the years 1994 to 1997 which is likewise related to the increase in the Accrued Taxes Payable amounting to Php1.183 Billion. Said taxes are chargeable against the proceeds of the Non-Performing Assets Pool of former UBI shareholders as agreed upon in the agreement with the Major Shareholders of UBI and UII dated June 27, 2001. Total equity, however, went down by Php1.312 Billion from the September 2004 level of Php4.588 Billion to September 2005 level of Php3.277 Billion which will be explained in the succeeding paragraphs.

Comparing September 2005 against December 2004 levels, the Corporation's total resources declined by P1.1 Billion from 2004 level of Php30.150 Billion. This was brought about by the decrease in the Corporation's over-all liquid assets and trading securities to fund its liquidity requirements due to the servicing of maturing deposits and other liabilities. As a result, Deposits with BSP and other banks went down by Php215 Million while over-all trading and investment securities went down by Php449 Million. Interbank Loans Receivable likewise decreased by Php980 Million. Bank Premises likewise went down by Php107.585 Million due to the depreciation booked for the year. Other Assets however went up due to the recognition of UBI taxes as explained above. On the liability side, the Corporation's total liabilities went up by Php65.85 Million or .26% compared to last year's level of Php25.711 Billion. Said increase was primarily due to the taxes of UBI for the years 1994 to 1997 amounting to Php1.183 Billion. However, fund levels went down by Php1.276 Billion from Php23.97 Billion in December 2004 to Php22.693 Billion in September 2005. Also, there was a 24.12% or Php2.452 Million decrease in Due to Bangko Sentral ng Pilipinas account because of the payment of the BSP supervision fees for 2004 amounting to Php10.228 Million net of accrual for year 2005.

As stated in our previous reports, the consequences of the contraction of the Corporation's earning and liquid assets resulting from the payout of the Liability Servicing Program (LSP) of former UBI and UII depositors and creditors totaling to Php15.8 Billion during the last three (3) years became apparent in the year 2005. The LSP started in 2001 and lasted until 2004, for the ordinary depositors and creditors, however, for the remaining big two depositors and financial institutions, payout will run until 2007, amounting to P912 Million. Such contraction in earning and liquid assets coupled with steady increase in the Corporation's liabilities and higher cost of funds resulted to a negative revenue from funds of Php0.807 Billion as of the 3<sup>rd</sup> quarter of 2005 compared to a positive revenue from funds of Php335 Million in the same period of last year. There were also extra-ordinary income booked in 2004 related to the Corporation's reversal of allowances on assets amounting to Php18 Million brought about by subsequent collections made on these assets, compared to just Php3.8 Million in September 2005. On the other hand, the Corporation's overhead remained at almost the same level in 2004. Likewise, on a quarter-to-quarter basis, the Corporation posted a negative Php289 Million in net revenue from funds in 3<sup>rd</sup> quarter 2005 against 3<sup>rd</sup> quarter 2004 of Php190.92 Million. There was however an increase in the other income account by php45.9 Million in the third quarter 2005 compared to third quarter 2004. Overhead expenses likewise went down in 2005 compared to 2004 by Php26.9 Million due to lower litigation fees paid in 2005. In June 2005, major shareholders infused additional equity amounting to Php460 Million to further strengthen the capital base of the Corporation. This was initially taken up as deposit for stock subscription, pending approval by the Securities Exchange Commission of its application to increase its authorized capital.

The Corporation will submit to the stockholders for approval, the proposed reduction of the par value of common shares and the consequent decrease in the authorized capital stock of the Corporation, and after the capital decrease, a proposed increase in the authorized capital stock to allow the entry of the additional capital infusion of the Corporation's major stockholders together with certain investors amounting to at least P3 Billion. The reduction in par value to reflect the book value of the Corporation's common shares as of date of the stockholders' meeting is a condition precedent for the said additional capital infusion. The reduction in book value of the common shares resulted from the profit drag from non-performing assets (NPAs) inherited from UBI/UII, as a result of the merger, the additional interest cost for the LSP payouts, the unbooked losses or haircuts incurred by the Corporation in its collection efforts on these UBI/UII NPAs and the cost overruns from maintaining these NPAs.

In consideration of the additional capital infusion by major stockholders and other investors of at least P3 Billion, the Philippine Deposit Insurance Corporation (PDIC), pursuant to Section 17 ( c ) of Republic Act (RA) No.

3591, as amended, approved the grant of further rehabilitation assistance to the Corporation, under the Memorandum of Agreement (MOA) dated December 29, 2005, which is anchored on the sale to PDIC of a pool of assets consisting of UBI and UII non-performing assets (NPAs) with a gross book value of P10 billion. These NPAs are to be sold to PDIC for a total consideration of P3.0 billion, but with a provision for a ten-year income support mechanism pegged to a principal amount of Php7.0 billion or 70% of the balance of Php10.0 billion gross book value of the asset pool, under which the liability to the PDIC will be charged an interest rate of 1% and the government securities in which the proceeds of such liability will be invested and which will be pledged with the PDIC to secure the liability, will earn at market interest rates, and a ten-year subordinated debt amounting to P2.0 billion qualified as tier 2 capital at an interest rate of 1% for the first five years and 5% for the last five years, subject to a provision that would require the Corporation to pay more interest in the event that the cumulative income for the ten years that the subordinated note is outstanding exceed the projected cumulative net income for the period. The Bangko Sentral ng Pilipinas (BSP) likewise approved the grant of said rehabilitation assistance to the Corporation and certain regulatory relief, such as, among others, (1) the staggered booking of the write-off of deferred income tax and goodwill accounts totaling Php1.8 billion over 10 years; (2) the staggered booking of taxes and other related expenses totaling to P719.7 million in connection with the sale of said NPAs and the dacion of certain EIB Plaza units to PDIC over 15 years, under a programmed amortization with provision for acceleration; and (3) the staggered booking of losses on sale of said NPAs over 15 years, likewise under a programmed amortization with provision for acceleration.

The additional capital infusion of at least Php3.0 billion within 75 days from date of signing of the MOA was primarily aimed at strengthening the Corporation's capital base to enable the Corporation to meet the new requirements of IAS 39 and other international accounting standards now being implemented by the BSP. It is the Corporation management's position that the sale of the UBI/UII NPAs will enable the Corporation to significantly reduce its NPA ratio and improve its profitability, and that with the completion of the above transactions and the abovementioned additional capital infusion, the Corporation will reflect a stronger statement of condition and a risk-based adequacy ratio well within the BSP prescribed ratio for commercial banks. It is expected that these transactions will be effected in the first quarter of 2006.

The following pro-forma statement of condition shows the effects of the above transactions assuming its implementation as of December 31, 2004:

|  |                    |
|--|--------------------|
| <b>RESOURCES</b>                                       |                    |
| Cash and Cash Equivalents                              | P12,205,491        |
| Trading and Investment Securities                      | 11,968,348         |
| Receivables from Customers – net                       | 2,502,771          |
| Equity Investments                                     | 797,838            |
| Bank Premises, Furniture, Fixtures and Equipment – net | 552,665            |
| Real and Other Properties Owned or Acquired – net      | 1,490,897          |
| Other Resources – net                                  | 9,790,071          |
| <b>TOTAL RESOURCES</b>                                 | <b>P39,308,080</b> |
| <b>LIABILITIES</b>                                     |                    |
| Deposit Liabilities                                    | P14,871,120        |
| Bills Payable  | 15,187,060         |
| Other Liabilities                                      | 2,457,280          |
| <b>TOTAL LIABILITIES</b>                               | <b>32,515,460</b>  |
| <b>CAPITAL FUNDS</b>                                   | <b>6,792,620</b>   |
| <b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>             | <b>P38,588,417</b> |
| <b>TOTAL LIABILITIES AND CAPITAL FUNDS</b>             | <b>P39,308,080</b> |

The pro-forma statement of condition above is presented under the following assumptions:

1. Capital infusion of P3.0 billion by the Parent Company's major shareholders as required under the provisions of the MOA with PDIC.

2. MOA is implemented as of December 31, 2004 with the following effects:

- a) sale of the ₱10.0 billion nonperforming assets to PDIC at 30% value, fair value of income support of ₱4.6 billion and fair value adjustment of ₱1.1 billion on the ₱2.0 billion subordinated debt, with the loss on the sale of ₱1.1 billion being deferred and included in Other Resources,
- b) receipt of the ₱7.0 billion direct loan from PDIC which is invested in government securities for the same amount included in Trading and Investment Securities,
- c) receipt of the ₱2.0 billion subordinated debt qualified as tier 2 capital, booked at ₱902.0 million with a corresponding fair value adjustment of ₱1.1 billion considered in the determination of the loss on the sale referred to in (a), and
- d) dacion of EIB Plaza condominium units with a value of ₱1.8 billion to pay off a corresponding amount of outstanding bills payable to PDIC.

### Discussion and Analysis of Material Events

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a. Material changes in balance sheet items and income statement are as follows:

1. Due from Banks , Interbank Receivables and Financial Assets Held for Trading were withdrawn and sold to fund maturing deposits and bills payable totaling to Php1.3 billion in September 2005.
  2. Bank premises decreased due to depreciation booked in 2005
  3. Other Assets went up representing receivables from proceeds of the UBI/UII Non-Performing Assets Pool of former UBI shareholders related the taxes incurred by UBI from 1994 to 1997 pursuant to the MOA dated June 27, 2001.
  4. Due to Bangko Sentral ng Pilipinas account went down due to payment made for the supervision fee for year 2004 net of accruals made on the supervision fees due to the BSP in 2005.
  5. Manager's Check increased due to payments made in 2005 which have not been actually collected from the Corporation.
  6. Accrued Taxes went up representing tax assessments referring to UBI covering 1994 up to 1997 as explained above.
  7. Deposit for Stock Subscription represents additional capital infused by the major shareholders of the Corporation in June 2005 , pending approval of its request with SEC to increase the authorized capital stock.
- b. There are no seasonal aspect that has a material effect on the financial statements
- c. There are no known trends, events or uncertainties that will have a material impact on income.
- d. The Corporation sources of liquidity are deposits, inter-bank transactions and swaps.
- e. There are no known trends, events or uncertainties that will have a material impact on the company's liquidity.
- f. There are no material commitments as yet for capital expenditures pending the completion of the rationalization of the operations of the company.
- g. To date, there's nothing to disclose regarding any event that will trigger direct or contingent financial obligation that is material to the company, including any default or acceleration of an obligation.
- h. There are no material off-balance sheet transactions, arrangements, obligations (including contingent obligations), and other relationships of the company with unconsolidated entities or other persons created during the reporting period.
- i. The cause of any material change from period to period which shall include vertical and horizontal analyses of any material item are as follows:
1. Deposits with Bangko Sentral ng Pilipinas and with other banks went up to Php3.95 Billion from Php2.57 Billion representing proceeds of Interbank Loans Receivable collection.
  2. Trading Account Securities and Held to Maturity Investment accounts likewise increased by Php1.05 Billion representing proceeds of Interbank Loans Receivable collection.
  3. Bank Premises went down by Php115 million due to depreciation taken up during the period.
  4. Other Assets went up representing receivables from the Non-Performing Assets Pool of former UBI/UII shareholders related to the taxes incurred by UBI from 1994 to 1997 pursuant to the MOA dated June 27, 2001.
  5. Due to Bangko Sentral ng Pilipinas account increased by Php1.060 Million which represents accrual of supervision fees for year 2005.
  6. Moreover, Accrued Taxes, Interest and Other Expenses increased by Php1.183 Billion brought about by the tax assessments related to Urban Bank covering the years 1994 up to 1997 as explained above taken up in December 2004.



7. Deposit for Stock Subscription increased by Php460 Million representing additional capital infusion of existing stockholders in June 2005.
8. Other Liabilities went down due to the amortization of deferred revenue, unearned income and other deferred credits.
9. Total equity decreased by Php1.312 Billion due to operating losses brought about by the drag of the Urban Bank non-performing assets.

#### **SEC Memorandum Circular No. 19, Series of 2004**

The SEC issued last December 22, 2004, SEC Memorandum Circular No. 19, Series of 2004, approving as part of its rules and regulations the 26 new accounting standards. This means that not only public companies and those with listed securities are covered by the requirements; the other entities that file audited financial statements with the Commission are covered as well.

SEC Memorandum Circular states that the new accounting standards shall be effective for annual financial reporting periods beginning January 1, 2005 and for interim or quarterly reports beginning January 2006. It also required covered companies to disclose the status of conversion plan on PAS 39 on Financial Instruments in their interim/quarterly reports.

PAS 39, *Financial Instruments: Recognition and Measurement*, establishes the accounting and reporting standards for the recognition and measurement of the company's financial assets and financial liabilities. The standard requires a

financial asset or financial liability to be recognized initially at fair value. Subsequent to initial recognition, the Corporation should continue to measure financial assets at their fair values, except for loans and receivables and held-to-maturity investments, which are measured at cost or amortized cost using the effective interest rate method. Financial liabilities are subsequently measured at cost or amortized cost, except for liabilities classified as "at fair value through profit and loss" and derivatives, which are subsequently measured at fair value.

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

As allowed by the SEC, the effect of adopting PAS 32 and PAS 39 will not result in the restatement of prior year's financial statements. Any cumulative effect of adopting these standards will be charged against surplus beginning.

With respect to account classification and related measurement, the Corporation has already submitted to the BSP the proposed reclassification of its trading and investment securities portfolio. It does not expect any serious material impact on the financial statements arising from the classification of financial resources and liabilities other than in respect of the trading and investment portfolio.

As of September 30, the Corporation has classified its financial assets, as follows:

|   | <i>(in thousands)</i> |
|---|-----------------------|
| Loans and Receivable                                      | P6,385,391            |
| Held to Maturity  | 5,236,623             |
| Financial Assets at Fair Value<br>through Profit and Loss | 52,551                |

The Corporation is currently reviewing all contracts to determine whether transactions previously entered into continue to have the same financial statement impacts under the new Standards, or need different treatment. It is also in the process of determining if there are embedded derivatives that need to be accounted for separately from the host contract and if there are compound instruments that should be separated into the liability and equity components.

The Corporation is also evaluating the financial risk exposure relative to the adoption of the Standards, the manner in which these exposures are being managed and the consequences of different accounting choices. The adoption of fair value accounting standards will be recognized in the measurement and management of financial risk exposures for both the trading and the banking book. The notional amounts or the values used as basis to compute risk positions, on or off balance sheet will be based on marked to market values(MTM) , net present value(NPV) or carry or principal amounts calculated at fair value. Trading risk positions include market risk exposures in currencies, fixed income securities and derivatives, the potential losses of which are measured by Value at Risk (VAR) and counterparty risk. Market risk exposures are managed via a trading limits system covering counterparty exposure limits, VAR limits, position and stop loss limits. Banking book exposures include the balance sheet VAR, credit, interest rate, and liquidity risk. The measurement of the balance sheet Value at Risk and credit exposure for the banking book shall also be based on the fair value of the carry amounts while the interest rate and liquidity risk shall continue to be measured on the basis of cost or book value. Credit exposure, credit risk concentration and balance sheet VAR limits are the prescribed tools to control risk.

Fair value hedging of exposures, shall follow IAS 39 standards with changes in fair value of exposures attributable to a particular risk factor taken up in the reported net income, including unrealized gains and losses attributed to the hedging instrument. Cash flow hedges or hedge of exposure to variability in cash flows attributable to a particular risk associated with a recognized asset or liability or hedged item shall be recognized at fair value.

The Corporation has established a conversion team composed of financial control, sales, treasury, credit and systems personnel that will implement the provisions of PAS 32 and PAS 39 and assess the financial and operational impact of these standards to its financial statement. The Corporation has also engaged the services of its external auditor to assist in the evaluation and implementation not only of PAS 32 and 39 but of all the other new PFRS and PAS which the SEC have adopted in 2005.

1. Said team is currently in the process of establishing policies, and procedures related to the adoption of these standards.

2. The Corporation is also incorporating the requirements of PAS 32 and PAS 39, in its system. The Corporation is currently identifying the required specifications, analyzing gaps on the system capabilities and addressing these gaps. Programming, testing and implementation of the system are scheduled for the rest of the year. The BSP, through Monetary Board Resolution No. 1869 dated December 23, 2004, has given the banks and financial institutions until December 31, 2005 to ready their infrastructures to be PAS 32 and PAS 39-compliant. Interim reports that will be submitted to the BSP for 2005 need not to be in compliance with the provisions of the said standards.

The effect of adopting the effective interest rate method in measuring amortized cost for loans and investment in bonds and other debt instruments has not yet been quantified since the existing system of the Corporation has not been reconfigured to adopt the effective interest rate method of amortization. Due to the volume of transactions, it is impracticable to compute for the financial statement impact manually. The Corporation will report the financial statement implication as soon as the information is available.

PAS 39 requires that if there is objective evidence that an impairment on loans and other financial assets carried at amortized cost is incurred, the amount of loss is measured as the difference between the assets' carrying amount and the present value of future cash flows. Currently, the adequacy of allowance for probable losses on loans and other receivable is determined based on management criteria and BSP requirements. The Corporation is currently assessing the impact of impairment on its loans and Held to Maturity Securities by discounting future cash flow using the instruments original effective interest rate.

At present, the Corporation adopts hedge accounting but will eventually follow the fair value method for all its derivative transactions. The effect of adopting the fair value method has not yet been quantified since the existing system of the Corporation has not yet been reconfigured to adopt this method.

## **CHANGES IN & DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING & FINANCIAL DISCLOSURE**

There is no change in Corporation's Accountants or External Auditor, nor disagreements with the Accountants or External Auditor on accounting issues or financial disclosures.

## MARKET FOR THE ISSUER'S COMMON EQUITY & RELATED STOCKHOLDER MATTERS

|                          | <u>2004</u> | <u>2003</u> |
|--------------------------|-------------|-------------|
| Per COMMON SHARE         |             |             |
| Earnings                 | 0.01        | .07         |
| Cash Dividends Declared  | None        | None        |
| Stock Dividends Declared | None        | None        |
| Book Value               | 0.81        | 0.82        |

The Corporation's common equity traded in the Philippine Stock Exchange resumed only on October 01, 2003.

The following are the highlights (high and low) of trading every quarter of the past two fiscal years and subsequent interim period:

|                | <b>2005</b> |            | <b>2004</b> |            | <b>2003</b> |            |
|----------------|-------------|------------|-------------|------------|-------------|------------|
|                | <b>High</b> | <b>Low</b> | <b>High</b> | <b>Low</b> | <b>High</b> | <b>Low</b> |
| First Quarter  | 1.00        | 0.67       | 0.59        | 0.54       | N/A         | N/A        |
| Second Quarter | 0.55        | 0.50       | 0.50        | 0.47       | N/A         | N/A        |
| Third Quarter  | 0.59        | 0.58       | 0.50        | 0.42       | N/A         | N/A        |
| Fourth Quarter |             |            | 0.50        | 0.42       | 0.84        | 0.50       |

## GENERAL PLANS FOR 2006

For the year 2006, the Corporation will concentrate on the following key business areas:

**Increase of Asset Yield.** To achieve this, the Corporation has identified three high margin market sectors into which it plans to expand in 2006. These said sectors are the Mortgage (end-user loans) sector, the Retail (salary and other related loans) sector, and the SME and Mid Size Corporations sector. To achieve a more diversified loan portfolio, the Corporation is also looking into the purchase of receivables from developers and lending institutions. It is also looking into developing its own origination capabilities. In tandem, the Corporation will have to improve its IT systems, expand delivery infrastructures and improve customer service.

**Lowering of Funding Cost.** The Corporation shall aim to slowly replace high cost deposits with low cost CASA. New placements in trust and treasury shall also be generated within the time period.

**Increase of Earning Assets.** To achieve this, the Corporation shall continue with the sale of assets via public auctions and aggressive marketing campaigns as it goes on with its restructuring efforts. It will also develop ties with reputable developers for the conversion of idle properties. It will continue marketing ROPOA while exploring other avenues for the conversion of ROPOAs into financial assets. It also expects to finalize its negotiation with a financial institution to sell its non-performing assets to improve its non-performing assets ratio.

**Product Development and Diversification.** The Corporation will continue to pursue alliances to expand product offerings and market reach. It will pursue the alliance with international institutions that will provide wealth management products and tools to its market, allowing the Corporation to jump start entry into these services and provide retention power of customers.

It will co-brand ExpertTeller Card with institutions that will add value to the Corporation's cardholders by providing discounts and loyalty points, and, allow the Corporation access to their memberships.

**Streamlining of Processes.** In 2006, the Corporation will computerize the whole treasury function – from the dealing room to the risk manager to the back office. This will allow again “straight through” processing, one time inputting of transactions, decision support, mark to market capability, regulatory and management reporting, risks

measurement and analysis. It will certainly be a major breakthrough in customer service, management systems and cost reductions.

The Corporation will also automate account profitability analysis and business segment profitability reporting for a more effective customer relationship and profit center management. It will install a new Core Banking System to allow the Corporation to provide improved customer service and faster turnaround of new product initiatives.

**FISERV – ICBS Project.** The Corporation will adopt the Fiserv – International Comprehensive Banking System (ICBS) core banking program, a parameter driven system. Fiserv is a world-class international software organization providing specialized services to the banking and finance industry. It offers global best practice, introducing new functionalities, delivery channels and technologies. Through this program, the Corporation will be ensured of the sound execution of the business strategies which will enable it to monitor achievement of its business goals.

The acquisition of this new system was brought about by the growing requirements of the users which the Corporation's current system cannot provide because of system limitation and also the frequent downtime which the Corporation has been experiencing in the past years.

**Deposit Campaign Promo.** The Corporation, on May 25, 2005 launched its second deposit campaign promo entitled "Deposito Mo, 1 Million Ang Panalo, Part 2," which aimed to bring more stable funds, create brand awareness for the Corporation's products, and to improve profitability by reducing cost of funds. The promo is open to new and existing individual depositors, joint accounts, sole proprietorship accounts who will meet the minimum increase in Average Daily Balance (ADB) for the qualified deposit products.

**Reorganization.** The Corporation is currently undergoing a reorganization of its organization structure, to bring focus to the Corporation's stated direction and thrusts, under its new vision of becoming a "strong and vibrant financial institution."

The new organization structure is designed to be consistent with the following objectives:

- a. Building and strengthening customer relationships;
- b. Developing target niches and products with the corresponding delivery and distribution channels;
- c. Improving sales and delivery processes;
- d. Upgrading information technology systems, and;
- e. Developing manpower competencies and defining the Corporation's corporate culture.

These objectives are anchored on the 3 Pillars of Service Excellence – People, Products and Processes.

The major part of the reorganization includes the restructuring of the sales and service delivery channels, the result of which is to create the Sales and Customer Relationship Management (SCRMS) and Service Delivery Management (SDMS) sectors. SCRMS will include all sales units consisting of Corporate and Commercial Banking Group, Retail Banking Group, Private and Institutional Banking Group, and Marketing and Product Management Division. Under SDMS will be Business Center Management which will transform all branches into business centers and other operational units such as E-Banking Channel, Centralized Processing, Accounting and Quality Assurance, and Systems and Methods.

**SMED,** In July 20, 2005, the Corporation was awarded by the Small Business Guarantee and Finance Corporation a certificate of recognition as its 2005 Most Distinguished Partner (Credit Guarantee Program for SMEs) during the Small and Medium Enterprise Development Week. The certificate was in recognition of the Corporation's partnership with SBGFC in its mission to catalyze and sustain the flow of credit to Filipino small and medium enterprise and facilitate their growth towards global competitiveness. This is the third consecutive year the Corporation received this recognition.

## **ITEM 12. MERGERS, CONSOLIDATIONS, ACQUISITIONS AND SIMILAR MATTERS**

The matters to be taken up in the special stockholders' meeting will not involve any merger or consolidation involving the Corporation, nor an acquisition by the Corporation of securities of another person, nor the acquisition by the Corporation of any other going business or of the assets thereof, nor the sale or other transfer of all or any substantial part of the assets of the Corporation, nor the liquidation or dissolution of the Corporation.

## **ITEM 13. ACQUISITION OR DISPOSITION OF PROPERTY**

The matters to be taken up in the special stockholders' meeting will not involve any disposition of any property of the Corporation.

## **ITEM 14. RESTATEMENT OF ACCOUNTS**

There will be a revaluation and restatement of the capital and surplus accounts of the Corporation upon approval by the Securities and Exchange Commission of the proposed reduction of the par value of the common shares of the Corporation from P1.00 to P0.25 per share. The reduction in the par value of common shares of the Corporation is intended to reflect the true value thereof, prior and as a condition to the entry of the new capital of at least P3 Billion as discussed above. The P0.25 per share represents the book value of common shares estimated as of end of December, 2005, which is the end of the accounting period closest to the special stockholders' meeting scheduled on January 25, 2006 for the approval of the said new par value.

The new par value of the Corporation's common shares shall be effective upon approval of the covering proposed amendments to the Amended Articles of Incorporation of the Corporation by the Securities and Exchange Commission. This effectivity date is mandated under Corporation Code for amendments to the articles of incorporation of corporations.

With the new par value, the existing common stock of the Corporation shall be reduced as follows:

|                       |  |
|-----------------------|--|
| Existing Common Stock | P2,753,248,756.00  |
| Reduced Common Stock  | P 688,312,189 (based on new par value, prior to the entry of new capital of P3 Billion)          |
| Surplus               | P2,064,936,567 (to be used to offset deficit/losses, prior to the entry of the said new capital) |

The reduction in the par value with the entry of the new capital of P3 Billion will dilute the existing common stockholders of the Corporation, and will therefore to the extent of the dilution, alter any amount that may be allowed by the regulatory authorities for distribution to existing common stockholders of the Corporation.

## **D. OTHER MATTERS**

## **ITEM 15. ACTION WITH RESPECT TO REPORTS**

There is no action to be taken with respect to any report of the Corporation or its directors and officers.

## **ITEM 16. MATTERS NOT REQUIRED TO BE SUBMITTED**

There is no action to be taken with respect to any matter which is not required to be submitted to a vote by the stockholders.

## **ITEM 17. AMENDMENT OF CHARTER, BYLAWS OR OTHER DOCUMENTS**

As discussed above, in the special stockholders' meeting, the stockholders will be asked to approve the proposed amendments in the Corporation's amended articles of incorporation, particularly the reduction in par value of the Corporation's common shares and the consequent decrease in authorized capital stock, the subsequent increase in authorized capital stock, and the reclassification of common shares of the Corporation into Common A and Common B shares.

#### **ITEM 18. OTHER PROPOSED ACTION**

There are no other proposed actions to be taken up in the special stockholders' meeting.

The election of the members of the Board of Directors and the appointment of the external auditor, for the term 2005-2006, will not be taken up in the special stockholders' meeting, in recognition of and in deference to the right of stockholders to elect their nominees to the Board of Directors and the external auditor of their choice, in an annual stockholders' meeting that will be called for the purpose, after the proposed increase in authorized capital stock of the Corporation shall have been approved by the Bangko Sentral ng Pilipinas, the Philippine Deposit Insurance Corporation and the Securities and Exchange Commission.

#### **ITEM 19. VOTING PROCEDURES**

The proposed amendments to the Corporation's amended articles of incorporation to change the par value of common shares, to decrease and subsequently increase the authorized capital stock, and to reclassify the common shares of the Corporation require the affirmative vote of stockholders representing or owning at least two-thirds (2/3) of the entire outstanding capital stock, which includes both the outstanding and issued common and preferred shares.

#### **SIGNATURE PAGE**

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this report is true, complete and correct. This report is signed in the City of Makati on December 29, 2005.

**EXPORT AND INDUSTRY BANK,  
INC.**

By:

(Original Signed)  
**RAMON F. AVIADO, JR.**

*Corporate Secretary*

SUBSCRIBED AND SWORN TO before me this 29<sup>th</sup> of December 2005, at Makati City, Philippines, affiant exhibiting to me his Community Tax Certificate No. 15914128 issued on January 21, 2005 at the City of San Juan, Metro Manila.

Doc. No. 57  
Page No. 12  
Book No. I  
Series of 2005

**EXPORT AND INDUSTRY BANK, INC.,**  
Gil Puyat Ave. Cor. Chino Roces, Makati City  
**CONSOLIDATED STATEMENTS OF CONDITION**

(Amounts in Thousands)  
AS OF SEPTEMBER 30, 2005

| <u>ASSET ACCOUNTS</u>  | <u>September 30, 2005</u><br>(Unaudited) | <u>December 31, 2004</u><br>(Audited) |
|--|--|---------------------------------------|
| Cash and Other Cash Items  | 117,408                                  | 269,410                               |
| Due From Bangko Sentral ng Pilipinas                             | 1,150,492                                | 991,936                               |
| Due from Other Banks   | 2,685,271                                | 2,907,033                             |
| Financial Assets Held for Trading                                | 52,551                                   | 837,088                               |
| Held to Maturity Investments (Net)                               | 5,236,623                                | 4,901,021                             |
| Loans and Receivables:   |  |                                       |
| Interbank Loans Receivable                                       | -  | 980,008                               |
| Loans (Net)  | 6,385,391                                | 6,332,107                             |
| Equity Investment in Subsidiaries, Associates and Joint Ventures | 30,447                                   | 17,859                                |
| Bank Premises, Furniture, Fixtures & Equipment (Net)             | 694,084                                  | 801,668                               |
| Other Assets (Net)   | 12,701,229                               | 12,112,169                            |
| <b>Total Assets</b>  | <b>29,053,495</b>                        | <b>30,150,298</b>                     |
| <br><u>LIABILITY ACCOUNTS</u>                                    |  |                                       |
| Deposit Liabilities  |  |                                       |
| Demand   | 625,025                                  | 760,292                               |
| Savings  | 7,878,210                                | 9,696,084                             |
| Time   | 3,769,542                                | 4,415,651                             |
| Total  | 12,272,776                               | 14,872,028                            |
| Bills and Acceptances Payable                                    | 10,421,805                               | 9,098,644                             |
| Due to Bangko Sentral ng Pilipinas                               | 7,713                                    | 10,166                                |
| Manager's Check  | 31,249                                   | 20,873                                |
| Accrued Taxes, Interest, & Other Expenses                        | 1,555,986                                | 885,184                               |
| Deposit for Stock Subscription                                   | 460,000                                  |                                       |
| Deferred Credits and Other Liabilities                           | 1,027,007                                | 823,791                               |
| <b>Total Liabilities</b>   | <b>25,776,537</b>                        | <b>25,710,685</b>                     |
| <br><u>EQUITY ACCOUNTS</u>                                       |  |                                       |
| Issued Capital:  |  |                                       |
| Common Stock   | 2,753,249                                | 2,753,249                             |
| Perpetual and Non-Cumulative Preferred Stock                     | 1,046,140                                | 1,046,140                             |
|  | 3,799,389                                | 3,799,389                             |
| Additional Paid-in Capital                                       | 72,004                                   | 72,004                                |
| Retained Earnings:   |  |                                       |
| Retained Earnings Free   | 463,430                                  | 461,155                               |
| Retained Earnings Reserve-Trust                                  | 9,838                                    | 13,716                                |
| Treasury Stock   | (14,415)                                 | (14,415)                              |
| Undivided Profits  | (1,150,724)                              | 15,300                                |
| Minority Interest in Consolidated Subsidiaries                   | 97,436                                   | 92,464                                |
| <b>Total Equity</b>  | <b>3,276,958</b>                         | <b>4,439,613</b>                      |
| <b>Total Liabilities, Minority Interest and Equity</b>           | <b>29,053,495</b>                        | <b>30,150,298</b>                     |



**EXPORT AND INDUSTRY BANK, INC.**

Gil Puyat Avenue Cor. Chino Roces, Makati City

**CONSOLIDATED STATEMENTS OF INCOME**

(Amounts in Thousands)

FOR THE PERIOD ENDED SEPTEMBER 30, 2005

|   | <b>2005</b>        | <b>2004</b>        |
|---|--------------------|--------------------|
|   | <b>(Unaudited)</b> | <b>(Unaudited)</b> |
| <b>INTEREST INCOME</b>                              |                    |                    |
| Trading Account Securities                          | 33,445             | 34,877             |
| Deposit with Banks                                  | 21,679             | 14,740             |
| Interbank Loans Receivable                          | 22,899             | 21,164             |
| Investment Securities                               | 208,639            | 263,338            |
| Loans   | 174,659            | 458,054            |
| Others  | 15,461             | 17,143             |
|   | <u>476,782</u>     | <u>809,316</u>     |
| <b>INTEREST EXPENSE</b>                             |                    |                    |
| Interest On:  |                    |                    |
| Deposits  | 810,516            | 250,756            |
| Bills Payable and Other Expenses                    | 473,408            | 223,554            |
|   | <u>1,283,924</u>   | <u>474,310</u>     |
| <b>NET INTEREST INCOME (LOSS)</b>                   | <u>(807,142)</u>   | <u>335,006</u>     |
| <b>PROVISION FOR PROBABLE LOAN AND OTHER LOSSES</b> | <u>3,827</u>       | <u>18,134</u>      |
| <b>OTHER INCOME</b>                                 |                    |                    |
| Service Charges, Fees and Commissions               | 75,136             | 55,522             |
| Trading and Foreign Exchange Profits                | 199,444            | 56,444             |
| Equity in Net Earnings of Affiliates                | 7,291              | 26,953             |
| Profits from Assets Sold                            | (58,268)           | 79,138             |
| Others  | 112,521            | 88,697             |
|   | <u>336,125</u>     | <u>306,755</u>     |
| <b>OTHER EXPENSES</b>                               |                    |                    |
| Compensation & Fringe Benefits                      | 148,756            | 142,238            |
| Occupancy Expenses                                  | 180,218            | 193,217            |
| Taxes and Licenses                                  | 66,571             | 64,714             |
| Others  | 278,736            | 279,497            |
|   | <u>674,281</u>     | <u>679,667</u>     |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>              | <u>(1,149,125)</u> | <u>(56,040)</u>    |
| PROV./BENEFIT FOR/FROM INCOME TAX                   | <u>3,156</u>       | <u>(68,739)</u>    |
| LOSS BEFORE MINORITY INTEREST                       |                    |                    |
| IN NET INCOME OF SUBSIDIARIES                       | (1,152,281)        | 12,699             |
| RECOVERY ON CHARGED-OFF ASSETS                      |                    |                    |
| MINORITY INTEREST IN NET INCOME                     |                    |                    |
| OF SUBSIDIARIES                                     | (1,557)            | 122                |
| <b>NET INCOME (LOSS)</b>                            | <u>(1,150,724)</u> | <u>12,821</u>      |
| <b>INCOME (LOSSES) PER SHARE</b>                    |                    |                    |
| Net Income/2,753,248,756 shares of c/s              | <u>(PHP0.418)</u>  | <u>PHP0.005</u>    |
| <b>DILUTED EARNINGS (LOSSES) PER SHARE</b>          |                    |                    |
| Net Income/3,753,248,756 shares of c/s              | <u>(PHP0.307)</u>  | <u>PHP0.003</u>    |

**EXPORT AND INDUSTRY BANK, INC.**

Gil Puyat Avenue Cor. Chino Roces, Makati City

**CONSOLIDATED STATEMENTS OF INCOME AND EXPENSES**

(Amounts in Thousands)

FOR THE QUARTER ENDED SEPTEMBER 30, 2005

|   | <b>QUARTERS ENDED SEPTEMBER 30</b> |                    |
|---|------------------------------------|--------------------|
|   | <b>2005</b>                        | <b>2004</b>        |
|   | <b>(Unaudited)</b>                 | <b>(Unaudited)</b> |
| <b>INTEREST INCOME</b>                              |                                    |                    |
| Trading Account Securities                          | 5,879                              | 11,428             |
| Deposit with Banks                                  | 8,692                              | 5,233              |
| Interbank Loans Receivable                          | 6,999                              | 12,883             |
| Investment Securities                               | 60,121                             | 90,507             |
| Loans   | 62,737                             | 211,712            |
| Others  | 4,209                              | 5,548              |
|   | <u>148,636</u>                     | <u>337,311</u>     |
| <b>INTEREST EXPENSE</b>                             |                                    |                    |
| Interest On:  |                                    |                    |
| Deposits  | 272,119                            | 77,026             |
| Bills Payable and Other Expenses                    | 165,827                            | 70,046             |
|   | <u>437,946</u>                     | <u>147,072</u>     |
| <b>NET INTEREST INCOME (LOSS)</b>                   | <u>(289,310)</u>                   | <u>190,239</u>     |
| <b>PROVISION FOR PROBABLE LOAN AND OTHER LOSSES</b> | <u>(2,489)</u>                     | <u>0</u>           |
| <b>OTHER INCOME</b>                                 |                                    |                    |
| Service Charges, Fees and Commissions               | 32,405                             | 20,694             |
| Trading and Foreign Exchange Profits                | (23,329)                           | (45,539)           |
| Equity in Net Earnings of Affiliates                | (6,117)                            | 18,227             |
| Profits from Assets Sold                            | (59,184)                           | 80,198             |
| Others  | 112,205                            | (63,510)           |
|   | <u>55,980</u>                      | <u>10,069</u>      |
| <b>OTHER EXPENSES</b>                               |                                    |                    |
| Compensation & Fringe Benefits                      | 60,164                             | 47,551             |
| Occupancy Expenses                                  | 58,795                             | 67,038             |
| Taxes and Licenses                                  | 24,085                             | 25,046             |
| Others  | 68,863                             | 99,236             |
|   | <u>211,907</u>                     | <u>238,870</u>     |
| <b>INCOME (LOSS) BEFORE INCOME TAX</b>              | <u>(442,748)</u>                   | <u>(38,563)</u>    |
| PROV./BENEFIT FOR/FROM INCOME TAX                   | 1,409                              | (42,601)           |
| LOSS BEFORE MINORITY INTEREST                       |                                    |                    |
| IN NET INCOME OF SUBSIDIARIES                       | (444,158)                          | 4,038              |
| MINORITY INTEREST IN NET INCOME                     |                                    |                    |
| OF SUBSIDIARIES                                     | 0                                  | (65)               |
| <b>NET INCOME (LOSS)</b>                            | <u>(444,158)</u>                   | <u>3,973</u>       |
| <b>EARNINGS (LOSSES) PER SHARE</b>                  |                                    |                    |
| Net Income/2,753,248,756 shares of c/s              | <u>(PHP0.161)</u>                  | <u>PHP0.001</u>    |
| <b>DILUTED EARNINGS (LOSSES) PER SHARE</b>          |                                    |                    |
| Net Income/3,753,248,756 shares of c/s              | <u>(PHP0.118)</u>                  | <u>PHP0.001</u>    |

**EXPORT AND INDUSTRY BANK, INC.**  
**EQUITY ACCOUNTS**

(Amounts in Thousands)

|                                   | September 2005     | September 2004    |
|-----------------------------------|--------------------|-------------------|
| <b>CAPITAL STOCK</b>              |                    |                   |
| Preferred - ₱1 par value          |                    |                   |
| Authorized - 1,500,000,000 shares |                    |                   |
| Issued - 1,000,000,000 shares     | <b>₱1,046,140</b>  | <b>₱1,046,140</b> |
| Common - ₱1 par value             |                    |                   |
| Authorized - 6,000,000,000 shares |                    |                   |
| Issued - 2,753,248,756 shares     | <b>2,753,249</b>   | <b>2,753,249</b>  |
|                                   | <b>2,753,249</b>   | <b>2,753,249</b>  |
|                                   | <b>3,799,389</b>   | <b>3,799,389</b>  |
| <b>ADDITIONAL PAID-IN CAPITAL</b> | <b>72,004</b>      | <b>72,004</b>     |
| <b>SURPLUS RESERVE</b>            | <b>9,838</b>       | <b>9,838</b>      |
| <b>SURPLUS FREE</b>               | <b>463,430</b>     | <b>461,155</b>    |
| <b>NET INCOME</b>                 | <b>(1,150,724)</b> | <b>12,821</b>     |
| <b>TREASURY STOCK - AT COST</b>   | <b>(14,415)</b>    | <b>0</b>          |
| <b>Minority Interest</b>          | <b>97,436</b>      | <b>117,069</b>    |
|                                   | <b>₱3,276,958</b>  | <b>₱4,588,844</b> |



**EXPORT BANK, INC.**  
**CONSOLIDATED STATEMENTS OF CASH FLOW**  
**(Amount in Thousands)**  
**FOR THE PERIOD ENDED SEPTEMBER 30**

|   | <b>2005</b>        | <b>2004</b>        |
|---|--------------------|--------------------|
|   | <b>(Unaudited)</b> | <b>(Unaudited)</b> |
| <b>CASH FLOWS FROM OPERATING ACTIVITIES</b>   |                    |                    |
| Net Income (Loss)   | (1,150,724)        | 12,821             |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                    |                    |
| Depreciation  | 83,856             | 90,929             |
| Interest expense  | 1,283,924          | 474,310            |
| Minority interest in net income of subsidiaries   | (1,557)            | (122)              |
| Amortization of Goodwill  | -                  | 32,658             |
| Interest Income   | (476,782)          | (809,316)          |
| Provision for income tax - deferred   | -                  |                    |
| Provision for probable losses   |                    | 18,134             |
| Equity/Dividends in net earnings of a subsidiary  | (7,291)            | (26,953)           |
| Changes in operating resources and liabilities:   |                    |                    |
| Decrease (increase) in :  |                    |                    |
| Receivables from customers  | (53,283)           | 203,335            |
| Other Resources   | (1,295,479)        | (650,882)          |
| Increase (decrease) in :  |                    |                    |
| Deposit liabilities   | (2,599,252)        | 2,715,018          |
| Due to Bangko Sentral ng Pilipinas  | (2,452)            | (3,097)            |
| Manager's Check   | 10,376             | 1,099              |
| Accrued taxes, interest and other expenses  | 660,788            | (12,678)           |
| Deposit for stock subscription  | 460,000            |                    |
| Deferred credits and other liabilities  | 203,216            | 752,962            |
| Cash generated from (used in) operations  | (2,884,661)        | 2,798,218          |
| Interest received   | 1,157,684          | 918,477            |
| Interest paid   | (1,273,910)        | (418,423)          |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>(3,000,887)</b> | <b>3,298,271</b>   |
| <b>CASH FLOWS FROM INVESTING ACTIVITIES</b>   |                    |                    |
| Net additions to bank premises, furniture and equipment                                     | 48,483             | (71,525)           |
| Cash dividends received from equity investment  |                    |                    |
| Decrease (increase) in :  |                    |                    |
| Investment in bonds and other debt instruments  | (335,603)          | 353,549            |
| Trading Account Securities  | 784,537            | 353,713            |
| Equity Investments  | (19,879)           | (66,785)           |
| Other resources   |                    | -                  |
| <b>Net cash used in investing activities</b>  | <b>477,538</b>     | <b>568,951</b>     |
| <b>CASH FLOWS FROM FINANCING ACTIVITIES</b>   |                    |                    |
| Increase in Minority interest   | 4,972              | 4,592              |
| Increase (decrease) in :  |                    |                    |
| Bills and acceptances payable   | 1,323,162          | (1,101,568)        |
| <b>Net cash provided by financing activities</b>  | <b>1,328,133</b>   | <b>(1,096,977)</b> |
| <b>NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS</b>                                 | <b>(1,195,215)</b> | <b>2,770,246</b>   |
| <b>CASH AND CASH EQUIVALENTS END OF 4TH QTR.</b>  |                    |                    |
| Cash and other cash items   | 269,410            | 385,995            |
| Due from Bangko Sentral ng Pilipinas  | 991,936            | 535,427            |
| Due from other banks  | 2,907,033          | 547,475            |
| Interbank loans receivable  | 980,008            | 1,434,064          |
|   | <b>5,148,386</b>   | <b>2,902,961</b>   |
| <b>CASH AND CASH EQUIVALENTS AS OF SEPTEMBER 30</b>   |                    |                    |
| Cash and other cash items   | 117,408            | 140,992            |
| Due from Bangko Sentral ng Pilipinas  | 1,150,492          | 720,296            |
| Due from other banks  | 2,685,271          | 1,716,739          |
| Interbank Loans Receivable  | -                  | 3,095,180          |
|   | <b>3,953,171</b>   | <b>5,673,207</b>   |

**Item 1. Financial Statements Required Under SRC Rule 68.1**

1. These financial statements are prepared under the historical cost convention except that certain investment securities are carried at fair value.
2. Notes to Financial Statements:
  - a. The accounting policies and methods of computation in the audited financial statements were followed in the preparation of interim financial statements.
  - b. There is nothing to comment about the seasonality or cyclicity of interim operations.
  - c. There is nothing to report about the nature and amount of item affecting assets, liabilities, equity, net income, or cash flows that are unusual because of their nature, size or incidents.
  - d. There is nothing to report on changes in estimates of amounts reported in prior interim periods of the current financial year or changes in estimates of amounts reported in prior financial years.
  - e. The remaining repayments notes of the deposits under the Liability Servicing Plan amounts to Php612.063 Million, Php342.916 Million of which is for the two remaining big depositors (Meralco and San Miguel Corporation), while Php269.147 Million is for remaining Financial Institutions.
  - f. No dividends were paid during the interim period report.
  - g. We have nothing to report on segment revenue.
  - h. There are no material events subsequent to the end of the interim period.
  - i. The effect of changes in the composition of the issuer during the interim period including business combinations, acquisition or disposal of subsidiaries and long-term investments, restructuring and discontinuing operations were already discussed in the financial highlights in the management discussion and result of operations.
  - j. Changes in the contingent liabilities or contingent assets since the last annual balance sheet date:

(in thousands Pesos)

|                               | September 30, 2005 | December 31, 2004 | Increase/(Decrease) |
|-------------------------------|--------------------|-------------------|---------------------|
| Trust Dept. Accts.            | 2,474,314          | 2,972,023         | (497,709)           |
| Unused Letter of Credits      | 133,488            | 114,657           | 18,831              |
| Outstanding Guarantees Issued | 8,124              | 27,026            | (18,902)            |
| Forward Exchange Bought       | 766,885            | 2,427,924         | (1,661,039)         |
| Spot Exchange Bought          | 109,148            | 84,512            | 24,636              |
| Outward Bills for Collection  | 50,776             | 88,006            | (37,230)            |
| Forward Exchange Sold         | 111,954            | 25,165            | 86,789              |
| Spot Exchange Sold            | 137,208            | 366,217           | (229,009)           |
| Inward Bills for Collection   | 11,598             | 27,392            | (15,794)            |

- k. There are no material contingencies and any other events or transactions that are material to an understanding of the current interim period.

### UNDERTAKING

EXPORT AND INDUSTRY BANK, INC. (The Corporation) undertakes to provide, without charge, a copy of its annual report on SEC Form 17-A, to any person soliciting a copy upon written request addressed to the Office of the Corporate Secretary or the Financial Controllershship and Reports Group of the Corporation with principal office address at Exportbank Plaza, Chino Roces corner Sen. Gil J. Puyat Avenue, Makati City.



**TERESITA Q. DE OCAMPO**  
Head, Financial Controllershship and Reports Group.



**KRISTIN V. STO. DOMINGO**  
Asst. Corporate Secretary



# EXPORT AND INDUSTRY BANK

## STATEMENT OF MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS




The management of **EXPORT AND INDUSTRY BANK, INC.** is responsible for all information and representation contained in the financial statements for the years ended December 31, 2004 and 2003. The financial statements have been prepared in conformity with generally accepted accounting principles and reflect amounts that are based on the best estimates and informed judgment of management with an appropriate consideration to materiality.

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

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

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


Signed under oath by the following:

|   |   |  |
|---|---|--|
|  |  |  |
| <b>TERESITA Q. DE OCAMPO</b>  | <b>BENJAMIN P. CASTILLO</b>   | <b>SERGIO R. ORTIZ-LUIS, JR.</b>   |
| Chief Financial Officer   | Vice Chairman/President   | Chairman of the Board  |

**SUBSCRIBED AND SWORN** to before me this 18 day of JAN 2005, affiants exhibiting to me their Residence Certificates, as follows:

| NAMES                     | COM. TAX CERT. NO. | DATE OF ISSUE | PLACE OF ISSUE |
|---------------------------|--------------------|---------------|----------------|
| Teresita Q. de Ocampo     | 06014694           | Jan. 10, 2005 | Manila         |
| Benjamin P. Castillo      | 09155900           | Jan. 03, 2005 | Manila         |
| Sergio R. Ortiz-Luis, Jr. | 01000714           | Jan. 19, 2005 | Manila         |

Doc. No. 266  
Page No. 54  
Book No. 1V  
Series of 2005

  
**EMMANUEL A. SILVA**  
NOTARY PUBLIC UNTIL DECEMBER 31, 2005  
IBP ROLL OF ATTORNEY NO. 40786  
No. 0988357, June 2, 2004, Makati City  
TIN No. 117-405-795



